

medartis®

PRECISION IN FIXATION



2019 | Annual Report

Founded in 1997 and headquartered in Basel, Switzerland, Medartis is one of the world's leading manufacturers and providers of medical devices for surgical fixation of bone fractures for upper and lower extremities as well as for the craniomaxillofacial region. Medartis employs over 600 individuals across its 13 locations, with products offered in over 50 countries globally. Medartis is committed to providing surgeons and operating theater personnel with the most innovative titanium implants and instruments as well as best in class service.

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Medartis at a glance

A painless return of the patient to everyday life without physical restrictions is the driving force behind Medartis' activities.

Patient

Nobody wants to be a patient. But accidents with fractures happen, as do bone malpositions. The aim of fracture treatment with implants is to restore optimal anatomical conditions. The use of implants also allows early and safe mobilization and rehabilitation of the injured body part and the patient as a whole.

Market potential and growth drivers

Medartis' three markets – upper and lower extremities and the craniomaxillofacial (CMF) area – amount to around CHF 10bn and are the fastest growing segments of the orthopedic market. The main growth driver is the ageing of the more active population. Older people tend to have more fragile bones and are more prone to injuries. An active life and the practice of sports further increase the risk of injury. Another factor is that obesity and diabetes, which often affect bone quality and require more complex fracture treatment, are on the rise. These market growth drivers lead to unmet clinical needs that are solved by innovation.

Revenue flow

Medartis focuses exclusively on implants for the upper and lower extremities and head segments.

For customers with a sufficient case load, Medartis consigns sets with implants and instruments for defined medical indications free of charge. Other customers order loan sets for specific surgeries. The majority of Medartis' revenues are generated through the use of implants in surgery.

Swiss DNA

Medartis' DNA is Swiss and the company stands for price-competitive Swiss quality. Its headquarters, research and development, and manufacturing facilities are all located under one roof in Basel. This results in efficient information and decision making pathways. All key products are manufactured in-house in Basel, where modern facilities and the use of robotics enable highly-automated manufacturing processes up to 24 hours a day, 7 days a week.

Users

The surgeon is responsible for the patient's outcome of the bone fixation treatment. Medartis therefore supports with high-quality implant systems for existing surgical possibilities, offering new clinical solutions and provide best-in-class services to surgeons, operating room personnel und purchasing departments.

Technological advantages

Leading innovations have characterized Medartis since its founding. A team of industry-experienced osteosynthesis innovators developed a new generation of technologies for bone fixation comprising the TriLock® technology, which is used to lock screw heads and provides the smallest-size multidirectional locking system on the market; the HexaDrive® technology, which ensures that screws remain fixed to the screw driver; and the SpeedTip® technology, which features self-drilling screws that make pre-drilling unnecessary.

Only fast and agile companies such as Medartis will have the ability to develop in networks to create the demanded innovation.

International

Medartis has an intense collaboration with high-level surgeons worldwide and has continuously expanded its network in over 50 countries from Europe, North and South America to the Middle East and Africa through to Asia and Australia. Medartis has 13 own locations – in addition to its headquarters in Basel, subsidiaries in Germany, Austria, France, England, Poland, the US, Australia, New Zealand, Mexico, Brazil, Japan and China.

Proven Track Record

Medartis has a number 1 or 2 position for hand and wrist solutions in Switzerland, Germany, Austria, France and Australia. In the highly competitive German market, Medartis' market share is 35% for the hand, 32% for the wrist and 25% for CMF (head). There is a huge potential for worldwide expansion of this success story. In 2020 Medartis will complete the portfolio with a new CMF-generation, a new midfoot and hindfoot correction system and a new distal tibia and fibula fracture system.

Key financial figures

Sales in CHFm

130.1

7% growth in CHF

10% growth in local currencies

EBITDA in CHFm

20.3

16% EBITDA margin

15% adj. EBITDA margin⁽⁴⁾Good sales growth
above the market10% sales growth
in local currenciesAdj. EBIT at
5%⁽⁴⁾ of sales48 new jobs added over
12 months

| CHFm | 2018 (reported) | 2018 (adjusted) | 2019 (reported) | 2019 (adjusted) | change (adjusted) |
|--------------------------|-----------------|----------------------|-----------------|----------------------|-------------------|
| Sales | 121.3 | 121.3 | 130.1 | 130.1 | 7% |
| Gross profit | 101.0 | 101.2 ⁽¹⁾ | 111.3 | 110.6 ⁽²⁾ | 9% |
| Opex | 95.0 | 91.9 ⁽¹⁾ | 103.9 | 103.6 ⁽³⁾ | 13% |
| Operating profit (EBIT) | 6.1 | 9.3 ⁽¹⁾ | 7.4 | 7.0 ⁽⁴⁾ | -25% |
| EBIT margin | 5% | 8% | 6% | 5% | -3PP |
| EBITDA | 14.4 | 17.6 ⁽¹⁾ | 20.3 | 20.0 ⁽⁴⁾ | 14% |
| EBITDA margin | 12% | 15% | 16% | 15% | 0PP |
| Headcount ⁽⁵⁾ | 561 | 561 | 609 | 609 | 9% |

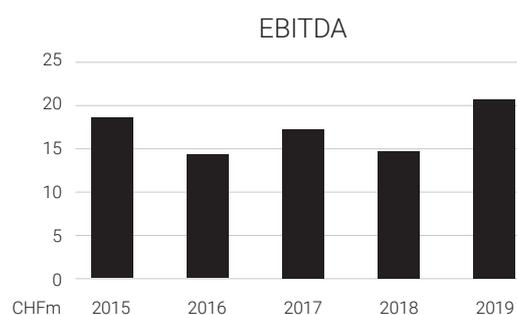
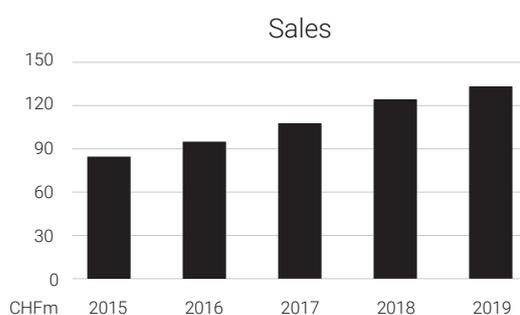
¹⁾ Excl. capital market-related costs (IPO) of CHF 3.2 million.

