2019 | Financial Report

Content

Medartis Group Consolidated Financial Statements

Consolidated Balance Sheet

(at 31 December 2019 and 2018)

(CHF)	Notes	31 December 2019	31 December 2018
Assets			
Current assets:			
Cash & Cash equivalents		**99'571'993**	116'262'594
Accounts receivable trade	7.1	**26'385'413**	20'965'687
Accounts receivable other	7.1	**5'921'483**	3'059'692
Income tax receivables		**412'437**	2'744'249
Inventories	7.3	**47'159'848**	37'952'389
Prepaid expenses	7.2	**1'433'277**	1'741'834
Total current assets		**180'884'451**	182'726'444
Non-current assets:			
Property, plant and equipment	7.4	**39'029'309**	37'042'454
Right-of-use assets	7.5	**28'650'878**	-
Intangible assets	7.6	**12'449'208**	9'201'408
Financial assets		**1'041'804**	1'090'363
Deferred tax assets	6.7	**26'454'701**	25'743'645
Total non-current assets		**107'625'900**	73'077'870
Total assets		**288'510'351**	255'804'314
Liabilities and equity			
Current liabilities:			
Accounts payable trade	7.7	**10'735'393**	6'631'406
Accounts payable other	7.7	**9'685'700**	9'350'971
Income tax payables	7.7	**643'968**	580'546
Accrued expenses	7.7	**1'983'534**	1'624'537
Current financial debt and other financial liabilities	7.8	**3'924'159**	1'723'269
Provisions	7.9	**3'132'168**	266'276
Total current liabilities		**30'104'922**	20'177'005
Non-current liabilities:			
Financial debt and other non-current liabilities	7.11	**22'504'040**	1'654'647
Provisions	7.9	**2'321'122**	2'241'454
Employee benefit obligation	7.12	**17'912'443**	13'325'519
Deferred tax liabilities	6.7	**96'213**	172'702
Total non-current liabilities		**42'833'818**	17'394'322
Total liabilities		**72'938'740**	37'571'327
Shareholders' equity			
Issued share capital	7.10	**2'350'105**	2'348'201
Retained earnings		**-42'433'846**	-39'765'125
Capital Reserves		**252'451'944**	252'451'944
Currency translation adjustment		**3'203'408**	3'197'967
Total shareholder's equity		**215'571'611**	218'232'987
Total liabilities and equity		**288'510'351**	255'804'314

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

Consolidated Income Statement

(for the years ended 31 December 2019 and 2018)

(CHF)	Notes	2019	2018
Net sales	6.1	**130'143'937**	121'324'703
Cost of goods sold		**-18'877'007**	-20'312'871
Gross profit		**111'266'930**	101'011'832
Selling and distribution		**-65'906'239**	-60'294'262
Administration	6.3	**-23'460'076**	-21'432'993
Research and development	6.4	**-14'545'811**	-13'227'611
Operating profit		**7'354'805**	6'056'965
Finance income	6.6	**287'692**	155'298
Finance expense	6.6	**-4'323'450**	-3'843'151
Income before taxes		**3'319'047**	2'369'112
Income tax expense/income	6.7	**-1'172'527**	1'832'795
Net income		**2'146'521**	4'201'907
Attributable to:			
Medartis shareholders	a)	**2'146'521**	4'201'907
Earnings per share (CHF):			
Basic earnings per share		**0.18**	0.40

a) There is no dilution effect.

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

Consolidated Statement of Comprehensive Income

(CHF)	Notes	2019	2018
Net income		**2'146'521**	4'201'907
Components of other comprehensive income (OCI) Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit post-employment plans	7.12	**-6'134'347**	517'750
Income tax relating to items that will not be reclassified to profit or loss	6.7	**363'616**	-114'837
		-5'770'731	402'913
Items that may be reclassified subsequently to profit or loss:			
Currency translation effects		**5'441**	132'345
Income tax relating to items that may be reclassified subsequently to profit or loss		**-**	-
		5'441	132'345
Total other comprehensive income/(loss)		**-5'765'290**	535'258
Total comprehensive income/(loss)		**-3'618'769**	4'737'166
Attributable to:			
Medartis shareholders		**-3'618'769**	4'737'166

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

Consolidated Cash Flow Statement

(for the years ended 31 December 2019 and 2018)

(CHF)	Notes	2019	2018
Net income		**2'146'521**	4'201'907
Adjustments for:			
Income tax income	6.7	**1'172'527**	-1'832'795
Interest income	6.6	**-249'885**	-155'298
Interest expenses	6.6	**886'730**	533'670
Gain/Loss on disposal of property, plant and equipment		**285'231**	153'606
Depreciation and amortization of:			
Property, plant and equipment	6.5	**11'934'231**	7'407'201
Intangible assets	6.5	**1'054'545**	943'955
Change in provisions and pension obligations		**1'398'137**	-549'275
Share based compensation and other non-cash items		**1'694'806**	3'347'269
Changes in net working capital:			
Inventories	7.3	**-9'207'459**	-2'922'539
Trade and other receivables, Prepaid expenses and accrued income	7.1/7.2	**-7'972'961**	-3'921'944
Trade and other payables	7.7	**4'797'713**	2'933'287
Interest received	6.6	**249'885**	155'298
Interest paid	6.6	**-886'730**	-533'670
Income tax received/paid		**810'726**	-3'311'208
Cash flow from operating activity		**8'114'017**	6'449'464
Cash payments to acquire property, plant and equipment	7.4	**-14'971'309**	-12'353'511
Proceeds from disposals of property, plant and equipment	7.4	**19'614**	186'193
Cash payments to acquire intangible assets	7.6	**-4'453'081**	-2'129'286
Additions/Disposals to financial assets		**48'559**	-84'726
Cash flow used for investing activities		**-19'356'217**	-14'381'331
Proceeds from capital increases	7.11	**1'904**	142'648'963
Transaction costs	7.11	**-**	-7'609'082
Repayment current financial debt	7.11	**-3'087**	-10'044'897
Repayment of lease liability	7.11	**-4'711'278**	-2'181'187
Cash flow used for financing activities		**-4'712'460**	122'813'798
Net change in cash and cash equivalents		**-15'954'661**	114'881'932
Cash and cash equivalents at the beginning of the year (1 January)		**116'262'594**	1'973'308
Net effect of currency translation on cash and cash equivalents		**-735'940**	-592'646
Cash and cash equivalents at the end of the year (31 December)		**99'571'993**	116'262'594

