medartis®

PRECISION IN FIXATION

2018 | Annual Report

Founded in 1997 and headquartered in Basel, Switzerland, Medartis is one of the world's leading manufacturers and providers of medical devices for surgical fixation of bone fractures for upper and lower extremities as well as for the craniomaxillofacial region. Medartis employs over 570 individuals across its 12 locations, with products offered in over 50 countries globally. Medartis is committed to providing surgeons and operating theater personnel with the most innovative titanium implants and instruments as well as best in class service.

Company facts

1997

Foundation

Basel

Headquarters

570+

Employees worldwide

11

Subsidiaries

PRECISION IN FIXATION

1500+

Different implants

1250

New customers 2018

Presence

around the globe

579

Education events 2018

Contents

Key financial figures

Sales in CHFm

121.3

16% growth in CHF

16% growth in local currencies

EBITDA in CHFm (1)

17.6

15%

EBITDA margin

Double-digit growth in all regions & business segments

16% sales growth in local currencies

EBIT at 8%(1) of sales

86 new jobs added over 12 months

CHFm	2017	2017 (excl. IPO) (2)	2018	2018 (excl. IPO) (1)	change (excl. IPO)
Sales	105.0	105.0	121.3	121.3	16%
Gross profit	87.6	87.6	101.0	101.2	16%
Opex	78.0	75.8	95.0	91.9	21%
Operating profit (EBIT)	9.6	11.8	6.1	9.3	-21%
EBIT margin	9%	11%	5%	8%	-3PP
EBITDA	16.9	19.0	14.4	17.6	-7%
EBITDA margin	16%	18%	12%	15%	-3PP
Headcount (3)	475	475	561	561	18%

1) Excl. capital market related costs (IPO) of CHF 3.2 million in 2018
2) Excl. capital market related costs (IPO) of CHF 2.2 million in 2017
3) Year-end figure as per 31.12.2018

Willi Miesch
Chief Executive Officer

Dr. h.c. Thomas Straumann
Chairman of the Board of Directors

Dear Shareholders

We are pleased to present to you Medartis' first annual report after the IPO in March 2018. The IPO was an important step in the history of Medartis and has given us additional opportunities for shaping the future of the company. We are also very pleased to now be addressing a wider circle of shareholders. We would like in particular to thank those of you who have become Medartis shareholders since our IPO for the trust you place in us.

In the 2018 financial year, we continued on our path as a leading provider of innovative, high-quality bone fixation solutions manufactured in Switzerland. Our broad regional presence and excellent product range enabled us to once again increase our growth rate in a challenging market environment. Sales rose 16% compared to 14% in the previous year. At the same time, in line with our growth strategy, we continued to systematically invest in further building our business, which is also reflected in our profitability. The adjusted EBITDA margin (excluding IPO costs) was 15% in 2018, compared to 18% in the previous year. We closed the 2018 financial year with a net profit of CHF 4.2 million. As previously announced, we plan to invest this profit in the further growth of Medartis, and in the near term, the Board of Directors will not propose a dividend payment.

Focusing our expertise on implant solutions for the upper and lower extremities and head segments remains the key to our success. We aim to continue to provide the highest product and service quality as well as capacity for innovation, and to remain a reliable partner to our clients in these three areas. The IPO has significantly sharpened our profile in the market and has increased our strategic flexibility. We want to harness this to complement our product portfolio and take advantage of growth opportunities in our business regions – for example, we are in the process of building our sales force in Japan and are preparing to enter the Chinese market. While we want to continue to grow organically, we are also alert to possible acquisition opportunities with value enhancement potential for Medartis.

The framework conditions in the medical sector are continuously evolving, and this is accompanied by additional requirements to which market participants must adhere. Of particular note is the new Medical Device Regulation (MDR) that will come into force in the European Union starting in May 2020. The resource-intensive implementation of the MDR at Medartis is proceeding according to plan and we expect to complete it by the end of 2019.

Due to our strong growth in recent years, but also against the backdrop of the in many respects dynamic and at the same time challenging market environment, one of our priorities is to continuously strengthen Medartis' management capabilities and the business organization. One of our goals in this area is to ensure a good balance in our sales activities: a strong focus naturally lies on the upper extremities, our strongest sales segment. Through targeted measures, we aim to ensure that in the future, Medartis' focus becomes equally strong in the lower extremities segment – the market with the largest growth potential – and the head segment.

Given our growth path, we have further expanded the Medartis team. In 2018, we welcomed 86 new employees at our locations around the world. We thank all of our employees for the contribution they make to Medartis and are convinced that our strong corporate culture will continue to be a success factor in the future. We remain committed to the needs of our clients and of their patients, and will do our utmost to create sustainable value for our stakeholders and for you as shareholders.

In the name of the Board of Directors and our management, we thank you once again, esteemed shareholders, for the trust you place in Medartis.

Basel, March 2019

Dr. h.c. Thomas Straumann
Chairman of the Board of Directors

Willi Miesch
Chief Executive Officer

Product lines

APTUS® Hand

APTUS® Wrist

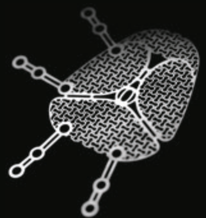
APTUS® Elbow

APTUS® Shoulder

APTUS® Foot

SpeedTip® CCS

MODUS® Cranium



MODUS® Midface

MODUS® Mandible

23 March 2018
First trading day on the SIX Swiss Exchange

Debut on the stock exchange
Friday morning, 23 March 2018, at 9 am CET: trading of Medartis shares on the SIX Swiss Exchange begins and Medartis becomes a publicly listed company. Medartis priced its IPO at CHF 48 per share. On the first day of trading, the opening price for Medartis shares was CHF 54.00, at close of trading the price was CHF 61.96.

A new chapter in the history of Medartis
The stock exchange listing underscores the successful development of Medartis since its founding in 1997. As a publicly listed company, Medartis must now address market expectations more directly, but at the same time also has the possibility to raise its profile with investors and other stakeholders, such as surgeons and scientists, around the world. The company's foundation for future success remains unchanged: providing clients with innovative, high-quality products and outstanding service.

Share price history

Period from 23 March 2018 until 31 March 2019
Source: www.six-group.com

Chairman of the Board of Directors Thomas Straumann, CEO Willi Miesch and Executive Management Board Members Axel Maltzen, Thomas Tribelhorn, Dominique Leutwyler and Oliver Marx (from right to left) next to the SIX stock exchange bell, which rang in the first trading day of Medartis shares on 23 March 2018.

Worldwide presence

Globally diversified business

North America (US)

United States of America

16%
Revenue share

19.3m
CHF

12%
LC growth

LATAM

Argentina
Brazil
Chile
Colombia
Costa Rica
Ecuador
Mexico

10.5%
Revenue share

12.9m
CHF

53%
LC growth

- Headquarters
- 11 subsidiaries
- 45+ countries with distribution partners

EMEA

Austria
Bahrain
Belgium
Bosnia & Herzegovina
Croatia
Cyprus
Czech Republic
Egypt
Finland
France
Germany
Greece
Hungary
Ireland
Israel
Italy
Kingdom of Saudi Arabia
Kuwait
Lebanon
Morocco
Netherlands
Norway
Oman
Poland
Portugal
Serbia
Slovenia
South Africa
Spain
Sweden
Switzerland
Turkey
UAE
UK

54.5%
Revenue share

66.4m
CHF

12%
LC growth

APAC

Australia
Hong Kong
Japan
Malaysia
New Zealand
Philippines
Singapore
South Korea
Thailand

19%
Revenue share

22.8m
CHF

15%
LC growth

Headquarters
11 subsidiaries
45+ countries with distribution partners

Radius fractures

Incidence
16.2 per 10’000 person-years

Solution by Medartis
Anatomically shaped plates related on Medartis technologies address different fracture patterns and anatomies and are additionally designed for reconstruction and soft tissue protection.

The plates are available in different lengths and widths to meet individual anatomical requirements.

Source: J. Karl, P. Olson, M. Rosenwasser, “The epidemiology of upper extremity fractures in the United States, 2009”, 2015, J Orthop Trauma.

Simon
Teamleader screws, Medartis

Business review

In the 2018 financial year, Medartis achieved sales of CHF 121.3 million, which corresponds to year-on-year growth of 16% (2017: +14%). In local currencies, sales growth also amounted to 16%, an increase compared to the 13% reported in the previous year. Exchange rate movements had only a minimal impact on the sales recorded for the year under review (local currencies +0.4 percentage points).

In line with the company's growth strategy, profitability in 2018 reflected higher operating expenses to further expand its international presence and strengthen the business in key markets. Adjusted EBITDA (excluding IPO costs) was CHF 17.6 million (previous year: CHF 19.0 million) with an adjusted EBITDA margin of 15% (previous year: 18%). Including IPO costs, EBITDA was CHF 14.4 million in 2018 (previous year: CHF 16.9 million) and the EBITDA margin was 12% (previous year: 16%). Adjusted EBIT (excluding IPO costs) was CHF 9.3 million, and EBIT including IPO costs was CHF 6.1 million.

As previously communicated, both sales growth in local currencies (forecast to be in the high teens for 2018) and the adjusted EBITDA margin (forecast to be between 15% and 16% for 2018) were at the lower end of the ranges expected in mid-2018. This is mainly attributable to weaker than expected growth in LATAM in the second half of 2018, while the growth rates reported in the stronger sales regions EMEA, North America and APAC were in line with expectations also in the second half of the year.

Overall, Medartis achieved a net profit of CHF 4.2 million in 2018, after reporting a net profit of CHF 0.9 million in 2017 that had included a negative effect of CHF 5.7 million in connection with the corporate tax reform in the US. Cash flow from operating activities was CHF 6.5 million, compared to CHF 11.0 million in the previous year.

Double-digit growth in all regions

	EMEA	APAC	LATAM	North America	Total
Sales, CHFm					
2018	66.4	22.8	12.9	19.3	**121.3**
2017	57.8	20.7	9.2	17.4	**105.0**
Growth, %					
in CHF	15%	10%	41%	11%	**16%**
in local currencies	12%	15%	53%	12%	**16%**

Medartis' biggest region, EMEA, grew 12% in 2018 in local currencies and therefore achieved continued, solid high-level growth. Both the markets in which Medartis has subsidiaries as well as its distributor markets contributed to this result. Volatility in the ordering behavior in the distributor markets was flat for the full year, although in some strong sales markets, products were already purchased in the first half for the second half of the year. With the introduction of sterile packaging solutions for implants in November 2018, Medartis is keeping abreast of the growing requirements in this area in European markets such as the UK.

In North America, sales increased 12% in local currency. The measures introduced to strengthen management capacity and the sales force are beginning to take effect. Client education programs have also been further expanded and the regional collaboration with IBRA (International Bone Research Association), which serves as a scientific partner, has been intensified. An important element in achieving the envisaged further expansion of the company's market position remains the recruitment of sales professionals with a high level of expertise, who are highly sought after in the North American market.

Solid growth of 15% in local currencies was achieved in APAC in 2018. The two key markets Australia and Japan continued to develop very well. Following a strong second half in 2017, they once again reported double-digit growth in the second half of 2018. In Japan, the new subsidiary began operations in the foot segment in the fourth quarter of 2018.

In LATAM, Medartis achieved growth of 53% in local currencies. Organic growth – excluding the inorganic growth effect following the acquisition of the Brazilian distributor Extera in August 2017 – was 10%. The LATAM region continued to have the strongest growth momentum in 2018. However, the market environment in the second half of the year was challenging and a number of distributor markets experienced significantly less growth than in the first half. Overall, the distributor markets performed more or less in line with the previous year. The performance of the subsidiaries in Brazil and Mexico was below expectations, however, compared to the first half of 2018, sales further increased in the second half of the year.

Solid development of business segments

	Upper Extremities	Lower Extremities	CMF and Others	Total
Sales, CHFm				
2018	87.2	16.4	17.8	**121.3**
2017	76.8	12.8	15.4	**105.0**
Growth, %				
in CHF	13%	28%	16%	**16%**
in local currencies	14%	29%	16%	**16%**

Medartis' three business segments all achieved double-digit growth rates in 2018.

Upper Extremities, Medartis' largest business segment, recorded a sales increase of 13% compared to the previous year. The hand, wrist and elbow product lines all contributed to this strong result. The market launch of the proximal humerus plates for the treatment of shoulder fractures began in the fourth quarter of 2018, and further complements the product portfolio for the upper extremities segment.

Lower Extremities, Medartis' youngest business segment, again developed dynamically in 2018 and saw a rise in sales of 28%. In collaboration with medical societies, the educational offering for surgeons was further expanded specifically for products in this segment.

Sales in the CMF and Others business segment, which comprises solutions for the craniomaxillofacial region as well as instruments and containers, grew 16% in 2018. In 2018, further progress was made in the development of a new generation of the CMF product line, which is planned to be introduced in 2020.

Outlook 2019

Medartis expects to see continued broad-based double-digit growth in 2019 while making targeted investments in its international presence and its product range. The company plans to provide more detailed full-year 2019 financial guidance with the announcement of the 2019 half-year results.

With regard to the regions, further strengthening the company's market position in the US remains an important area of focus in 2019. In Japan, the new subsidiary began to build its sales force for the lower extremities segment at the end of 2018, and will continue to do so in 2019. In China, Medartis has applied for the registration of key products in the upper extremities segment; it expects this to be approved at the latest in the second half of 2019 and in a next step, to be able to begin collaboration with distributors. The expansion of Medartis' presence in Brazil with own sales forces has been launched and is to be further intensified in the coming months – developments in the regional market situation will be taken into consideration on an ongoing basis when determining the pace and scope of this expansion.

The recently introduced shoulder system, which is being rolled out more broadly since the beginning of 2019, is also expected to generate growth momentum, as is an expanded arthrodesis set for the treatment of the carpal bone for patients suffering from arthritis, envisioned to be introduced to the market during the second quarter of 2019. Further to this, Medartis expects to continue to benefit from its well-established position in EMEA, its strongest sales region. The implementation of the new Medical Device Regulation (MDR), which will come into force in the European Union in May 2020, is proceeding according to plan and is expected to be concluded by the end of 2019 – primarily using existing resources and by prioritizing in-house projects accordingly. In addition, Medartis already has an authorized and certified subsidiary in Germany, and is taking all the necessary measures to ensure continued supply to the EU area in the future, regardless of the outcome of the political debate surrounding a potential framework agreement with Switzerland.

The Medartis story from A to Z

Discover what has shaped the development of Medartis

A

APTUS

APTUS is Medartis' line of products for upper and lower extremities, and was introduced in 2004. It combines plates and screw solutions for the treatment of fractures, osteotomies and degenerative diseases of the hand, wrist, elbow, shoulder, and foot & ankle. It also includes selected ergonomic instruments that further simplify treatment in these areas.

B

Business model

Medartis' business model focuses exclusively on implants for the extremities and head. Its products are sold mainly to surgeons, hospitals, medical centers and group purchasing organizations. Medartis' sales staff works closely with surgeons, operating room personnel und purchasing departments. For customers with a sufficient case load, Medartis consigns free sets with implants and instruments for defined medical indications. Other customers order loan sets for specific surgeries. The majority of Medartis' revenues are generated through the use of implants in surgery. Its worldwide logistics system normally allows for product delivery within 24 hours.

C

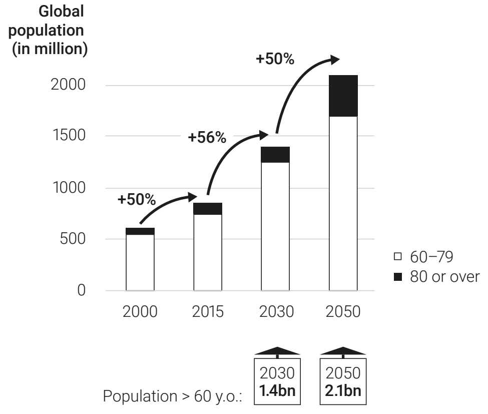
Clinical solutions

With its differentiated, high-quality implant systems for bone fixation, Medartis strives to both advance existing surgical possibilities in this segment and find new clinical solutions. The development of such solutions begins with an in-depth discussion of clinical cases for which there have either been no or only unsatisfactory treatment possibilities to date.
In a next step, clinical experts and medical professionals collaborate with Medartis' teams of development and production engineers as well as product managers to design and develop products for new treatment options. The aim is to restore the original anatomical conditions to ensure patients can enjoy a sustainably improved quality of life without physical limitations.

D

Drivers

Demographic and societal developments are among the main growth drivers in the bone fixation market. Older people tend to have more fragile bones and are more prone to injury. In addition, the older generation today wishes to remain active longer and to engage in sports, which in turn entails the risk of injury. Another factor is that obesity and diabetes, which often affect bone quality and require more complex fracture treatment, are on the rise. The United Nations predicts that the global population will continue to grow over the next 30 years and that the proportion of the older vs. the younger population will increase massively (see graph). Against the backdrop of these developments, surgery is becoming more and more specialized, which has increased the demand for the development of new products, specifically also in the extremities and head segments.



H

History

Important milestones in the history of Medartis at a glance: how the company developed into one of the world's leading manufacturers of medical products for osteosynthesis in the upper and lower extremities as well as the craniomaxillofacial region.

1954
Foundation of Institut Straumann AG by Prof. Dr. Reinhard Straumann. Specialisation in metallurgy for the watchmaking industry.

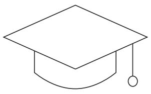
1960
Merger of metallurgy and medicine by Dr. h.c. Fritz Straumann.

1989
Sale of the Osteosynthesis Division to Stratec Medical (Straumann Technology, today Synthes J&J).

1990
Spin-off of the dental division of Straumann AG by Dr. h.c. Thomas Straumann.

E

Education



Medartis invests significant resources in providing education and training to surgeons around the world. These courses are tailored to participants and incorporate the proper use of implants and instruments as well as the latest trends in both extremities products and surgical fixation techniques. In addition to its own courses, Medartis collaborates with IBRA (the International Bone Research Association), a non-profit organization located in Basel, Switzerland, to organize conferences and specialized training programs.

F

Founding

The origins of Medartis and the founding of the company are closely linked to the Straumann family. In 1997, Dr. h.c. Thomas Straumann founded Medartis AG in Basel. In doing so, he carried forward the work that his father, Dr. h.c. Fritz Straumann did in the development of metal implants for the treatment of bone fractures, which he began in 1960 in close collaboration with the AO Foundation (AO/ASIF). Thomas Straumann's grandfather, Prof. Dr. Reinhard Straumann founded Institut Straumann AG, which specialized in metallurgy, in 1954. In 1989 the osteosynthesis division of Institut Straumann AG was demerged through a management buy-out (under the name Stratec Medical, later Synthes, today DePuy Synthes Johnson & Johnson). Thomas Straumann started to lead Straumann Group, which from then on focused on dental implants and is today the market leader in this segment. In 1998, he took the company public and is now the Vice Chairman of its Board of Directors. During the same period, he founded Medartis and developed it as an independent company focusing on the internal bone fixation segment. Medartis has been listed on the SIX Swiss Exchange since 2018. Thomas Straumann is the Chairman of the Board of Directors of Medartis and remains the company's main shareholder (47.9%). The other two anchor shareholders from the time of the company's founding are Dominik Ellenrieder (7.8% via NexMed), Vice Chairman of the Board of Directors of Medartis since 2001 and part of Stratec Medical's core team in 1990, as well as Willi Miesch (6.0%), co-founder of Medartis and CEO of the company since 1998.

G

Growth

Medartis has achieved continuous and sustainable growth since its founding in 1997. In 2017, the company reported sales of CHF 105 million, marking the first time it crossed the CHF 100 million threshold. Sales rose to CHF 121.3 million in 2018. In local currency, sales growth in 2018 totaled 16%, compared to 13% in the previous year. Starting out with six employees in 1997, the company now employs over 570 individuals around the world. Innovations, internationalization and in-house process optimization have characterized the development of Medartis and supported its organic growth. To date, the company's acquisitions comprise two former sales partners – in Australia/New Zealand in 2009 and in Brazil in 2017 – and Swiss start-up Mimedis in 2017. Mimedis' proprietary software, which was developed in-house, is used for pre-operative planning and to manufacture 3D models for individualized surgical treatment solutions.

I

International

Medartis' business has a broad international base. The company has continuously expanded its network out of Switzerland and Europe. Today this network extends from North and South America to the Middle East and Africa through to Asia and Australia. Medartis most recently strengthened its international presence with the establishment of a subsidiary in Japan that began operations in the fourth quarter of 2018. Medartis products are currently offered in over 50 countries. Worldwide, Medartis has 12 own locations – in addition to its headquarters in Basel, the company has subsidiaries in Germany, Austria, France, England, Poland, the US, Australia, New Zealand, Mexico, Brazil and Japan. It works together with local distributors in additional 40 countries. Of total sales in 2018, 84% are attributable to Medartis' subsidiaries, while 16% were generated by distributors.

J

Jobs

Medartis' entire value chain – from research and development through to manufacturing, sales and delivery – is in-house, which means the company offers a wide range of job opportunities. It also means that people from a broad spectrum of professional backgrounds work hand in hand at Medartis; for example engineers, polymechanics, IT experts, packaging specialists or sales, logistics and trade professionals. In addition to offering career opportunities for experienced employees, Medartis also provides apprenticeship placements. The company is currently training 9 apprentices, mainly in the areas of polymechanics and commercial apprenticeships. Teamwork and a pragmatic approach to analyzing and executing daily tasks are important pillars of the company culture.

1997
Foundation of Medartis AG with headquarters in Basel/Switzerland by Dr. h.c. Thomas Straumann. Acquisition of a small, independent specialist for oral and maxillofacial surgery and further development of the portfolio.

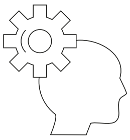
2002
Start of the establishment of our own sales organisation and commencement of the development of the next generation of osteosynthesis technologies by experienced innovators.

2004
Introduction of the TriLock® locking technology. Entry into the area of the upper extremities with hand and wrist systems.

2005
Establishment of production at the new Bretzwil plant.

K

Know-how



Providing surgeons and operating theater personnel with Swiss-quality medical devices as well as best-in-class services requires profound know-how in Medartis' three core areas: (i) development, (ii) production and (iii) sales.
(i) In its research and development department, Medartis brings together its extensive experience in developing products to treat bone fractures. Numerous projects are being pursued with key clinical experts across the globe to increase knowledge and develop optimized solutions in the extremities and head segments with a view to fostering advances in osteosynthesis.
(ii) Long-standing know-how is also a key element in the high-precision manufacturing of implants. Manufacturing secrets remain proprietary to Medartis.
(iii) In its sales process, Medartis successfully focuses on long-term collaboration with its sales reps. Many surgeons practice actively for decades and appreciate long-term relationships with competent and committed sales representatives.
A significant number of the Medartis employees working in these three core areas have been with the company for an average of more than 8 years.

L

Leadership

The Medartis leadership team has a proven track record in implant technology and the manufacturing thereof. A significant number of management members has worked for the company for many years.

M

MODUS

First introduced in 1998, MODUS is the business line that combines all of Medartis' products dedicated to craniomaxillofacial surgery (CMF). The broad range of implants in this modular system makes it possible to address all fracture fixations and osteotomies in the mandibular, midface and cranial regions. The MODUS line can also be used in tumor reconstruction and orthognathic deformities of the skull or the mandible to complete the indication spectrum. Medartis was the first manufacturer to launch polyaxial and multiple locking as well as angular stable implant systems for the mandible as part of its MODUS line, therefore setting new market standards.

N

Network

Medartis has built a strong network of long-standing relationships with clients, suppliers and distributors. Medartis is convinced that continuity and mutual respect in all business partnerships and at all levels contribute to the development of treatment solutions for the benefit of patients. Medartis also strives to foster an ongoing exchange of knowledge and experience. It is therefore a partner of the International Bone Research Association (IBRA), an internationally-oriented non-profit organization for specialized clinicians and research scientists co-founded in 2004 by Dr. h.c. Thomas Straumann. IBRA maintains close contact with respected scientific societies and organizes symposia and workshops around the world. Surgeons using Medartis products therefore have access to a range of training and educational opportunities that enable them to continue to develop their skills and remain at the forefront of surgical techniques.

O

Osteosynthesis

Osteosynthesis (Greek: ostéon "bone"; synthesis "combination of components to form a connected whole") means the repositioning and internal fixation of a bone fracture using implants, which are usually made out of metal. In addition to the fixation of fractures caused by accidents or falls (traumas), osteosynthesis is also used to correct congenital or post-traumatic bone malpositions (osteotomies) as well as for bone reconstruction following tumor-related operations.

P

Patients

Nobody wants to be a patient. But accidents happen, as do bone malpositions. Specialization in implant development has significantly increased the options for treating complex cases, even in old age. The aim of treatment with implants is to restore optimal anatomical conditions. The use of implants also make early and safe mobilization, and rehabilitation of the injured body part and the patient as a whole possible. A painless return of the patient to everyday life without physical restrictions is the driving force behind Medartis' activities.

2007
Awarded with the SME Entrepreneur Prize Northwestern Switzerland.

2009
Medartis under one roof. Relocation of all parts of the company (administration, development, sales, production) to the new headquarters in the Stücki Business Park (Basel). Acquisition of the Australian distributor.

2010
Entry into the fields of foot & ankle and elbow surgery.

2011
Introduction of cannulated screws. Completion of the foot & ankle system (back foot).

Q

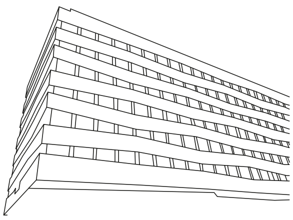
Quality
Medartis' certified quality management system meets all applicable medical industry standards. Quality management system certifications according to ISO 13485 are designed to ensure high-quality products, processes and customer support. The consistent quality of finished products is supported by high-quality raw materials, modern technologies, adherence to good manufacturing practices and continuous controls during the manufacturing processes. In the European Union, the new Medical Device Regulation (MDR) will be mandatory from May 2020 and will replace the Medical Device Directive (MDD). Medartis' implementation of the MDR requirements is proceeding according to plan and is expected to be concluded by the end of 2019. From 2020, all new development projects are planned to be executed in accordance with the MDR. In addition to this, the existing products will gradually be MDR-certified.