²⁾ Excl. positive effect from pension fund plan amendment of CHF 0.7 million.

³⁾ Excl. a provision for possible price and commission agreements in Brazil of CHF 3.0 million and excl. positive effect from pension fund plan amendment of CHF 2.7 million.

⁴⁾ Excl. a provision for possible price and commission agreements in Brazil of CHF 3.0 million and excl. positive effect from pension fund plan amendment of CHF 3.4 million.

⁵⁾ Year-end figure as per 31.12.2019





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

Dr. Christoph Brönnimann
Chief Executive Officer

Dear Shareholders

2019 was a year characterized by change for the medical technology market. Due to the increasingly complex fracture patterns in our aging and ever more active society and the greater specialization of surgeons, industry demand for innovation will continue to rise in the future. At the same time, we are seeing a trend towards more region-specific treatment concepts.

The regulatory framework in the medical industry is also continuously evolving, especially in Europe. Last year, we made considerable preparations for the implementation of the new EU Medical Device Regulation (MDR). This binding regulation will come into force in May 2020 and provides for stricter requirements for the certification of products in Europe.

The operational management of Medartis also underwent a change. After over 20 years as CEO, Willi Miesch decided to hand over his operational responsibilities, and the Board of Directors appointed Christoph Brönnimann as the new CEO of Medartis effective 1 September 2019. Together with his team, Willi Miesch consistently implemented our strategy of focusing on innovative product solutions based on highly specialized technologies and firmly established Medartis as an innovation leader in the market. As a member of the Board of Directors and Chair of the newly created Strategy and Innovation Committee, Willi Miesch will continue to contribute his core competencies to the benefit of Medartis. With Christoph Brönnimann, a proven expert in medical technology has joined Medartis; he has enjoyed a successful international management career and brings extensive experience in the further development of growing organizations to his role as CEO.

In the 2019 financial year, Medartis reported good growth of 10% in local currencies in an overall challenging market environment. With this result, we once again exceeded market growth. EBITDA increased to CHF 20.3 million and the adjusted EBITDA margin was 15%, in line with our forecast. Net profit was CHF 2.1 million, compared with CHF 4.2 million in the previous year. These results show that Medartis is well positioned in a growing market. Since our IPO in March 2018, we have not yet, however, been able to harness the market potential to the extent we had expected.

Focusing our expertise on innovative treatment solutions for the upper and lower extremities and head segments remains the key to our success. We must now increase our sales efficiency and speed in innovation, which we believe will give rise to significant market opportunities. To achieve the envisioned annual sales growth of over 15% in local currencies with a gradual increase of the EBITDA margin in the medium term, we have defined a program based on which we aim to further strengthen the Company's sales focus, market orientation particularly in the US, and our innovative strength, both internally as well as with partners and through acquisitions. This underscores our ambition to establish Medartis as a leading full service provider in the extremities segment.

For the current year, Medartis expects that due to the implementation of the program and in light of the mild winter with a low number of cases, sales growth will remain unchanged at 10% in local currencies with an adjusted EBITDA margin of 15%. This year, we will introduce five different innovative product systems to our upper and lower extremities as well as craniomaxillofacial (CMF) offering, thus taking a further step in rounding out the portfolio. In June 2020, we also plan to introduce to the market an expansion of the cannulated compression screws after a development time of only five months – this is one of the first results of the acceleration of internal development processes that have been initiated.

We thank all of our employees for the commitment they demonstrate every day. This commitment enables us to be the partner of choice for surgeons in treatment solutions for the well-being of their patients. At Medartis, we do our utmost to create sustainable value for our stakeholders and for you as shareholders.

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

Basel, February 2019



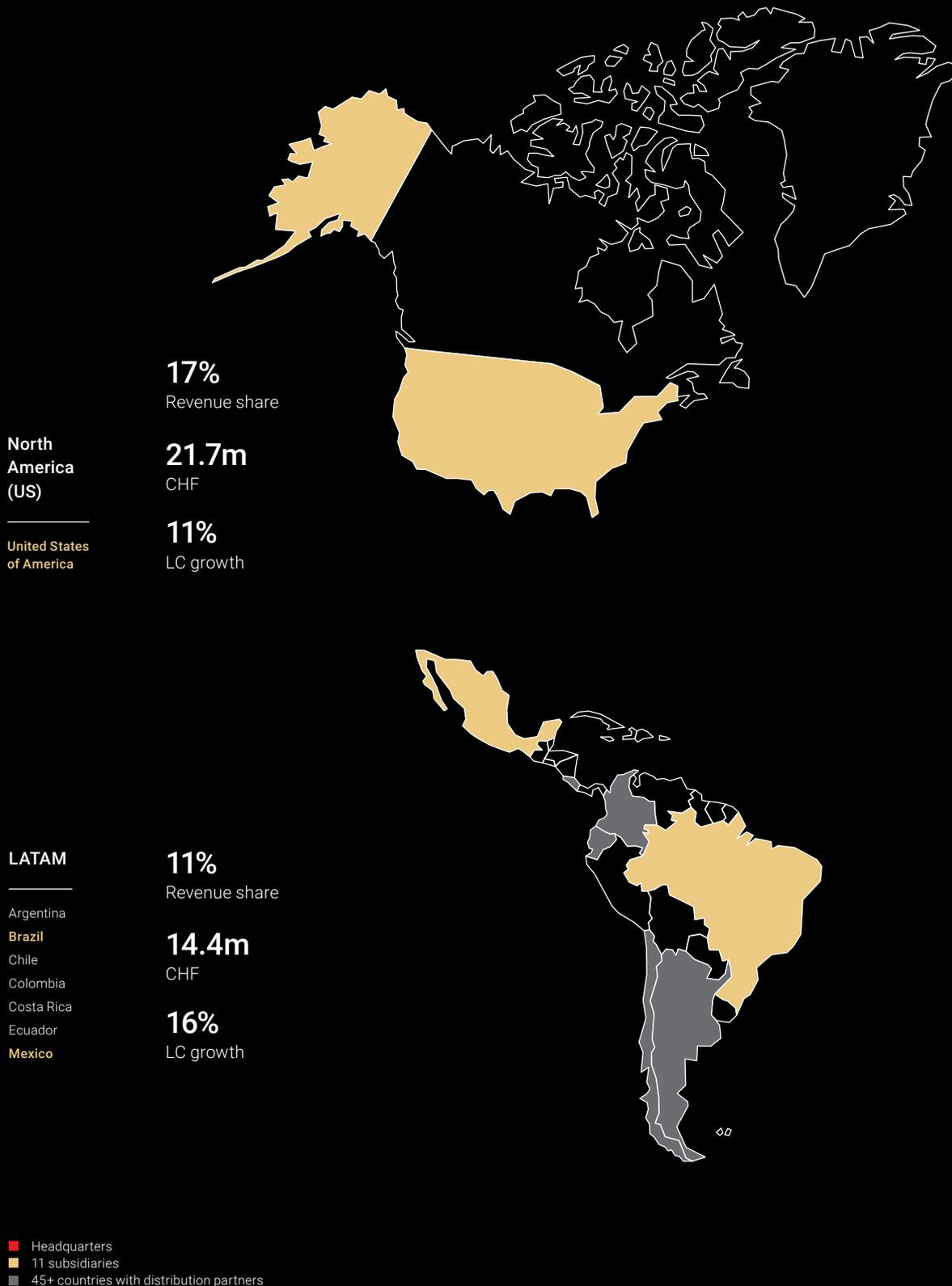
Dr. h.c. Thomas Straumann
Chairman of the Board of Directors