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 2019 and 2018)

	Attributable to Medartis AG shareholders				
(CHF)	**Share capital**	**Capital reserves**	**Currency translation difference**	**Retained earnings**	**Total shareholders' equity**
1 January 2018	**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**
Net profit				2'146'521	2'146'521
Other comprehensive income/(loss)			5'441	-5'770'731	-5'765'290
Total comprehensive income/(loss)			**5'441**	**-3'624'210**	**-3'618'769**
Capital increase	1'904				1'904
Share based compensation				955'489	955'489
31 December 2019	**2'350'105**	**252'451'944**	**3'203'408**	**-42'433'846**	**215'571'611**

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 2019	Investment 2018
Medartis Holding AG, Switzerland (Basel)	Holding Company	CHF	2’350’105	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 International Trade Co., Ltd., China (Shanghai)	Distribution	CNY	10’500’000	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 27 February 2019 and are subject to approval by the Annual General Meeting on 17 April 2020.

§ 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, and 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 amount 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 except for intragroup loans that, in substance, form part of an entity's net investment in a foreign operation. In this case the exchange difference is recognised and accumulated in other comprehensive income (OCI) a separate component of equity until the disposal of the net investment. In case of disposal the 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 2019 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 e.g. 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 at the end of each reporting period 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 2019, Medartis' deferred tax assets are CHF 26.5 million (2018: CHF 25.7 million). Included in this balance are CHF 1.1 million (2018: CHF 2.1 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

The following 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 2019:

- IFRS 16 Leases
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Amendment to IAS 19 - Plan Amendment, Curtailment or Settlement
- IFRIC 23 - Uncertainty over Income Tax Treatments

IFRS 16 Leases
The new standard was issued on 13 January 2016, and the Group has initially adopted IFRS 16 Leases from 1 January 2019. The new standard replaces IAS 17 and introduces a single, on-balance sheet accounting model for lessees and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

At transition, the Group has applied IFRS 16 using the modified retrospective approach measuring the lease liability based on present value of the remaining lease payments discounted at the incremental borrowing rate as at 1 January 2019 and the right-of-use asset as an equal amount to the present value of the lease liabilities adjusted for any accrued or prepaid amount recognized under IAS 17. Accordingly, the comparative information presented for 2018 has not been restated. When applying IFRS 16 to leases previously classified as operating leases under IAS 17, the Group applied the following expedients: Exemption for leases for which the lease term ends within 12 months of the date of initial application, exclusion of initial direct cost from measuring the right-of-use asset, using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	**32'813'349**
Less: Commitments relating to short-term leases	-600'780
Discounting effect using the lessee's incremental borrowing rate (3.19%) at the date of initial application	-5'410'204
Discounted operating lease commitments at 1 January 2019	**26'802'365**
Add: Commitments relating to leases previously classified as finance leases	3'365'756
Lease liabilities as at 1 January 2019	**30'168'121**

At 1 January 2019 the Group recognized additional rights-of-use assets amounting to CHF 26.8 million and additional lease liabilities amounting to CHF 26.8 million. Furthermore right-of-use assets relating to finance lease for machinery of CHF 6.1 million were reclassified from property, plant and equipment to right-of-use assets.

As of 31 December 2019 the rights of use assets are CHF 28.7 million and the lease liabilities are CHF 26.4 million.
In regard to the leases under IFRS 16, the Group has recognized depreciation and interest expense instead of operating lease expense. During the financial year 2019, the Group recognized CHF 5.0 million of depreciation charges and CHF 0.8 million of interest expense.

Please refer to note 7.5.

2.5 Issued standards not yet adopted

		Effective for annual periods on of after	Planned adoption by Medartis
IAS 1 and IAS 8	Definition of Material	1 January 2020	Financial Year 2020
IFRS 3	Definition of a Business	1 January 2020	Financial Year 2020
Amendments to References to the Conceptual Framework in IFRS Standards		1 January 2020	Financial Year 2020
IAS 1	Classification of Liabilities as Current or Non-Current	1 January 2022	Financial Year 2022

None of the not yet adopted standards or amendments is expected to have a significant impact on the Group financial statements.

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, Australian Dollar and the Euro, which are not hedged.

(CHF) 1'000			**2019**
Currency	**Increase/Decrease (in%)**	**Effect on profit before tax**	**Effect on equity**
AUD/CHF	10	-2.8	3.1
EUR/CHF	10	-0.1	0.4
USD/CHF	10	-3.1	2.4
AUD/CHF	-10	2.8	-3.1
EUR/CHF	-10	0.1	-0.4
USD/CHF	-10	3.1	-2.4

(CHF) 1'000			**2018**
Currency	**Increase/Decrease (in%)**	**Effect on profit before tax**	**Effect on equity**
AUD/CHF	10	-2.6	2.8
EUR/CHF	10	0.0	0.0
USD/CHF	10	-3.5	2.8
AUD/CHF	-10	2.6	-2.8
EUR/CHF	-10	0.0	0.0
USD/CHF	-10	3.5	-2.8

The following table demonstrates the impact of reasonably possible currency rate changes on the Group's profit before tax and the Group's, with all other variables held constant. The sensitivity analysis considers major foreign currency risk exposures.

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 2019 and 2018.

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.