R

Responsibility
Medartis is committed to taking a responsible approach to business as it works to create sustainable value for its stakeholders and shareholders. For the Board of Directors, this includes having a thorough understanding of how the company conducts business and how it achieves its strategic targets, the values and culture it wishes to uphold, and how the company interacts with its stakeholders. It is the Board of Directors' firm belief that as an integral part of society, Medartis' responsibilities encompass respecting human rights and treating natural resources and the environment with care when rendering its products. The Board of Directors regularly reviews the progress being made with regard to its corporate social responsibility framework, which includes a comprehensive code of conduct and detailed policies regarding interaction with its various stakeholders.

S

Swiss DNA



Medartis' DNA is Swiss and the company stands for Swiss quality. Its headquarters, research and development, and manufacturing facilities are all located under one roof in Basel. This results in efficient information and decision pathways. All key products are manufactured in-house in Basel, where modern facilities and the use of robotics enable highly-automated manufacturing processes up to 24 hours a day, 7 days a week. The company has a total of over 570 employees, of which over 260 work in Basel. In addition to the high local working standards, the city, which is located on the border with Germany and France, benefits from being able to take advantage of the pool of talent in Switzerland and the border regions. The high level of training of Medartis employees paired with the company's efficient in-house production enables it to offer products of Swiss quality at competitive prices.

T

Technology

HexaDrive® SpeedTip® TriLock®

Medartis' ambition is to remain a pioneer in the development of fixation technology for bone fractures. Leading innovations in this area have characterized Medartis since it first began operations at the end of the 1990s with a team of osteosynthesis specialists with significant prior industry experience and a track record as innovators. They developed a new generation of technologies for bone fixation comprising the TriLock® technology, which is used to lock screw heads and provides the smallest-size multidirectional locking system on the market; the HexaDrive® technology, which ensures that screws remain fixed to the screw driver and do not fall off; and the SpeedTip® technology, which features self-drilling screws that make pre-drilling unnecessary. Medartis continues to use these three patented technologies, which are continuously being further developed, in its implants. As at the end of 2018, Medartis' portfolio of patents consisted of 21 patent families with 106 national patents that have been drafted, are pending or have been granted. Medartis technologies are patented in EU countries, the US, Japan and recently also in Brazil and China. To further strengthen its role as a provider of leading market innovations in the osteosynthesis segment, Medartis allocates around 10% of its sales revenues to research and development (2018: 11%).

U

Upside
The outlook for the global orthopedic market is that it is a growth market with longer-term upside potential. Medartis' three areas of specialization – upper and lower extremities and the craniomaxillofacial (CMF) region – are expected to see stronger growth momentum than the spine, knee and hip segments. Between 2016 and 2022, market research company Technavio forecasts average annual growth of 5.6% for upper extremities, 6.8% for lower extremities and 6.6% for CMF. The strongest growth in the orthopedic market is therefore expected to be in fixation solutions for lower extremities. This is in part due to the fact that this market is still in an earlier stage of development than the market for upper extremities. Medartis began to focus on lower extremities in 2016 and in 2018, achieved sales growth of 28% in this segment.

2012
Introduction of the arthrodesis system.

2013
Introduction of the orthognathic system and completion of the elbow system.

2015
Winner of the Prix SVC Northern Switzerland. Introduction of a new generation of implants for the wrist.

2016
Start of the focus on lower extremities with the introduction of new foot and ankle systems. Willi Miesch receives the award "Ernst & Young Entrepreneur of the Year" in the Industry/High-tech/Life Sciences category.

V

Vision

Medartis' vision expresses its commitment to innovation and client focus: "Together with our partners and by building on our strong worldwide market presence, we are setting new standards for user-friendly, surgical restoration of the entire musculoskeletal system of the skull and extremities for the long-term benefit of the patient."

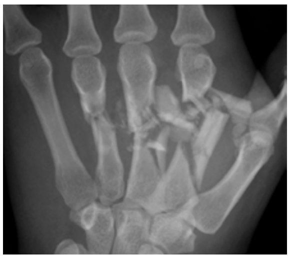
W

Window of opportunity

Over the last 20 years, Medartis has developed some of the leading technologies in fracture treatment, built a unique portfolio of implant systems and evolved into a company with a strong international presence – it now wants to take advantage of the window of opportunity to accelerate both its geographic and its product expansion. Following the initial public offering in 2018 and the listing of its shares on the SIX Swiss Exchange, Medartis is now able to further raise its profile among surgeons and other stakeholders, and has greater strategic and financial flexibility. Its long-term goal is to become a global top 3 player in major small bone markets.

X

X-Ray



The first x-ray shows a high-trauma hand fracture. The second x-ray shows the fracture after treatment with Medartis implants.

Y

Year of the IPO

2018 was the year of the initial public offering, and therefore the year in which Medartis' shares were listed on the SIX Swiss Exchange. On the first day of trading on 23 March 2018, the opening price for Medartis shares was CHF 54.00. On 31 March 2019, prior to publication of this annual report, the company's share price was CHF 55.60. Over two-thirds of employees in Basel became shareholder of the company through the IPO employee participation program. This reflects the strong commitment of Medartis employees to the company and how much they identify with its corporate culture. As a publicly listed company, Medartis aims to align the interests of all its stakeholders and to generate sustainable, attractive returns for its shareholders.

Z

Zero

Medartis' focus on quality and its rigorous adherence to high standards resulted in "zero deviations" during the latest inspection by the US Food and Drug Administration (FDA) in 2015. In following with the company's guiding principle "precision in fixation", Medartis' highest priority is to maintain stringent quality standards and continuously innovate in the area of internal surgical bone fixation to enable fast, complete rehabilitation and therefore make a permanent contribution to better patient quality of life.

2017
Acquisition of the Brazilian distributor and the Mimedis company, active in pre-operative planning and 3D printing of patient-specific implants.

2018
Initial public offering on the SIX Swiss Exchange.

2019
Full release of the shoulder system

Hallux valgus

Prevalence
7.8% in juvenile (<18 years)
23% in adults (18-65 years)
35.7% in elderly people (>65 years)

Solution by Medartis
Hallux Valgus is the deformity of the big toe. These procedures constitute the largest proportion of interventions within elective foot surgery. Medartis provides user-friendly plate systems relying on already proven as well as newly developed technologies. The new TriLock^{PLUS} technology enables the surgeon to combine compression and locking in one step.

Source: Nix et al: "Prevalence of hallux valgus in the general population: a systematic review and meta-analysis", Journal of Foot and Ankle Research 2010 3:21.

Dung
Hospitality management, Employee's Wife

2018 | Corporate Governance Report

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Corporate Governance Report

Medartis corporate governance principles and rules are laid down in the Articles of Association, the Rules for Organizational Regulations, the Corporate Compliance System including the Code of Conduct, and the Charters of the Board Committees. Further, Medartis takes into account the recommendations of the Swiss Code of Best Practice for Corporate Governance, as in force at 31 December 2018.

As a basis of corporate governance disclosure, this report is in compliance with the Directive on Information relating to Corporate Governance published by the SIX Swiss Exchange (Directive), where Medartis' shares have been traded since the company's initial public offering in 2018. Additional information can be found in the Financial and Remuneration Report Sections of this Annual Report.

1. Group structure and shareholders

1.1 Group structure

1.1.1 Medartis Holding AG incorporated as a stock corporation under the laws of Switzerland and headquartered in Basel, Switzerland, is listed on the SIX Swiss Exchange in Zurich, Switzerland. Medartis' principal executive offices are at Hochbergerstrasse 60E, 4057 Basel, Switzerland.

Medartis Holding AG and its subsidiaries (together referred to as "Medartis" or "Medartis Group" or "Group") are focused on developing, manufacturing and selling advanced and efficient implant solutions for internal surgical fixation. The core business of Medartis Group encompasses the sale of innovative implants in cranio-maxillofacial surgery and extremities (i.e. hand, wrist, elbow, shoulder and foot & ankle). Medartis products are sold throughout the globe, with direct sales in 12 countries including Germany and the United States, and via third-party distributors in an additional 40 countries. The majority of the Company's Group's revenues are generated via its sales representatives present across its subsidiaries.

The Medartis Group has two tiers of management: the Board of Directors and the Executive Management Board. The Board of Directors is responsible for the Group's high-level management and oversight, its organizational structure, accounting, financial planning, financial control and risk management. The Executive Management Board consists of the Chief Executive Officer (CEO), as well as the Chief Financial Officer (CFO), the Chief Sales Officer (CSO), the Chief Technology Officer (CTO) and the Chief Production Officer (CPO). The Board of Directors delegates the management of the Company to the Chief Executive Officer (CEO). He is responsible for the operational management of the Group, the implementation of Medartis' strategy and the implementation of an efficient and structured procedural organization in accordance with the guidelines provided by the Board of Directors.

1.1.2 Medartis Holding AG, Basel, is listed on the SIX Swiss Exchange, Zurich, Switzerland (valor number: 38'620'023, ISIN: CH0386200239, SIX: MED). The market capitalization as per 31 December 2018 was CHF 650.5 million. No other company controlled by Medartis Holding AG is listed on a stock exchange.

1.1.3 On 31 December 2018, Medartis Holding AG directly or indirectly held 100% of the capital and voting rights in all unlisted consolidated Group companies disclosed in Note 1. Corporate and Group information of the Financial Report section in this Annual Report.

1.2 Significant shareholders

The table below shows shareholder and shareholder groups owning / representing more than 3% of the voting rights of Medartis as of 31 December 2018. The total number of shares issued and outstanding is 11'741'007.

Direct holder	Shares	% of voting rights
Dr. h.c. Thomas Straumann, Riehen, Switzerland(1)	5'625'930	47.92%
NexMed Holding AG, Freienbach, Switzerland(2)	921'035	7.84%
Willi Miesch, Küssnacht (SZ), Switzerland	704'020	6.00%
Endeavour Medtech Growth LP, Guernsey, Channel Islands(3)	586'395	4.99%
Schroder & Co Bank AG, Zurich, Switzerland(4)	540'081	4.60%
Landolt & Cie SA, Lausanne, Switzerland(5)	395'897	3.37%

(1) Including 1'500 shares of a related party
(2) NexMed Holding AG is beneficially owned by Dominik Ellenrieder, Chandolin, Switzerland.
(3) Endeavour Medtech GP Limited, Guernsey, Channel Islands, as general partner of Endeavour Medtech Growth LP, is exercising all the voting rights related to the shares. Further, no limited partner of Endeavour Medtech Growth LP indirectly beneficially owns the shares held by Endeavour Medtech Growth LP which represent 3% or more of the voting rights.
(4) Schroder & Co Bank AG, Zurich, is holding the shares for its clients who beneficially own the shares and control the voting rights of the shares. None of such clients controls 3% or more of the voting rights of the Company's shares.
(5) Landolt & Cie SA, Lausanne, Switzerland is holding the shares for its clients who beneficially own the shares and control the voting rights of the shares. None of such clients controls 3% or more of the voting rights of the Company's shares.

Information on disclosure notifications during the year under review concerning the significant shareholders may be found on the SIX Exchange Regulation website (https://www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html?companyId=MEDARTIS).

1.3 Cross-shareholdings

The Company does not have any cross-shareholdings exceeding 5% of the holdings of capital or voting rights in any other company.

2. Capital structure

2.1 Capital

The ordinary share capital as of 31 December 2018 has a nominal value of CHF 2'348'201.40, consisting of 11'741'007 fully paid-in registered shares with a nominal value of CHF 0.20 each.

The authorized share capital as of 31 December 2018 has a nominal value of CHF 600'000.00, consisting of 3'000'000 shares with a nominal value of CHF 0.20 each.

The conditional share capital for bonds and similar debt instruments as of 31 December 2018 has a nominal value of CHF 88'653.80, consisting of 443'269 shares with a nominal value of CHF 0.20 each.

The conditional share capital for employee benefit plans as of 31 December 2018 has a nominal value of CHF 120'000.00, consisting of 600'000 shares with a nominal value of CHF 0.20 each.

2.2 Authorised and conditional capital

Authorised capital
At the Annual General Meeting of 19 February 2018, the Company's shareholders resolved to create authorized capital in the maximum amount of CHF 600'000.00, corresponding to 3'000'000 shares with a nominal value of CHF 0.20 each, or up to 25.6% of the capital issued and outstanding as of December 31, 2018.

The Board of Directors is authorized to increase the share capital in one or several steps until 18 February 2020 and to exclude pre-emptive rights of shareholders to subscribe new shares, subject to certain legal restrictions in accordance with the Swiss Code of Obligations. Subscription rights to new shares can be excluded if (i) the new shares are placed at market conditions, (ii) the new shares are used for acquisition, financing, or re-financing purposes or (iii) the new shares are used for the expansion of the shareholder base and/or to be placed with a new strategic partner. For further information, see articles 3a and 5 of the Articles of Association (https://www.medartis.com/fileadmin/user_upload/Investor_Relations/Corporate_Governance/Statuten/Statuten_der_Medartis_Holding_AG.pdf).

Conditional capital for bonds and similar debt instruments
At the General Meeting of 19 February 2018, the Company's shareholders resolved to create conditional share capital to be used for convertible bonds or similar debt instruments. The share capital may be increased by up to CHF 88'653.80 by the issuance of up to 443'269 shares with a nominal value of CHF 0.20 each, or up to 3.8% of the capital issued and outstanding as of 31 December, 2018.

Pre-emptive rights for the subscription of new shares upon conversion of instruments are excluded. Shareholders' advance subscription rights with regard to the new convertible bonds or similar instruments may be restricted or excluded by decision of the Board of Directors, subject to the provisions of the Articles of Association. If advance subscription rights are excluded, (i) the instruments are to be placed at market conditions, (ii) the exercise period is not to exceed ten years from the date of issue of option rights and twenty years for conversion rights and (iii) the conversion or exercise price for the new shares is to be set at least in line with the market conditions prevailing at the date on which the instruments are issued. For further information, see articles 3b and 5 of the Articles of Association (https://www.medartis.com/fileadmin/user_upload/Investor_Relations/Corporate_Governance/Statuten/Statuten_der_Medartis_Holding_AG.pdf).

Conditional capital for employee benefit plans
At the General Meeting of 19 February 2018, the Company's shareholders resolved to create conditional share capital to be used for employee benefit plans. The share capital may be increased by up CHF 120'000.00 by the issuance of up to 600'000 shares with a nominal value of CHF 0.20 each or up to 5.1% of the existing capital issued and outstanding as of 31 December, 2018. Further information can be found in articles 3c and 5 of the Articles of Association (https://www.medartis.com/fileadmin/user_upload/Investor_Relations/Corporate_Governance/Statuten/Statuten_der_Medartis_Holding_AG.pdf).

The creation of conditional capital for employee benefit plans was proposed by the Board of Directors in connection with the Company's IPO in 2018. This conditional capital allowed Medartis to establish its current, share-based long-term equity compensation plan to foster the important alignment of management's interests with the interest of the company's shareholders. Further information can be found in articles 3.1, 3.2 c) and 3.2 f) of the Remuneration Report Section of this Annual Report.

During this initial period as a listed company, the Board of Directors considered the use of conditional capital for employee benefits appropriate while safeguarding the company's liquidity and investing into the strategic growth of Medartis. The maximum dilution potential of this capital is limited and is expected to be more than compensated for by the incentives it creates for plan participants to create long-term value for Medartis and its shareholders.

2.3 Changes in capital

The following table shows the changes in the nominal share capital and the number of shares issued over the past three financial years:

Date of share issuance registration	New nominal share capital in Swiss Francs	Number of shares issued
30 November 2016	1'457'897	1'457'897 shares at CHF 1 each
19 December 2017	1'457'897	7'289'485 shares at CHF 0.20 each(1)
22 March 2018	2'348'201	11'741'007 shares at CHF 0.20 each(2)

(1) On 15 December 2017, an extraordinary shareholders' meeting of the Company resolved to split the shares at a ratio of 1:5 and thereby change the nominal value from CHF 1.00 to CHF 0.20 per share.

(2) At the Annual General Meeting of 19 February 2018 (AGM), the Company's shareholders resolved to create conditional share capital to be used for the conversion of any outstanding bonds or similar debt instruments upon the contemplated IPO of Medartis and resolved an ordinary capital increase of up to 3'644'742 shares for the planned offering. On 22 March 2018, the Board of Directors decided to issue 2'994'791 offered shares from the ordinary capital increase resolved by the AGM and acknowledged the conversion of outstanding loan amounts into 1'456'731 newly issued shares from conditional capital. As a result, the total number of shares issued increased by a total of 4'451'522 shares upon closing of the initial public offering. The total number of shares issued and outstanding as per 31 December 2018 is 11'741'007 shares, corresponding to a share capital of CHF 2'348'201.00. 10'654 of the 1'456'731 shares issued from conditional capital in connection with the afore mentioned conversion of outstanding loan amounts have not been registered in the commercial register as per 31 December 2018. Therefore, the share capital registered in the commercial register as per 31 December 2018 has a nominal value of CHF 2'346'070.60, consisting of 11'730'353 fully paid-in registered shares with a nominal value of CHF 0.20 each.

2.4 Shares and participation certificates

Medartis Holding AG has no other categories of shares than one category of registered shares with one share bearing one vote. There are no restrictions on the transferability of the shares.

2.5 Dividend-right certificates

Medartis Holding AG has not issued any dividend-right certificates.

2.6 Limitations on transferability and nominee registrations

The company keeps a share register of the registered shares in which the owners and beneficiaries are entered with their names and addresses. In relation to the Company, the shareholder or beneficiary is deemed to be the person entered in the share register. Upon request, purchasers of shares shall be entered in the share register without limitation as shareholders with voting rights if they expressly declare that they have acquired the shares in their own name and for their own account.

The transfer of registered shares requires the approval of the Board of Directors, which may delegate this authority. Approval shall be granted if the purchaser discloses his name, nationality and address on a form provided by the Company and declares that he has acquired the shares in his own name and for his own account.

The names and addresses of owners and beneficiaries of registered shares are recorded in the share register, which is administered on behalf of Medartis Holding AG by areg.ch AG, Fabrikstrasse 10, 4614 Hägendorf, Switzerland.

Further information can be found in articles 4, 5 and 6 of the Articles of Association (https://www.medartis.com/fileadmin/user_upload/Investor_Relations/Corporate_Governance/Statuten/20190319_Statuten_Website.pdf).

2.7 Convertible bonds and options

Medartis operated in 2018 a corporate long term incentive plan with restricted shares (LTI) for Members of the Executive Management Board. In the event of a change of control, the Board of Directors, at its own discretion, is entitled, within the scope of the statutory provisions to make adjustments to the plan.

For 2019 and onwards, the above mentioned LTI plan will be replaced by new equity-based long-term incentive plans for the Board of Directors, the Executive Management Board, key employees and employees.

Further information can be found in articles 3.1, 3.2 c) and 3.2 f) of the remuneration report section of this annual report.

3. Board of Directors

Roland Hess, Dr. med. Daniel B. Herren, Willi Miesch, Dr. Jürg Greuter, Dr. h.c. Thomas Straumann, Damien Tappy and Dominik Ellenrieder (from left to right).

3.1 Members of the Board of Directors

The table below sets forth the name, year of birth, function, committee membership and term of office of each Board member as of the date of this Corporate Governance Report. Six of the seven members of the Board of Directors are non-executive members.

Name	Born	Nationality	Position	Committee Membership	First Elected
Dr. h.c. Thomas Straumann	1963	Swiss	Chairman		1998
Dominik Ellenrieder	1958	Swiss	Vice-Chairman	Chairman of the RC Member of the FAC	2000
Willi Miesch	1964	Swiss	Member of the Board		2010
Dr. Jürg Greuter	1956	Swiss	Member of the Board	Member of the RC	1997
Dr. med. Daniel B. Herren	1962	Swiss	Member of the Board	Member of the RC	2017
Roland Hess	1951	Swiss	Member of the Board	Chairman of the FAC	2017
Damien Tappy	1969	Swiss	Member of the Board	Member of the FAC	2018

Dr. h.c. Thomas Straumann
Non-executive Member

Chairman of the Board | Board Member since 1998

Other main activities in 2018: Chairman of centerVision AG and CSI Basel Horse Event AG, Vice Chairman of Institut Straumann AG and Straumann Holding AG, Board Member and Owner of the Grand Hotel Les Trois Rois, Basel, Member of Foundation Council of Foundation for Dental Research and Education.

Career highlights: He founded Medartis in 1997 and has served its foundation as Chairman of the Board ever since. In 1990, he was responsible for restructuring the Institut Straumann AG and he was CEO and Chairman of its Board of Directors until 1994. He was Chairman of the Board of Straumann Holding AG until 2002 and has been Vice Chairman since then.

Qualifications: He holds a degree in Precision Engineering and pursued further studies at Basel Management School and the Management & Commercial School of Baselland. He has an honorary doctorate from the University of Basel.

Key attributes for the board: Founder and major shareholder of Medartis AG. He complements the Board with his in-depth knowledge of the dental and medical device industries through personal management experience and various shareholdings. As major shareholder, he also represents continuity, stability and credibility.

Dominik Ellenrieder
Non-executive Member

Vice Chairman of the Board | Board Member since 2000

Other main activities in 2018: Chairman of Sentec AG, Board Member of QGel SA, Chairman of Grand Hotel Chandolin SA and Nexmed Holding AG.

Career highlights: Until 1999 Head of International Sales of Protek AG and Manager Business Units and Sales Subsidiaries at Stratec Medical, European subsidiary of Synthes-Stratec Inc. (later Synthes Johnson & Johnson), from 2001 to 2014 Board Member and Head of Technical Committee of Straumann Holding AG, from 2000 to 2015 Vice Chairman at Kuros Biosciences AG, since 2007 Venture Partner at Endeavour Vision SA and since 2000 Vice Chairman of Medartis Group.

Qualifications: Dominik Ellenrieder holds an Economics degree from University of Basel and an MBA from Graduate School of Business Administration Zurich and Boston University.

Key attributes for the board: He complements the Board with his expert know-how in the development and marketing of medical devices and his long-standing experience in building, managing and supporting medical technology companies as an Executive, Non-Executive Board Member as well as a Venture Partner.

Willi Miesch
Executive Member

Chief Executive Officer (CEO) and Member of the Board | Board Member since 2010

Other main activities in 2018: Board Member of the International Bone Research Association (IBRA), Board Member of Osiris Therapeutics Inc., Member of the Investment Advisory Committee of MTIP.

Career highlights: CEO (Chief Executive Officer) at Medartis since 1998. Prior to that several long-term managerial positions in various production departments at Institut Straumann AG and Head of Manufacturing at Stratec Medical in Mezzovico, Ticino, Switzerland. Moreover, he was a member of the Executive Management Board at Villiger, a bicycle manufacturer, being responsible for all technical matters.

Qualifications: He holds a degree in Precision Engineering and a degree as Operations Technician TS from ABB Engineering School Baden with postgraduate studies in market-oriented Business Management at the University of Central Switzerland.

Key attributes for the board: Medartis benefits from his extensive knowledge of the medical industry, his global network of experts in the industry, his comprehensive experience related to his background in precision engineering and his long-term experience as an executive manager.

Dr. Jürg Greuter
Non-executive Member

Member of the Board | Board Member since 1997

Other main activities in 2018: Board Member of Stratus Sevices AG, CSI Basel Horse Event AG, Grand Hotel Les Trois Rois, Basel and centerVision AG.

Career highlights: Legal Counsel and Board Member at numerous small and mid-sized companies in Switzerland and in France in different sectors such as MedTech, Construction, Tourism, Shipping and Aviation. From 1990 to 2017 Founding Partner at Dietrich Greuter Wunder - Attorneys, Notaries and Mediators (now Dietrich Wunder Klingler Horni), in Basel.

Qualifications: PhD from the University of Basel Law School, attorney-at-law admitted to the Swiss Bar Association and Notary Public in Basel, Switzerland.

Key attributes for the board: Dr. Greuter complements the Board with his extensive knowledge and experience with regards to legal and corporate matters as well as board member and legal counsel in various other companies.

Dr. med. Daniel B. Herren
Non-executive Member

Member of the Board | Board Member since 2017

Other main activities in 2018: None.

Career highlights: Since 2009 Head of the hand surgery department at Schulthess Clinic in Zurich and since 2017 Chief Medical Officer. From 2010 to 2014 Board Member of National Federation of Medical Doctors in Switzerland (FMH). In addition, he acted as President of the Swiss Society for Surgery of the Hand between 2010 and 2013. Currently, he is treasurer of the Federation of European Societies for Surgery of the Hand (FESSH) and in conjunction with this role, member of the FESSH Executive Committee. He joined Medartis in 2017 as Member of the Board.

Qualifications: He holds a Medical degree from the University of Berne with postdoctoral studies at the ETH Zurich as well as a Master of Health Administration from the University of Berne.

Key attributes for the board: As an orthopaedic and hand surgeon Dr. Herren contributes in-depth expert and practical knowledge with many years of medical implants user experience.

Roland Hess
Non-executive Member

Member of the Board | Board Member since 2017

Other main activities in 2018: None

Career highlights: From 2010 to 2017 Board Member of Straumann Holding and Chairman of the Audit Committee. From 2008 to 2012 internal senior advisor to the Executive Management of the Board of Directors of Schindler Holding AG. Between 2003 and 2007 President of the Executive Management Board of the Elevator and Escalator Division of Schindler. From 1984 to 2012 rising through positions of increasing responsibility in controlling, finance and regional management at the Schindler Group. From 1971 to 1984 international auditor at Nestlé and Head of Finance of a Nestlé Group company. In addition to assignments in Europe his career includes several years in North- and Latin America, as well as Asia.

Qualifications: Mr. Hess holds a degree in Business Administration from Lucerne Business School and studied at Harvard Business School in Boston.

Key attributes for the board: Roland Hess is an expert in multinational group auditing, financial reporting, corporate finance and adds profound business development experience.

Damien Tappy
Non-executive Member

Member of the Board | Board Member since 2018

Other main activities in 2018: Co-founder, President and Managing Partner of Endeavour Vision and Member of the Young President Organization (YPO).

Career highlights: Founder and Director of the Start-up and Spin-off program from the Swiss Federal Institute of Technology (EPFL) and co-Founder, President and Managing Partner of Endeavour Vision.