Dr. Christoph Brönnimann
Chief Executive Officer

Worldwide presence

Globally diversified business





EMEA

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

54%
Revenue share

70.3m
CHF

9%
LC growth



APAC

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

18%
Revenue share

23.7m
CHF

9%
LC growth

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



MODUS® Cranium
Burr hole cover plates 0.9 / 1.2

Business review

In the 2019 financial year, Medartis reported sales of CHF 130.1 million. This corresponds to solid year-on-year growth of 10% in local currencies, compared with 8% in the first half of 2019, and is within the upper range of the forecasted 8-10% growth rate. On a CHF basis, sales in 2019 rose by 7%, which in particular reflects the exchange rate developments against the euro, the Brazilian real and the Australian dollar.

Medartis' subsidiaries in the core European, Australian and US markets continued to develop significantly above market levels, while development in the distributor markets was mixed. In terms of products, hand and wrist, which are the strongest sales lines, continued their previous growth path. The Lower Extremities segment experienced dynamic but less-than-expected growth.

In line with the company's growth strategy, adjusted operating expenses rose by 13% in the 2019 financial year. Important areas of investment included preparations for the entry into force of the EU Medical Device Regulation (MDR), enhanced training initiatives with Medartis' scientific partner International Bone Research Association (IBRA), build-up investments in Japan and China, the expansion of the supply chain as well as the recruitment of additional employees. Headcount increased from 561 at the end of 2018 to 609 at year-end 2019.

Profitability at the EBITDA level increased from CHF 14.4 million in the previous year to CHF 20.3 million in the 2019 financial year, including an effect of CHF 3.6 million resulting from the first-time application of the IFRS 16 accounting standard.

Adjusted for the CHF 3.0 million provision for possible price and commission agreements at former distributor Extera in Brazil announced in December 2019, as well as a positive effect of CHF 3.4 million arising from pension fund plan amendment, EBITDA for 2019 was CHF 20.0 million. This compares with an EBITDA adjusted for CHF 3.2 million in IPO costs of CHF 17.6 million in 2018. The reported EBITDA margin was 16% versus 12% in 2018. The adjusted EBITDA margin remained unchanged at 15% compared to 2018.

EBIT in 2019 was CHF 7.4 million versus CHF 6.1 million one year ago, and net profit was CHF 2.1 million compared to CHF 4.2 million in 2018. Cash flow from operating activities was CHF 8.1 million compared to CHF 6.5 million in 2018.

Development by regions

| | EMEA | APAC | LATAM | North America | Total |
|---------------------|------|------|-------|---------------|--------------|
| Sales, CHFm | | | | | |
| 2019 | 70.3 | 23.7 | 14.4 | 21.7 | 130.1 |
| 2018 | 66.4 | 22.8 | 12.9 | 19.3 | 121.3 |
| Growth, % | | | | | |
| in CHF | 6% | 4% | 12% | 12% | 7% |
| in local currencies | 9% | 9% | 16% | 11% | 10% |

Medartis' biggest region, EMEA, recorded sales of CHF 70.3 million in 2019, which corresponds to growth of 9% in local currencies compared with 2018. The subsidiaries in the UK, France and Poland reported dynamic growth above expectations, while the other subsidiaries developed solidly. The important distributor markets Italy and Spain remained below expectations, which is in part attributable to more cautious investment behavior in light of the new MDR, but reported improved trends in the second half of the year. The Netherlands, a leading European market for sterile products, achieved dynamic growth supported by investments made by the distributor. Medartis is well prepared for the MDR when it comes into force at the beginning of May 2020.

In North America, sales experienced strong growth of 11% in local currency, increasing to CHF 21.7 million. This is mainly attributable to the hand, wrist and elbow segments. An innovative wrist plate developed specifically for the US market was introduced in the fourth quarter of 2019, meeting with very good customer feedback. Thanks to various initiatives currently underway to further build up the US business, the subsidiary continued to see significantly above-market growth, but has not yet achieved the envisioned growth momentum.

Sales in APAC increased 9% in local currencies to CHF 23.7 million. The subsidiary in Australia, Medartis' strongest sales market in the region, recorded solid growth with a strong increase in case numbers despite a nation-wide reduction to all reimbursements in the health care system of 7%. The new subsidiary in Japan, which began operations in the Lower Extremities segment at the end of 2018, significantly increased sales in the second half of the year and developed according to plan. The distributor business in Japan in Upper Extremities did not meet expectations despite an improved second half of the year. In contrast, the two larger distributors in South Korea and Thailand grew dynamically. As expected, the new subsidiary in China obtained product authorization in 2019 and will begin to develop the market in 2020.