			Cash outflows		
(CHF)	**Carrying amount 31.12.2019**	**Total**	**Up to 1 year**	**1 to 5 years**	**More than 5 years**
Accounts payable trade	10'735'393	10'735'393	10'735'393		
Accounts payable other	556'856	556'856	556'856		
Accrued expenses	1'983'534	1'983'534	1'983'534		
Lease liability, current	3'924'159	3'924'159	3'924'159		
Financial debt and other non-current liabilities	31'137	31'137		31'137	
Lease liability, non-current	22'472'903	22'472'903		15'192'358	7'280'545
Total	**39'703'983**	**39'703'983**	**17'199'943**	**15'223'495**	**7'280'545**
Interest on financial debt			728'837	2'152'595	263'565

			Cash outflows		
(CHF)	**Carrying amount 31.12.2018**	**Total**	**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	

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)	**31.12.2019**	31.12.2018
Total assets	**288'510'351**	255'804'314
Equity	**215'571'611**	218'232'987
Equity ratio	**75%**	**85%**

The implementation of IFRS 16 'Leases' negatively affected the equity ratio by eight percentage points.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

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 2019 and 2018. 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 2019	**Amortized cost**	**Fair value level 1**	**Fair value level 2**	**Fair value level 3**	**Total**	
Financial Assets						
Cash & Cash equivalents	99'571'993				99'571'993	1)
Accounts receivable trade	26'385'413				26'385'413	1)
Other non-current financial assets	1'041'804				1'041'804	1)
Total	**126'999'210**				**126'999'210**	
Financial liabilities						
Accounts payable trade	10'735'393				10'735'393	1)
Accounts payable other	556'856				556'856	1)
Accrued expenses	1'983'534				1'983'534	1)
Current financial debt	3'924'159				3'924'159	1)
Non-current financial debt	22'504'040				22'504'040	1)
Total	**39'703'983**				**39'703'983**	

	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**	

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 2019 and 2018

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.

2019 (CHF)	EMEA	APAC	LATAM	North America	Total
Net sales	70'352'972	23'702'910	14'426'510	21'661'546	**130'143'937**
Non-current assets 1)	67'946'632	3'632'224	6'079'847	2'470'693	**80'129'395**

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**

[1] Property, plant and equipment and intangible assets

(CHF)	2019	2018
Upper Extremities	**92'632'321**	87'160'728
Lower Extremities	**18'321'416**	16'351'066
CMF and Others	**19'190'201**	17'812'908
Total	**130'143'937**	121'324'703

5. Significant transactions and events

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

During the reporting periods 2019 and 2018 no acquisitions, divestments or other significant transactions took place.

§ 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 2019.

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 from contracts with customers by product category for the years ended 31 December 2019, and 2018 are as follows:

(CHF)	**2019**	2018
Net proceeds of deliveries of implants	**129'744'681**	120'948'202
Net proceeds of services	**399'257**	376'500
Total revenue	**130'143'937**	121'324'703

§ 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 2019 and 2018 are as follows:

(CHF)	**2019**	2018
Wages and salaries	**-49'654'337**	-43'710'938
Pensions	**-397'903**	-2'438'007
Shared-based payments	**-1'053'993**	-1'832'405
Bonus payments	**-2'603'258**	-3'795'313
Social security costs	**-7'711'043**	-6'933'444
Other personnel costs	**-1'775'056**	-1'235'556
Total personnel costs	**-63'195'591**	-59'945'663

Personnel costs have been recognized in the consolidated income statement:

(CHF)	2019	2018
Cost of goods sold	-6'734'492	-6'656'451
Selling and distribution	-39'723'322	-35'901'514
Administration	-8'656'682	-9'022'763
Research and development	-8'081'095	-8'364'935
Total personnel costs	-63'195'591	-59'945'663

Average number of employees during the year	574	499

§ 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 2019 and 2018 are as follows:

(CHF)	2019	2018
General administration	-4'502'199	-4'595'827
Human Resources administration	-2'085'392	-1'669'405
Financial administration	-3'171'767	-3'621'011
Building administration	-2'680'144	-2'529'581
Management administration	-5'402'559	-7'550'765
Subsidiary administration	-5'618'014	-1'466'403
Total administrative expenses	-23'460'076	-21'432'993

Administration expenses include share-based payments expenses amounting to CHF 0.8 million in 2019 (2018: CHF 0.9 million). 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 2019, this was CHF 14.5 million (2018: CHF 13.2 million), and they are recognized in research and development expenses.

(CHF)	2019	2018
Research and development		
General	-4'721'611	-4'923'051
Testing	-811'531	-1'392'121
Prototype	-2'887'923	-2'628'046
Quality	-2'967'131	-2'210'582
IBRA (International Bone Research Association)	-3'157'615	-2'073'811
Total Research and development costs	-14'545'811	-13'227'611

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

Depreciation and amortization at 31 December 2019 and 2018 are as follows:

(CHF)	**2019**	2018
Depreciation of property, plant and equipment and right-of-use assets		
Cost of goods sold	**-2'992'416**	-2'177'884
Selling and distribution	**-5'019'801**	-3'959'079
Administrative expenses	**-3'272'453**	-998'992
Research and development	**-649'561**	-271'246
Total depreciation	**-11'934'231**	-7'407'201

(CHF)	**2019**	2018
Amortisation of intangible assets		
Cost of goods sold	**-30'859**	-25'739
Selling and distribution	**-294'649**	-294'519
Administrative expenses	**-506'503**	-395'996
Research and development	**-222'534**	-227'701
Total amortisation	**-1'054'545**	-943'955

6.6 Net Finance income and costs

(CHF)	**2019**	2018
Finance income from loans and receivables measured at amortized cost:		
Interest income, bank	**197'292**	101'722
Interest income, loans and receivables	**52'594**	53'576
Other finance income	**37'807**	-
Total finance income	**287'692**	155'298

(CHF)	**2019**	2018
Finance costs from financial liabilities measured at amortized cost:		
Foreign exchange losses	**-2'358'463**	-2'264'291
Interest on loans and borrowings	**-48'242**	-463'992
Interest on lease debt	**-838'488**	-69'678
Other finance costs	**-1'078'257**	-1'045'191
Total finance expense	**-4'323'450**	-3'843'151

§ 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)	**2019**	2018
Income taxes from current period	**1'845'927**	1'662'845
Income taxes from other period	**-142'212**	-288'091
Deferred	**-531'189**	-3'207'549
Total income tax expense/income	**1'172'527**	-1'832'795
Effective income tax rate (in %)	**49%**	-77%

The following elements explain the difference between the income tax expense at the domestic tax rate of Medartis Holding AG and the effective Group income tax expense:

(CHF)	**2019**	2018 *	
Profit before tax	**3'319'047**	2'369'112	
Applicable Group tax rate	**13.04%**	22.18%	
Income tax at the applicable Group tax rate	**432'804**	525'469	
Higher or lower tax rate of subsidiaries in other jurisdiction	**-2'280'961**	-592'043	
Non-deductible expenses	**1'360'078**	358'165	2)
Additional tax deductions	**-433'298**	-2'008'212	1) 2)
Effect of changes in tax rates or imposition of new taxes	**293'260**	-	3)
Prior year adjustments	**-142'212**	-288'091	
Prior year adjustments deferred tax	**100'628**	-150'907	
Not recognized tax losses	**789'258**	-	
Write-off of deferred tax assets on losses carried forward	**840'469**	-	
Other	**212'500**	322'825	
Effective income tax expense/income	**1'172'527**	-1'832'795	

*Restated as the tax reconciliation is changed from the applicable Group tax rate to the domestic tax rate of Medartis Holding AG.
[1] The position relates to tax-deductible impairments in the statutory financial statements of Group entities based in Switzerland.
[2] Comparatives have been restated as positions relating to impairments were erroneously not presented on a net basis.
[3] On 26 February 2019, the canton Basel-Stadt enacted a tax reform legislation (Basler Kompromiss zur Steuervorlage 17), which reduced the corporate tax rate for Basel-Stadt from 22.18% to 13.04%, effective 1 January 2019. This required a revaluation of the deferred tax assets and liabilities and resulted in a deferred tax expense of CHF 0.3 million.

Available tax loss carry – forwards and tax credits

(CHF)	**2019**	2018
At 1 January	**9'299'767**	5'515'163
Currency translation adjustments	**-131'480**	-107'664
Tax losses and credits arising from current year	**3'688'050**	4'520'837
Tax losses and credits utilized against current year profits	**-2'530'570**	-628'568
Total available tax loss carry forwards and tax credits	**10'325'767**	9'299'767

Deferred tax assets have not been recognized in respect of tax losses of CHF 4.8 million (2018 CHF 2.5 million) as they may not be used to offset taxable profits elsewhere in the Group, they have arisen in subsidiaries that have been loss-making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future.

Deferred income taxes

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

2019

(CHF)	Property, plant and equipment	Intangible assets	Inventory valuation	Tax loss carry-forward, tax credits	Other	Total
Deferred tax assets at 1 January	216'553	-	21'915'198	2'122'631	3'374'982	27'629'364
Deferred tax liabilities at 1 January	-1'538'316	-510'579	-	-	-9'526	-2'058'421
Net deferred tax balance at 1 January	**-1'321'764**	**-510'579**	**21'915'198**	**2'122'631**	**3'365'457**	**25'570'942**
(Charged) / credited to income statement	-3'152'427	145'742	1'751'531	-948'387	2'734'730	531'189
Charged to statement of comprehensive income	-	-	-	-	363'616	363'616
Currency translation adjustments	3'621	-	-1'675	-53'968	-55'237	-107'259
Net deferred tax balance at 31 December	**-4'470'570**	**-364'838**	**23'665'054**	**1'120'276**	**6'408'566**	**26'358'488**
Deferred tax assets at 31 December	101'104	-	23'665'054	1'120'276	6'585'372	31'471'806
Deferred tax assets after netting at 31 December	-	-	-	-	-	26'454'701
Deferred tax liabilities at 31 December	-4'571'674	-364'838	-	-	-176'805	-5'113'317
Deferred tax liabilities after netting at 31 December	-	-	-	-	-	-96'213

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 liabilities 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

At 31 December 2019, there was no recognized deferred tax liability (2018: CHF 0) 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)	**2019**	2018
Net income attributable to shareholders	**2’146’521**	4’201’907
Weighted average number of shares - basic	**11’741’372**	10’628’127
Basic earnings per share	**0.18**	0.40

§ 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 2019 and 2018 are as follows:

(CHF)	**2019**	2018
Accounts receivable trade	**26’385’413**	20’965’687
Accounts receivable other, thereof:		
Prepaid machinery	**2’020’331**	1’289’660
Salary prepayments	**213’974**	239’747
Other	**3’687’179**	1’530’285
Total accounts receivable other	**5’921’483**	3’059’692

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

(CHF)	**2019**	2018
1 January	**-618’092**	-599’465
Additional provision created	**-188’633**	-18’627
31 December	**-806’725**	-618’092

The ageing of trade receivables at 31 December 2019 and 2018 past due, but not impaired, are as follows:

2019 (CHF)	**Not past due**	**Total past due**	**6 months**	**1 year**	**2 years**	**3 years**	**more than 3 years**
Trade receivables, gross	**18’377’991**	**8’814’145**	**6’365’285**	**1’243’015**	**761’775**	**137’627**	**306’444**
Expected credit loss	**-31’313**	**-775’411**	**-22’526**	**-21’152**	**-350’633**	**-74’656**	**-306’444**

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

§ 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

§ Accounting policies
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

(CHF)	**2019**	2018
Goods for sale	**19'825'424**	15'652'539
Sets	**19'850'128**	17'511'343
Raw materials	**1'054'104**	499'311
Semi-finished products	**3'621'810**	2'322'551
Packaging	**37'458**	38'951
Work in progress	**2'599'937**	1'835'544
Goods in transit	**170'987**	92'150
Total[1]	**47'159'848**	37'952'389

[1] Including write-downs

(CHF)	**2019**	2018
write-down Goods for sale	**-473'752**	-702'964
write-down Sets	**-3'532'107**	-2'672'506
write down Raw materials	**-185'343**	-183'066
Total write-downs	**-4'191'202**	-3'558'537