Qualifications: Damien Tappy holds a degree in management, technology and economics (MTE) from IMD, Lausanne, Switzerland. He graduated with honours as an Engineer in Micro-Technology at EPFL. He also worked as International Fellow in the field of Medical Imaging at the Stanford Research Institute in California (SRI International).

Key attributes for the board: His area of expertise is in healthcare with a specific focus on Medical Technologies and Digital Health on both side of the Atlantic. As managing partner of Endeaver Vision he contributes experience as a Board member and Chairman from various investee companies from his private equity activities.

3.2 Other activities and vested interests

Information on the other activities and interests of the Members of the Board of Directors is shown in section 3.1.

3.3 Permitted other activities pursuant to OaEC

The number of external offices is stipulated as follows with binding effect in the Articles of Association:

Members of the Board of Directors must not simultaneously hold more than 15 additional mandates in commercial enterprises, of which no more than 5 may be held in listed legal entities.

Not subject to the above restrictions are:

a) Mandates in entities controlled by Medartis or controlling Medartis;

b) Mandates in entities upon request of Medartis; and

c) Mandates in associations, organizations and legal entities with a public or charitable purpose, foundations, trusts, as well as staff pension funds.

Mandates are defined as mandates in the highest management (Boards of Directors) of a legal entity which is obliged to be entered in the commercial register or in a corresponding foreign register. Mandates in different legal entities that are under uniform control or have the same economic justification are considered as one mandate.

All members of the Board of Directors are within the limits of external mandates stipulated by the Articles.

3.4 Elections and terms of office

Each Director is elected by the Annual General Meeting for a one-year term, which runs until the end of the next Ordinary General Meeting. Directors may be re-elected with no restrictions. There is no age or tenure limit.

The Chairman of the Board of Directors and the Members of the Remuneration Committee are also elected by the Annual General Meeting.

If the Chairman's Office is vacant, the Board of Directors appoints a Chairman from among its members for the remaining term of office.

At the Annual General Meeting 2019, all members of the Board of Directors stand for re-election and no new Board members will be proposed.

3.5 Internal organizational structure

The organization of the Board of Directors and its committees is set forth in the organizational regulations, available on (https://www.medartis.com/fileadmin/user_upload/Investor_Relations/Corporate_Governance/Statuten/Organizational_Regulations_Medartis_Holding_AG.pdf). The following paragraphs summarise the main elements of the organizational regulations.

3.5.1 Composition of the Board of Directors, allocation of tasks within the Board of Directors and Corporate Social Responsibility
Subject to article 19 of the Articles of Association, except for the election of the Chairman, the Board of Directors constitutes itself. It may designate one or several Vice-Chairmen among its members. It appoints a secretary, who shall not necessarily be a member of the Board of Directors. The individual positions (Chairman, Vice-Chairman, Member) are listed in section 3.1.

The Chairman regularly reviews the Board's composition to ensure that an adequate mix of skills and experiences is available to successfully manage the Company's current and future challenges. Based on general market views as well as certain international corporate governance standards, four out of seven Board members may be considered non-independent. Based on its composition by skills, background and experiences as outlined in the table in section 3.1. above, the Board of Directors is in a position to ensure the successful execution of the Company's strategy through independent decision-making processes and a functioning system of checks and balances. This has led to a successful development of Medartis, including the successful execution of its IPO in 2018. The Board of Directors will continue to develop and amend its composition under the leadership of its Chairman along with the further development of Medartis over time.

In accordance with Swiss corporate law, the Board of Directors is responsible for the overall and high-level management of the Company, which cannot be delegated, and the supervision of the Chief Executive Officer and the other members of the Executive Management Board. The Board of Directors is in charge of all matters not reserved to another corporate body by statute, by the Articles of Association or by the Organizational Regulations.

The Board of Directors ensures that it is regularly informed about the business of the company and about any developments that may be relevant thereto. It treats the reports and proposals submitted by the committees of the Board of Directors and by the Chief Executive Officer. All missions and competences of the Board of Directors are stipulated by article 15 of the organizational regulations. Without limitation, these tasks may not be delegated.

The Chairman of the Board of Directors is responsible for the preparation, calling, organization and chairing of the Board Meeting. Together with the CEO, the Chairman is in charge of the outside representation of the Company.

The members of the Board of Directors, the CEO and the other members of the Executive Management Board shall disclose to the Chairman of the Board of Directors (or, in the case of other members of management, to the CEO) any potential conflict of interest generally arising or relating to any matter to be discussed or decided upon, as soon as the respective person becomes aware of the potential conflict. The Chairman of the Board of Directors or the CEO, respectively, shall take appropriate measures to avoid any interference of such conflicts of interest with the interests of the Company's business. In cases of severe conflicts, the Chairman of the Board of Directors or the CEO, respectively, shall limit the information flow to the conflicted person or exclude this person entirely from the discussion and decision taking in the conflicted matter. The Chairman of the Board of Directors or the CEO, respectively, shall advise the Board of Directors of such conflict of interest and the measures taken.

The members of the Board of Directors shall abstain from exercising their voting rights in matters involving a conflict of interest (including with respect to interests of persons or legal entities with whom they are closely related). In such circumstances, any such member being in a position of conflict of interest (as previously defined) is not allowed to take part in the deliberations on these matters, except to provide an opinion.

In the event the CEO is conflicted with regard to a matter which falls within his competence, he will abstain from passing any resolution or taking any material action in respect thereto. He will moreover refer the concerned matter as soon as possible to the Board of Directors.

In case the Chairman of the Board of Directors is conflicted with regard to a specific topic he will inform the Vice-Chairman and abstain from participating in the discussion on such topic and the corresponding discussion will be chaired by the Vice-Chairman. If the Vice-Chairman also abstains another member of the Board of Directors, designated by the Board of Directors for the occasion will chair the discussion on such a specific topic.

Further information can be found in articles 7–18 and 32 of the Organizational Regulations (https://www.medartis.com/fileadmin/user_upload/Investor_Relations/Corporate_Governance/Statuten/Organizational_Regulations_Medartis_Holding_AG.pdf).

The Board of Directors acknowledges that part of its responsibility of the Company's high-level management includes its understanding about how the Company is doing business and how its strategic targets shall be achieved, this is, what values and culture it desires and how the Company interacts with its stakeholders. It is the Board of Directors' firm believe that Medartis is a part of society, respecting human rights and treating natural resources and the environment with care when rendering its products and services. The Board of Directors regularly reviews progress towards this corporate social responsibility framework, which includes, amongst other,

- a comprehensive code of conduct (https://www.medartis.com/fileadmin/user_upload/Kontakt/Corporate_Compliance/171030_corporate_compliance_A5_hoch_us_web_einseitig.pdf).
- policies about how to interact with medical professionals, institutions and regulatory authorities
- policies about how to interact with external suppliers and advisors
- policies on ethical and other standards in the Company's research and development
- An integrated compliance system and internal controls whose functionalities are regularly reviewed by the Finance and Audit Committee

In 2018, the key topics of the Board of Directors included, amongst other, the company's initial public offering (IPO) on the SIX Swiss Exchange, strategic business development projects, board committee work and reports and the corporate organizational structure. The Board of Directors met 6 times for an average meeting length of approx. 3 ¼ hours. One member was excused in two meetings and one member in another meeting. Additionally a strategic workshop day was held by the Board of Directors in September 2018.

3.5.2 Members list, tasks and area of responsibility for each committee of the board of directors

The Board of Directors may entrust committees with the preparation and implementation of all or some of its decisions, as well as with the supervision of certain matters. The committees are entitled to conduct investigations (or have investigations conducted on their behalf) in all matters of their competence. They may request the services of independent advisors and experts.

The committees of the Board of Directors consist of a chairperson and of at least one (1) other member. Committee members are designated by the Board of Directors from within the latter's own members. Remuneration Committee members however, are elected by the General Meeting of the shareholders (see article 27 of the Articles of Association). In general, members of committees are elected for a period of up to one (1) year until the end of the next Ordinary General Meeting of the shareholders following their designation.

The committees of the Board of Directors meet upon calling by their respective chairpersons or upon request of one of the respective committee members as often as required for the fulfilment of their duties, but at least three (3) times a year. Persons other than committee members may attend the meetings of a committee upon invitation from the chairperson of such committee.

Finance and Audit Committee

The competences of the Finance and Audit Committee are set out in articles 24 and 25 of the organizational regulations.

The Finance and Audit Committee is composed of at least two non-executive and independent members of the Board of Directors. The Board of Directors issues a Finance and Audit Committee Charter which governs the organization of the Finance and Audit Committee (https://www.medartis.com/fileadmin/user_upload/Investor_Relations/Corporate_Governance/Statuten/Finance_and_Audit_Committee_Charter_Medartis_Holding_AG.pdf).

The Finance and Audit Committee supports the Board of Directors in its supervisory function, in particular with respect to the completeness of the annual closing of accounts and financial statements, the compliance with statutory provisions, the analysis of the qualification of the external auditors, as well as the performance of the external auditors.

The Finance and Audit Committee assesses the usefulness and suitability of the financial reporting, the internal control system and the general supervision of business risks. It makes sure that a continued, efficient and productive communication exists between the Company and the external auditors regarding financial matters and course of business of the Company.

The Finance and Audit Committee invites the external auditor of the company, in particular its lead auditor and team to attend certain meetings of the Finance and Audit Committee or for one-to-one interaction with the chairperson of the Finance and Audit Committee. Matters of high level importance such as internal control procedures as well as key audit matters are handled in close cooperation with the external auditor.

Due to the yet limited size and complexity of the Company's corporate structure, the Company has not established a dedicated internal audit group for financial, compliance and enterprise control matters. If need arises, an ad-hoc team of employees with the required skills is created to inspect and review special situations. These teams report their findings directly to the Finance and Audit Committee and, as the case may be, the Chief Financial Officer.

The chief financial officer of the Company (the “Chief Financial Officer”) attends the meetings of the Finance and Audit Committee, except for portions when his or her presence would be inappropriate, as determined by the chairperson. At least once a year, the Finance and Audit Committee shall meet in separate sessions with the external auditors.

The chairperson of the Finance and Audit Committee can invite persons other than Finance and Audit Committee members to attend all or a portion of a meeting. Invited persons shall not participate in the discussions or deliberations unless invited to do so, and shall not be entitled to vote.

In 2018, the key topics of the Finance and Audit Committee included, amongst others, the company’s initial public offering (IPO) on the SIX Swiss Exchange, internal and external financial reporting, external audit, matters of controlling, compliance and risk management. The Finance and Audit Committee met 5 times for an average meeting length of approximately 5 hours. One member was excused for one meeting. The chairperson of the Finance and Audit Committee reports at every Board meeting on the Finance and Audit Committee activities and findings.

Remuneration Committee
The duties and responsibilities of the Remuneration Committee are set out in article 27 of the Articles of Association and in article 25 of the organizational regulations.

The Remuneration Committee is composed of at least three non-executive and independent members of the Board, as per article 25 of the Articles of Association and article 26 para. 1 of the Organizational Regulations. The Board of Directors issues a Remuneration Committee Charter which governs the organisation of the Remuneration Committee (https://www.medartis.com/fileadmin/user_upload/Investor_Relations/Corporate_Governance/Statuten/Remuneration_Committee_Charter_Medartis_Holding_AG.pdf).

The key tasks of the Remuneration Committee are:

- Presenting motions to the Board of Directors in view of the next Ordinary General Meeting of shareholders with respect to the aggregate amount of remuneration of the Board of Directors and of the Executive Management Board of the Company;
- Assisting the Board of Directors in the preparation of the remuneration report, to be adopted by the Board of Directors and then disclosed to the shareholders of the Company in view of the next Ordinary General Meeting;
- Implementing the resolutions passed by the General Meeting of shareholders with respect to the aggregate amount of remuneration of the members of the Board of Directors and the members of the Executive Management Board;
- Assisting the Board of Directors in setting the conditions for the actual remuneration of the members of the Board and of the Executive Management Board in accordance with article 25 of the Articles of association, as well as advising the Board in the review and approval of general compensation and benefit policies, including any long-term incentive plans.
- Preparing and assessing the principles of remuneration of the Company and presenting corresponding motions to the Board of Directors in this respect for approval;

- Advising the Board of Directors in the setting-up, monitoring and regularly reviewing of the remuneration policy and guidelines at the highest level of the Company;
- Submitting recommendations or presenting motions to the Board of Directors on other remuneration-related matters.

In 2018, the key topics of the Remuneration Committee included, amongst others, the structure of the new short and long term incentive plans as well as the setup and content of the Remuneration Report. The Remuneration Committee met twice for an average meeting length of 2 ½ hours with all members present. The chairperson of the Remuneration Committee reports at every Board meeting on the Remuneration Committee activities and findings.

3.5.3 Working methods of the Board of Directors and its committees

Upon invitation by the Chairman of the Board of Directors, the Board of Directors meets as often as required by the business of the Company, but at least four (4) times a year. Every member of the Board of Directors is entitled to request that a meeting of the Board of the Directors be called by the Chairman of the Board of Directors. If the Chairman of the Board of Directors does not proceed with the calling of the meeting within fourteen (14) calendar days from the request, the requesting member of the Board of Directors is entitled to call the meeting.

Every member of the Board of Directors is entitled to request that a determined subject of discussion be included in the order of business at least fourteen (14) calendar days prior to the next Ordinary Meeting of the Board of Directors. The Chairman of the Board of Directors shall inform the other directors of the new item on the order of business.

Agendas for Board of Directors or Board Committee meetings are defined by the respective chairperson. At least five (5) calendar days prior to the meetings of the Board of Directors, the members shall timely receive the agenda as well as all appropriate documents and reports needed for the decision-making process.

The Board of Directors may validly pass resolutions when at least the majority of its members are attending the meeting in person or by means of communication that allow direct discussion (e.g. telephone or audio-visual conference). The Board of Directors passes its resolutions with the majority of votes cast, each director having one vote. Abstentions are not counted as votes cast. In case of equal votes, the Chairman of the meeting has the casting vote.

The agenda of the meetings is set by the respective committee chairperson. Discussions and resolutions are recorded in the minutes of the meetings.

The chairpersons of the Finance and Audit Committee and the Remuneration Committee report at each Board meeting about matters which were discussed and resolved in their respective committee meetings.

Medartis' Organziational Regulations stipulate that the Board of Directors holds regular meetings without the CEO being present. Due to the dual role as member of the Board of Directors and CEO, Willi Miesch is invited to attend all the meetings of the Board of Directors with voting rights in his function as Board member. The conflict of interest rules apply as set forth in the Organizational Regulations and may require Willi Miesch to abstain from participating in specific parts of a Board meeting (https://www.medartis.com/fileadmin/user_upload/Investor_Relations/Corporate_Governance/Statuten/Organizational_Regulations_Medartis_Holding_AG.pdf).

Upon the proposal from any member of the Board of Directors (including its Chairman), the Chairman of the Board of Directors decides whether other persons should attend all or part of any meeting of the Board of Directors, and, as the case may be, who shall be invited. These persons do not vote.

The dates for the ordinary meetings are set at an early stage so that all members are able to attend in person. The participants of the meeting receive detailed written documentation in advance for all motions. The committees meet upon calling of their chairperson as often as required for the fulfilment of the duties, the Audit and Finance Committee at least four (4) times a year and the Remuneration Committee at least three (3) times a year.

3.6 Definition of areas of responsibility

The Board of Directors is responsible for the overall and high-level management of the Company, which, in accordance with Swiss corporate law, cannot be delegated, and the supervision of the CEO and the other members of the Executive Management Board. The

Board of Directors is in charge of all matters not reserved to another corporate body by statute, by the Articles of Association or by the Organizational Regulations.

Unless set out otherwise in mandatory statutory provisions, the Articles of Association and the Organizational Regulations, the Board of Directors delegates the management of the company to the Chief Executive Officer.

The responsibilities and tasks and nature of cooperation between the Board of Directors and the Executive Management Board are stipulated in the Organizational Regulations. A detailed diagram of the areas of responsibilities is listed in the Annex of the Organizational Regulations. These are available on the Medartis website (https://www.medartis.com/fileadmin/user_upload/Investor_Relations/Corporate_Governance/Statuten/Organizational_Regulations_Medartis_Holding_AG.pdf).

Key responsibilities and tasks of the Board of Directors are:

- Overall management of the Company and issuance of all necessary directives in this respect;
- Determining the organization, in particular adopting and amending the present Organizational Regulations as well as deciding on the setting up and dissolution of branches and offices;
- Organizing the accounting, financial planning and financial control, supervising and assessing the risks;
- Organizing the risk control and the risk assessment systems;
- Appointing, supervising and dismissing the persons entrusted with the management and the representation of the Company and regulating the signature powers;
- Adopting and amending guidelines namely on disclosure of shareholdings, management transactions, trading in own shares, insider information and market manipulation, ad hoc publicity, general stock exchange disclosure and reporting duties, as well as code of ethics and business conduct;
- Taking note of the Chief Executive Officer's and the external auditors' reports;
- Issuing the Annual Reports, as well as preparing the General Meetings of the shareholders and implementing the resolutions of the General Meetings of the shareholders;
- Notifying the court in the event of over-indebtedness;
- Based on the proposal of the Remuneration Committee, approving the remuneration report and deciding on the proposals on the aggregate amount of remuneration of the members of the Board of Directors and the members of the Executive Management Board to be submitted to the general meeting of the shareholders;
- Setting the conditions of the remuneration of the members of the Board of Directors and of the Executive Management Board in the form of equity securities, conversion rights and option rights in accordance with article 30 and article 31 of the Articles of Association, as well as reviewing and approving the general compensation and benefit policies including any long-term incentive compensation or equity plans and the allocation of benefits under such plans;
- Examining the independence of the external auditors based on the preliminary work made in this respect by the Finance and Audit Committee;
- Deciding on the setting up, acquisition or disposal of subsidiaries, as well as the purchase or sale of shares and/or assets in other companies;
- Passing resolutions on budgeted and unbudgeted capital expenditures ("CAPEX") exceeding CHF 500'000;
- Assessing the performance of the Board of Directors, its committees and members.

3.7 Information and control instruments vis-à-vis the executive committee

Medartis' Board of Directors has put different information instruments in place to provide oversight and monitor the execution of responsibilities it has delegated to the Executive Management Board.

Medartis has a fully integrated Management Information System on the basis of an SAP powered Enterprise Resource Planning, which covers most of the business transactions of the Group's consolidated entities.

The Board of Directors receives a detailed monthly sales report regarding the sales evolution by product line and by subsidiary, each as compared to the planned targets and prior years as well as comments on sales highlights.

Financial statements are submitted quarterly to and reviewed by the Finance and Audit Committee. The Chief Financial Officer as well as the chairperson of the Finance and Audit Committee present and comment the results in detail at the next meeting of the Board of Directors.

On the occasion of every meeting, the Board of Directors may request information, updates and reports from the Chief Executive Officer regarding the business of the Company. It is also a part of the Board of Directors' tasks to exchange regularly with the management as well as with the customers and the industry, e.g. visits to subsidiaries, customers or medical congresses.

Any member of the Board of Directors who wishes to have access to the Group CEO and the other members of the Executive Management Board or other employees of the Group will coordinate such access through the Chairman. The Board committee chairpersons may approach the members of the Executive Management Board as well as further key executives directly should they require information supporting the respective Board committee’s duties.

In case of a specific occurrence (in the course of business or of an extraordinary nature) with significant business or financial relevance, the Chief Executive Officer is obliged to immediately inform the members of the Board of Directors.

3.8 Risk management in the Group

The Board of Directors is responsible for overseeing the Group’s internal control system, which addresses strategic risks to which the Group is exposed. These systems provide appropriate security against significant inaccuracies and material losses.

Medartis developed, implemented and maintained a Quality Management System in order to document the overall Group’s best business practices, to ensure overall risk controlling, better satisfy the requirements and expectations of its customers and improve the overall management of the Group.

Medartis' continous iterative risk management process throughout the entire lifecycle of Medartis medical devices aims to high quality products, processes and related customer support.

The certified Quality Management System matches all related medical industry standards. Scope of the Quality Management System as also specified on the company’s EN ISO 13485:2016 certificate refers to design and development, manufacturing, distribution of cranio-maxillofacial and orthopaedic implants and instruments. Design and development of medical image processing, simulation and design software.

Quality audits are an integrated part of the Medartis Quality Management System and cover the control of the established processes to fulfill all required regulatory medical industry standards.

Internal audits are performed by trained internal auditors and contribute to the regulatory and technical aspects of the EN ISO 13485 on a yearly basis.

External audits are performed autonomously by third party. Those include the notified body TÜV Rheinland, national or international authorities with entitled interest, for example, Food and Drug Administration FDA (US), Swissmedic, Anvisa (Brazil). All potential findings from these audits are managed within the Medartis corrective and preventive action system.

The Executive Management Board assesses periodically financial and operational risks resulting in an Internal Control System (ICS) matrix which is reviewed by the Board of Directors on an annual basis.

The Finance and Audit Committee is periodically monitoring the risk assessment of Medartis and assesses the proposed risk mitigating measures proposed by the Executive Management Board.

Once a year a session is held with the Executive Management Board and the General Managers of the major subsidiaries to assess and discuss the major actual and future business risks. These findings are discussed at the Board of Directors meetings.

4. Executive Management Board

Axel Maltzen, Thomas Tribelhorn, Willi Miesch, Dominique Leutwyler and Oliver Marx (from left to right).

4.1 Members of the Executive Management Board

The table below sets forth the name, year of birth, function, membership and term of office of each Executive Management Board member as of the date of this Corporate Governance Report.

Name	Born	Nationality	Position	Year of Appointment
Willi Miesch	1964	Swiss	Chief Executive Officer	1998
Dominique Leutwyler	1970	Swiss	Chief Financial Officer	2001
Axel Maltzen	1969	German	Chief Production Officer	2014
Oliver Marx	1969	German	Chief Sales Officer	2015
Thomas Tribelhorn	1970	Swiss	Chief Technology Officer	2004 – 2008; 2012

There were no changes within the Executive Management Board during the year under review.

Willi Miesch

Chief Executive Officer

Career highlights: CEO (Chief Executive Officer) at Medartis AG since 1998. Prior to that several long-term managerial positions in various production departments at Institut Straumann AG and Head of Manufacturing at Stratec Medical in Mezzovico, Ticino, Switzerland. Moreover, he was a member of the Executive Management Board at Villiger, a bicycle manufacturer, being responsible for all technical matters.

Qualifications: He holds a degree in Precision Engineering and a degree as Operations Technician TS from ABB Engineering School Baden with postgraduate studies in market-oriented Business Management at the University of Central Switzerland.

Dominique Leutwyler

Chief Financial Officer and Deputy CEO

Career highlights: From 1995 to 2001 several positions, ultimately Chief Financial Officer (CFO) of Saab Automobile Switzerland. Since 2001 CFO of Medartis.

Qualifications: Commercial Apprenticeship and further education in accounting at the KV Business School Basel.

Axel Maltzen

Chief Production Officer

Career highlights: Since 2008 Head Quality Management and since 2014 Chief Production Officer (CPO) at Medartis. From 2005 to 2008 Head Quality Management at Stryker Leibinger and from 2003 to 2005 Team Leader for environmental facilities at tesa plant Hamburg. Earlier he was responsible as Head Project Manager for international environment projects at AB Umwelttechnik .

Qualifications: He holds a degree as Mechanical Engineer specialized in process engineering.

Oliver Marx

Chief Sales Officer

Career highlights: Since 2012 General Manager at Medartis Germany and since 2015 Chief Sales Officer (CSO) at Medartis AG. Prior to that he held several senior sales positions in medical device companies.

Qualifications: He holds a commercial education degree in Business Administration specializing in Marketing, Finance and Accounting from the Berufsakademie Villingen-Schwenningen.

Thomas Tribelhorn

Chief Technology Officer

Career highlights: Since 2004 at Medartis where first he was Head Business Unit Trauma, later, from 2008 to 2010, General Manager at Medartis UK and since 2012 Chief Technology Officer (CTO) at Medartis AG. Before joining Medartis, from 2000 to 2004, Global Operations Planer at F. Hoffmann-La Roche AG and prior to that, from 1996 to 2000, at Stratec Medical (later Synthes).

Qualifications: He holds a degree in Business Administration in International Management from the University of St. Gallen (HSG).

4.2 Other activities and vested interests

Information on other activities and interests of Willi Miesch is shown in section 3.1.

No other member of the Executive Management Board has any other activities or vested interests in accordance with the Directive outside of Medartis.

4.3 Permitted other activities pursuant to OaEC

The number of external offices is stipulated as follows with binding effect in the Articles of Association:

Members of the Executive Management Board must not simultaneously hold more than 3 additional mandates in commercial enterprises, of which no more than 1 may be held in a listed legal entity.

Not subject to the above restrictions are:

a) Mandates in entities controlled by Medartis or controlling Medartis;
b) Mandates in entities upon request of Medartis; and
c) Mandates in associations, organizations and legal entities with a public or charitable purpose, foundations, trusts, as well as staff pension funds.

Mandates are defined as mandates in the highest management body (Boards of Directors) of a legal entity which is obliged to be entered in the commercial register or in a corresponding foreign register. Mandates in different legal entities that are under uniform control or have the same economic justification are considered as one mandate.

All members of the Executive Management Board are within the limits of external mandates stipulated by the Articles.

4.4 Management contracts

There are no management or service contracts with third parties.

5. Compensation, shareholdings and loans

The relevant information to compensation, shareholdings and loans can be found in the Remuneration Report Section of this Annual Report.

6. Shareholders' participation rights

6.1 Voting rights restrictions and representation

Each share entitles the holder to one vote. Persons who have participated in any way in the management of the company do not have the right to vote on resolutions to ratify the actions of the Board of Directors.

Each shareholder may be represented at the General Meeting by another person who is capable of acting and who need not be a shareholder, on the basis of a written power of attorney.

Each shareholder may be represented by the independent proxy. The requirements for powers of attorney and instructions are determined by the Board of Directors.

6.2 Quorums required by the Articles of Association

The Articles of Association do not prescribe that a quorum of shareholders is required to be present at a shareholders' meeting.

The Articles of Association do not contain quorums deviating from statutory Swiss law.

