2018 | Financial Report

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.

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.

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

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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

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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 (Auditor in charge)	Licensed audit expert