In LATAM, Medartis reported sales of CHF 14.4 million, which corresponds to growth of 16% in local currencies. In a persistently challenging market environment, the subsidiary in Brazil achieved dynamic growth exceeding that of the previous year (on an organic basis). In contrast, the subsidiary in Mexico was below expectations. In terms of distributor markets, Chile also grew dynamically, and Columbia further expanded its sales as a result of a strong rise in hand and wrist cases.

Development of business segments

| | Upper Extremities | Lower Extremities | CMF and Others | Total |
|---------------------|-------------------|-------------------|----------------|--------------|
| Sales, CHFm | | | | |
| 2019 | 92.6 | 18.3 | 19.2 | 130.1 |
| 2018 | 87.2 | 16.4 | 17.8 | 121.3 |
| Growth, % | | | | |
| in CHF | 6% | 12% | 8% | 7% |
| in local currencies | 9% | 16% | 10% | 10% |

Upper Extremities, Medartis' largest business segment, recorded a sales increase of 9% to CHF 92.6 million in local currencies in the 2019 financial year. Medartis gained further market share in many core markets with an established market position in the hand and wrist segment. The segments wrist, which is the strongest sales segment, and elbow saw continued strong growth in local currencies, while the hand segment reported solid growth. Sales growth in the shoulder segment almost doubled, at a low level, compared with 2018. In mid-2020, Medartis will complement the existing plates and screws portfolio with the introduction of a forearm fracture system and an innovative clavicle system to the market.

Lower Extremities, Medartis' youngest business segment, recorded sales of CHF 18.3 million in 2019, which corresponds to growth in local currencies of 16% and was below expectations. With a view to further rounding out the plates and screws portfolio, and as a foundation for more dynamic growth, additional innovative systems for corrections in the mid- and hindfoot and for fractures of the lower tibia and fibula are planned to be introduced to the market in mid-2020.

The CMF and Others segment, which comprises solutions for the craniomaxillofacial region as well as instruments and containers, recorded sales growth in local currencies of 10% to CHF 19.2 million in the 2019 financial year. Medartis experienced above-market growth in the CMF segment. The introduction of a new generation of the CMF product line is planned for April 2020.

Outlook

Since its founding in 1997, Medartis has stood for innovative strength and technological leadership. Building on these strengths, the sales focus, market orientation, especially in the US, and the speed in innovation are to be strengthened in line with the existing growth strategy.

- Sales focus: Targeted focus on regional market requirements by anchoring the EMEA, North America and LATAM/APAC regions at the executive management level
- US business: Building and expanding the US business as a top priority through recruitment of a new leadership team, expansion of sales (direct and via distributors) and build-up of US-focused product development capabilities
- Innovative strength: Accelerated expansion of innovation pipeline by shortening development times as well as through partnerships and M&A.
 - Rollout of expanded range of cannulated compression screws scheduled for June 2020 after shortened development time of five months; a total of six innovations are to be brought to the market in 2020
 - Two projects for complementary technologies and indications being implemented with partners
 - M&A longlist with over 200 potential targets, five due-diligence reviews conducted

The organizational changes necessary to implement this program have been initiated and will be completed within the current year. Over the medium term, Medartis wants to achieve annual sales growth of over 15% in local currencies with a gradual increase in the EBITDA margin.

For 2020, as the program is being implemented and in light of the mild winter with lower case numbers, Medartis expects unchanged sales growth of 10% in local currencies with an adjusted EBITDA margin of 15% (barring unforeseen circumstances).

APTUS® Foot
TMT-1 Medial Fusion Plates



2019 | Corporate Governance Report

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Corporate Governance Report

Medartis corporate governance principles and rules are laid down in the [Articles of Association](#), the Rules for [Organizational Regulations](#), the Corporate Compliance System including the Code of Conduct, and the Charters of the Board Committees. Further, Medartis takes into account the recommendations of the Swiss Code of Best Practice for Corporate Governance, as in force at 31 December 2019.

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

1. Group structure and shareholders

1.1 Group structure

- 1.1.1 Medartis Holding AG incorporated as a stock corporation under the laws of Switzerland and headquartered in Basel, Switzerland. Medartis' principal executive offices are at Hochbergerstrasse 60E, 4057 Basel, Switzerland.
- 1.1.2 Medartis Holding AG, Basel, is listed on the SIX Swiss Exchange, Zurich, Switzerland (valor number: 38'620'023, ISIN: CH0386200239, SIX: MED). The market capitalization as per 31 December 2019 was CHF 513.5 million. No other Company controlled by Medartis Holding AG is listed on a stock exchange.
- 1.1.3 On 31 December 2019, Medartis Holding AG directly or indirectly held 100% of the capital and voting rights in all unlisted consolidated Group companies disclosed in Note 1. Corporate and Group information of the Financial Report section in this Annual Report.

1.2 Significant shareholders

The table below shows shareholder and shareholder groups owning / representing more than 3% of the voting rights of Medartis as published on the reporting and publication platform of the Disclosure Office of SIX Swiss Exchange as of 31 December 2019.

| Direct holder | Shares | % of voting rights |
|---|-----------|--------------------|
| Dr. h.c. Thomas Straumann, Riehen, Switzerland | 5'624'430 | 47.90% |
| NexMed Holding AG, Freienbach, Switzerland ⁽¹⁾ | 921'035 | 7.84% |
| Willi Miesch, Küssnacht (SZ), Switzerland | 704'020 | 5.99% |
| Endeavour Medtech Growth LP, Guernsey, Channel Islands ⁽²⁾ | 586'395 | 4.99% |
| Pictet Asset Management SA | 352'240 | 3.00% |

⁽¹⁾ NexMed Holding AG is beneficially owned by Dominik Ellenrieder, Chandolin, Switzerland.

⁽²⁾ Endeavour Medtech GP Limited, Guernsey, Channel Islands, as general partner of Endeavour Medtech Growth LP, is exercising all the voting rights related to the shares. Further, no limited partner of Endeavour Medtech Growth LP indirectly beneficially owns the shares held by Endeavour Medtech Growth LP which represent 3% or more of the voting rights.

Information on disclosure notifications during the year under review concerning the significant shareholders may be found on the [SIX Exchange Regulation website](#).