Pursuant to Swiss law, a resolution passed at a shareholders' meeting with a qualified majority of at least two-thirds of the votes and the absolute majority of the nominal value of the shares, each as represented at such meeting is required for: (i) changes to a Company's purpose; (ii) the creation and elimination of shares with privileged voting rights (Stimmrechtsaktien); (iii) restrictions on the transferability of registered shares and the withdrawal of such restrictions; (iv) an authorized or conditional increase in a company's share capital; (v) an increase in a company's share capital by way of capitalization of reserves (Kapitalerhöhung aus Eigenkapital), against contributions in-kind (Sacheinlage), for the acquisition of assets (Sachübernahme) or involving the grant of special privileges or benefits; (vi) the limitation or suspension of pre-emptive rights (Bezugsrechte) of shareholders in a capital increase; (vii) the change of the registered office of a company; (viii) the dissolution by liquidation of a company, and (ix) any other cases listed in article 704 para. 1 CO. Qualified majority requirements apply by law to a merger (Fusion), demerger (Spaltung) or conversion (Umwandlung) of a company. In addition, any article providing for a greater voting requirement than is prescribed by law or the existing Articles of Association must be adopted by such a qualified majority.

6.3 Convocation of the General Meeting of shareholders

Under Swiss law, a General Meeting must be held within six months of the end of a company's preceding financial year. Shareholders' meetings may be convened by the Board of Directors or, if necessary, by a Company's statutory auditors or liquidators. The Board of Directors is further required to convene an extraordinary shareholders' meeting if resolved at a shareholders' meeting or within two months if requested by one or more shareholder(s) representing in aggregate at least 10% of a company's nominal share capital registered in the commercial register.

Such demands have to be submitted to the Chairman of the Board of Directors at least forty-five (45) days before the date of the shareholders' meeting and shall be in writing specifying the items and the proposals.

6.4 Inclusion of items on the agenda

Shareholders representing a total of at least 10% of the share capital or jointly representing shares with a nominal value of CHF 1 million may request that an item be included on the agenda of the Annual General Meeting. If no deadline is specified in the Company's notice regarding the possible inclusion of items on the agenda, or if the Company waives the publication of such notice, the request for inclusion on the agenda must be made in writing at least forty-five (45) days prior to the meeting, stating the item to be discussed and the motions of the shareholder or shareholders.

No resolutions may be passed on motions relating to items not duly announced, with the exception of motions to convene an extraordinary shareholders' meeting, to conduct a special audit and to elect an auditor at the request of a shareholder.

No prior notice is required for motions relating to the items on the agenda and for negotiations without a resolution.

6.5 Entries in the share register

The Company issues its shares as uncertificated securities (Wertrechte) within the meaning of article 973c CO and registers them as intermediated securities (Bucheffekten) within the meaning of the Swiss Federal Intermediated Securities. In accordance with article 973c CO, the Company maintains a register of uncertified securities (Wertrechtebuch).

Voting rights may be exercised only after a shareholder has been recorded in the share register as a shareholder with voting rights up to a specific qualifying day designated each time by the Board of Directors.

Acquirers of shares will be recorded in the share register as shareholders with the right to vote, provided that they expressly declare that they acquired the registered shares in their own name and for their own account and fulfill certain other requirements.

7. Changes of control and defense measures

7.1 Duty to make an offer

Rules in the Articles of Association on opting out (art. 125 para. 3 and art. 4 FMIA) and opting up (art. 135 para. 1 FMIA), stating the percentage threshold.

The Company's Articles of Association contain an opting-out provision and accordingly the obligation to submit a mandatory public takeover offer pursuant to the applicable provisions of the Swiss Financial Market Infrastructure Act (the "FMIA") is set aside in the sense of art. 125 paragraph 3 and 4 FMIA (Opting-out). Apart from this existing opting-out provision, there are no limitations regarding shareholder rights, i.e. with respect to admissibility and voting of shareholders.

The opting-out provision was adopted in the Articles of Association before the initial public offering as a safeguard to avoid an unwanted triggering of the duty to make an offer by the majority shareholder as a consequence of potential future changes in the company's issued equity capital, as stipulated by the Swiss legislation regarding mandatory takeover offers and based on the current practices of the Swiss takeover board.

7.2 Clauses on changes of control

With respect to the compensation of the Executive Management Board in connection with the occurrence of a change of control, the Articles of Association allow for the continuation, shortening or withdrawal of exercise conditions and periods and vesting periods, for the payment of compensation based on the assumption that the target values are achieved, or the forfeit of compensation.

Other than provided in the LTI program as described in section 2.7 above, there are no agreements with the members of the Board of Directors or the Executive Management Board in the event of change of control.

8. Auditors

8.1 Duration of the mandate and term of office of the lead auditor

Ernst & Young AG have been appointed as Group and statutory auditors of the Company at the 2018 General Meeting, having been the auditors since the year ending 2004. The auditor in charge is new in its function since 2018. The shareholders re-elect the auditors on an annual basis at the General Meeting.

8.2 Auditing fees

The total auditing fees charged by the audit firm in the year 2018 for the audit of the financial statement were TCHF 235 (2017: TCHF 239).

8.3 Additional (non-audit related) fees

The total fees charged in the year under review by the audit firm for additional services performed for Medartis were TCHF 140 (2017: TCHF 200). The additional fees for 2018 were mainly related to the IPO. The additional fees for 2017 were mainly related to the due diligence of the acquisition of the Brazilian distributor Extera and the IPO.

8.4 Information instruments pertaining to the external audit

The Finance and Audit Committee oversees the activities of the auditors and assesses the performance, remuneration and independence of the external auditor annually. The Board of Directors proposes the election of the external auditor to the Annual General Meeting based on the recommendation of the Finance and Audit Committee. The Finance and Audit Committee assesses the scope of the audit by the external auditor and the relevant procedures annually and discusses the audit findings with the external auditor. During the reporting year, five (5) meetings were held with the representatives of the external auditor. For additional information see section 3.5.2 of this report.

9. Information policy

Medartis is committed to a policy of transparent, open and continuous information. Shareholders receive information through the Annual Report, the Half Year Report, media releases, the internet and at the Annual General Meeting. In accordance with the rules of the SIX Swiss Exchange, Medartis publishes relevant figures on a half-yearly basis. Moreover, Medartis provides continuous information on important events according to the rules of ad-hoc notifications.

The frequency and form of information that the issuer provides its shareholders, along with an indication of permanent sources of information and contact addresses of the issuer that are publicly accessible or made specially available to shareholders (e.g. links to web pages, information centres, printed matter).

For more information, please visit www.medartis.com/investor-media-relations or address requests to:

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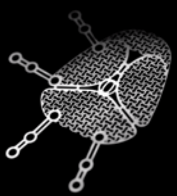
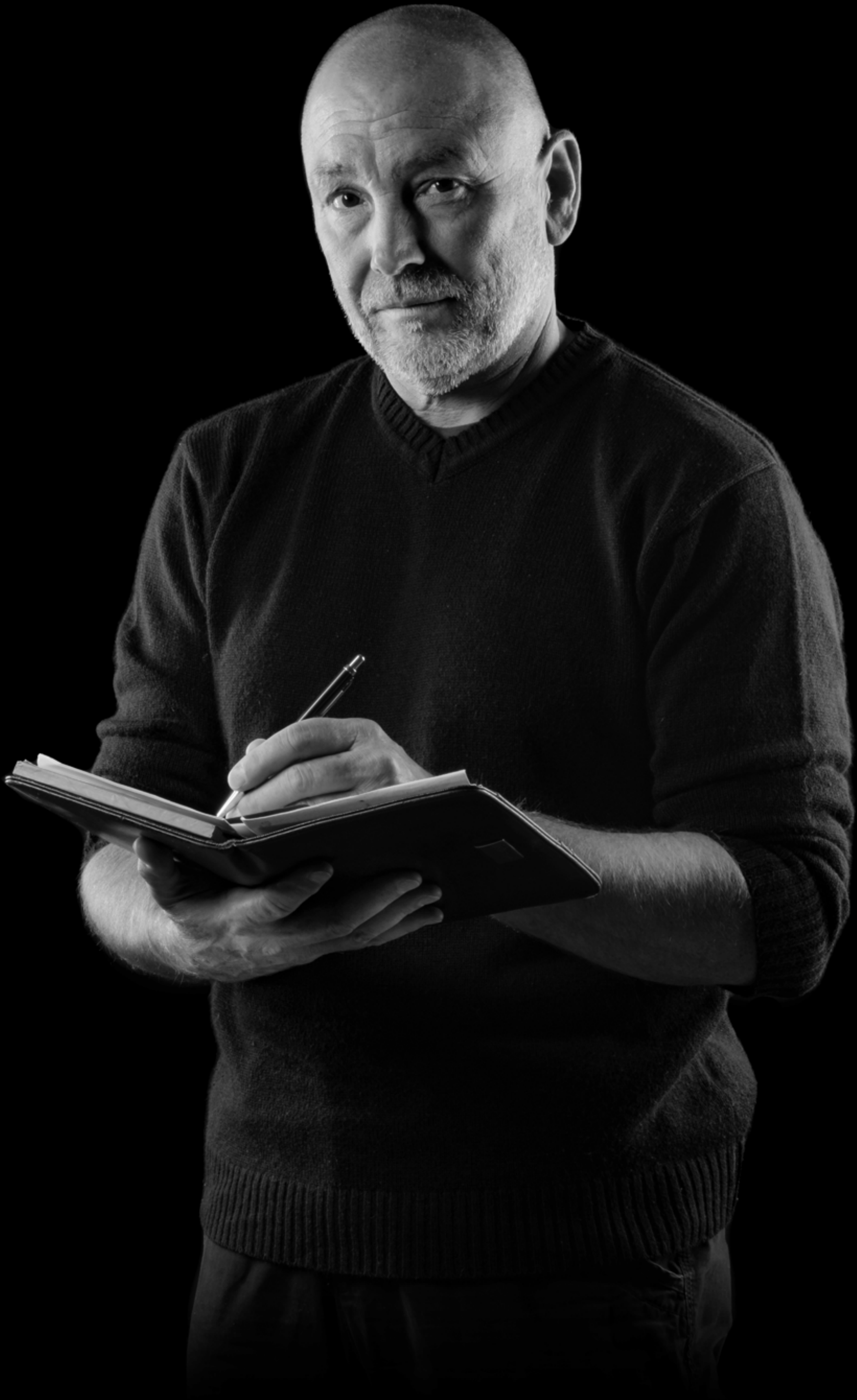


Orbital floor fractures

Etiology
Fractures of the orbit occur in about 50% of all skull-trauma and therefore are the most common fractures in the midface.
Assault (39%) and motor vehicle collisions (31%) are the leading causes.

Solution by Medartis
3D Mesh implants made from flexible pure titanium allow an exact anatomical reconstruction of the orbital structure with low profile height.

Source:
Hardt N. / Kuttenberger J. (2010): „Craniofacial Trauma". Springer-Verlag, Berlin Heidelberg, 2010, S. 97
Erdmann et al: "A retrospective analysis of facial fracture etiologies", Annals of Plastic Surgery,April 2008.



Walter
Group Manager Receiving Department, Medartis

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Remuneration report

The present remuneration report of Medartis Holding AG sets out the guiding basic remuneration principles, the governance rules around compensation decisions, the current compensation architecture and elements, as well as the actual remuneration paid and / or allocated to the Board of Directors and the Executive Management Board for the reported year. It is in compliance with the requirements of the Ordinance Against Excessive Compensation in Publicly Listed Companies ("VegüV"), Medartis' Articles of Association and, with respect to compensation disclosure, article 5 of the appendix to the SIX Exchange Regulation Directive on Corporate Governance (DCG) and section 38 of appendix 1 of the Swiss Code of Best Practice for Corporate Governance.

1. Basic remuneration principles

Medartis' remuneration system underpins the group's commitment to attract, engage and retain the best talent within the industry. The Articles of Association of Medartis Holding AG stipulate the following basic principles:

- Board of Directors (Art. 30): The remuneration of the members of the Board of Directors consists of a fixed compensation, which is paid in cash and / or in the form of shares. It may comprise other compensation elements and benefits.
- Executive Management Board (Art. 31): The remuneration of the Executive Management Board consists of fixed remuneration elements (comprising base salary and possibly other remuneration elements and benefits) and variable compensation elements (consisting of short-term and / or long-term compensation components). The variable components may be paid in cash and / or shares, options or other equity-based instruments.
- Approval by the general meeting of shareholders (Art. 16) (General Meeting): The General Meeting approves annually, on a binding basis and at the request of the Board of Directors, the aggregate amounts of the fixed remuneration of the Board of Directors for the period up to the next ordinary General Meeting, and of the Executive Management Board for the next full financial year following the year of the ordinary General Meeting. The General Meeting further approves annually the total amount of variable remuneration elements (short-term and long-term) for the Executive Management Board for the current financial year in a binding and separate manner.
- Additional amount for newly appointed members of the Executive Management Board (Art. 32): Should new members of the Executive Management Board be appointed after the resolution of the General Meeting, an additional amount of up to 140% of the latest CEO total compensation in case of a new CEO appointment, and / or up to 140% of the latest average group executive's total compensation in case of appointment of other new members of the Executive Management Board, may be granted according to article 32 of the Articles of Association. In addition, and based on the same article, buy-out awards in the amount of up to CHF 1'000'000 to a newly appointed CEO and / or up to CHF 500'000 for other newly appointed members of the Executive Management Board may be granted in order to compensate the newly appointed executives for the loss of deferred compensation elements with their previous employer. The General Meeting does not vote on the additional amount used according to article 32 of the Articles of Association.
- No loans, credits, additional pension benefits (Art. 33): Members of the Board of Directors and of the Executive Management Board may not be granted any loans, credits or pension benefits outside the scope of occupational benefits, except for loans up to CHF 250'000 per individual to bridge-finance legal costs.
- Maximum contractual terms (Art. 36): Employment contracts with members of the Executive Management Board may be concluded for a fixed term of up to 1 year, or for an indefinite term with a notice period of up to 1 year.

2. Remuneration governance and processes

The overall responsibility for the implementation of the statutory remuneration principles lies with the Board of Directors. According to the Remuneration Committee Charter (Art. 3) and the Articles of Association of Medartis Holding AG (Art. 27), the Remuneration Committee assists the full Board of Directors in the following tasks:

- Preparation of the remuneration report
- Preparation of the proposals regarding the maximum remuneration amounts of the Board of Directors and the Executive Management Board for approval by the General Meeting;
- Implementation of resolutions passed by the general meeting of the shareholders in this respect
- Agreements on the additional amount pursuant to Article 32 of the Articles of Association;
- Appointment and dismissal of persons entrusted with the management of the company or individual branches thereof;
- Setting-up, monitoring and regularly reviewing of the remuneration policy and guidelines at the highest level of the Company, as a whole;
- Setting of the conditions for the remuneration of the members of the Board of Directors and of the Executive Management Board in the form of equity securities, conversion rights and option rights;
- Determination and review of the objectives and the target level of the short- and long-term performance-related remuneration elements and evaluation of their achievement levels with ensuing payout.

Details on the constitution of the Board of Directors and of the Remuneration Committee, as well as regarding further details such as, for example, maximum number of external mandates, can be found in Medartis' corporate governance report.

The Board of Directors or, upon delegation by the Board of Directors, the Remuneration Committee determines annually the performance values and the variable short- and long-term compensation elements, their amount and attainment, as well as the allocation conditions, vesting conditions and periods, as well as any blocking periods and expiration conditions in accordance with the compensation plan regulations.

The Chairman of the Remuneration Committee reports to the Board of Directors after each meeting on the activities of the committee. Every member of the Board shall receive a copy of the minutes of every meeting of the Remuneration Committee.

The Remuneration Committee recommends, and the Board of Directors determines, on an annual basis, the amount of the remuneration of the individual members of the Board of Directors, including its Chairman, subject to and within the limits of the maximum total amount approved by the General Meeting. All decisions are subject to Medartis' conflict of interest policy as put forward in the Organizational Regulations (Art. 32).

Remuneration to the CEO is recommended by the Remuneration Committee and determined by the Board of Directors on an annual basis, subject to and within the limits of the maximum total amount approved by the General Meeting. Remuneration to the other members of the Executive Board is recommended by the CEO, reviewed by the Remuneration Committee and determined by the Board of Directors, on an annual basis, subject to and within the limits of the maximum total amount approved by the General Meeting.

The chairman of the Remuneration Committee can invite persons other than Remuneration Committee members to attend all or a portion of a meeting. Invited persons shall not participate in the discussions or deliberations of the Remuneration Committee unless invited to do so, and they shall not be entitled to vote.

The Remuneration Committee reviews the compensation package of the members of the Executive Management Board annually and proposes to the Board of Directors any adjustments. As a base for this work the Remuneration Committee assesses compensation packages in similar companies. To build the compensation benchmark the following two groups of companies were analysed:

- Listed companies in the worldwide MedTech industry as well as worldwide players in Health Care with a similar size (in terms of employees and / or revenue), and
- Companies in the Swiss MedTech industry or Health Care industry with around 250 to 2'000 employees, both with international scope.

The Remuneration Committee may decide to consult external advisors on specific compensation matters. In 2018, Seematter & Sterchi Incentive Plans AG (SSIP), a company specialized in incentive plan design and international implementation, has been appointed to advise on the redesign and international roll-out of the share-based compensation elements. The firm does not have any other mandate with Medartis.

As set out above, the General Meeting approves the total remuneration amounts to the Board of Directors and to the Executive Management Board on an annual basis and in a binding manner. The Board of Directors values the dialogue with shareholders and is considerate of their views about executive compensation when reviewing compensation principles. Against this background, the Board of Directors voluntarily submits the compensation report to a consultative vote at the General Meeting. This vote allows shareholders to express their opinion on the compensation system, compensation disclosure as well as remuneration paid and granted in the past financial year.

The remuneration practices are further guided by the basic principles determined in Medartis' Articles of Association, as set out above.

3. Compensation architecture and elements

3.1 Board of Directors

For their non-executive services in the Board, members of the Board of Directors receive a fixed basic compensation, which may be paid in cash and / or in the form of shares, based on the responsibilities and time requirement of their functions within the Board or within the committees of the Board of Directors, without any entitlement to performance-related compensation, and there are no additional fees per meeting or for Board Committee memberships. This ensures that the Board of Directors remains independent while exercising its supervisory duties towards the Executive Management Board. For 2018, fixed board fees were paid in cash only. The amount of fees for each function of the Board of Directors is determined annually, considering the market compensation trends and comparisons with other listed life science companies of similar size which operate internationally. Members of the Board of Directors who also hold Group executive functions receive a separate compensation for such executive function, which is disclosed accordingly below in the section on the Executive Management Board.

In connection with Medartis' IPO in 2018, members of the Board of Directors (except for those three members of the Board of Directors who are also anchor shareholders, i.e. Thomas Straumann, Dominik Ellenrieder and Willi Miesch) were additionally granted the one-time opportunity to buy newly listed shares at a discount of 20%. This offer was installed in order to reward members of the Board of Directors and the Executive Management Board for their special efforts to make the IPO a success story for Medartis and further aligning them with shareholder interests. The shares acquired under this program are subject to a 1-year blocking period during which they may not be sold or otherwise disposed of.

There were no relevant changes to the remuneration structure or amounts for the Board of Directors in 2018.

In 2019, Medartis works on implementing a "Restricted Share Plan for the Board", under which members of the Board of Directors may voluntarily elect to receive all or part of their fees in the form of restricted Medartis shares instead of cash. Details will be set out in the remuneration report 2019.

There are no contractual share ownership requirements for members of the Board of Directors.

Depending on the contractual setup and individual circumstances, the remuneration paid to members of the Board of Directors may be subject to VAT or statutory social security contributions.

3.2 Executive Management Board

a. Overview

The remuneration of the Executive Management Board (CEO and other members of group management) consists of a fixed base salary, an annual, performance-based short-term incentive, a long-term incentive plan in the form of restricted share grants, and other benefits (e.g. company car, seniority gift, travel checks). In addition, as a one-time opportunity in 2018, members of the Executive Management Board had the opportunity to buy Medartis shares at preferential conditions in connection with the IPO. Details on each compensation component are set out below.

b. Fixed base salary

The fixed base salary depends on the function, the qualification and the professional experience of the respective individual. In 2018, there were no relevant changes to base salaries of the Executive Management Board members.

c. Annual short-term incentive

Payment of the annual short-term incentive, if any, is made in cash, usually in the first half of the following year. The target amount for the annual short-term incentive (at 100% performance achievement, see below) amounts to 50% (CEO) and 20% - 27% (other members of the Executive Management Board), respectively, of the individual's annual gross base salary. This target value is determined individually for each member of the Executive Management Board and is reviewed in a benchmarking process once per year, considering peer companies and benchmarks as for the fixed base salary (see above).

The performance metrics used for the Executive Management Board members' annual short-term incentive are annual net sales, OPEX and EBITDA of the Medartis Group, which are considered to be the most critical and sustainable value drivers of the Group. There are no individual performance targets. OPEX and EBITDA are measured relative to actual net sales. This means, for example, that if a turnover higher than the budget value is achieved, the OPEX can be higher than budgeted without having a negative influence on the partial amount of the STI.

The weighting of each of those three performance measures may differ by individual and is set at the beginning of the year in the annual performance agreements. Once agreed, there is no discretion to change the weighting.

For each metric, the CEO determines and the Board of Directors approves the annual target and maximum performance levels in advance and in line with the budget process for the subsequent financial year and with the long-term strategy. Each performance indicator's target achievement, multiplied by its weighting and by the individual's target amount for the short-term incentive, determines the actual payout.

- 100% achievement of the performance targets leads to 100% payout of the target amount.
- For each percentage point that the performance achievement level is above or below the performance targets, the payable amount is reduced or increased, respectively, by 20%.
- Consequently, a performance target achievement level of 95% or less leads to 0% payout on the respective metric (this is the threshold), and a performance target achievement level of 105% or more leads to the capped payout of 200% on the respective metric.
- Between threshold, target and cap, there is a linear interpolation of performance achievement to payout levels.

There is no Board discretion in the measurement of the performance target achievement levels and the calculation of the resulting amounts payable.

In consideration of the Executive Management Board's effort and contributions in 2018 which led to achieving more than 90% of all company targets, in addition to the IPO workload, the Board of Directors in its discretion decided to increase, for each member of the Executive Management Board, the short-term incentive payout by 25% of the target STI opportunity. It is included in the short-term incentive amounts disclosed in the audited tables below.

d. Long-term incentive

Medartis operated a corporate long-term incentive plan with restricted shares (LTI). Members of the Executive Management Board are eligible to participate in this plan. The amount of this long-term compensation is determined individually for each participant, generally at the discretion of the Board of Directors. It is reviewed once a year and may be subject to fluctuations.

According to the plan rules, the amount, if any, for each individual participant shall be converted into a number of Medartis Holding AG shares at a conversion price that corresponds to the average closing price of a Medartis share on the SIX Swiss Exchange during the last 10 trading days in February, less a discount of 20%. Ownership of granted shares, if any, shall then typically be transferred in April, subject to a restriction period that lasts until the end of February in the second year after grant (i.e., depending on the exact grant date, the restriction period will be slightly less than two years). During the restriction period, the participant is legal and beneficial owner of the shares, including all shareholder rights, but the shares may not be sold, given away, pledged or otherwise transferred (except in the event of death or disability). At the end of the restriction period, participants have the right to freely dispose of the shares.

However, because of ongoing further development of the intended incentive design, the LTI grant amounts for 2018 have not yet been converted into restricted shares. The LTI compensation amounts disclosed in the audited tables in section 4 show the allocated LTI grant amounts for 2018, including step-up deriving from the use of the 20% discounted share price for the conversion.

For 2019 and onwards, the above mentioned LTI plan will be replaced by a new equity-based long-term incentive plan, see also comments in section 3.2 f) below.

Shares required under the LTI may be made available, at discretion of the Board of Directors, by capital increase, treasury shares or purchase of shares in the market. Further details on conditional capital are set forth in section 2.2 of the Corporate Governance report.

e. One-time opportunity: IPO shares

In addition, and in connection with Medartis' IPO in 2018, members of the Executive Management Board (except for our CEO Willi Miesch because he is an anchor shareholder of the company) were granted the one-time opportunity to buy newly listed shares at a discount of 20%. This offer was installed in order to reward members of the Board of Directors and the Executive Management Board for their special efforts to make the IPO a success story for Medartis, and as an additional retention incentive for the beneficiaries to stay with the company through the IPO. The shares acquired under this program are subject to a 1-year blocking period during which they may not be sold or otherwise disposed of.

f. Other elements and comments

Members of the Executive Management Board participate in the benefits plan available in the country of their employment contract. Benefits consist mainly of retirement, insurance and health care plans that are designed to provide a reasonable level of protection for the employees and their dependents with respect to retirement, risk of disability, death and illness / accident. Medartis' pension benefits under Swiss contracts exceed the legal requirements of the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) and are in line with what other international industrial companies offer.

Out-of-pocket expenses incurred to executives in connection with their employment services for Medartis and duly reimbursed by Medartis in accordance with the applicable regulations are not considered to be compensation subject to approval and are not further considered for the below compensation tables.

With respect to fringe benefits, the following three elements should be noted:

- Each member of the Executive Management Board is entitled to be allocated a company car that may also be used for private purposes.
- Executive Management Board members are generally entitled to seniority gifts according to the general company regulation applicable to all employees. In 2018, no such seniority gift was paid or due for payment to members of the Executive Management Board.
- In line with the general company regulation for all employees, members of the Executive Management Board may voluntarily acquire REKA travel checks up to a maximum amount per person and year of CHF 160.

No severance payments or notice periods of more than six months have been agreed with members of the Executive Management Board.

There are no contractual share ownership requirements for members of the Executive Management Board.

The actual compensation paid directly and indirectly to members of the Executive Management Board in the reported year is shown in the tables below.

In 2019, Medartis works on implementing the following new compensation elements, which are planned to replace the current LTI set out above:

- New "Long-Term Incentive Plan": The Board of Directors at its sole discretion may determine grant amounts for Members of the Executive Management Board, which will be converted into a number of granted shares, subject to a 2-year restriction period.
- "Bonus Restricted Shares Plan": Members of the Executive Management Board and Key Employees will have the possibility to receive all or part of their short-term incentive payout in the form of restricted shares instead of cash.
- "Employee Share Purchase Plan": A broad-based plan under which Medartis employees around the globe will have the possibility to acquire Medartis shares at preferential conditions.