§ Accounting policies
Inventories are calculated at the lower of initial cost and net realisable 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 2018	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
Additions	3'132'636	600'437	634'488	525'915	4'305'154	5'703'171	69'508	14'971'309
Disposals	-31'591	-25'104	-145'846	-98'741	-294'369	-36'851	-	-632'502
Transfer to ROA due to IFRS 16 adoption	-11'056'274							-11'056'274
Currency translation effects and other	80'596	67'250	115'088	26'458	739'450	4'158	-8'884	1'024'115
At 31 December 2019	**22'553'266**	**4'191'965**	**4'872'708**	**1'803'198**	**33'795'832**	**29'539'679**	**547'817**	**97'304'465**
Depreciation and impairment losses								
At 1 January 2018	-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
Depreciation charge	-995'840	-201'134	-559'969	-383'954	-3'557'660	-1'223'905	-47'296	-6'969'758
Depreciation on disposals	30'385	25'084	130'274	93'457	56'786	35'476	-	371'461
Transfer to ROA due to IFRS 16 adoption	5'001'731							5'001'731
Currency translation effects and other	-44'832	-21'071	-130'367	-36'602	-518'203	21'755	6'093	-723'227
At 31 December 2019	**-14'792'987**	**-2'831'151**	**-3'394'361**	**-1'065'171**	**-24'350'903**	**-11'486'175**	**-354'408**	**-58'275'156**
Net book value - 1 January 2018	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
Net book value - 31 December 2019	**7'760'279**	**1'360'814**	**1'478'347**	**738'027**	**9'444'929**	**18'053'504**	**193'409**	**39'029'309**

2018: Property, plant and equipment includes machinery held on finance leases with a carrying amount of CHF 6.1 million

§ 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.

7.5 Leases

(CHF)

Right-of-use assets (ROA)	Office property	Machinery	Vehicles	Total
1 January 2019	**26'145'311**	**6'054'543**	**518'407**	**32'718'262**
Additions	175'741	-	572'045	**747'787**
Depreciation expense	-3'263'238	-1'322'398	-378'837	**-4'964'473**
Currency translation effects	147'051	-	2'251	**149'302**
31 December 2019	**23'204'866**	**4'732'145**	**713'867**	**28'650'878**

The amounts recognised in the Consolidated Income Statement are as follows:

Profit or loss	2019
Depreciation ROA	-4'964'473
Interest expense lease liabilities	-838'488
Expense: short-term leases	-490'855
Expense: low-value assets	-
Variable lease payments	-94'411

§ New accounting policies for lessees as of 1 January 2019

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term (3-8 years). Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption (i.e., those leases that have a lease term of twelve months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below CHF 5'000). Lease payments on short term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

§ *Leases until 31 December 2018*

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.

7.6 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 2018	3'633'224	487'311	4'444'512	5'812'226	215'388	14'592'661
Additions	-	1'675'469	-	449'570	4'246	2'129'286
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
Additions	-	2'505'719	-	1'947'362	-	4'453'081
Retirement and disposals	-	-	-	-	-45'817	-45'817
Currency translation effects	-106'121	-	-	-6'550	11'004	-101'667
At 31 December 2019	**3'193'582**	**4'668'499**	**4'444'512**	**8'182'538**	**181'381**	**20'670'512**

Amortisation and impairment						
At 1 January 2018	-	-	-2'632'606	-3'591'242	-	-6'223'848
Amortization charge	-	-	-236'336	-707'619	-	-943'955
Currency translation effects	-	-	-	4'295	-	4'295
At 31 December 2018	-	-	-2'868'941	-4'294'566	-	-7'163'507
Amortization charge	-	-	-236'336	-818'209	-	-1'054'545
Currency translation effects	-	-	-	-3'252	-	-3'252
At 31 December 2019	**-**	**-**	**-3'105'277**	**-5'116'027**	**-**	**-8'221'304**
Net book value						
At 1 January 2018	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
At 31 December 2019	**3'193'582**	**4'668'499**	**1'339'235**	**3'066'511**	**181'381**	**12'449'208**

The goodwill of CHF 3.2 million (2018: CHF 3.3 million) originated from the acquisition of Extera in August 2017 and was allocated at the date of acquisition to the group of CGUs which corresponds the segment Medartis Group. The Group performed the first annual impairment test in December 2019.

The recoverable amount of Medartis Group has been determined based on a value in use calculation using cash flow projections from financial budgets covering a five-year period. The pre-tax discount rate applied to cash flow projections is 8.2% and cash flows beyond the five-year period are extrapolated using a 4.0% growth rate. The growth rate does not exceed the long-term average growth rate for the medical technology sector. The gross profit margin applied was 84%.

Based on the impairment tests conducted, no impairments were recognized during the periods under review.

§ 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 2019 R&D projects amounting to CHF 2.5 million were capitalized (2018: 1.7 million).

7.7 Accounts payable trade and other

The contractual maturities of accounts payable trade and accounts payable other at 31 December 2019 and 2018 are as follows:

(CHF)	2019	2018
Accounts payable trade	**10'735'393**	6'631'406
Salary and social security	**591'869**	935'472
Deferred compensation	**942'062**	664'993
Unused vacation	**2'292'505**	1'997'860
Bonus payments	**3'039'142**	3'221'258
Sales commission	**556'856**	487'516
VAT and other non-income taxes	**1'510'774**	1'472'358
Other	**752'491**	571'513
Accounts payable other	**9'685'700**	9'350'971
Income tax payables	**643'968**	580'546
Accrued expenses	**1'983'534**	1'624'537

Payables for sales commission and to related parties qualify as financial instruments. This amounts to CHF 0.6 million (2018: CHF 0.5 million).

§ Accounting policies
Accounts payable trade result from sourcing of goods or services from suppliers and other vendors. They do not 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.

7.8 Current financial debt and other financial liabilities

Current financial debt at 31 December 2019 and 2018 is as follows:

(CHF)	2019	2018
Bank	-	3'087
Lease liabilities, current	**3'924'159**	1'720'182
Total current financial debt	**3'924'159**	1'723'269

§ 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.

7.9 Provisions

Provisions at 31 December 2019 and 2018 are as follows:

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

The new category "Legal provisions" includes the provision related to the investigation in Brazil. For further details please refer to Note 10.2

	Dismantling provision	Jubilee Provision	Legal provisions	Other	Total
1 Jan 2019	**1'000'000**	**1'096'364**	**-**	**411'366**	**2'507'730**
Additions charged during the year		224'758	3'000'000	463'435	3'688'193
Unused amounts released	-	-	-	-	-
Amounts used	-	-	-	-741'635	-741'635
Currency translation adjustments	-	-	-	-998	-998
31 Dec 2019	**1'000'000**	**1'321'122**	**3'000'000**	**132'168**	**5'453'290**
Current	-	-	3'000'000	132'168	3'132'168
Non-current	1'000'000	1'321'122	-	-	2'321'122

	Dismantling provision	Jubilee Provision	Legal provisions	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

§ 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.