1.3 Cross-shareholdings

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

2. Capital structure

2.1 Capital

The ordinary share capital as of 31 December 2019 has a nominal value of CHF 2'350'105.80, consisting of 11'750'529 fully paid-in registered shares with a nominal value of CHF 0.20 each.

The authorized share capital as of 31 December 2019 has a nominal value of CHF 600'000.00, consisting of 3'000'000 shares with a nominal value of CHF 0.20 each.

The conditional share capital for bonds and similar debt instruments as of 31 December 2019 has a nominal value of CHF 88'653.80, consisting of 443'269 shares with a nominal value of CHF 0.20 each.

The conditional share capital for employee benefit plans as of 31 December 2019 has a nominal value of CHF 118'095.60, consisting of 590'478 shares with a nominal value of CHF 0.20 each.

2.2 Authorised and conditional capital

Authorised capital

At the Annual General Meeting of 19 February 2018, the Company's shareholders resolved to create authorized capital in the maximum amount of CHF 600'000.00, corresponding to 3'000'000 shares with a nominal value of CHF 0.20 each, or up to 25.5% of the capital issued and outstanding as of December 31, 2019.

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

Conditional capital for bonds and similar debt instruments

At the Annual General Meeting of 19 February 2018, the Company's shareholders resolved to create conditional share capital to be used for convertible bonds or similar debt instruments. The share capital may be increased by up to CHF 88'653.80 by the issuance of up to 443'269 shares with a nominal value of CHF 0.20 each, or up to 3.8% of the capital issued and outstanding as of 31 December, 2019.

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

Conditional capital for employee benefit plans

At the Annual General Meeting of 19 February 2018, the Company's shareholders resolved to create conditional share capital to be used for employee benefit plans. The share capital may be increased by up to CHF 118'095.60 by the issuance of up to 590'478 shares with a nominal value of CHF 0.20 each or up to 5.0% of the existing capital issued and outstanding as of 31 December, 2019. Further information can be found in articles 3c and 5 of the [Articles of Association](#).

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

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

2.3 Changes in capital

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

| Date of share issuance registration | New nominal share capital in Swiss Francs | Number of shares issued |
|-------------------------------------|---|---|
| 19 December 2017 | 1'457'897 | 7'289'485 shares at CHF 0.20 each ⁽¹⁾ |
| 22 March 2018 | 2'348'201 | 11'741'007 shares at CHF 0.20 each ⁽²⁾ |
| 20 December 2019 | 2'350'106 | 11'750'529 shares at CHF 0.20 each ⁽³⁾ |

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

⁽²⁾ At the Annual General Meeting of 19 February 2018 (AGM), the Company's shareholders resolved to create conditional share capital to be used for the conversion of any outstanding bonds or similar debt instruments upon the contemplated IPO of Medartis and resolved an ordinary capital increase of up to 3'644'742 shares for the planned offering. On 22 March 2018, the Board of Directors decided to issue 2'994'791 offered shares from the ordinary capital increase resolved by the AGM and acknowledged the conversion of outstanding loan amounts into 1'456'731 newly issued shares from conditional capital. As a result, the total number of shares issued increased by a total of 4'451'522 shares upon closing of the initial public offering. The total number of shares issued and outstanding as per 31 December 2018 is 11'741'007 shares, corresponding to a share capital of CHF 2'348'201.40

⁽³⁾ On 20 December 2019, 9'552 registered shares were created from conditional share capital on the basis of Article 3c of the Articles of Association by exercising options from the Long Term Incentive Programme (LTI) of Executive Management Board members for the 2018 financial year. These 9'552 registered shares have not been registered in the commercial register as per 31 December 2019. Therefore, the share capital registered in the commercial register as per 31 December 2019 has a nominal value of CHF 2'348'201.40, consisting of 11'741'007 fully paid in registered shares with a nominal value of CHF 0.20 each.

2.4 Shares and participation certificates

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

2.5 Dividend-right certificates

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

2.6 Limitations on transferability and nominee registrations

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

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

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

Further information can be found in articles 4, 5 and 6 of the [Articles of Association](#).

2.7 Convertible bonds and options

Medartis followed in 2019 its corporate long term incentive plan with restricted shares (LTI) for Members of the Executive Management Board. In the event of a change of control, the Board of Directors, at its own discretion, is entitled, within the scope of the statutory provisions to make adjustments to the plan.

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

3. Board of Directors



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

3.1 Members of the Board of Directors

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

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

Dr. h.c. Thomas Straumann

Non-executive Member

Chairman of the Board | Board Member since 1998

Other main activities in 2019: Chairman of centerVision AG and CSI Basel Horse Event AG, Vice Chairman of Institut Straumann AG and Straumann Holding AG, Board Member and Owner of the Grand Hotel Les Trois Rois, Basel, Member of Foundation Council of Foundation for Dental Research and Education.

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

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

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

Dominik Ellenrieder

Non-executive Member

Vice Chairman of the Board | Board Member since 2000

Other main activities in 2019: Chairman of Sentec AG, and Chairman of Nexmed Holding AG, Venture Partner at Endeavour Vision SA.

Career highlights: Until 1999 Head of International Sales of Protek AG and later Manager Business Units and Sales Subsidiaries at Stratec Medical (later Stratec-Synthes/Johnson & Johnson), from 2000 to 2002 Chairman of Kuros Therapeutics (later Straumann), from 2001 to 2014 Board Member and Head of Technical Committee at Straumann Holding AG, from 2003 to 2015 Vice Chairman of Kuros Biosciences AG, since 2007 Venture Partner at Endeavour Vision SA, from 2015 to 2017 Chairman of Symetis AG (later Boston Scientific) and since 2000 Vice Chairman of Medartis Group.

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

Key attributes for the board: He complements the Board with expert know-how in new technologies, product development and sales of medical devices and long-standing experience in building, developing and managing medical technology companies as an Executive, a Non-Executive Board Member, a Venture Partner and an Investor.

Willi Miesch

Executive Member

Member of the Board | Board Member since 2010

Other main activities in 2019: Board Member of the International Bone Research Association (IBRA), Board Member of Osiris Therapeutics Inc. until April 2019, Member of the Investment Advisory Committee of MTIP.