Details will be set out in the 2019 report.

4. Actual remuneration for the reported year

This section contains:

(a) the actual compensation paid to the Board of Directors for 2018;

(b) the actual compensation paid to the Executive Management Board for 2018;

(c) other compensation-related information under the OaEC;

(d) a general pay-for-performance review;

(e) comments on the alignment between paid and pre-approved amounts; and

(f) information on shareholdings of members of the Board of Directors and of the Executive Management Board.

Subsections (a), (b) and (c) are subject to external audit according to the Ordinance Against Excessive Compensation in Publicly Listed Companies (OaEC; "VegüV").

All amounts shown below are in Swiss Francs (CHF).

a) Remuneration of the Board of Directors (audited)

The below table shows the compensation paid to members of the Board of Directors for 2018. All individuals were members of the Board of Directors during this entire period except for Damien Tappy.
(newly elected in the General Meeting 2018)

	Fixed board fee (cash)	Social security contributions	Sub-Total	IPO shares	Total
Thomas Straumann Chairman of the Board	446'578 CHF	135'413 CHF	581'991 CHF	0 CHF	581'991 CHF
Dominik Ellenrieder Vice-chairman of the Board Chairman of the Remuneration Committee	215'030 CHF	0 CHF	215'030 CHF	0 CHF	215'030 CHF
Roland Hess Chairman of the Audit Committee	126'629 CHF	10'866 CHF	137'495 CHF	87'494 CHF	224'989 CHF
Jürg Greuter	84'419 CHF	0 CHF	84'419 CHF	24'998 CHF	109'417 CHF
Daniel Herren	84'419 CHF	7'485 CHF	91'904 CHF	21'245 CHF	113'149 CHF
Willi Miesch	84'419 CHF	7'553 CHF	91'972 CHF	0 CHF	91'972 CHF
Damien Tappy New board member from GA 2018 on	70'721 CHF	0 CHF	70'721 CHF	124'992 CHF	195'713 CHF
Total all members	**1'112'215 CHF**	**161'317 CHF**	**1'273'532 CHF**	**258'729 CHF**	**1'532'261 CHF**

Comments:

- "Fixed board fee (cash)": Gross amounts before deduction of employee contributions to social security, occupational pension schemes and other mandatory charges, as far as applicable.
- "IPO shares": For 2018, the above amounts represent the discount on the purchased shares (CHF 9.60 per share) in connection with the IPO, i.e. offering price of one Medartis share (CHF 48.00), less a discount of CHF 9.60 (20%) resulting in a purchase price paid by the individual of CHF 38.40 per share. Gross amounts before deduction of employee contributions to social security, occupational pension schemes and other mandatory charges, as far as applicable.
- "Social security contributions": Company contributions to social security and occupational pension schemes, as far as applicable.

b) Remuneration of the Executive Management Board (audited)

The below table shows the compensation paid to the CEO and other members of the Executive Management Board for 2018. The Executive Management Board consisted of 5 members, all of them being members of the Executive Management Board during the entire period.

	Fixed compensation	Variable compensation in cash	Variable compensation in equity		Indirect compensation	Total
	Fixed base salary	Annual short-term incentive (STI)	IPO shares	Long-term incentive (LTI)	Social security contributions and fringe benefits	
Willi Miesch CEO	600'600 CHF	199'200 CHF	0 CHF	275'000 CHF	190'721 CHF	1'265'521CHF
Other members of the Executive Management Board (excl. CEO)	1'144'000 CHF	185'920 CHF	79'997 CHF	387'500 CHF	402'718 CHF	2'200'135 CHF
Total all members of the Executive Management Board (incl. CEO)	**1'744'600 CHF**	**385'120 CHF**	**79'997 CHF**	**662'500 CHF**	**593'439CHF**	**3'465'656 CHF**

Comments:

- “Fixed base salary”: Gross amounts before deduction of employee contributions to social security, occupational pension schemes and other mandatory charges, as far as applicable.
- “Annual short-term incentive (STI)”: Amounts based on the performance in 2018, payable in 2019, including the special 25% increase as set forth in section 3.2 d) above. Gross amounts before deduction of employee contributions to social security, occupational pension schemes and other mandatory charges, as far as applicable.
- “IPO shares”: For 2018, the above amounts represent the discount on the purchased shares (CHF 9.60 per share) in connection with the IPO, i.e. offering price of one Medartis share (CHF 48.00), less a discount of CHF 9.60 (20%) resulting in a purchase price paid by the individual of CHF 38.40 per share. Gross amounts before deduction of employee contributions to social security, occupational pension schemes and other mandatory charges, as far as applicable.
- “Long-term incentive (LTI)”: As further explained in section 3.2 d), the disclosed amounts are LTI grant amounts for 2018 (though not converted into restricted shares yet), plus step-up in value deriving from the use of a 20% reduced conversion price. Gross amounts before deductions of employee contributions to social security, occupational pension schemes and other mandatory charges, as far as applicable.
- “Social security contributions and fringe benefits”: Company contributions to social security and occupational pension schemes, as far as applicable. CHF 458’502 related to fixed compensation, CHF 23’107 related to STI, CHF 3’441 related to IPO shares amount and CHF 39’750 related to LTI. This column further includes the value of fringe benefits, consisting of company car private use and seniority gifts (however, none paid or due for payment to members of the Executive Management Board in 2018); excl. acquisition of REKA travel checks (minor benefit, not further considered).

c) Other compensation-related information under the OaEC (audited)

For the reporting period, no compensation other than listed above in a) and b), respectively, was paid or granted to members of the Board of Directors and the Executive Management Board.

No compensation was paid or granted to former members of the Board of Directors or Executive Management Board.

No loans or credits were granted to current or former members of the Board of Directors and Executive Management Board. No such loans or credits were outstanding at the balance sheet date.

No compensation, loans or credits were paid or granted at non-market conditions to persons closely associated with current or former members of the Board of Directors or Executive Management Board. No such loans or credits were outstanding at the balance sheet date.

d) Performance-related compensation: General pay-for-performance review

In 2018, the target achievement levels for the three metrics in the annual short-term incentive for members of the Executive Management Board led to a payout ratio of 41% of the target amount.

Consequently and in total, the STI payout to members of the Executive Management Board (excl. CEO) for 2018 equals CHF 185’920 as stated in the above compensation tables, which represents 16% of the fixed base salary in the same period. For the CEO, the STI payout of CHF 199’200 represents 33% of the base salary.

In addition, and as also set out in the above compensation tables, the grant value of restricted shares under the LTI was CHF 387’500 for the entire Executive Management Board (excl. CEO), CHF 275’000 for the CEO.

The aggregate variable compensation (STI and LTI) for 2018 represents 79% of the fixed base salary for the CEO. This is the total pay mix for the regular compensation elements.

The aggregate variable compensation (STI and LTI) for 2018 represents 50% of the fixed base salary for the entire Executive Management Board (excl. CEO). This is the total pay mix for the regular compensation elements.

The additional possibility to buy shares at preferential conditions ("IPO shares" above) was a one-time opportunity in connection with the IPO, in order to reward members of the Board of Directors and the Executive Management Board for their special efforts to make the IPO a success story for Medartis. This was a one-time offer and is thus not comparable to previous years and does not form part of the recurring compensation architecture. If this element is added to the regular performance-based, variable compensation, the variable components (STI, LTI and IPO shares) represent 65% of the fixed base salary for the entire Executive Management Board.

Total compensation paid for 2018 was higher than for 2017, mainly because of the additional LTI program and the extraordinary IPO share opportunity. With respect to the other compensation elements, the remuneration architecture did not undergo any relevant changes.

e) Alignment with pre-approved maximum amounts (audited)

At the ordinary annual General Meeting of Medartis Holding AG on 19 February 2018, the shareholders approved, with binding effect and in separate votes, the following maximum aggregate amounts:

Compensation to the Board of Directors for the period from the General Meeting 2018 to the General Meeting 2019:	CHF 1'462'452
Fixed base salary to the Executive Management Board (incl. CEO) for the period from 1 March 2018 to 31 December 2018:	CHF 1'898'799
Fixed base salary to the Executive Management Board (incl. CEO) for the business year 2019:	CHF 2'423'525
Variable compensation to the Executive Management Board for the business year 2018:	CHF 2'160'410

Board of Directors:
As shown in the above Board remuneration table, the total compensation paid to the Board of Directors for services in the financial year 2018 (subtotal fixed board fee and social security contributions) amounts to CHF 1'273'532.

After the General Meeting 2018 the Board of Directors decided to offer the Board members (and employees) the possibility to participate in a preferred share purchase program into the IPO. The purchase conditions were set at a preferred price of 20% discount to the IPO listing price. For the members of the Board who have taken advantage of the IPO share purchase program an additional compensation benefit of CHF 258'729 resulted (discount rate to listing price x number of shares bought).

The pre-approved maximum amount of CHF 1'462'452 at the General Meeting 2018 relates to the period from the General Meeting 2018 to the General Meeting 2019. The portion of the Board's total compensation for 2018 that relates to the period from the General Meeting 2018 to the end of the year amounts to CHF 1'022'410 for the existing members of the Board without the new member Damien Tappy and the IPO shares purchase program.

Due to the expansion of the Board by a new member and the IPO share purchase program compensation advantage, the pre-approved total amount will be exceeded by CHF 314'310. The difference to the pre-approved amount for the entire period from General Meeting 2018 to General Meeting 2019 which is currently expected to be at a total of CHF 341'978, will be conclusively determined and presented at the General Meeting 2019 for approval.

For the period before the General Meeting 2018, Medartis was not subject to the OaEC ("VegüV") requirements and thus the respective compensation did not need to be approved by the General Meeting.

Executive Management Board, fixed base salary 2018:
Medartis Holding AG became a publicly listed company in March 2018 therefore the compensation for services before March 2018 were not subject to approval by the General Meeting 2018. The total aggregate amount approved by the General Meeting 2018 for the fixed base salary of the Executive Management Board for the period from 1 March to 31 December 2018 amounts to CHF 1’898’799. The sum of the total fixed base salary paid to the Executive Management Board (incl. CEO) for the total year 2018 amounts to CHF 2’203’102. Looking at the relevant period from 1 March to 31 December, the respective pro rata amount equals CHF 1’836’414. It is thus within the limits of the amount approved by the General Meeting for the same period.

Executive Management Board, variable compensation for 2018:
Variable compensation includes the annual short-term incentive (STI), the long-term incentive (LTI) and the IPO share program. The total aggregate amount of those three elements for 2018, as shown in the above compensation tables, equalled CHF 1’193’915 for the entire Executive Management Board (incl. CEO). This is within the limits of the maximum amount approved by the General Meeting for the same period (CHF 2’160’410).

f) Shareholdings of members of the Board of Directors and of the Executive Management Board

See attachment to the 2018 financial statements of Medartis Holding AG.

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To the General Meeting of
Medartis Holding AG, Basel

Basle, 1 April 2019

Report of the statutory auditor on the remuneration report

We have audited the remuneration report of Medartis Holding AG for the year ended 31 December 2018. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled “audited” on pages 53 to 55 of the remuneration report.

Board of Directors’ responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor’s responsibility
Our responsibility is to express an opinion on the remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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

Opinion
In our opinion, the remuneration report for the year ended 31 December 2018 of Medartis Holding AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

Elisa Alfieri
Licensed audit expert
(Auditor in charge)

André Schaub
Licensed audit expert

Shoulder fractures

Incidence
6.0 per 10’000 person-years

Solution by Medartis
Due to the high rate of complications Medartis offers the anatomical plate in combination with an optional spiral blade in the humeral head to provide additional calcar support to reduce the risk of varus displacement.

Reaching a stable support in the calcar region is particularly crucial in the case of poor bone quality.

Source:
J. Karl, P. Olson, M. Rosenwasser, “The epidemiology of upper extremity fractures in the United States, 2009”, 2015, J Orthop Trauma.
Beirer M, Crönlein M, Venjakob AJ, Saier T, Schmitt Sody M, Huber Wagner S, Biberthaler P, Kirchhoff C: Additional calcar support using a blade device reduces secondary varus displacement following reconstruction of the proximal humerus: a prospective study. European Journal of Medical Research 2015; 20:82

Manuel
Swiss-American musician

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Content

Medartis Group Consolidated Financial Statements

Consolidated Balance Sheet

(at 31 December 2018 and 2017)

(CHF)	Notes	31 Dec 2018	31 Dec 2017
Assets			
Current assets:			
Cash & Cash equivalents		**116'262'594**	1'973'308
Accounts receivable trade	7.1	**20'965'687**	19'368'250
Accounts receivable other	7.1	**3'059'692**	1'323'939
Income tax receivables		**2'744'249**	3'217'140
Inventories	7.3	**37'952'389**	35'029'849
Prepaid expenses	7.2	**1'741'834**	1'153'080
Total current assets		**182'726'444**	62'065'566
Non-current assets:			
Property, plant and equipment	7.4	**37'042'454**	32'743'881
Intangible assets	7.5	**9'201'408**	8'368'814
Financial assets		**1'090'363**	1'005'637
Deferred tax assets	6.7	**25'743'645**	26'308'429
Total non-current assets		**73'077'870**	68'426'760
Total assets		**255'804'314**	130'492'326
Liabilities and equity			
Current liabilities:			
Accounts payable trade	7.6	**6'631'406**	6'661'031
Accounts payable other	7.6	**9'350'971**	6'804'239
Income tax payables	7.6	**580'546**	3'537'923
Accrued expenses	7.6	**1'624'537**	1'259'973
Current financial debt and other financial liabilities	7.7	**1'723'269**	12'417'442
Provisions	7.8	**266'276**	628'405
Total current liabilities		**20'177'005**	31'309'014
Non-current liabilities:			
Financial debt and other non-current liabilities	7.10	**1'654'647**	62'161'179
Provisions	7.8	**2'241'454**	2'214'311
Employee benefit obligation	7.11	**13'325'519**	14'057'558
Deferred tax liabilities	6.7	**172'702**	3'711'994
Total non-current liabilities		**17'394'322**	82'145'042
Total liabilities		**37'571'327**	113'454'056
Shareholders' equity			
Issued share capital	7.9	**2'348'201**	1'457'897
Retained earnings		**-39'765'125**	-46'202'350
Capital Reserves		**252'451'944**	58'717'103
Currency translation adjustment		**3'197'967**	3'065'622
Total shareholder's equity		**218'232'987**	17'038'271
Total liabilities and equity		**255'804'314**	130'492'326

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated Income Statement

(for the years ended 31 December 2018 and 2017)

(CHF)	Notes	2018	2017
Net sales	6.1	**121'324'703**	105'040'292
Cost of goods sold		**-20'312'871**	-17'475'211
Gross profit		**101'011'832**	87'565'080
Selling and distribution		**-60'294'262**	-46'732'681
Administration	6.3	**-21'432'993**	-19'861'687
Research and development	6.4	**-13'227'611**	-11'363'806
Operating profit		**6'056'965**	9'606'907
Finance income	6.6	**155'298**	122'908
Finance expense	6.6	**-3'843'151**	-1'680'882
Profit before taxes		**2'369'112**	8'048'933
Income tax expense	6.7	**1'832'795**	-7'182'413
Net profit		**4'201'907**	866'521
Attributable to:			
Medartis shareholders	a)	**4'201'907**	866'521
Earnings per share (CHF):			
Basic earnings per share		**0.40**	0.51

a) There is no dilution effect.

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

(for the years ended 31 December 2018 and 2017)

(CHF)	Notes	2018	2017
Net profit		**4'201'907**	866'521
Components of other comprehensive income (OCI) Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit post-employment plans	7.11	**517'750**	-1'661'916
Income tax relating to items that will not be reclassified to profit or loss	6.7	**-114'837**	368'613
		402'913	-1'293'303
Items that may be reclassified subsequently to profit or loss:			
Currency translation effects		**132'345**	360'475
Income tax relating to items that may be reclassified subsequently to profit or loss		**-**	-
		132'345	360'475
Total other comprehensive income/(loss)		**535'258**	-932'828
Total comprehensive income		**4'737'166**	-66'307
Attributable to:			
Medartis shareholders		**4'737'166**	-66'307

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated Cash Flow Statement

(for the years ended 31 December 2018 and 2017)

(CHF)	Notes	2018	2017
Net profit		**4'201'907**	866'521
Adjustments for:			
Income tax expense	6.7	**-1'832'795**	7'182'413
Interest income	6.6	**-155'298**	-122'908
Interest expenses	6.6	**533'670**	724'074
Gain/Loss on disposal of property, plant and equipment		**153'606**	-
Depreciation and amortization of:			
Property, plant and equipment	6.5	**7'407'201**	6'503'795
Intangible assets	6.5	**943'955**	751'658
Change in provisions and pension obligations		**-549'275**	585'461
Share based compensation and other non-cash items		**3'347'269**	327'698
Changes in net working capital:			
Inventories	7.3	**-2'922'539**	-3'673'508
Trade and other receivables, Prepaid expenses and accrued income	7.1/7.2	**-3'921'944**	-669'926
Trade and other payables	7.6	**2'933'287**	2'076'648
Interest received	6.6	**155'298**	122'908
Interest paid	6.6	**-533'670**	-724'074
Income tax paid		**-3'311'208**	-2'937'766
Cash flow from operating activity		**6'449'464**	11'012'994
Cash payments to acquire property, plant and equipment	7.4	**-12'353'511**	-7'869'221
Proceeds from disposals of property, plant and equipment	7.4	**186'193**	515'291
Cash payments to acquire intangible assets	7.5	**-2'129'286**	-920'732
Proceeds from disposals of intangible assets	7.5	**-**	6
Acquisition of subsidiaries	5.1	**-**	-9'133'714
Additions/Disposals to financial assets		**-84'726**	780'149
Cash flow used for investing activities		**-14'381'331**	-16'628'221
Proceeds from capital increases		**142'648'963**	-
Transaction costs		**-7'609'082**	-
Repayment current financial debt	7.10	**-10'044'897**	-
Proceeds current financial debt	7.10	**-**	7'497'984
Repayment non-current financial debt	7.10	**-**	-58'995'000
Proceeds non-current financial debt	7.10	**-**	59'000'000
Repayment of finance lease	7.10	**-2'181'187**	-1'733'932
Cash flow used for financing activities		**122'813'798**	5'769'052
Net change in cash and cash equivalents		**114'881'932**	153'824
Cash and cash equivalents at the beginning of the year (1 January)		**1'973'308**	1'757'205
Net effect of currency translation on cash and cash equivalents		**-592'646**	62'279
Cash and cash equivalents at the end of the year (31 December)		**116'262'594**	1'973'308

The accompanying notes form an integral part of the consolidated financial statements.

§ Accounting policies

Cash flows from operating activities are presented using the indirect method. Operating cash flow is derived from the movements of the consolidated balance sheets between the balance sheet dates. Cash flows in currencies other than the functional currency are translated at the average exchange rates for the respective month, unless these differ significantly from the rates applicable at the transaction date

Consolidated Statement of Changes in Equity

(for the years ended 31 December 2018 and 2017)

	Attributable to Medartis AG shareholders				
(CHF)	**Share capital**	**Capital reserves**	**Currency translation difference**	**Retained earnings**	**Total shareholders' equity**
1 January 2017	**1'457'897**	**58'717'103**	**2'705'147**	**-45'775'568**	**17'104'578**
Net profit				866'521	866'521
Other comprehensive income/(loss)			360'475	-1'293'303	-932'828
Total comprehensive loss			**360'475**	**-426'782**	**-66'307**
31 December 2017	**1'457'897**	**58'717'103**	**3'065'622**	**-46'202'350**	**17'038'271**
Net profit				4'201'907	4'201'907
Other comprehensive income			132'345	402'913	535'258
Total comprehensive income			**132'345**	**4'604'820**	**4'737'166**
Conversion of financial debt into shares	291'346	59'143'279			59'434'625
Capital increase IPO	598'958	142'050'005			142'648'963
Transaction costs IPO (after tax)		-7'458'443			-7'458'443
Share based compensation				1'832'405	1'832'405
31 December 2018	**2'348'201**	**252'451'944**	**3'197'967**	**-39'765'125**	**218'232'987**

The accompanying notes form an integral part of the consolidated financial statements.

Notes to the Medartis Group Consolidated Financial Statements

1. Corporate and Group information

Corporate Information

The consolidated financial statements incorporate the financial statements of Medartis Holding AG (SIX: MED), a public company domiciled and incorporated in Switzerland, and its subsidiaries (together referred to as "Medartis" or "Medartis Group" or "Group").

Medartis' principal executive offices are at Hochbergerstrasse 60E, 4057 Basel, Switzerland.

Medartis is a global medical device company focused on developing, manufacturing and selling advanced and efficient implant solutions for internal surgical fixation.

The core business of Medartis Group encompasses the sale of innovative implants in cranio- maxillofacial surgery and extremities (i.e. hand, wrist, elbow and foot). Medartis relies heavily on close collaboration with surgeons, scientists, universities and hospitals to ensure quality and innovation. Medartis' customer base consists of surgeons, hospitals, and medical centres, as well as group purchasing organizations.

The implants are delivered to the clients in pre-configured sets including the required instruments for proper fixations. The implants and instruments are packed in containers completing the set. The sets are usually customized for each customer, depending on what types of surgeries the respective customer usually requires.

Group information

Information about the subsidiaries

Company	Purpose	Share capital		Investment 2018	Investment 2017
Medartis Holding AG, Switzerland (Basel)	Holding Company	CHF	2'348'201	100%	100%
Medartis AG, Switzerland (Basel)	Management / Production / Research	CHF	1'000'000	100%	100%
Mimedis AG, Switzerland (Basel)	Research	CHF	100'000	100%	100%
Medartis GmbH, Germany (Umkirch)	Distribution	EUR	51'129	100%	100%
Medartis SL, Spain (Alcobendas Madrid)	Distribution	EUR	50'000	100%	100%
Medartis S.a.r.l., France (Lyon)	Distribution	EUR	15'000	100%	100%
Medartis GmbH, Austria (Vienna)	Distribution	EUR	35'000	100%	100%
Medartis Co Ltd., Japan (Tokyo)	Distribution	JPY	10'000'000	100%	100%
Medartis Ltd, UK (Derby)	Distribution	GBP	3'700'000	100%	100%
Medartis do Brasil (São Paulo)	Holding Company	BRL	25'157'562	100%	100%
Extera Imp.&Exp. Ltda., Brasil (São Paulo)	Distribution	BRL	18'000'000	100%	100%
Medartis Inc, USA (Delaware)	Distribution	USD	10	100%	100%
Medartis S.A. de C.V, Mexico (Mexico)	Distribution	MXN	100'000	100%	100%
Medartis Sp.z.o.o, Poland (Wroclaw)	Distribution	PLN	200'000	100%	100%
Medartis Australia and New Zealand Pty Ltd, Australia (Albion)	Distribution	AUD	1'203'000	100%	100%
Medartis New Zealand Ltd, New Zealand (Auckland)	Distribution	NZD	1'000	100%	100%

There are no material non-controlling interests or structured entities.

The holding company
The ultimate parent of the Group is Medartis Holding AG. The Group has no associated companies nor joint arrangements in which the Group is a joint venturer.

2. Basis of preparation of the consolidated financial statements

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared on an historical cost basis, except for items measured at fair value.

The consolidated financial statements are presented in Swiss franc ("CHF") as this is also the major currency in which operational activities and financing of Medartis Holding AG and Medartis AG is denominated. The Swiss franc ("CHF") is also the functional currency of Medartis Holding AG and Medartis AG.

The preparation of financial statements requires management to exercise judgment when applying accounting policies and to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimated. Section 2.3 below includes further discussion of certain critical accounting estimates.

The consolidated financial statements were approved for issue by the Board of Directors on 28 March 2019 and are subject to approval by the Annual General Meeting on 10 May 2019.

Changes in presentation

Income tax payables, in the amount of CHF 580'546 in 2018 and of CHF 3'537'923 in 2017 have been separated from accounts payable other to a new line to improve the relevance of the information presented on the consolidated balance sheet.

§ Accounting policies
The overall accounting policies applied to the annual report as a whole are described below. The accounting policies related to specific transactions are embedded in the notes to which they relate.

2.2 Principles of consolidation

The consolidated financial statements of Medartis Holding AG include all entities that are controlled by the Group. The Group controls another entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Newly acquired companies are consolidated starting from the date of acquisition. The results of companies over which control is lost, are included until the date of sale or actual loss of control.

Business combinations are accounted for using the acquisition method. The assets and liabilities of newly acquired companies are measured at fair value at the time of acquisition. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Non-controlling interests are subsequently adjusted for their share in income and other comprehensive income. All intercompany transactions and balances between Group companies are eliminated in full. The individual financial statements of the Group Companies as of 31 December are prepared using uniform accounting policies.

2.3 Significant accounting policy changes, judgments and estimates

This note describes the impact on Medartis' consolidated financial statements of significant accounting judgments made when applying IFRSs and critical assumptions and accounting estimates.

Application of critical accounting policies

Revenue recognition
Medartis recognizes revenue at the amount it expects to be entitled as it satisfies promises towards its customers, regardless of when the payment is received, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and carries inventory risk.

The recognition criteria described below must be met before revenue can be recognized. Further details are outlined in section *6.1 Revenue.*

Revenue from the sale of goods is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In case of Medartis revenue is recognized according to two different types of sales:

- *Type 1:* sale of complete sets to distributors in countries where Medartis has no presence – the set is delivered to the distributor (set is in the possession of the customer, therefore the customer has the significant risks and rewards of ownership); control is fully transferred to the distributor upon the delivery of the set
- *Type 2:* report of use of implants following a surgery – set is physically with the customer, acceptance of the asset and transfer of risks and rewards are given when the client reports the use of implants

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. The Group does not provide extended warranties or maintenance contracts to its customers.

Sales tax
Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Impairment
For purposes of testing goodwill for impairment, goodwill is allocated to cash generating units (CGUs). Medartis defines the whole group as a CGU as the countries exercise the exclusive distribution function of the Medartis products.

A reduction in forecast sales within management's five year forecast horizon compared with the previous year's five year forecasts cycle combined with a reduction in latest forecasts of current year sales compared with current year budget, is considered as an indicator of market related impairment and results in the performance of detailed impairment tests. Medartis also performs detailed impairment tests when there are asset specific indicators of impairment such as plans to divest products or close a subsidiary. Higher discount rates are applied for property, plant and equipment in the case of restructuring because of the higher risk associated with remaining cash flows when operations are being physically relocated. The value in use calculation takes account of cash flows from the remaining period of operations and possible decommissioning costs.