7.10 Share capital

The share capital is represented by 11’750’529 registered shares (2018: 11’741’007) of CHF 0.20 (2018: 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 2019 Medartis Holding AG increased its share capital by issuing 9’522 new shares to 11’750’529 registered shares from its conditional share capital.

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 as of 31 December 2018 amounts to CHF 2.3 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).

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 2019 the conditional share capital amounts to CHF 206’750 (2018: 208’654) and the authorised capital amounts to CHF 600’000 (2018: 600’000).

In 2019 Medartis paid out no dividends to shareholders. There are no dividend payments planned for 2020.

7.11 Net interest-bearing debt

		Maturity		
(CHF)	**2019**	**till 1 year**	**1-5 years**	**over 5 years**
Loans and borrowings, current	**-**	-		
Lease liabilities, current	**3’924’159**	3’924’159		
Net interest-bearing debt, current	**3’924’159**	**3’924’159**		
Lease liabilities, non-current	**22’472’903**		15’192’358	7’280’545
Loans and borrowings, non-current	**31’137**		31’137	
Financial debt and other non-current liabilities	**22’504’040**		**15’223’495**	**7’280’545**
Total net interest-bearing debt	**26’428’199**			

		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	
Loans and borrowings, non-current	**-**			
Financial debt and other non-current liabilities	**1’654’647**		**1’654’647**	
Total net interest-bearing debt	**3’377’915**			

Reconciliation of liabilities arising from financing activities

(CHF)	
1 January 2019	**3'377'915**
IFRS 16 adoption	26'802'365
Increase in lease debts	747'787
Repayment of lease debts	-4'711'278
Repayment of financial debts	-3'087
Changes in fair values and other changes	214'497
31 December 2019	**26'428'199**

(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**

Loans and borrowings qualify as financial instruments.

On 23 March 2018 the convertible loan in the amount of CHF 59.0 million was converted into 1'456'731 shares. Please refer to Note 7.10

§ 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 derecognised 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.

7.12 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 2019, the net pension liability amounts to CHF -17.9 million (2018: CHF -13.3 million)

(CHF)	**2019**	2018
Fair value of plan assets	**37'765'870**	32'498'520
Present value of defined benefit obligation	**-55'678'313**	-45'824'039
Total net book value of employee benefits	**-17'912'443**	-13'325'519

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 Lebensversicherung-gesellschaft 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.

Helvetia Group Foundation will reduce the conversion rate for the mandatory part of the BVG to 6.0% until 2023 whereas for the non-mandatory part it will be reduced to 4.4% until 2023. This plan amendment leads to a negative past service cost of CHF 3.4 million in 2019. In August 2018 the Swiss pension plan for executive members has been amended leading to a negative past service cost of CHF 0.4 million.

Cost of defined benefit plans

(CHF)	**2019**	2018
Service costs		
Current service cost (employer)	**3'201'468**	2'653'936
Past service cost	**-3'353'872**	-418'300
Total service cost	**-152'404**	2'235'636
Administration cost (excl. cost for managing plan assets)	**22'912**	21'859
Net interest on employee benefits	**85'786**	98'695
Total pension expenses recorded in income statement	**-43'706**	2'356'190

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

Remeasurements of employee benefits

(CHF)	2019	2018
Actuarial gains/losses		
Changes in financial assumptions	**3'966'269**	-1'290'234
Changes in demographic assumptions	**-**	-609'504
Experience adjustments	**2'250'694**	1'346'041
Return on plan assets excl. interest income	**-82'616**	35'947
Total remeasurements recorded in other comprehensive income	**6'134'347**	-517'750

The changes of the financial assumptions relate to the decrease in the discount rate of 0.35% (2018: 0.90%) and in the interest rate on retirement savings capital of 0.35% (2018: 0.90%)

The changes of the demographic assumptions in 2018 relate to the amendment of the used probability of disability to 85% of the probability according to BVG 2015.

Change in fair value of plan assets

(CHF)	2019	2018
Fair value of plan assets at 1.1.	**32'498'520**	29'660'068
Interest income on plan assets	**219'030**	216'922
Contributions by the employer	**1'503'717**	2'570'479
Contributions by plan participants	**1'450'197**	1'285'240
Benefits (paid) / deposited	**2'011'790**	-1'198'242
Return on plan assets excl. interest income	**82'616**	-35'947
Fair value of plan assets at 31.12.	**37'765'870**	32'498'520

Change in present value of defined benefit

(CHF)	2019	2018
Defined benefit obligation at 1.1.	**45'824'039**	43'717'626
Interest expense on defined benefit obligation	**304'816**	315'617
Current service cost (employer)	**3'201'468**	2'653'936
Contributions by plan participants	**1'450'197**	1'285'240
Benefits (paid) / deposited	**2'011'790**	-1'198'242
Past service cost	**-3'353'872**	-418'300
Administration cost (excl. cost for managing plan assets)	**22'912**	21'859
Actuarial (gain) / loss on defined benefit obligation	**6'216'963**	-553'697
Defined benefit obligation at 31.12.	**55'678'313**	45'824'039

Asset allocation of investments as at 31 December

in %	2019	2018
Others	**37'765'870**	32'498'520
Total	**37'765'870**	32'498'520

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 2019 in Switzerland was CHF 0.3 million (2018: CHF 0.2 million)

Plan Participants

	Active 2019	Active 2018
Number	**293**	267
Present value of defined obligation in CHF	**55'678'313**	45'824'039
Share in %	**100%**	100%
Weighted average duration in years	**19.7**	19.3

There are no retired plan participants for the years 2019 and 2018.

For the reporting year 2020 employer contributions of CHF 3.1 million are expected. Moreover 2019 employer contributions of CHF 1.4 million are due to be paid.

Significant actuarial assumptions:

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

In %	**2019**	2018
Discount rate	**0.35%**	0.90%
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 31.12.2019	**Increase**	**Decrease**
Discount rate (0.25%)	-2'606'841	2'833'433
Salary increase (0.25%)	616'212	-600'849

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

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 2019 there exists a provision in the amount of CHF 1.3 million (2018: CHF 1.1 million) 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 1.1 million. (2018: CHF 0.7 million)

Medartis Employee share purchase plan 2018
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 in 2018. The related expenses in the prior year amounted to CHF 1.1 million.