Career highlights: CEO (Chief Executive Officer) at Medartis from 1998 until August 2019. Prior to that several long-term managerial positions in various production departments at Institut Straumann AG and Head of Manufacturing at Stratec Medical in Mezzovico, Ticino, Switzerland. Moreover, he was a member of the Executive Management Board at Villiger, a bicycle manufacturer, being responsible for all technical matters.

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

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

Dr. Jürg Greuter

Non-executive Member

Member of the Board | Board Member since 1997

Other main activities in 2019: Board Member of Stratus Services AG, CSI Basel Horse Event AG, Grand Hotel Les Trois Rois, Basel and centerVision AG.

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

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

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

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

Member of the Board | Board Member since 2017

Other main activities in 2019: None.

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

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

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

Roland Hess
Non-executive Member

Member of the Board | Board Member since 2017

Other main activities in 2019: None

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

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

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

Damien Tappy
Non-executive Member

Member of the Board | Board Member since 2018

Other main activities in 2019: Co-founder, President and Managing Partner of Endeavour Vision and Member of the Young President Organization (YPO).

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

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

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

3.2 Other activities and vested interests

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

3.3 Permitted other activities pursuant to OaEC

The number of external offices is stipulated as follows with binding effect in the [Articles of Association](#):

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

Not subject to the above restrictions are:

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

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

All members of the Board of Directors are within the limits of external mandates stipulated by the [Articles of Association](#).

3.4 Elections and terms of office

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

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

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

At the Annual General Meeting 2020, all members of the Board of Directors stand for re-election.

3.5 Internal organizational structure

The organization of the Board of Directors and its committees is set forth in the [Organizational Regulations](#), available on [Medartis website](#). The following paragraphs summarise the main elements of the [Organizational Regulations](#).

3.5.1 Composition of the Board of Directors, allocation of tasks within the Board of Directors and Corporate Social Responsibility

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

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

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

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

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

Information regarding conflicts of interest can be found in articles 7 and 35 of the [Organizational Regulations](#).

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

- [a comprehensive code of conduct](#)
- policies about how to interact with medical professionals, institutions and regulatory authorities
- policies about how to interact with external suppliers and advisors
- policies on ethical and other standards in the Company's research and development
- An integrated compliance system and internal controls whose functionalities are regularly reviewed by the Finance and Audit Committee

In 2019, the key topics of the Board of Directors included, amongst other, strategic business development projects, board committee work and reports and the corporate organizational structure. The Board of Directors met 9 times for an average meeting length of approx. 3 1/3 hours. One member was excused in one meeting due to another business obligation.

3.5.2 Members list, tasks and area of responsibility for each committee of the Board of Directors

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

The committees of the Board of Directors consist of a chairperson and of at least one (1) other member. Committee members are designated by the Board of Directors from within the latter's own members. Remuneration Committee members however, are elected by the Annual General Meeting of the shareholders (see article 8.2.c and 27 of the [Articles of Association](#)). In general, members of committees are elected for a period of up to one (1) year until the end of the next Ordinary General Meeting of the shareholders following their designation.

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

Finance and Audit Committee

The competences of the Finance and Audit Committee are set out in articles 24 and 25 of the [Organizational Regulations](#).

The Finance and Audit Committee is composed of at least two non-executive and independent members of the Board of Directors, as per article 20 para. 1 and article 24 para. 1 of the [Organizational Regulations](#). The Board of Directors issues a [Finance and Audit Committee Charter](#) which governs the organization of the Finance and Audit Committee.

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

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

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

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

In 2019, the key topics of the Finance and Audit Committee included, amongst others, internal and external financial reporting, external audit, matters of controlling, compliance and risk management. The Finance and Audit Committee met 5 times for an average meeting length of approximately 4 ½ hours. One member was excused for one meeting. The chairperson of the Finance and Audit Committee reports at every Board meeting on the Finance and Audit Committee activities and findings.

Remuneration Committee

The duties and responsibilities of the Remuneration Committee are set out in article 27 of the [Articles of Association](#) and in article 26 and 27 of the [Organizational Regulations](#).

The Remuneration Committee is composed of at least three non-executive and independent members of the Board, as per article 27 of the [Articles of Association](#) and article 26 para. 1 of the [Organizational Regulations](#). The Board of Directors issues a [Remuneration Committee Charter](#) which governs the organisation of the Remuneration Committee.

The key tasks of the Remuneration Committee are:

- Presenting motions to the Board of Directors in view of the next Ordinary General Meeting of shareholders with respect to the aggregate amount of remuneration of the Board of Directors and of the Executive Management Board of the Company;
- Assisting the Board of Directors in the preparation of the remuneration report, to be adopted by the Board of Directors and then disclosed to the shareholders of the Company in view of the next Ordinary General Meeting;
- Implementing the resolutions passed by the General Meeting of shareholders with respect to the aggregate amount of remuneration of the members of the Board of Directors and the members of the Executive Management Board;
- Assisting the Board of Directors in setting the conditions for the actual remuneration of the members of the Board and of the Executive Management Board in accordance with article 25 of the [Articles of Association](#), as well as advising the Board in the review and approval of general compensation and benefit policies, including any long-term incentive plans.
- Preparing and assessing the principles of remuneration of the Company and presenting corresponding motions to the Board of Directors in this respect for approval;
- Advising the Board of Directors in the setting-up, monitoring and regularly reviewing of the remuneration policy and guidelines at the highest level of the Company;
- Submitting recommendations or presenting motions to the Board of Directors on other remuneration-related matters.

In 2019, the key topics of the Remuneration Committee included, amongst others, the structure of the short and long term incentive plans as well as the setup and content of the Remuneration Report. The Remuneration Committee met three times for an average meeting length of 2 hours with all members present. The chairperson of the Remuneration Committee reports at every Board meeting on the Remuneration Committee activities and findings.

Strategy and Innovation Committee

The Board of Directors has introduced a Strategy and Innovation Committee in 2019 to support the Board in its strategic function, in particular with respect to innovation, technology, corporate and business development.

The duties and responsibilities of the Strategy and Innovation Committee are set out in article 28 and 29 of the [Organizational Regulations](#).

The Strategy and Innovation Committee is composed of at least two non-executive members of the Board, as per article 20 para. 1 and article 28 para. 1 of the [Organizational Regulations](#). The Board of Directors issues a [Strategy and Innovation Committee Charter](#) which governs the organisation of the Strategy and Innovation Committee.