If a CGU becomes impaired, the impairment loss is allocated first to any goodwill in the CGU and then to reduce the CGU's other assets pro rata.

Current versus non-current classification
In the Group consolidated financial statements assets and liabilities are classified as current or non-current.

An **asset** is current when it is:
- expected to be realized or intended to be sold or consumed in the normal operating cycle
- held primarily for the purpose of trading
- expected to be realized within twelve months after the reporting period

Or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A **liability** is current when:
- it is expected to be settled in the normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the reporting period

Or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Foreign currency translation
The Group`s consolidated financial statements are presented in Swiss franc (CHF), which is also the functional currency of Medartis Holding AG (parent). For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. Consequently, the functional currency of the subsidiaries does not necessarily correspond to the functional currency of the parent. The Group uses the direct method of consolidation recognizing all resulting exchange differences in other comprehensive income and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities of entities denominated in foreign currencies are translated into parent`s currency at the functional currency spot rates of exchange at the reporting date.

Items of income and cash flow statements are measured by entities at the date of transaction. For practical reasons for translation of income statement and cash flow statement the average exchange rate of the period is applied.

Differences arising on settlement or translation of monetary items are recognized in profit or loss. The monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation, if any, are recognized in other comprehensive income (OCI), until the net investment is disposed of. In case of disposal translation cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

For foreign exchange rates, which were applied for the consolidated financial statements at 31 December 2018 and the comparative period please refer to Note 11.

Employee benefits
General
Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

Pension obligations
The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- the date of the plan amendment or curtailment, and
- the date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset and is disclosed in finance income and expenses.

The Group recognizes the service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements in the net defined benefit obligation under the following expenses (by function):

- cost of sales
- selling and distribution
- administration
- research and development

Significant accounting judgments, estimates and assumptions

For the preparation of the consolidated financial statements it is necessary to make judgments, estimates and assumptions to form the basis of presentation, recognition and measurement of Medartis assets, liabilities, items of income statements, accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying Medartis' accounting policies, management has made various judgments. Those which management has assessed to have the most significant effect on the amounts recognized in the consolidated financial statements have been discussed in the individual notes of the related financial statement line items.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years, are also described in the individual notes of the related financial statement line items in section 7.

Medartis Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of Medartis Group. Such changes are reflected in the assumptions when they occur.

Medartis is subject to risks and uncertainties which may lead to actual results differing from these estimates, both positively and negatively. Medartis specific estimates including tax, pension liabilities or provisions are discussed in the relevant sections of the management's review and in the notes.

Significant estimates and judgments of Medartis Group include:

- **Expected credit losses (IFRS 9) –** value adjustments of receivables reflected by expected credit losses according to IFRS 9, which are recognized in the Consolidated Income Statement
- **Post-employment benefits (IAS 19)** – key assumptions for measuring defined benefit for measuring post-employment benefit expense for a period and the defined benefit obligation at the period end
- **Deferred tax assets** – 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 market related and government related uncertainties, as well as Medartis' own future decisions on restructuring and other matters.
- **Uncertain tax positions** - estimates of tax accruals that will be ultimately payable upon tax reviews

Expected credit losses

For bad debts as well as the general credit risks, adequate allowances are to be determined. This ensures a fair presentation of gross receivables, i.e. according to the likelihood of their collection. By way of an allowance, actual or anticipated bad debts are taken into consideration in the current reporting period.

Trade receivables are stated at amortized cost, less expected impairment losses. The Group uses a provision matrix to calculate expected credit losses (ECL) for trade receivables. The provision rates are based on days past due for groupings of various customers by geography. The provision matrix is initially based on the Group's historical observed default rate. The Group will calibrate the matrix to adjust the historical credit loss experience with forward looking information eg. Health Care Sector Credit Default Swaps.

Impairment losses are recognized in the Consolidated Income Statement under "Other operating expenses".

Medartis' customer base consists of hospitals and specialists. The timing and amount of cash inflows is impacted by the number of surgeries as well as economic and political risks. The cash flows of distributors that supply Medartis' products to hospitals in countries where Medartis is not present are also impacted by these factors. For instance, state hospitals depend on solvent governments and pay a limited price based on law. Distributors supplying emerging markets are more exposed to those risks than Medartis subsidiaries operating in developed markets. Medartis monitors these risks annually and recognizes any adjustments if needed taking these factors into consideration.

Post-employment benefits

The Group has both defined contribution plans and defined benefit plans. Defined benefit plans are funded directly by the group with no subsequent exposure related to the funding remaining with the Group.

In the case of defined contribution plans, contributions are paid to publicly or privately administered pension plans on a statutory, contractual, or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as personnel expenses.

Defined benefit plans require the Group to make contributions to individual plans, for which the ultimate benefit to the employee is based on a defined benefit, e.g., based on a final salary level, defined performance of the plan, etc. For defined benefit plans, the Group obtains actuarial valuations to determine the required defined benefit pension obligation.

The aggregate of the present value of the defined benefit obligation and the fair value of plan assets for each plan is recognized in the balance sheet as a net defined benefit liability or net defined benefit asset. The defined benefit obligation is determined annually by independent actuaries using the projected unit credit method. Employee contributions are recognized in the period in which the related service is rendered. Plan assets are not available to the creditors of the Group.

Pension costs consist of three elements: service costs, net interest, and remeasurements of employee benefits.

- Service costs are part of personnel expenses and consist of current service costs, past service costs (gains/losses from plan amendments or curtailments), and gains/losses from plan settlements.
- Net interest is recorded in the financial result and is determined by applying the discount rate to the net defined benefit liability or net defined benefit asset that exists at the beginning of the year.
- Gains and losses resulting from the actuarial valuation are recorded in other comprehensive income (OCI) as remeasurements of employee benefits. The return on plan assets (excluding interest based on the discount rate) and any change in the effect of an asset ceiling are also recorded in OCI.

Significant other non-current employee benefits (mainly jubilee benefits) are also measured using the projected unit credit method, however remeasurements are recorded in the consolidated income statement.

Termination benefits are recognized on the date on which the Group can no longer withdraw the offer of this type of benefit or on which restructuring provisions are recorded.

Deferred tax assets

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or in which tax losses can be utilized. The amount of deferred tax assets considered realizable could however be reduced in subsequent years if estimates of future taxable income during their carry forward periods are reduced, or tax environments are changing adversely. Estimates are therefore subject to change due to both market related and government related uncertainties, as well as Medartis' own future decisions on restructuring and other matters.

In making assessments regarding deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. Significant judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. 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.

Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available, against which the losses can be utilized. Medartis currently recognized deferred tax assets for all jurisdictions the company is operating in. At 31 December 2018, Medartis' deferred tax assets are CHF 25.7 million (2017: CHF 26.3 million). Included in this balance are CHF 2.1 million (2017: CHF 1.2 million) tax loss carry forwards. Further details are provided in Note 6.7.

Uncertain tax positions

Medartis Group's operations are international. Intellectual property rights are used within each subsidiary. This set up exposes Medartis' transfer prices for the delivery of goods, arrangements to share research and development costs and charges for shared services to challenges by national tax authorities in any of the countries in which Medartis has operations. Different interpretations of taxation rules regarding financing arrangements can also lead to uncertain tax positions. This applies also to the withholding tax applied for distributions out of retained earnings.

Medartis therefore estimates and accrues taxes that will be ultimately payable upon tax reviews. These estimates are the result of management judgment about potential outcome of such reviews. Actual outcomes might differ from management's expectations which in turn affects the income tax expense in future reporting periods.

2.4 Changes in accounting policies and disclosures

No new or revised standards and interpretations of the International Accounting Standards Board (IASB), relevant to the Group, were applied for the financial year ending 31 December 2018.

The Group early adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments in 2016.

2.5 Issued standards not yet adopted

The following new and revised standards and interpretations, which are relevant to the group, were issued by the IASB. These standards were not effective for the reporting period and have not been early adopted in the present consolidated financial statements.

		Effective for annual periods on or after	Planned adoption by Medartis
IFRS 16	Leases	1 January 2019	Financial Year 2019
IAS 19	Amendments: Plan amendments, curtailments or settlements	1 January 2019	Financial Year 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	Financial Year 2019

IFRS 16 Leasing

The new standard was issued on 13 January 2016, and will replace IAS 17 Leases. The biggest change introduced by the new standard is that leases will be brought onto companies' balance sheets, increasing the visibility of their assets and liabilities. IFRS 16 removes the classification of leases as either operating leases or finance leases, treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements. Based on the impact assessment Medartis will adopt IFRS 16 in 2019 using the modified retrospective approach. The potential balance sheet impact on the Group's Consolidated Financial Statements has been assessed as additional right of use assets amounting to CHF 28.5 million and corresponding additional lease liabilities of CHF 28.5 million. In the income statement, expenses relating to leases of CHF 4.2 million will be split between depreciation of CHF 3.4 million and interest charges of CHF 0.8 million (currently rental expenses are included in operating expenses).

3. Financial Instruments risk management objectives and policies

The nature of Medartis' business and its global presence exposes the Group to market risks, credit risks and liquidity risks. The Board of Directors is responsible for overseeing the Group's internal control system, which addresses risks to which the Group is exposed. These systems provide appropriate security against significant inaccuracies and material losses. Management is responsible for identifying and assessing risks that are of significance for the respective country.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The market risks consist primarily of foreign currency risks and, to a lesser degree, interest rate risks. Medartis is not exposed to significant price risks. Main currency exposures are the US Dollar and the Euro, which are not hedged.

Foreign currency translation risk

Translation exposure arises from the consolidation of foreign currency denominated financial statements of Medartis' subsidiaries. This is reported as currency translation effects in OCI. Translation risk can be significant; however, Medartis regards its equity base to be of sufficient magnitude generally to absorb the short to medium term impact of exchange rate movements. Medartis can use foreign currency denominated debt to manage this exposure. Currency translation risks are not hedged.

Credit risk

Credit risk management is subject to the established policies, procedures and controls relating to customers. Credit quality of customers is assessed based on an extensive credit rating scorecard and individual credit limits. Outstanding customer receivables are regularly monitored and, if necessary, impaired on an individual basis. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of financial assets disclosed in Note 3.1. The Group does not hold collateral as security. Medartis evaluates the concentration of credit risk with respect to trade receivables as low, as its customers operate in largely independent markets.

Interest rate risks

Interest rate risks arise from changes in interest rates, which have negative repercussions on the Group's asset and earnings situation. Interest rate fluctuations lead to changes in interest income and interest expense on interest-bearing assets and liabilities.
Due to the low level of external financing the interest rate risk is immaterial at 31 December 2018.

At 31 December 2017, a 50 basis point shift in *interest rat*es, with all other assumptions held constant, would have resulted in approximately CHF 345'297 of annual additional/lower financial expenses before tax

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and finance leases. Medartis defines Liquidity risk, a risk of being unable to raise funds to meet payment obligations when they fall due. The main policy is to maintain sufficient liquidity reserves in order to meet payment obligations and maintain an adequate liquidity margin.

(CHF)	Carrying amount 31.12.2018	Total	Cash outflows Up to 1 year	1 to 5 years	More than 5 years
Accounts payable trade	6’631’406	6’631’406	6’631’406		
Accounts payable other	487’516	487’516	487’516		
Accrued expenses	1’624’537	1’624’537	1’624’537		
Current financial debt and other financial liabilities	1’723’269	1’723’269	1’723’269		
Financial debt and other non-current liabilities	1’654’647	1’654’647		1’654’647	
Total	**12’121’375**	**12’121’375**	**10’466’729**	**1’654’647**	
Interest on financial debt			38’139	25’979	

(CHF)	Carrying amount 31.12.2017	Total	Cash outflows Up to 1 year	1 to 5 years	More than 5 years
Accounts payable trade	6’661’031	6’661’031	6’661’031		
Accounts payable other	97’680	97’680	97’680		
Accrued expenses	1’259’973	1’259’973	1’259’973		
Current financial debt and other financial liabilities	12’417’442	12’417’442	12’417’442		
Financial debt and other non-current liabilities	62’161’179	62’161’179		62’161’179	
Total	**82’597’305**	**82’597’305**	**20’436’126**	**62’161’179**	
Interest on financial debt			1’770’000	737’500	

Capital Management

The primary objective of Medartis capital management is to maintain healthy capital ratios to support its business and maximize the shareholder value. As capital management is defined issued capital, share premium and other equity reserves.

According to changes in economic conditions, Medartis manages its capital structure and implements adjustments. Medartis supervises capital using equity ratio.

(CHF)	31.12.2018	31.12.2017
Total assets	**255’804’314**	130’492’326
Equity	**218’232’987**	17’038’271
Equity ratio	**85%**	13%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

3.1 Fair value measurement (IFRS 13)

Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the most advantageous market, if a principal market does not exist. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

At each reporting date, the responsible management analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the responsible management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The responsible management, in conjunction with the Group's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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 balance sheet at 31 December 2018 and 2017. The fair value hierarchy level is shown for those financial assets and liabilities that are carried at fair value in the balance sheet.

	Carrying amount (based on measurement basis)				
31 December 2018	**Amortized cost**	**Fair value level 1**	**Fair value level 2**	**Fair value level 3**	**Total**
Financial Assets					
Cash & Cash equivalents	116'262'594				116'262'594 [1)]
Accounts receivable trade	20'965'687				20'965'687 [1)]
Other non-current financial assets	1'090'363				1'090'363 [1)]
TOTAL	**138'318'644**				**138'318'644**
Financial liabilities					
Accounts payable trade	6'631'406				6'631'406 [1)]
Accounts payable other	487'516				487'516 [1)]
Accrued expenses	1'624'537				1'624'537 [1)]
Current financial debt	1'723'269				1'723'269 [1)]
Non-current financial debt	1'654'647				1'654'647 [1)]
TOTAL	**12'121'375**				**12'121'375**

	Carrying amount (based on measurement basis)				
31 December 2017	**Amortized cost**	**Fair value level 1**	**Fair value level 2**	**Fair value level 3**	**Total**
Financial Assets					
Cash & Cash equivalents	1'973'308				1'973'308 [1)]
Accounts receivable trade	19'368'250				19'368'250 [1)]
Other non-current financial assets	1'005'637				1'005'637 [1)]
TOTAL	**22'347'195**				**22'347'195**
Financial liabilities					
Accounts payable trade	6'661'031				6'661'031 [1)]
Accounts payable other	97'680				97'680 [1)]
Accrued expenses	1'259'973				1'259'973 [1)]
Current financial debt	12'417'442				12'417'442 [1)]
Non-current financial debt	62'161'179				62'161'179 [1)]
TOTAL	**82'597'305**				**82'597'305**

[1)] Carrying amount approximates the estimated fair value due to the short- term nature of the financial instruments.

4. Segmental breakdown of key figures for the years ended 31 December 2018 and 2017

Operating segments requiring to be reported are determined on the basis of the management approach. Accordingly, external segment reporting reflects the internal organizational and management structure used within the Group as well as the internal financial reporting to the Chief Operating Decision Maker (CODM), which has been identified as the Executive Management Board (EMB). The EMB is responsible for the operational management of the Group, in line with the instructions issued by the Board of Directors.

Based on the Groups structure Medartis' only entity which performs production and procurement is located in Switzerland. All other entities are retail entities only and are not able to operate on a stand-alone basis. Therefore Medartis constitutes with only one segment which is represented by the whole group itself.

Nevertheless, the EMB monitors all revenues on a country and product basis.

2018 (CHF)	EMEA	APAC	LATAM	North America	Total
Net sales	66'356'969	22'784'169	12'887'574	19'295'991	**121'324'703**
Non-current assets[1)]	36'822'653	1'746'209	5'704'280	1'970'720	**46'243'862**

2017 (CHF)	EMEA	APAC	LATAM	North America	Total
Net sales	57'754'233	20'729'876	9'152'796	17'403'387	**105'040'292**
Non-current assets[1)]	32'488'705	1'444'500	5'445'836	1'733'654	**41'112'695**

1) Property, plant and equipment and intangible assets

CHF	2018	2017
Upper Extremities	**87'160'728**	76'842'671
Lower Extremities	**16'351'066**	12'779'517
CMF and Others	**17'812'908**	15'418'104
Total	**121'324'703**	105'040'292

5. Significant transactions and events

5.1 Business combinations, acquisition of non-controlling interest and divestments

During the reporting period 2018 no acquisitions, divestments or other significant transactions took place.

5.1.1 Mimedis AG

On 5 July 2017, Medartis AG acquired 100% of the share capital of Mimedis AG, a Swiss medical device company focusing on design and manufacture of 3D printed bone implants customized with its in-house developed software solution. The acquisition complements the group's research and development activities to be able to provide patient specific implants.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

Purchase consideration (in CHF):	
Consideration	1'600'000
Deferred consideration	400'000
Total consideration transferred	**2'000'000**

Deferred consideration:
CHF 400'000 were paid on 1 June 2018. The deferred consideration was classified as accounts payable other in 2017. (see note 7.6.)

The fair value of the assets and liabilities (in CHF) recognised as a result of the acquisition are as follows:

Cash & cash equivalents	15'682
Accounts receivables other	898
Inventories	3'000
Prepaid expenses and accrued income	3'295
Intangible assets (Software)	1'035'700
Accounts payable other	-1'356
Accrued expenses	-7'152
Other financial liabilities	-35'000
Deferred tax liabilities	-229'718
Net identifiable assets acquired	**785'349**
Goodwill arising on acquisition	1'214'651
Total consideration transferred	**2'000'000**

The fair value of the software has been estimated by a cost approach at CHF 1'035'700.

The goodwill of CHF 1'214'651 consists largely of the synergies expected from the acquisition. It is not expected to be deductible for tax purposes.

Cash consideration	1'600'000
Cash acquired	-15'682
Net cash outflow from acquisitions of subsidiaries	**1'584'318**

From the acquisition date, Mimedis had no material impact on Group revenues and net profit. If Mimedis had been included as of 1 January 2017, management estimates the impact on consolidated revenues for the 6 months ended 30 June 2017 would have been CHF 23'940, with no material impact on net profit.

The net assets recognised in the 31 December 2017 financial statements were based on a provisional assessment of their fair value. The valuation has been completed in 2018 and no adjustments to the preliminary figures were necessary.

5.1.2 Extera Importação e Exportação Ltda

On 25 August 2017, Medartis AG acquired through Medartis do Brasil Participações 100% of the share capital of Extera Importação e Exportação Ltda, a distributor of Medartis and third-party osteosynthesis products in Brazil. The acquisition further strengthens the distribution network of Medartis in order to reach out more sales destinations and increase group turnover.

The consideration of CHF 8'000'000 was paid in cash.

The fair value of the assets and liabilities (in CHF) recognised as a result of the acquisition are as follows:

Cash & cash equivalents	450’603
Accounts receivables trade	1’614’489
Accounts receivables other	59’963
Inventories	2’248’167
Prepaid expenses and accrued income	7’737
Financial assets	5’999
Property, plant and equipment	571’761
Intangible assets (Software)	24’509
Other intangibles	215’388
Customer base	1’890’685
Accounts payable	-746’062
Accounts payable other	-106’497
Current financial debt	-25’121
Accrued expenses	-213’887
Other financial liabilities	-47’527
Deferred tax liabilities	-419’732
Net identifiable assets acquired	**5’530’473**
Goodwill arising on acquisition	2’469’527
Total consideration transferred	**8’000’000**

The fair value of the customer base has been estimated by a multi-period excess earnings method at CHF 1’890’685.

The goodwill of CHF 2’469’527 consists largely of the synergies expected from the acquisition. It will be deductible for tax purposes.

Cash consideration	8’000’000
Cash acquired	-450’603
Net cash outflow from acquisitions of subsidiaries	**7’549’397**

If Extera had been included as of 1 January 2017, management estimates the impact on consolidated revenues for the 8 months ended 31 August 2017 would have been CHF 3’775’594, with a CHF -258’857 impact on net profit.

The net assets recognised in the 31 December 2017 financial statements were based on a provisional assessment of their fair value. The valuation has been completed in 2018 and no adjustments to the preliminary figures were necessary.

§ Accounting policies

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments,* is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

5.2 Related party disclosures

Information about Medartis Group, including details of the subsidiaries and holding company are provided in Note 1.

For detailed information relating to related parties please refer to Note 9.

5.3 Events after the reporting period

There have been no events occurring after the reporting period which would have a material effect on the Medartis Group financials as of 31 December 2018.

On 26 February 2019 new tax regulations were enacted in Basel-Stadt, which will come into effect retrospectively as of 1 January 2019. For the Swiss entities Medartis Holding AG, Medartis AG and Mimedis AG this results in a reduced income tax rate of 13.04%. The potential impact on the net deferred tax assets/liabilities as of 31 December 2018 has been assessed as a reduction of CHF 0.7 million.

6. Detailed Information on consolidated income statement and OCI items

This section provides additional information about individual line items in the income statement and statement of comprehensive income, including its relevant accounting policies, other income and expenses by type.

6.1 Revenue

Revenue by product category for the years ended 31 December 2018, and 2017 are as follows:

(CHF)	**2018**	2017
Net proceeds of deliveries of implants	**120'948'202**	104'778'863
Net proceeds of services	**376'500**	261'429
Total revenue	**121'324'703**	105'040'292

§ Accounting Policy

Medartis offers the following two different types of contracts:

Type 1: Sale of complete sets to distributors:
Medartis sells sets to distributors in countries where Medartis has no own presence; single parts of the sets recognized in inventory are composed to the required set upon customer order and shipped to the customer upon completion. The performance obligation is to deliver completed sets, revenue is recognized at a point in time when control transfers to the customer. Medartis generally provides an assurance type warranty for up to one year.

Type 2: Sale of implants based on reported use:
Sets are located at the customer site (i.e., in hospitals) but remain legal property of Medartis Group. During a surgery, implants are consumed from the sets, the set is subsequently returned, cleaned and shipped back to the customer. Medartis' performance is sale of implants, which are invoiced following the use of the implant at a point in time.

Performance obligation

The resulting performance obligations for the two contract types are the following:

Type 1: Sale of complete sets to distributors
One Set (one package including implants, tools and container) corresponds to one performance obligation; pricing and billing refers to the complete sets. The set does not include significant service or integration of the service with other goods and no other promises are implied by customary business practices.

Type 2: Sale of implants based on reported use
Regardless of the set type, pricing and billing refers to the implants. Tools and containers are not charged separately and remain property of Medartis. Consequently, tools and containers are no integral part of the sold good. The consumable i.e., the implant, constitutes the performance obligation.

Medartis charges a so-called "handling-charge" for "Springer sets" in addition to the use of the plates. A client ordering a "Springer set" benefits from the availability of the set regardless of whether he actually uses an implant; at least he can offer patients the potential treatment. As the handling charge is directly connected to the "Springer sets" itself, it is not classified as an additional obligation.

Variable components of the transaction price are generally negligible: Medartis identified for both type of contracts one performance obligation only.

Transaction price
Transaction price may comprise fixed and variable components. Sets are however, in most transactions sold at pre-defined, fixed prices, often based on regulated prices.

Tools and containers are not charged separately as control is not transferred to the customer eventually.

Recognise revenue
Revenue is recognised as soon as the performance obligation is satisfied by transferring the promised goods or services to the customer. Goods or services are transferred when the customer obtains control over the promised goods or services.

Sale of sets to distributors is billed upon transfer of control with average payment terms of 60 days. Billed amounts are included in accounts receivables, trade. The use of implants is noted shortly after the surgery and billed immediately. Average payment terms are 60 days. As a result of short turnaround time, no contract asset is recorded.

6.2 Personnel expenses

Personnel expense for the years ended 31 December 2018 and 2017 are as follows:

(CHF)	**2018**	2017
Wages and salaries	**-43'710'938**	-37'760'095
Pensions	**-2'438'007**	-2'186'279
Shared-based Payments	**-1'832'405**	-
Bonus Payments	**-3'795'313**	-2'859'080
Social security costs	**-6'933'444**	-5'675'125
Other personnel costs	**-1'235'556**	-1'385'039
Total personnel costs	**-59'945'663**	-49'865'619

Personnel costs have been recognized in the consolidated income statement:

(CHF)	2018	2017
Cost of goods sold	**-6'656'451**	-5'827'763
Selling and distribution	**-35'901'514**	-28'538'955
Administration	**-9'022'763**	-8'287'564
Research and development	**-8'364'935**	-7'211'337
Total personnel costs	**-59'945'663**	-49'865'619

Average number of employees during the year	**499**	415

§ Accounting policies
Wages and salaries, social security contributions, leave and sick leave, bonuses and non-monetary benefits are recognized in the financial year in which the services are rendered by employees of Medartis. Whenever Medartis provides long-term employee benefits, the costs are accrued to match the rendering of the services by the employees.

6.3 Administrative expenses

Administrative expenses for the years ended 31 December 2018 and 2017 are as follows:

(CHF)	2018	2017
General administration	**-4'595'827**	-4'157'657
Human Resources administration	**-1'669'405**	-1'422'678
Financial administration	**-3'621'011**	-3'023'533
Building administration	**-2'529'581**	-2'636'481
Management administration	**-7'550'765**	-6'680'142
Subsidiary administration	**-1'466'403**	-1'941'196
Total administrative expenses	**-21'432'993**	-19'861'687

Administration expenses include share-based payments expenses amounting to CHF 945'811 in 2018.
In 2017 no share-based payments took place. Refer to Note 8.

6.4 Research and development costs

Medartis' development activities include costs relating to the design and testing of new product lines. Research and development costs that are not eligible for capitalization have been expensed in the period incurred (in 2018, this was CHF 13'227'611 (2017: CHF 11'363'806), and they are recognized in research and development expenses.