§ 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 31 December,	**2019**	2018
Dr. h.c. Thomas Straumann	**47.87%**	47.92%
NexMed Holding AG	**7.84%**	7.84%
Willi Miesch	**6.03%**	6.00%
Endeavour Medtech Growth LP	**4.99%**	4.99%
Pictet Asset Management SA	**3.00%**	-
Schroder & Co Bank AG	**-**	4.60%
Landolt & Cie SA	**-**	3.37%

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

(CHF)	**2019**	2018
Sales of goods to:		
Institut Straumann AG	**179'449**	210'591
Services rendered to:		
centerVision AG	**29'554**	27'579
Services received from:		
IBRA, International Bone Research Association	**-3'374'001**	-1'898'719
Total related party transactions	**-3'164'998**	-1'660'550

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

(CHF)	**2019**	2018
Institut Straumann AG	**8'400**	4'857
centerVision AG	**668'430**	623'752
IBRA, International Bone Research Association	**-426'223**	9'711
Liability to sellers of Extera	**-**	-664'993
Total open balances	**250'607**	-26'673

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

(CHF)	**2019**	2018
Fees, salaries and other short-term benefits	**4'677'174**	3'994'034
Share-based payment transactions	**944'444**	1'001'226
Total	**5'621'618**	4'995'260

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 2019, the Group had commitments of CHF 2.5 million (2018: CHF 6.8 million) including CHF 0.7 million (2018: CHF 5.9 million) relating to construction work at the office and production site in Basel, Switzerland as well as CHF 1.8 million (2018: CHF 0.8 million) 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, 2019, the Group's contingencies amounted to CHF 0 (2018: CHF 0). There are no 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.

As disclosed in the last Annual Report, the authorities in Brazil launched investigations – in the context of intensified anti-corruption efforts in the healthcare sector – into companies including Extera, the former Medartis distributor acquired in 2017 and its former owners due to possible tender price agreements in 2012. Medartis is withholding CHF 0.9 million of outstanding payments for the acquisition of Extera to be potentially offset against the costs arising from this matter and is evaluating to seek further indemnification from the former owners of Extera. Medartis is cooperating with the authorities. Based on its most recent contacts with the relevant authorities in Brazil responsible for the investigations, Medartis has reassessed the probability and currently anticipates potential claims, legal costs and other related expenses of CHF 3.0 million. Accordingly, a corresponding provision has been created (please refer to Note 7.9). No payments or fines are due at this time.

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:

	2019 per CHF	2018 per CHF
Euro (EUR)	**0.91960**	0.88854
US Dollar (USD)	**1.02997**	1.01692
Australian Dollar (AUD)	**1.47269**	1.44611

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:

	2019 per CHF	2018 per CHF
Euro (EUR)	**0.89791**	0.86587
US Dollar (USD)	**1.00573**	1.02564
Australian Dollar (AUD)	**1.44751**	1.36573

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To the General Meeting of
Medartis Holding AG, Basel

Basle, 27 February 2020

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 2019 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 55 to 95) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, 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	Of the inventories of CHF 47.2 million, CHF 19 million relate to consignment sets kept at customers' premises. Out of CHF 9.5 million sets in property plant and equipment, CHF 8.2 million relate to sets 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.

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.

Legal provisions

Risk	The provision for legal cases of CHF 3 million entirely relates to potential claims, legal costs and other related expenses related to the currently ongoing investigation by the authorities in Brazil launched in the context of intensified anti-corruption efforts in the healthcare sector into companies including Extera, the former Medartis distributor acquired in 2017 and its former owners due to possible tender price agreements in 2012. This provision is described in Note 10.2 Legal claim contingency of the financial statements. The estimation of these legal costs is based on a preliminary assessment of the internal counselor and the external lawyers about the potential cash outflows relating to the pending proceedings based on the most recent contacts with the relevant authorities in Brazil responsible for the investigations, We considered the accounting of legal provisions to be a key audit matter as the evaluation of those provisions requires significant estimates and judgments of the management.
Our audit response	We obtained an understanding of the legal estimation process and evaluated the estimations made. Our focus included evaluating the appropriateness of the basis for the assumptions developed and used in the determination of the legal provision, comparing management's assessment with external lawyer's confirmations and validated management's assessment also with an internal lawyer. Our audit procedures did not lead to any reservations concerning the provisions made.

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.

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 2019	31 Dec 2018
Cash and cash equivalents		**43'584'271**	95'554'234
Trade receivables	2	**10'814'283**	3'137'148
Other receivables	3	**73'735**	7'638
Total current assets		**54'472'289**	98'699'019
Financial assets	4	**171'826'698**	121'847'748
Shareholdings	5	**1'000'000**	1'000'000
Total non-current assets		**172'826'698**	122'847'748
Total assets		**227'298'987**	221'546'767

Balance sheet

in CHF

Equity and liabilities	**Notes**	**31 Dec 2019**	31 Dec 2018
Trade payables	6	**143'738**	73'694
Other current liabilities	7	**232'189**	165'813
Deferred income and accrued expenses		**50'195**	50'326
Current provisions	8	**117'000**	116'000
Total current liabilities		**543'121**	405'833
Share capital		**2'350'106**	2'348'201
Capital contribution reserves		**253'225'043**	253'225'043
Retained earnings			
Loss carryforward		**-34'432'310**	-33'243'417
Net income for the year		**5'613'027**	-1'188'893
Total equity		**226'755'866**	221'140'934
Total equity and liabilities		**227'298'987**	221'546'767

Income statement

in CHF

	Notes	31 Dec 2019	31 Dec 2018
Net income from licenses		**5'808'466**	1'119'000
Gross margin		**5'808'466**	1'119'000
Other operating expenses	9	**-1'045'095**	-3'160'679
Earnings before interest and tax (EBIT)		**4'763'371**	-2'041'679
Financial cost	10	**-245'590**	-442'738
Financial income	10	**1'476'729**	1'295'036
Operating result before taxes		**5'994'510**	-1'189'381
Direct taxes		**-381'484**	488
Net result for the year		**5'613'027**	-1'188'893