The key tasks of the Strategy and Innovation Committee are:

- Assess the Company's annual plan and long-term strategy and provide guidance to the management to ensure the development, implementation, adherence and, if necessary, modification of the strategic plan and strategic goals;
- Review strategic risks and opportunities, including those resulting from the business environment in terms of competition, regulation, patients, surgeons, payors and providers;
- Review the Company's technology capabilities, including the ability to develop, acquire and maintain innovative technology through internal development, acquisitions, licensing, collaborations, alliances and other appropriate means;
- Identify and assess the market environment, specifically for technology innovations and trends, that could significantly affect the Company and the industry in which it operates;
- Review and advise on the Company's internal and external innovation expenditure plans, including the technical relevance of proposed activities;
- Assist the Board in overseeing the Company's investments in internal and external innovation, technology and developments, including acquisitions, licenses, collaborations and other business development activities;
- Identify, review and assess M&A and licensing opportunities in terms of their strategic fit, including sales structure and/or product portfolio.

In 2019, the key topics of the Strategy and Innovation Committee included mainly, the identification, review and assessment of M&A opportunities that fit strategy. The Strategy and Innovation Committee met four times for an average meeting length of around 1 hour. One member was excused for one meeting. The chairperson of the Strategy and Innovation Committee reports at every Board meeting on the Strategy and Innovation Committee activities and findings.

3.5.3 Working methods of the Board of Directors and its committees

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

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

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

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

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

The Chief Executive Officer is usually invited to attend the meetings of the Board of Directors in an advisory capacity. However, the Board of Directors regularly holds meetings or parts of their meetings without the participation of the Chief Executive Officer. Due to the dual role as member of the Board of Directors and CEO until his resignation as CEO in August 2019, Willi Miesch was invited to attend all the meetings of the Board of Directors with voting rights in his function as Board member.

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

3.6 Definition of areas of responsibility

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

Unless set out otherwise in mandatory statutory provisions, the [Articles of Association](#) and the [Organizational Regulations](#), the Board of Directors delegates the management of the Company to the Chief Executive Officer.

The responsibilities and tasks and nature of cooperation between the Board of Directors and the Executive Management Board are stipulated in the [Organizational Regulations](#), which are available on the [Medartis website](#).

Key responsibilities and tasks of the Board of Directors are:

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

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

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

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

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

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

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

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

3.8 Risk management in the Group

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

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

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

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

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

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

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

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

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

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

4. Executive Management Board



Axel Maltzen, Thomas Tribelhorn, Dr. Christoph Brönnimann, Dominique Leutwyler and Anthony Durieux-Menage (from left to right).

4.1 Members of the Executive Management Board

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

| Name | Born | Nationality | Position | Year of Appointment |
|--------------------------|------|-------------|-------------------------------|---------------------|
| Dr. Christoph Brönnimann | 1966 | Swiss | Chief Executive Officer | 2019 |
| Dominique Leutwyler | 1970 | Swiss | Chief Financial Officer | 2001 |
| Axel Maltzen | 1969 | German | Chief Production Officer | 2014 |
| Anthony Durieux-Menage | 1974 | France | Chief Human Resources Officer | 2019 |
| Thomas Tribelhorn | 1970 | Swiss | Chief Technology Officer | 2004 – 2008; 2012 |

There were three changes within the Executive Management Board during the year under review. Anthony Durieux-Menage was appointed as Chief Human Resources Officer as of 1 June 2019. Willi Miesch left the Executive Management Board and handed over his operational responsibilities to Christoph Brönnimann on 1 September 2019 after more than 20 years as CEO. Oliver Marx, Chief Sales Officer has decided to leave the Company as of 1 October 2019. Christoph Brönnimann, has taken over interim responsibility for the sales organization.

Dr. Christoph Brönnimann**Chief Executive Officer / Chief Sales Officer a.i.**

Career highlights: CEO (Chief Executive Officer) at Medartis AG since September 2019. Previously, he held various leadership roles in larger organizational units since 2005 at Synthes, e.g. responsible for the global integration of Stratec and Mathys, for global quality management, for international logistics and General Manager of Synthes Switzerland. At Johnson & Johnson, following its acquisition of Synthes, he headed the J&J ONE Medical Device unit for Germany, Switzerland and Austria. Prior to this, he was working at PwC in M&A consulting and corporate finance and began his career at Roche, where he worked in marketing and product management in the US from 1996 to 2000.

Qualifications: He holds a PhD in chemistry from ETH Zurich and completed a General Management Program at the Harvard Business School.

Dominique Leutwyler**Chief Financial Officer and Deputy CEO**

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

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

Axel Maltzen**Chief Production Officer**

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

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

Anthony Durieux-Menage**Chief Human Resources Officer**

Career highlights: CHRO (Chief Human Resources Officer) at Medartis AG since June 2019. Prior he was Group HR Director at Swiss pharma Company Acino and held management roles in HR and Operational Excellence at Novartis. Previously, he was production engineer at Ajinomoto in France and started his career at Lesaffre as a biochemistry engineer.

Qualifications: He holds a Master's degree in Biochemistry from the National Institute of Applied Sciences in Toulouse (France).

Thomas Tribelhorn**Chief Technology Officer**

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

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

4.2 Other activities and vested interests

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

4.3 Permitted other activities pursuant to OaEC

The number of external offices is stipulated as follows with binding effect in the [Articles of Association](#):

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

Not subject to the above restrictions are:

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

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

All members of the Executive Management Board are within the limits of external mandates stipulated by the [Articles of Association](#).

4.4 Management contracts

There are no management or service contracts with third parties.

5. Compensation, shareholdings and loans

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

6. Shareholders' participation rights

6.1 Voting rights restrictions and representation

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

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

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

6.2 Quorums required by the Articles of Association

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

The [Articles of Association](#) do not contain quorums deviating from statutory Swiss law.

6.3 Convocation of the Annual General Meeting of shareholders

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

6.4 Inclusion of items on the agenda

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

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

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

6.5 Entries in the share register

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

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

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

7. Changes of control and defense measures

7.1 Duty to make an offer

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

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

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

7.2 Clauses on changes of control

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

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

8. Auditors

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

Ernst & Young AG have been appointed as Group and statutory auditors of the Company at the 2019 General Meeting, having been the auditors since the year ending 2004. The auditor in charge is new in its function since 2018. The shareholders re-elect the auditors on an annual basis at the General Meeting.