(CHF)	2018	2017
Research and development		
General	**-4'923'051**	-5'188'938
Testing	**-1'392'121**	-552'529
Prototype	**-2'628'046**	-2'328'814
Quality	**-2'210'582**	-1'939'728
IBRA (International Bone Research Association)	**-2'073'811**	-1'353'797
Total Research and development costs	**-13'227'611**	-11'363'806

6.5 Depreciation and amortization included in the consolidated statement of profit or loss

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

(CHF)	**2018**	2017
Depreciation		
Cost of goods sold	**-2'177'884**	-1'764'873
Selling and distribution	**-3'959'079**	-3'361'298
Administrative expenses	**-998'992**	-1'060'809
Research and development	**-271'246**	-316'815
Total depreciation	**-7'407'201**	-6'503'795

(CHF)	**2018**	2017
Amortisation		
Cost of goods sold	**-25'739**	-
Selling and distribution	**-294'519**	-57'104
Administrative expenses	**-395'996**	-620'805
Research and development	**-227'701**	-73'748
Total amortisation	**-943'955**	-751'658

6.6 Net Finance income and costs

Finance income at 31 December 2018 and 2017 are as follows:

(CHF)	**2018**	2017
Finance income from loans and receivables measured at amortized cost:		
Interest income, bank	**101'722**	12'213
Interest income, loans and receivables	**53'576**	110'696
Total finance income	**155'298**	122'908

(CHF)	**2018**	2017
Finance costs from financial liabilities measured at amortized cost:		
Foreign exchange losses	**-2'264'291**	-40'260
Interest on loans and borrowings	**-533'670**	-724'074
Other finance costs	**-1'045'191**	-916'547
Total finance expense	**-3'843'151**	-1'680'882

§ Accounting policies

Finance income and costs comprise interest income and expenses, realized and unrealized gains and losses on payables/receivables and transactions in foreign currencies.

For all financial instruments measured at amortized cost, interest income or expense is recognized using the effective interest rate method, which is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

6.7 Income taxes

(CHF)	2018	2017
Income taxes from current period	1'662'845	2'898'401
Income taxes from other period	-288'091	-163'185
Deferred	-3'207'549	4'447'197
Total income tax expense	-1'832'795	7'182'413

Effective income tax rate (in %)	-77%	89%

The Group's weighted average tax rate is calculated based on profits (losses) before taxes of group companies.

The following elements explain the difference between the income tax expense at the applicable Group tax rate and the effective income tax expense:

(CHF)	2018	2017
Profit before tax	2'369'112	8'048'933
Applicable Group tax rate	21.8%	18.5%
Income tax at the applicable Group tax rate	515'282	1'486'638
Tax impact of intra-group profit elimination	-547'624	-1'007'136
Non-deductible expenses	748'614	672'137
Additional tax deductions	-2'432'893	- [1]
Effect of changes in tax rates or imposition of new taxes	-	6'214'704 [2]
Prior year adjustments	-288'091	-163'185
Prior year adjustments deferred tax	-150'907	-
Effect of non-recognition of tax losses in current year	-	12'074
Other	322'825	-32'818
Effective income tax expense	-1'832'795	7'182'413

[1] The position relates to tax-deductible impairments in the statutory financial statements of group entities based in Switzerland.
[2] On December 22, 2017, the US enacted tax reform legislation (Tax Cuts and Jobs Act), which reduced the US corporate tax rate from 35% to 21%, effective January 1, 2018. This required a revaluation of the deferred tax assets and liabilities and resulted in a deferred tax expense of CHF 5.7 million.

Available tax loss carry – forwards and tax credits

(CHF)	2018	2017
At 1 January	5'515'163	8'207'161
Currency translation adjustments	-107'664	-106'663
Tax losses and credits arising from current year	4'520'837	298'202
Tax losses and credits utilized against current year profits	-628'568	-2'883'536
Total available tax loss carry forwards and tax credits	9'299'767	5'515'163

There are no unused tax loss carry- forwards for which no deferred tax has been recognized.

Deferred income taxes

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

2018

(CHF)	Property, plant and equipment	Intangible assets	Inventory valuation	Tax loss carry-forward, tax credits	Other	Total
Deferred tax assets at 1 January	1’039’193	-	20’659’440	1’233’317	3’376’479	26’308’429
Deferred tax liabilities at 1 January	-1’029’633	-608’989	-	-	-2’073’372	-3’711’994
Net deferred tax balance at 1 January	**9’560**	**-608’989**	**20’659’440**	**1’233’317**	**1’303’107**	**22’596’435**
(Charged) / credited to income statement	-1’288’314	98’410	1’293’504	903’349	2’200’600	3’207’549
Charged to statement of comprehensive income	-	-	-	-	-114’837	-114’837
Currency translation adjustments	-43’009	-	-37’746	-14’035	-23’414	-118’204
Net deferred tax balance at 31 December	**-1’321’764**	**-510’579**	**21’915’198**	**2’122’631**	**3’365’457**	**25’570’942**
Deferred tax assets at 31 December	216’553	-	21’915’198	2’122’631	3’374’982	27’629’364
Deferred tax assets after netting at 31 December	-	-	-	-	-	25’743’645
Deferred tax liabilities at 31 December	-1’538’316	-510’579	-	-	-9’526	-2’058’421
Deferred tax liabilities after netting at 31 December	-	-	-	-	-	-172’702

2017

(CHF)	Property, plant and equipment	Intangible assets	Inventory valuation	Tax loss carry-forward, tax credits	Other	Total
Deferred tax assets at 1 January	966’092	-	23’747’274	2’684’097	3’138’349	30’535’813
Deferred tax liabilities at 1 January	-1’123’268	-	-3’057	-	-2’045’513	-3’171’838
Net deferred tax balance at 1 January	**-157’176**	**-**	**23’744’217**	**2’684’097**	**1’092’837**	**27’363’975**
(Charged) / credited to income statement	150’087		-3’013’230	-1’417’413	-166’641	-4’447’197
Charged to statement of comprehensive income	-	-	-	-	368’613	368’613
Change in consolidation scope	-	-626’478	-	-	-	-626’478
Currency translation adjustments	16’649	17’489	-71’547	-33’368	8’298	-62’478
Net deferred tax balance at 31 December	**9’560**	**-608’989**	**20’659’440**	**1’233’317**	**1’303’107**	**22’596’435**
Deferred tax assets at 31 December	1’039’193	-	20’659’440	1’233’317	3’376’479	26’308’429
Deferred tax liabilities at 31 December	-1’029’633	-608’989	-	-	-2’073’372	-3’711’994

At 31 December 2018, there was no recognized deferred tax liability (2017: CHF nil) for taxes that would be payable on the unremitted earnings of certain of the Group’s subsidiaries. The Group does not expect any distribution of retained earnings to the parent company within the next twelve months.

§ Accounting policies

Income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or payable to the respective tax 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.

Current income tax relating to items recognized directly in equity is recognized in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided using the balance-sheet liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are recognized for all deductible temporary differences and carry-forwards of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available. Deductible temporary differences, carry-forwards of unused tax credits and unused tax losses can be offset against taxable profit except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of 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.

Deferred tax positions associated with investments in subsidiaries are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which they can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year the asset is realized or the liability settled, based on tax rates (and tax laws) enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if the Medartis Group has a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax relates to the same taxable entity and the same tax authority.

6.8 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to registered shareholders of Medartis by the weighted average number of ordinary shares outstanding during the year.

As Medartis has no grants or grants of options over Medartis shares under employee share participation plans no diluted earnings per share amounts exists. Therefore weighted average number of shares and weighted average number of shares – diluted are the same.

(CHF, except number of shares)	**2018**	2017
Net profit attributable to shareholders	**4’201’907**	866’521
Weighted average number of shares - basic	**10’628’127**	1’700’880
Basic earnings per share	**0.40**	0.51

§ Accounting policies
Proposed dividends are recognized as a liability at the date of their adoption at the annual General meeting (declaration date). Extraordinary dividends are recognized as a liability at the declaration date.

7. Detailed information on statement of financial position items

7.1 Accounts receivable trade and other

Trade accounts receivables and other accounts receivable at 31 December 2018 and 2017 are as follows:

(CHF)	**2018**	2017
Accounts receivable trade	**20'965'687**	19'368'250
Accounts receivable other, thereof:		
Prepaid machinery	**1'289'660**	498'047
Salary prepayments	**239'747**	104'091
Other	**1'530'285**	721'801
Total accounts receivable other	**3'059'692**	1'323'939

Movements in the provision for doubtful trade receivables are as follows: (CHF)

(CHF)	**2018**	2017
1 january	**-599'465**	-350'029
Amounts written off	**-18'627**	-249'436
31 December	**-618'092**	-599'465

The ageing of trade receivables at 31 December 2018 and 2017 past due, but not impaired, are as follows:

2018 (CHF)	**Not past due**	**Total past due**	**6 months**	**1 year**	**2 years**	**3 years**	**more than 3 years**
Trade receivables, gross	**14'034'725**	**7'549'054**	**6'217'028**	**738'577**	**205'920**	**38'434**	**349'094**
Expected credit loss	**-106'239**	**-511'852**	**-51'998**	**-27'162**	**-100'261**	**-33'688**	**-298'742**

2017 (CHF)	**Not past due**	**Total past due**	**6 months**	**1 year**	**2 years**	**3 years**	**more than 3 years**
Trade receivables, gross	13'669'748	6'297'967	5'218'445	611'542	72'987	132'531	262'461
Expected credit loss	-131'545	-467'920	-61'980	-23'979	-32'517	-97'816	-251'628

§ Accounting policies

According to IFRS 9, trade receivables are recognized at transaction cost in accordance with IFRS 15 and are classified and measured at amortised cost. The measurement bases are contractual terms, payment history and other sales evidence. Adjustments for doubtful receivables are only allowed to the extent losses are expected in the future or individually determinable. Any losses caused by impairment of receivables are booked in income statements. Medartis books an adjustment, when they have information that a customer is insolvent. For the accounting treatment the simplified approach to determine expected lifetimes losses is applied. The expected credit losses above also incorporate forward looking information.

7.2 Prepaid expenses

(CHF)	**2018**	2017
Prepaid expenses	**1'741'834**	1'153'080
Total	**1'741'834**	1'153'080

§ Accounting policies
As prepayment made is an asset for which an entity expects to receive goods or services in exchange in the future. Prepayments are measured at nominal amount.

7.3 Inventories

Inventories at 31 December 2018 and 2017 are as follows:

(CHF)	**2018**	2017
Goods for sale	**15'652'539**	14'637'920
Sets	**17'511'343**	15'802'175
Raw materials	**499'311**	595'663
Semi-finished products	**2'322'551**	2'048'454
Packaging	**38'951**	25'004
Work in progress	**1'835'544**	1'884'799
Goods in transit	**92'150**	35'834
Total[1)]	**37'952'389**	35'029'849

[1)] Including write-downs

(CHF)	**2018**	2017
write-down Goods for sale	**-702'964**	-745'911
write-down Sets	**-2'672'506**	-2'906'470
write down Raw materials	**-183'066**	-185'250
Total write-downs	**-3'558'537**	-3'837'632

§ Accounting policies
Inventories are calculated at the lower of initial cost and net realizable value. The cost of inventories shall comprise all costs of purchase (based on first-in, first- out method), costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

7.4 Property, plant and equipment

Reconciliation of beginning and ending balance by classes of assets:

CHF	Machinery	Furniture	Hardware	Vehicles	Sets	Leasehold improvements	Other	Total
Cost or valuation								
At 1 January 2017	22’849’174	3’216’041	2’726’130	977’223	23’063’123	22’698’686	390’574	75’920’951
Additions	3’449’934	215’095	477’173	319’836	3’222’729	56’331	128’123	7’869’221
Disposals	-888	-141’570	-85’403	-180’445	-527’766	-1’448	-51’515	-989’035
Acquisitions from business combinations	207’512	107’936	47’158	26’908	180’034	2’214	-	571’761
Currency translation effects and other	-321	23’167	25’227	66’879	-301’754	18’611	2’328	-165’862
At 31 December 2017	26’505’411	3’420’670	3’190’285	1’210’401	25’636’366	22’774’394	469’510	83’207’036
Additions	4’244’703	225’193	1’221’470	584’150	4’815’494	1’227’561	34’940	12’353’511
Disposals	-283’511	-34’344	-73’127	-401’403	-466’552	-108’852	-	-1’367’789
Currency translation effects and other	-38’704	-62’137	-69’649	-43’583	-939’711	-23’902	-17’256	-1’194’942
At 31 December 2018	**30’427’899**	**3’549’382**	**4’268’979**	**1’349’565**	**29’045’597**	**23’869’201**	**487’194**	**92’997’816**
Depreciation and impairment losses								
At 1 January 2017	-15’334’866	-2’676’135	-2’147’832	-710’751	-15’905’284	-7’952’694	-262’590	-44’990’153
Depreciation charge	-1’630’425	-249’394	-347’841	-254’394	-2’821’309	-1’164’197	-36’235	-6’503’795
Depreciation on disposals	2	137’898	80’787	117’871	98’384	-	38’800	473’743
Currency translation effects and other	-3’108	51’163	-20’153	10’595	539’468	-8’002	-12’914	557’049
At 31 December 2017	-16’968’396	-2’736’468	-2’435’039	-836’680	-18’088’741	-9’124’892	-272’939	-50’463’155
Depreciation charge	-2’036’857	-219’698	-478’167	-276’231	-3’149’074	-1’200’499	-46’674	-7’407’201
Depreciation on disposals	287’195	44’204	67’299	376’641	243’412	9’241	-	1’027’991
Currency translation effects and other	-66’372	277’933	11’607	-1’801	662’578	-3’351	6’409	887’003
At 31 December 2018	**-18’784’431**	**-2’634’029**	**-2’834’300**	**-738’071**	**-20’331’826**	**-10’319’501**	**-313’204**	**-55’955’362**
Net book value - 1 January 2017	7’514’308	539’906	578’298	266’472	7’157’838	14’745’993	127’984	30’930’798
Net book value - 31 December 2017	9’537’015	684’202	755’245	373’721	7’547’625	13’649’502	196’571	32’743’881
Net book value - 31 December 2018	**11’643’468**	**915’353**	**1’434’679**	**611’494**	**8’713’771**	**13’549’700**	**173’990**	**37’042’454**

Property, plant and equipment includes machinery held on finance leases with a carrying amount of CHF 6’054’543 (2017: CHF 8’099’184)

(CHF)

Future minimum lease payments on existing contracts at 31 December	2018	2017
Within 1 year	3’631’965	3’571’332
Between 1 - 5 years	15’030’696	14’802’312
After 5 years	14’150’689	17’972’427
Total	32’813’349	36’346’071

The operating lease payments are in connection with vehicle leases and office building rent agreements.

§ Accounting policies

Property plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. Cost for repair and maintenance are recognized in profit or loss as incurred.

Each Item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated over its useful life. Medartis recognizes the depreciation charge in profit or loss unless it is included in the carrying amount of another asset. At least annually, the Group reviews depreciation method, useful life on an asset and residual value, and if appropriate adjusts prospectively.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Asset class	Depreciation method	Useful life
Tools	Straight-line	5 years
Containers	Straight-line	5 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

Leases

Leasing agreements in which a substantial portion of the risks and benefits of ownership are transferred to Medartis are classified as finance leases. All other leasing agreements are classified as operating leases.

Assets held under finance leases are reported as non-current assets and future minimum payments are reported as liabilities in the balance sheet.

Minimum lease payments under operating leases are charged to the income statement on a straight-line basis over the term of the lease. Contingent (sales-based) rents are recognized in the same period as the corresponding sales.

7.5 Intangible assets

Reconciliation of beginning and ending balances by classes of assets:

(CHF)	Goodwill	Research & Development	Customer Base	Software	Other	Total
Cost						
At 1 January 2017	-	-	2'555'783	4'287'925	-	6'843'707
Additions from business combinations	3'684'178	-	1'890'685	1'060'209	215'388	6'850'460
Other additions	-	487'311	-	433'422	-	920'732
Retirement and disposals	-	-	-	-2'295	-	-2'295
Currency translation effects	-50'953	-	-1'956	32'966	-	-19'943
At 31 December 2017	3'633'224	487'311	4'444'512	5'812'226	215'388	14'592'661
Other additions	-	1'675'469	-	449'570	4'246	2'129'286
Retirement and disposals	-	-	-	-	-	-
Currency translation effects	-333'521	-	-	-20'071	-3'440	-357'032
At 31 December 2018	**3'299'703**	**2'162'780**	**4'444'512**	**6'241'726**	**216'195**	**16'364'915**
Amortisation and impairment						
At 1 January 2017	-	-	-2'555'783	-2'883'516	-	-5'439'299
Amortization charge	-	-	-182'349	-569'310	-	-751'658
Retirements and disposals	-	-	-	2'289	-	2'289
Currency translation effects	-	-	105'526	-140'705	-	-35'179
At 31 December 2017	-	-	-2'632'606	-3'591'242	-	-6'223'848
Amortization charge	-	-	-236'336	-707'619	-	-943'955
Impairment losses	-	-	-	-	-	-
Retirements and disposals	-	-	-	-	-	-
Currency translation effects	-	-	-	4'295		4'295
At 31 December 2018	**-**	**-**	**-2'868'941**	**-4'294'566**	**-**	**-7'163'507**
Net book value						
At 1 January 2017	-	-	-	1'404'409	-	1'404'409
At 31 December 2017	3'633'224	487'311	1'811'906	2'220'984	215'388	8'368'814
At 31 December 2018	**3'299'703**	**2'162'780**	**1'575'571**	**1'947'160**	**216'195**	**9'201'408**

§ Accounting policies

Intangible assets are initially recognized at cost, subsequently amortized over their useful lives less required impairments. Intangible assets with finite useful lives are tested for impairment when there is a triggering event that indicates the need for an impairment. Intangible assets with indefinite useful life (including goodwill) are tested on an annual basis.

Research and development costs

Research and development costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

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

Following initial recognition of the development expenditures as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of 4-5 years. Amortisation is recorded in cost of goods sold. During the development period, the asset is tested for impairment annually.

As of 31 December 2018 R&D projects amounting to CHF 1'675'469 were capitalized (2017: 487'311).

7.6 Accounts payable trade and other

The contractual maturities of accounts payable trade and accounts payable other at 31 December 2018 and 2017 are as follows:

(CHF)	**2018**	2017
Accounts payable trade	**6’631’406**	6’661’031
Salary and social security	**935’472**	875’388
Deferred compensation	**664’993**	-
Unused vacation	**1’997’860**	1’739’276
Bonus payments	**3’221’258**	2’728’575
Sales commission	**487’516**	97’680
VAT and other non-income taxes	**1’472’358**	928’679
Other	**571’513**	434’641
Accounts payable other	**9’350’971**	6’804’239
Income tax payables	**580’546**	3’537’923
Accrued expenses	**1’624’537**	1’259’973

Payables for sales commission and to related parties qualify as financial instruments. This amounts to CHF 487’516 (2017: CHF 97’680).

§ Accounting policies
Accounts payable trade result from sourcing of goods or services from suppliers and other vendors. They not do include other payables relating to social securities, VAT, etc.

Trade payable are recognized at the trade date when goods or services and the invoice is received and are usually recorded at nominal value which approximates fair value. Invoices in foreign currency are translated to the functional currency of entity at the transaction date. After initial recognition trade accounts payables are carried at amortized cost.

Trade payables in foreign currency are re-valued at each balance sheet date on a monthly basis at the respective spot rate. Foreign exchange gains or losses are included in the unrealized foreign exchange effects in the income statement unless the amount is settled. The final foreign exchange effect after settlement is recorded in the realized foreign exchange effects in the income statement.

7.7 Current financial debt and other financial liabilities

Current financial debt at 31 December 2018 and 2017 is as follows:

(CHF)	**2018**	2017
Bank	**3’087**	10’042’966
Lease liabilities, current	**1’720’182**	2’369’459
Financial liabilities	**-**	5’018
Total current financial debt	**1’723’269**	12’417’442

§ Accounting policies
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, at amortised cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of financial liabilities not measured at fair value through profit or loss, net of directly attributable transaction costs.

The subsequent measurement depends on classification of financial liabilities.

Financial liabilities in foreign currency are remeasured at each balance sheet date at the respective spot rate. Foreign exchange gains or losses are included in the unrealized foreign exchange effects in the income statement unless the amount is settled. The final foreign exchange effect after settlement is recorded in the realized foreign exchange effects in the income statement.

7.8 Provisions

Provisions at 31 December 2018 and 2017 are as follows:

The timing of payment in respect of non-current provisions is, with few exceptions, not contractually determined and requires judgment.

	Dismantling provision	Jubilee Provision	Other	Total
1 Jan 2018	**1'000'000**	**1'075'017**	**767'699**	**2'842'716**
Additions charged during the year	-	21'347	601'107	622'454
Unused amounts released	-	-	-100'000	-100'000
Amounts used	-	-	-846'548	-846'548
Currency translation adjustments	-	-	-10'892	-10'892
31 Dec 2018	**1'000'000**	**1'096'364**	**411'366**	**2'507'730**
Current			266'276	266'276
Non-current	1'000'000	1'096'364	145'090	2'241'454

	Dismantling provision	Jubilee Provision	Other	Total
1 Jan 2017	**1'000'000**	**943'371**	**140'604**	**2'083'975**
Additions charged during the year	-	131'646	643'628	775'275
Amounts used	-	-	-16'534	-16'534
31 Dec 2017	**1'000'000**	**1'075'017**	**767'699**	**2'842'716**
Current	-	-	628'405	628'405
Non-current	1'000'000	1'075'017	139'293	2'214'311

§ Accounting policies

Provisions are recognized when Medartis has a present obligation (legal or constructive) as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is recognized in the income statement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

7.9 Share capital

The share capital is represented by 11'741'007 registered shares (2017: 7'289'485) of CHF 0.20 (2017: CHF 0.20) par value, fully paid in.

Medartis Holding AG has been listed at SIX Swiss Exchange in Zurich (ticker symbol 'MED') since 23 March 2018.

In 2018, Medartis Holding AG increased its share capital by issuing a total of 4'451'522 new shares to 11'741'007 registered shares. The corresponding share capital amounts to CHF 2.3 million (31 December 2017: CHF 1.5 million).

Of the total newly issued shares, 2'994'791 were issued on 23 March 2018 in the context of the IPO for a total consideration of CHF 142.7 million, resulting in a share premium of CHF 142.1 million.

1'456'731 newly issued shares relate to the conversion on 23 March 2018 of the convertible loan of nominal CHF 59.4 million including interest due resulting in a share premium of CHF 59.1 million.

A total of CHF 10.8 million in IPO costs were incurred from 1 January until 31 December 2018. CHF 3.2 million were expensed through profit and loss mainly in administration expenses and CHF 7.6 million were deducted from equity (before tax adjustment of CHF 0.2 million).

In 2017 a total of CHF 2.2 million in IPO costs were incurred and expensed through profit and loss mainly in administration expenses.

The capital reserve has accordingly increased by CHF 193.8 million, from CHF 58.7 million to CHF 252.5 million.

As of 31 December 2018 the conditional share capital amounts to CHF 208’654 (2017: 0) and the authorised capital amounts to CHF 600’000 (2017: 0).

In 2018 Medartis paid out no dividends to shareholders.

7.10 Net interest-bearing debt

		Maturity		
(CHF)	2018	till 1 year	1-5 years	over 5 years
Loans and borrowings, current	**3’087**	3’087		
Lease liabilities, current	**1’720’182**	1’720’182		
Net interest-bearing debt, current	**1’723’269**	**1’723’269**		
Lease liabilities, non-current	**1'654'647**		1’654’647	
Financial debt and other non-current liabilities	**1'654'647**		**1'654'647**	
Total net interest-bearing debt	**3’377’915**			

		Maturity		
(CHF)	2017	till 1 year	1-5 years	over 5 years
Loans and borrowings, current	**10’047’984**	10’047’984		
Lease liabilities, current	**2’369’459**	2’369’459		
Net interest-bearing debt, current	**12’417’442**	**12’417’442**		
Lease liabilities, non-current	**3’177’484**		3’177’484	
Loans and borrowings, non-current	**58’983’695**			58’983’695
Financial debt and other non-current liabilities	**62’161’179**		**3’177’484**	**58’983’695**
Total net interest-bearing debt	**74’578’622**			

Reconciliation of liabilities arising from financing activities

(CHF)	Non-current financial debts	Current financial debts	Total
1 January 2018	**62’161’179**	**12’417’442**	**74’578’622**
Repayment of financial debts	-1’522’838	-10’703’246	-12’226’083
Conversion of convertible loan to shares	-59’000’000		-59’000’000
Changes in fair values and other changes	16’305	9’072	25’377
31 December 2018	**1’654’647**	**1’723’269**	**3’377’915**

(CHF)	Non-current financial debts	Current financial debts	Total
1 January 2017	**62’133’950**	**4’283’932**	**66’417’883**
Increase in financial debts	59’000’000	7’497’984	66’497’984
Repayment of financial debts	-58’995’000	-1’733’932	-60’728’932
Changes in fair values and other changes	40’842	2’369’459	
Currency translation effects	-18’613		-18’613
31 December 2017	**62’161’179**	**12’417’442**	**74’578’622**

Loans and borrowings qualify as financial instruments.

On 23 March 2018 the convertible loan in the amount of CHF 59 million was converted into 1'456'731 shares. Please refer to Note 7.9

§ Accounting policies
After initial recognition at fair value, net of directly attributable transaction costs, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective and interest amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective and interest method. The amortization is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Compound financial instruments – Convertible loan
Compound financial instruments issued by the Group comprise a loan that is convertible into share capital at the option of the holder whereby the number of shares to be issued varies depending on the share price during an equity or liquidation event.

As the conversion option of the lenders does not meet the fixed-for-fixed criteria, no equity component was identified. The entire financial liability was initially measured at the amount of cash received. The embedded derivative is subsequently measured at fair value through profit or loss, the host contract liability is measured at amortized cost.

7.11 Post-employment benefits

The Group operates different employee benefit plans: Whilst most pension plans are defined contribution plans, Medartis AG operates a defined benefit plan in Switzerland. The defined benefit obligation is determined applying the projected unit credit method. Related plan assets are measured at fair value.

In 2018, the net pension liability amounts to CHF -13'325'519 (2017: CHF -14'057'558)

(CHF)	**2018**	2017
Fair value of plan assets	**32'498'520**	29'660'068
Present value of defined benefit obligation	**-45'824'039**	-43'717'626
Total net book value of employee benefits	**-13'325'519**	-14'057'558

Pension plan in Switzerland
This pension plan is governed by the Swiss Federal Law on Occupational Retirement, Survivor's and Disability Pension Plans (BVG), which states that pension plans are to be managed by independent, separate legal entities. It also stipulates that a pension plan's most senior governing body (Board of Trustees) must be composed of equal numbers of employee and employer representatives.