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 2019	31 Dec 2018
Subsidiaries	10'814'283	3'137'148
Total trade receivables	**10'814'283**	3'137'148

3. Other receivables

	31 Dec 2019	31 Dec 2018
Tax	73'735	7'638
Total other receivables	**73'735**	7'638

4. Financial assets

	31 Dec 2019	31 Dec 2018
Subsidiaries	171'826'698	121'847'748
Total financial assets	**171'826'698**	121'847'748

5. Shareholdings

Direct shareholdings

Medartis AG, Switzerland (Basel)		31 Dec 2019	31 Dec 2018
Share capital	CHF	1'000'000	1'000'000
Participation quota		100%	100%

Indirect shareholdings

Medartis GmbH, Germany (Umkirch)		31 Dec 2019	31 Dec 2018
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 2019	31 Dec 2018
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 2019	31 Dec 2018
Share capital	EUR	15'000	15'000
Participation quota		100%	100%

Medartis LTD, UK (Derby)		31 Dec 2019	31 Dec 2018
Share capital	GBP	3'700'000	3'700'000
Participation quota		100%	100%

Medartis INC, USA (Delaware)		31 Dec 2019	31 Dec 2018
Share capital	USD	10	10
Participation quota		100%	100%

Medartis S A de C V, Mexico (Mexico)		31 Dec 2019	31 Dec 2018
Share capital	MXN	100'000	100'000
Participation quota		100%	100%

Medartis Sp zoo, Poland (Wroclaw)		31 Dec 2019	31 Dec 2018
Share capital	PLN	200'000	200'000
Participation quota		99%	99%

Medartis Australia & New Zealand Pty LTD, Australia (Albion)		31 Dec 2019	31 Dec 2018
Share capital	AUD	1'203'000	1'203'000
Participation quota		100%	100%

Medartis New Zealand LTD, New Zealand (Auckland)		31 Dec 2019	31 Dec 2018
Share capital	NZD	1'000	1'000
Participation quota		100%	100%

Medartis SL, Spain (Alcobendas Madrid)		31 Dec 2019	31 Dec 2018
Share capital	EUR	50'000	50'000
Participation quota		100%	100%

Medartis do Brasil Participacoes Ltda, Brasil (Sao Paulo)		31 Dec 2019	31 Dec 2018
Share capital	BRL	**25'157'562**	25'157'562
Participation quota		**100%**	100%

Extera Importação e Exportação Ltda, Brasil (Sao Paulo)		31 Dec 2019	31 Dec 2018
Share capital	BRL	**18'000'000**	18'000'000
Participation quota		**100%**	100%

Medartis Co Ltd, Japan (Tokyo)		31 Dec 2019	31 Dec 2018
Share capital	JPY	**10'000'000**	10'000'000
Participation quota		**100%**	100%

Mimedis AG, Switzerland (Basel)		31 Dec 2019	31 Dec 2018
Share capital	CHF	**100'000**	100'000
Paid-in	CHF	**50'000**	50'000
Participation quota		**100%**	100%

Medartis International Trade (Shanghai) Co., Ltd., China		31 Dec 2019	31 Dec 2018
Share capital	CNY	**10'500'000**	-
Participation quota		**100%**	0%

6. Trade payables

	31 Dec 2019	31 Dec 2018
Third parties	**143'738**	73'694
Total trade payables	**143'738**	73'694

7. Other current liabilities

	31 Dec 2019	31 Dec 2018
Third parties	**223'626**	162'043
Subsidiaries	**8'562**	3'770
Total other current liabilities	**232'189**	165'813

8. Provisions

Current provisions	31 Dec 2019	31 Dec 2018
Other provisions	**117'000**	3'000
Tax provision	**-**	113'000
Total current provisions	**117'000**	116'000

9. Other operating expenses

	31 Dec 2019	31 Dec 2018
Insurance expense	-	-58'800
Administrative expense	-554'929	-2'871'766
Expense for patents, trademarks and licences	-490'166	-230'114
Total other operating expenses	**-1'045'095**	-3'160'679

10. Financial cost and financial income

Financial cost	31 Dec 2019	31 Dec 2018
Interest cost	-245'590	-442'738
Total financial cost	**-245'590**	-442'738

Financial income	31 Dec 2018	31 Dec 2017
Interest income	1'476'729	1'295'036
Total financial income	**1'476'729**	1'295'036

11. Number of employees

Medartis Holding AG has no employees.

12. Fees of the auditors

	31 Dec 2019	31 Dec 2018
Fees for audit services (Medartis Group)	219'000	235'000
Fees for other services	115'000	139'698
Total fees of the auditors	**334'000**	374'698

13. 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

14. Events after the balance sheet date

After the balance sheet date and until the approval of the financial statements on 27 February 2020 by the Board of Directors no material events, which would affect the financial statemtents 2019 have occured.

15. Major shareholders

Shareholders who own more than 5% of voting rights:

	31 Dec 2019	31 Dec 2018
Dr. h.c. Thomas Straumann (Chairman of the Board)	**47.87%**	47.92%
NexMed Holding AG *	**7.84%**	7.84%
Willi Miesch (CEO until August 2019)	**6.03%**	6.00%

*NexMed Holding AG is beneficially owned by Dominik Ellenrieder.

16. 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 2019**	31 Dec 2018
Dr. h.c. Thomas Straumann 1)	**5’625’930**	5’625’930
Dominik Ellenrieder 2)	**921’035**	921’035
Willi Miesch	**708’574**	704’020
Dr. Jürg Greuter	**2’604**	2’604
Dr. Med. Daniel B. Herren	**2’213**	2’213
Roland Hess	**9’114**	9’114
Damien Tappy 3)	**25’274**	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 2019**	31 Dec 2018
Christoph Brönnimann	**1’500**	-
Dominique Leutwyler 1)	**14’728**	12’658
Axel Maltzen	**2’801**	1’302
Thomas Tribelhorn	**3’774**	3’125
Anthony Durieux-Menage	**-**	-

1) Including 54 Shares held by a related party.

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To the General Meeting of
Medartis Holding AG, Basel

Basle, 27 February 2020

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 101 to 108), for the year ended 31 December 2019.

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 2019 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

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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 172.8 million or 76% 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 recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

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