Plan participants are insured against the financial consequences of old age, disability and death. The insurance benefits are subject to regulations, with the BVG specifying the minimum benefits that are to be provided. The employer and employees pay contributions to the pension plan. If a plan is underfunded, various measures can be taken, such as a reduction in benefits by altering the conversion rates or increasing current contributions. Under the BVG employer has to fund at least 50% of the potential restructuring.

The Medartis Pension Fund has entered into an agreement with Helvetia Group Foundation. Helvetia is responsible for the governance of the plan; the Board is composed of an equal number of representatives from the employers and employees chosen from all affiliated companies. Helvetia has set up investment guidelines, defining in particular the strategic allocation with margins. Helvetia has reinsured its actuarial risks consisting of demographic risks (primarily life expectancy) and the financial risk (primarily the discount rate, future increases in salaries/wages, and the return on plan assets) with Helvetia Schweizerische Lebensversicherunggesellschaft AG which manages the savings capital/investments on behalf of Helvetia Group Foundation. In addition, an actuarial report is drawn up annually in accordance with BVG requirements.

In August 2018 the Swiss pension plan for executive members has been amended leading to a negative past service cost of CHF 418'300.

Cost of defined benefit plans

(CHF)	2018	2017
Service costs		
Current service cost (employer)	**2'653'936**	2'109'583
Past service cost	**-418'300**	-194'893
Total service cost	**2'235'636**	1'914'690
Administration cost (excl. cost for managing plan assets)	**21'859**	19'523
Net interest on employee benefits	**98'695**	87'517
Total pension expenses recorded in income statement	**2'356'190**	2'021'730

Plan amendments (mainly from changes in conversion rates) and settlements were made in order to reduce actuarial risks.

Remeasurements of employee benefits

(CHF)	2018	2017
Actuarial gains/losses		
Changes in financial assumptions	**-1'290'234**	-
Changes in demographic assumptions	**-609'504**	-
Experience adjustments	**1'346'041**	1'707'230
Return on plan assets excl. interest income	**35'947**	-45'314
Total remeasurements recorded in other comprehensive income	**-517'750**	1'661'916

The changes of the financial assumptions relate to the amendment of the used discount rate of 0.90% (2017: 0.70%) and the interest rate on retirement savings capital of 0.90% (2017: 0.70%)

The changes of the demographic assumptions relate to the amendment of the used probability of disability to 85% of the probability according to BVG 2015 (2017: 100%).

Change in fair value of plan assets

(CHF)	2018	2017
Fair value of plan assets at 1.1.	**29'660'068**	26'523'933
Interest income on plan assets	**216'922**	195'800
Contributions by the employer	**2'570'479**	2'147'483
Contributions by plan participants	**1'285'240**	1'057'716
Benefits (paid) / deposited	**-1'198'242**	-310'178
Return on plan assets excl. interest income	**-35'947**	45'314
Fair value of plan assets at 31.12.	**32'498'520**	29'660'068

Change in present value of defined benefit obligation

(CHF)	2018	2017
Defined benefit obligation at 1.1.	**43'717'626**	39'045'328
Interest expense on defined benefit obligation	**315'617**	283'317
Current service cost (employer)	**2'653'936**	2'109'583
Contributions by plan participants	**1'285'240**	1'057'716
Benefits (paid) / deposited	**-1'198'242**	-310'178
Past service cost	**-418'300**	-194'893
Administration cost (excl. cost for managing plan assets)	**21'859**	19'523
Actuarial (gain) / loss on defined benefit obligation	**-553'697**	1'707'230
Defined benefit obligation at 31.12.	**45'824'039**	43'717'626

Asset allocation of investments as at 31 December

in %	2018	2017
Others	**32’498’520**	29’660’068
Total	**32’498’520**	29’660’068

The outflow of funds due to pension payments and other obligations can be reliably estimated. Contributions are paid regularly to the pension funds. Furthermore, the investment strategy respects the need to guarantee the liquidity of the plan at all times. The Group does not make use of any assets held by the pension plan.

The item Others includes assets from the insurance contract with Helvetia Group Foundation which are acquired primarily for the purpose of hedging actuarial risks consisting of demographic risks (primarily life expectancy) and the financial risk (primarily the discount rate, future increases in salaries/wages, and the return on plan assets).

The actual return on plan assets for 2018 in Switzerland was CHF 180’975 (2017: CHF 241’114)

Plan Participants

		Active
	2018	2017
Number	**267**	235
Present value of defined obligation in CHF	**45’824’039**	43’717’626
Share in %	**100%**	100%
Weighted average duration in years	**19.3**	19.9

There are no retired plan participants for the years 2018 and 2017.

For the reporting year 2019 employer contributions of CHF 2’735’633 are expected.

Significant actuarial assumptions:

The present value of the defined benefit obligation is determined annually by independent actuaries using the projected unit credit method.

In %	2018	2017
Discount rate	**0.90%**	0.70%
Increase in salaries/wages	**1.25%**	1.25%

Sensitivities of significant actuarial assumptions

The discount rate and the future increase in salaries/wages were identified as significant assumptions. The following impacts on the defined benefit obligation would result from changes in actuarial assumptions:

Impact on DBO at 31.12.2018	Increase	Decrease
Discount rate (0.25%)	-2’088’233	2’267’364
Salary increase (0.25%)	501’841	-516’248

Impact on DBO at 31.12.2017	Increase	Decrease
Discount rate (0.25%)	-2’058’887	2’239’551
Salary increase (0.25%)	495’897	-499’012

The sensitivity analysis is based on reasonable possible changes as at the end of the reporting year. Each change in a significant actuarial assumption was analysed separately as part of the test. Interdependencies were not taken into account.

Other long-term employee benefits
Medartis has programs for long-service awards and other payments dependent on length of service which are classified as other long-term payments due to employees. As at 31 December 2018 there exists a provision in the amount of CHF 1’096’364 (2017: CHF 1’075’017) for other long-term employee benefits.

8. Share-based payments

Medartis Executive Management Plan
Medartis operated a corporate long term incentive plan with restricted shares (LTI) for Members of the Executive Management Board. The amount of this long-term compensation is determined individually for each participant.

According to the plan rules, the amount, if any, for each individual participant shall be converted into a number of Medartis Holding AG shares at a conversion price of the average closing price of the share during the last 10 trading days in February, less a discount of 20%. The shares are subject to a restriction period for the next two years.

The related expenses amount to CHF 0.7 million.

Medartis Employee share purchase plan
In connection with the IPO Medartis offered an employee share purchase plan for all employees of the Swiss subsidiary. This plan entitled employees to acquire a limited amount of discounted Medartis Holding AG shares at 80 percent of the IPO offer price for shares. The shares cannot be sold for a period of 1 year from the date of purchase. 114’688 shares were acquired by the employees. The related expenses amount to CHF 1.1 million.

In 2017 no share-based payments took place.

§ Accounting policies
The cost of equity-settled transactions is determined by the fair value at the date when the grant is made. That cost is recognised in employee benefits expense, together with a corresponding increase in equity (other capital reserves).

The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

9. Transactions and agreements with related parties

Related parties primarily comprise members of Group Management, members of the Board of Directors and significant shareholders. Transactions with related parties are carried out at arm’s length.

In 2018 share-based payment transactions in connection with the IPO took place. Refer to Note 8 for more detailed information.

The following shareholders hold a participation of more than 3% of the issued share capital of the Group’s ultimate parent Medartis Holding AG:

as of December 31,	**2018**	2017
Dr. h.c. Thomas Straumann	**47.9%**	77.2%
NexMed Holding AG	**7.8%**	12.4%
Willi Miesch	**6.0%**	9.7%
Endeavour Medtech Growth LP	**5.0%**	0.5%
Schroder & Co Bank AG	**4.6%**	-
Landolt & Cie SA	**3.4%**	-

Significant transactions and balances between the Group and related parties are as follows:

(CHF)	**2018**	2017
Sales of goods to:		
Institut Straumann AG	**210’591**	148’968
Services rendered to:		
centerVision AG	**27’579**	16’400
Services received from:		
IBRA, International Bone Research Association	**-1’898’719**	-950’000
Interest paid:		
on shareholder loans	**-**	-483’167
Total related party transactions	**-1’660’550**	-1’267’799

Open balances due to/from related parties recognized in the consolidated balance sheet :

(CHF)	**2018**	2017
Institut Straumann AG	**4’857**	7’568
centerVision AG	**623’752**	371’756
IBRA, International Bone Research Association	**9’711**	-
Liability to sellers of Extera	**-664’993**	-
Total open balances	**-26’673**	379’324

The following table shows the compensation of Key Management Personnel (Board of Directors and the Executive Management Board):

(CHF)	**2018**	2017
Fees, salaries and other short-term benefits	**3’994’034**	3’384’666
Post-employment pension and medical benefits	**-**	-
Share-based payment transactions	**1’001’226**	-
Total	**4’995’260**	3’384’666

Further details related to the requirements of the Swiss Transparency law (Art. 663b bis and 663c Swiss Code of Obligations) are disclosed in the Financial Statements of Medartis Holding AG.

10. Commitments and contingencies

This section provides additional information about items not recognised in the financial statements but could potentially have a significant impact on the Group’s financial position and performance.

10.1 Other commitments

At 31 December 2018, the Group had commitments of CHF 6.8 million including CHF 5.9 million (2017: CHF 0) relating to construction work at the office and production site in Basel, Switzerland as well as CHF 817’833 (2017: CHF 0) relating to investments in new machinery.

10.2 Legal claim contingency

In the ordinary course of its business, the Group is involved in lawsuits, claims of various natures, investigations and proceedings, including product liability, commercial, environmental, health and safety matters, etc. The Group operates in countries where political, economic, social and legal developments could have an impact on the Group's operations.

At December 31, 2018, the Group's contingencies amounted to CHF 0 (2017: CHF 0).The company has concluded that due to the uncertainty with some of the matters mentioned below, the potential losses for the case in Brazil cannot be reliably estimated. There are no further single matters pending that the Group expects to be material in relation to the Group's business, financial result or results of operations.

The following is a description of the material legal matters currently ongoing.

In the context of the intensified fight against corruption in the healthcare sector in Brazil, the authorities launched numerous investigations, among others also into the former Extera, which was acquired by Medartis in August 2017 on the basis of possible irregularities in 2012. Medartis is cooperating with the authorities. Medartis' current business activities in Brazil are not affected by the investigation.

11. Principal currency translation rates

Year-end rates used for the consolidated balance sheets at 31 December, to translate the following currencies into CHF, are:

	2018 per CHF	2017 per CHF
Euro (EUR)	**0.88854**	0.85459
US Dollar (USD)	**1.01692**	1.02619
Australian Dollar (AUD)	**1.44611**	1.31201

Average rates during the years ended 31 December, used for the consolidated income and cash flow statements, to translate the following currencies into CHF, are:

	2018 per CHF	2017 per CHF
Euro (EUR)	**0.86587**	0.90302
US Dollar (USD)	**1.02564**	1.01453
Australian Dollar (AUD)	**1.36573**	1.32875

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To the General Meeting of
Medartis Holding AG, Basel

Basle, 28 March 2018

Statutory auditor’s report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Medartis Holding AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 61 to 99) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Existence of inventories and sets

Risk	Out of the inventories in the amount of CHF 37.9 million, CHF 16.4 million relate to consignment sets kept at customers' premises. Out of property plant and equipment in the amount of CHF 37 million, CHF 8.7 million are Sets, which are mostly also in consignment. This, in combination with the significant share of inventories and sets in relation to total assets, made us conclude that existence of inventories and sets is a key audit matter of our audit.
Our audit response	We assessed the Medartis Group's process of the inventory takings and consignment inventory confirmations. Furthermore, we tested the design and operating effectiveness of the relevant internal control procedures over the inventory cycle counts that are periodically performed by management, and over the distributors' confirmation of consignment sets kept at the customers' premises as well as the automated recording of sales transactions (three-way-match). Throughout the year, we attended a selection of inventory counts in warehouses in Switzerland, Australia, USA and Brazil, to validate cycle counts performed by the Group company. We compared our count results with the results of Medartis Group's own counts. We have analysed the use of the moving average price in SAP. We have also participated and took note of the stock take performed at hospitals and compared our count results with the results of Medartis Group's own counts. Furthermore, we obtained sales representatives confirmations for a haphazardly selected sample of consignment sets. We considered monthly gross margin analysis and the value/turnover ratio analysis as performed by Medartis Group controlling. Our audit procedures did not lead to any reservations concerning the inventories relating to consignment sets.

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Taxation

Risk	Medartis Group operates in multiple jurisdictions and is therefore exposed to numerous tax laws around the world. The recognition of a related risk provision, and the likelihood that a liability will crystallize are both considered to be significant judgmental areas. Another source of risk arises from tax authorities challenging certain tax treatments with a possible focus on taxation of multinational businesses. Moreover, the recognition of deferred tax assets from temporary differences and loss carry forwards requires management's assessment of whether it is probable that sufficient taxable profits will be available against which deferred tax assets can be utilized. Due to the significance of the income tax balances and the judgment involved in determining these, this matter is considered significant to our audit.
Our audit response	We evaluated the Group process for the identification and evaluation of uncertain tax positions and other tax risks as well as for the assessment of the recoverability of deferred tax assets. We also considered the Group process for the recording and continuous re-assessment of the related (contingent) liabilities and provisions as well as deferred taxes. We analysed tax exposures estimated by management and the risk analysis associated with these exposures along with claims or assessments made by tax authorities to date. We analyzed the tax risk provision with the involvement of our internal tax experts to evaluate whether it reflects the tax risks in the business. We reviewed documentation of tax audits and evaluated whether exposures raised by the tax authorities have been considered. We tested the calculation of deferred tax assets and liabilities and considered the management estimates relating to the recoverability of deferred tax assets. We analyzed the off-setting and presentation of deferred tax positions. Our audit procedures did not lead to any reservations concerning the current and deferred income tax position.

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

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

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

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

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

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

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

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

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

Ernst & Young Ltd

Elisa Alfieri Licensed audit expert (Auditor in charge)	André Schaub Licensed audit expert

Financial Statements of Medartis Holding AG, Basel

Balance sheet

in CHF

Assets	Notes	31 Dec 2018	31 Dec 2017
Cash and cash equivalents		**95'554'234**	9'611
Trade receivables	2	**3'137'148**	18'749'681
Other receivables		**7'638**	-
Total current assets		**98'699'019**	18'759'292
Financial assets	3	**121'847'748**	78'272'748
Shareholdings	4	**1'000'000**	1'000'000
Total non-current assets		**122'847'748**	79'272'748
Total assets		**221'546'767**	98'032'040

Balance sheet

in CHF

Equity and liabilities	Notes	31 Dec 2018	31 Dec 2017
Trade payables	5	**73'694**	1'148'466
Current interest-bearing liabilities	6	**-**	10'000'000
Other current liabilities	7	**165'813**	601'845
Deferred income and accrued expenses		**50'326**	98'146
Current provisions	8	**116'000**	1'252'000
Total current liabilities		**405'833**	13'100'458
Non-current interest-bearing liabilities	9	**-**	59'000'000
Total non-current liabilities		**-**	59'000'000
Share capital		**2'348'201**	1'457'897
Capital contribution reserves		**253'225'043**	57'717'103
Retained earnings			
Loss carryforward		**-33'243'417**	-38'378'612
Net income for the year		**-1'188'893**	5'135'195
Total equity		**221'140'934**	25'931'583
Total equity and liabilities		**221'546'767**	98'032'040

Income statement

in CHF

	Notes	31 Dec 2018	31 Dec 2017
Net income from licenses		**1’119’000**	7’100’000
Gross margin		**1’119’000**	7’100’000
Other operating expenses	10	**-3’160’679**	-1’776’104
Earnings before interest and tax (EBIT)		**-2’041’679**	5’323’896
Financial cost	11	**-442’738**	-607’264
Financial income	11	**1’295’036**	861’723
Operating result before taxes		**-1’189’381**	5’578’356
Direct taxes		**488**	-443’162
Net result for the year		**-1’188’893**	5’135’195

Notes to the financial statements

in CHF

1. Principles applied in these financial statements

These financial statements have been prepared in accordance with the provisions on commercial accounting laid down in articles 957 – 963b Swiss Code of Obligations (CO) (effective 1 January 2013).

The preparation of financial statements requires the Board of Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, contingent liabilities, revenue and expenses. The Board of Directors uses judgment in applying the Company's accounting policies. Depreciations, write-downs and provisions exceeding the economically necessary amounts can be accounted for based on prudence considerations.

2. Trade receivables

	31 Dec 2018	31 Dec 2017
Subsidiaries	3'137'148	18'749'681
Total trade receivables	**3'137'148**	18'749'681

3. Financial assets

	31 Dec 2018	31 Dec 2017
Subsidiaries	121'847'748	78'272'748
Total financial assets	**121'847'748**	78'272'748

4. Shareholdings

Direct shareholdings

Medartis AG, Switzerland (Basel)		31 Dec 2018	31 Dec 2017
Share capital	CHF	1'000'000	1'000'000
Participation quota		100%	100%

Indirect shareholdings

Medartis GmbH, Germany (Umkirch)		31 Dec 2018	31 Dec 2017
Share capital	EUR	51'129	51'129
Capital reserve	EUR	1'723'036	1'723'036
Participation quota		100%	100%

Medartis GmbH, Austria (Vienna)		31 Dec 2018	31 Dec 2017
Share capital	EUR	35'000	35'000
Paid-in	EUR	17'500	17'500
Capital reserve	EUR	100'000	100'000
Participation quota		100%	100%

Medartis Sarl, France (Lyon)		31 Dec 2018	31 Dec 2017
Share capital	EUR	15'000	15'000
Participation quota		100%	100%

Medartis LTD, UK (Derby)		31 Dec 2018	31 Dec 2017
Share capital	GBP	3'700'000	3'700'000
Participation quota		100%	100%

Medartis INC, USA (Delaware)		31 Dec 2018	31 Dec 2017
Share capital	USD	10	10
Participation quota		100%	100%

Medartis S A de C V, Mexico (Mexico)		31 Dec 2018	31 Dec 2017
Share capital	MXN	100'000	100'000
Participation quota		100%	100%

Medartis Sp zoo, Poland (Wroclaw)		31 Dec 2018	31 Dec 2017
Share capital	PLN	200'000	200'000
Participation quota		99%	99%

Medartis Australia & New Zealand Pty LTD, Australia (Albion)		31 Dec 2018	31 Dec 2017
Share capital	AUD	1'203'000	1'203'000
Participation quota		100%	100%

Medartis New Zealand LTD, New Zealand (Auckland)		31 Dec 2018	31 Dec 2017
Share capital	NZD	1'000	1'000
Participation quota		100%	100%

Medartis SL, Spain (Alcobendas Madrid)		31 Dec 2018	31 Dec 2017
Share capital	EUR	50'000	50'000
Participation quota		100%	100%

Medartis do Brasil Participacoes Ltda, Brasil (Sao Paulo)		31 Dec 2018	31 Dec 2017
Share capital	BRL	25'157'562	25'157'562
Participation quota		100%	100%

Extera Importação e Exportação Ltda, Brasil (Sao Paulo)		31 Dec 2018	31 Dec 2017
Share capital	BRL	18'000'000	18'000'000
Participation quota		100%	100%

Medartis Co Ltd, Japan (Tokyo)		31 Dec 2018	31 Dec 2017
Share capital	JPY	10'000'000	10'000'000
Participation quota		100%	100%

Mimedis AG, Switzerland (Basel)		31 Dec 2018	31 Dec 2017
Share capital	CHF	**100’000**	100’000
Paid-in	CHF	**50’000**	50’000
Participation quota		**100%**	100%

5. Trade payables

	31 Dec 2018	31 Dec 2017
Third parties	**73’694**	1’148’466
Total trade payables	**73’694**	1’148’466

6. Current interest-bearing liabilities

This refers to the current account at Credit Suisse.

7. Other current liabilities

	31 Dec 2018	31 Dec 2017
Third parties	**162’043**	543’647
Subsidiaries	**3’770**	58’199
Total other current liabilities	**165’813**	601’845

8. Provisions

Current provisions	31 Dec 2018	31 Dec 2017
Other provisions	**3’000**	217’000
Tax provision	**113’000**	1’035’000
Total current provisions	**116’000**	1’252’000

9. Non-current interest-bearing liabilities

	31 Dec 2018	31 Dec 2017
Fixed advance from third parties	-	59’000’000
Total non-current interest-bearing liabilities	-	59’000’000

10. Other operating expenses

	31 Dec 2018	31 Dec 2017
Insurance expense	**-58’800**	-
Administrative expense	**-2’871’766**	-1’467’807
Expense for patents, trademarks and licences	**-230’114**	-308’297
Total other operating expenses	**-3’160’679**	-1’776’104

11. Financial cost and financial income

Financial cost	31 Dec 2018	31 Dec 2017
Interest cost	**-442’738**	-607’264
Total financial cost	**-442’738**	-607’264

Financial income	31 Dec 2018	31 Dec 2017
Interest income	**1’295’036**	861’723
Total financial income	**1’295’036**	861’723

12. Number of employees

Medartis Holding AG has no employees.

13. Fees of the auditors

	31 Dec 2018	31 Dec 2017
Fees for audit services (Medartis Group)	**235’000**	238’500
Fees for other services (IPO)	**139’698**	0
Total fees of the auditors	**374’698**	238’500

14. Contingent liabilities

Guarantee for the bank current account of Medartis AG	**10’000’000**	10’000’000
Guarantee for the lease liabilities of Medartis AG	**23’000’000**	23’000’000

15. Events after the balance sheet date

After the balance sheet date and until the approval of the financial statements on 28 March 2019 by the Board of Directors no material events, which would affect the financial statemtents 2018 have occured.

16. Major shareholders

Shareholders who own more than 5% of voting rights:

	31 Dec 2018	31 Dec 2017
Dr. h.c. Thomas Straumann (Chairman of the Board)	**47.9%**	77.2%
NexMed Holding AG *	**7.8%**	12.4%
Willi Miesch (CEO)	**6.0%**	9.7%
Endeavour Medtech Growth LP	**5.0%**	0.5%

*NexMed Holding AG is beneficially owned by Dominik Ellenrieder.

17. Equity instruments of the board of directors and executive management

The following table discloses the number of shares held by the Board of Directors, the Executive Management Board and individuals related to them.

Board of Directors	**31 Dec 2018**	31 Dec 2017
Dr. h.c. Thomas Straumann [1)]	**5'625'930**	5'624'430
Dominik Ellenrieder [2)]	**921'035**	921'035
Willi Miesch	**704'020**	704'020
Dr. Jürg Greuter	**2'604**	-
Dr. Med. Daniel B. Herren	**2'213**	-
Roland Hess	**9'114**	-
Damien Tappy [3)]	**25'274**	-

[1)] Including 1'500 Shares held by a related party.

[2)] Held by NexMed Holding AG that is beneficially owned by Dominik Ellenrieder.

[3)] Including 12'345 shares beneficially owned by Damien Tappy through Schroder & Co Bank AG.

Executive Management Board	**31 Dec 2018**	31 Dec 2017
Willi Miesch	**704'020**	704'020
Dominique Leutwyler	**12'658**	10'000
Axel Maltzen	**1'302**	-
Oliver Marx	**1'302**	-
Thomas Tribelhorn	**3'125**	-

Report of the statutory auditor

with financial statements as of 31 December 2018 of

Medartis Holding AG, Basel

Building a better working world

Building a better working world

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To the General Meeting of
Medartis Holding AG, Basel

Basle, 28 March 2019

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Medartis Holding AG, which comprise the balance sheet, income statement and notes (pages 105 to 112), for the year ended 31 December 2018.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibility* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

VALUATION OF INVESTMENTS IN AND LOANS TO SUBSIDIARIES

Risk	Investments in and loans to subsidiaries as of balance sheet date amount to CHF 122.8 million or 56% of total assets. There is a risk that the carrying amount of the investments and loans may no longer be supported through their value in use calculated on the basis of budgeted future cash flows. The Company generally assesses the valuation of its investments and loans and determines potential impairments on an individual basis in accordance with the Swiss Code of obligations.
Our audit response	We assessed, with involvement of our valuation specialists, the valuation methodology, the underlying assumptions and the mathematical accuracy of the valuation models. Our audit procedures did not lead to any reservations concerning the investments in and loans to subsidiaries.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

Ernst & Young Ltd

Elisa Alfieri	André Schaub
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Informations for investors

Financial calendar

10 May 2019	Annual General Meeting
20 August 2019	Publication of 2019 first-half results
03 March 2020	Publication of 2019 full-year results

Contact

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Disclaimer

Forward-looking statements
This Annual Report contains specific forward-looking statements, beliefs or opinions, including statements with respect to the product pipelines, potential benefits of product candidates and objectives, estimated market sizes and opportunities as well as the milestone potential under existing collaboration agreements, which are based on current beliefs, expectations and projections about future events. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may result in a substantial divergence between the actual results, financial situation, development or performance of Medartis Holding AG and its subsidiaries (the "Group") and those explicitly or implicitly presumed in these statements. The forward-looking statements are based on the information available to the Group on the date of this Annual Report and the Groups' current beliefs, forecasts and assumptions regarding a large number of factors affecting its business. Such beliefs and assumptions are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Group. There can be no assurance that: (i) the Group has correctly measured or identified all the factors affecting its business or the extent of their likely impact, (ii) the publicly available information with respect to these factors on which the Group's analysis is based is complete or accurate, (iii) the Group's analysis is correct or (iv) the Group's strategy, which is based in part on this analysis, will be successful. Factors that affect the Group's business include, but are not limited to, (i) general market, governmental and regulatory trends, (ii) competitive pressures, (iii) technological developments, (iv) effectiveness and safety of the Group's products, (v) management changes, (vi) changes in the market in which the Group operates and (vii) changes in the financial position or credit-worthiness of the Group's customers and partners. The Group assumes no liability to update forward-looking statements or to conform them to future events or developments.

Imprint

Publisher
Medartis Holding AG

Design
Medartis Holding AG

Photographs
Medartis Holding AG

Cover image
Salome Lang, athletics

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