8.2 Auditing fees

The total auditing fees charged by the audit firm in the year 2019 for the audit of the financial statement were TCHF 219 (2018: TCHF 235).

8.3 Additional (non-audit related) fees

The total fees charged in the year under review by the audit firm for additional services performed for Medartis were TCHF 115 (2018: TCHF 140). The additional fees for 2019 were mainly related to IFRS consulting. The additional fees for 2018 were mainly related to the IPO.

8.4 Information instruments pertaining to the external audit

The Finance and Audit Committee oversees the activities of the auditors and assesses the performance, remuneration and independence of the external auditor annually. The Board of Directors proposes the election of the external auditor to the Annual General Meeting based on the recommendation of the Finance and Audit Committee. The Finance and Audit Committee assesses the scope of the audit by the external auditor and the relevant procedures annually and discusses the audit findings with the external auditor. During the reporting year, four (4) meetings were held with the representatives of the external auditor. For additional information see section 3.5.2 of this Annual report.

9. Information policy

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

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

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

Medartis Holding AG
Investor and Media Relations
Hochbergerstrasse 60E
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2019 | Remuneration Report

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Remuneration report

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

1. Basic remuneration principles

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

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

2. Remuneration governance and processes

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

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

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

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

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

The Remuneration Committee recommends, and the Board of Directors determines, on an annual basis, the amount of the remuneration of the individual members of the Board of Directors, including its Chairman, subject to and within the limits of the maximum total amount approved by the General Meeting. All decisions are subject to Medartis' conflict of interest policy as put forward in the Organizational Regulations (Art. 35).

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

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

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

- Listed companies in the worldwide MedTech industry as well as worldwide players in Health Care with a similar size (in terms of employees and / or revenue), and
- The Mercer Total Remuneration Survey for Executive members of Swiss mid-size companies

The Remuneration Committee may decide to consult external advisors on specific compensation matters. In 2018 and 2019, Seematter & Sterchi Incentive Plans AG (SSIP), a company specialized in incentive plan design and international implementation, has been appointed to advise on the redesign and international roll-out of the share-based compensation elements. The firm does not have any other mandate with Medartis.

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

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

3. Compensation architecture and elements

3.1 Board of Directors

For their non-executive services in the Board, members of the Board of Directors receive a fixed basic compensation, which may be paid in cash and / or in the form of shares, based on the responsibilities and time requirement of their functions within the Board or within the committees of the Board of Directors, without any entitlement to performance-related compensation, and there are no additional fees per meeting or for Board Committee memberships. This ensures that the Board of Directors remains independent while exercising its supervisory duties towards the Executive Management Board. For 2019, fixed board fees were paid in cash only. The amount of fees for each function of the Board of Directors is determined annually, considering the market compensation trends and comparisons with other listed life science companies of similar size which operate internationally. Members of the Board of Directors who also hold Group executive functions receive a separate compensation for such executive function, which is disclosed accordingly below in the section on the Executive Management Board.

There were no relevant changes to the remuneration structure or amounts for the Board of Directors in 2019 apart the one-time IPO program specific for the year 2018.

In 2019, Medartis worked on implementing a "Restricted Share Plan for the Board", under which members of the Board of Directors may voluntarily elect to receive all or part of their fees in the form of restricted Medartis shares instead of cash. This plan has been approved and is effective as of February 27th, 2020. Details will be set out in the remuneration report 2020.

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

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

3.2 Executive Management Board

a. Overview

The remuneration of the Executive Management Board (CEO and other members of group management) consists of a fixed base salary, an annual, performance-based short-term incentive, a long-term incentive plan in the form of restricted share grants, and other benefits (e.g. company car or car allowance, seniority gift).

During the year 2019, three changes to the Executive Management Board have been communicated: the appointment of Christoph Brönnimann as CEO as of September, the one of Anthony Durieux-Menage as CHRO as of June and the departure of Oliver Marx (CSO) in November.

There were no relevant changes to the remuneration structure for the Executive Management Board in 2019 apart the one-time IPO program specific for the year 2018.

Details on each compensation component are set out below.

b. Fixed base salary

The fixed base salary depends on the function, the qualification and the professional experience of the respective individual. In 2019, there were no relevant changes to base salaries of the Executive Management Board members.

c. Annual short-term incentive

Payment of the annual short-term incentive, if any, is made in cash, usually in the first half of the following year. The target amount for the annual short-term incentive (at 100% performance achievement) amounts to 75% for the new appointed CEO (vs. 50% for the previous CEO last year) and 20% - 29% (other members of the Executive Management Board) (previous year: 20%-27%), respectively, of the individual's annual gross base salary. This target value is determined individually for each member of the Executive Management Board and is reviewed in a benchmarking process once per year, considering peer companies and benchmarks as for the fixed base salary (see above).

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

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

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

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

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

d. Long-term incentive

Medartis implemented a new "Long-Term Incentive Plan for Executive Management Board". The amount of this long-term compensation is determined individually for each participant, generally at the discretion of the Board of Directors. It is reviewed once a year and may be subject to fluctuations.

According to the plan, the Board of Directors at its sole discretion may determine the grant amount for members of the Executive Management Board, which will be converted into a number of granted Restricted Shares (RS), subject to a 2-year restriction period for Swiss-Residents or a number of Restricted Stock Units (RSUs), subject to a 1-year vesting and a 1-year blocking period for non-Swiss residents.

Allocation of RS (for Swiss-Residents) or RSUs (for non-Swiss Residents) granted for any calendar year will take place within two business days after the Annual General Meeting of the following calendar year. At the end of the restriction period (2 years for both plans), participants have the right to freely dispose of the shares.

The number of RS allocated for Swiss-Residents is calculated as follows:

The grant amount will be converted into a number of RS, by dividing such amount by a share value that equals 75% of the volume-weighted average price of a share over a period of 20 trading days ending with the last trading day before the Annual General Meeting that triggers the allocation:

$$\frac{\text{Grant Amount}}{75\% * (20\text{-day volume-weighted average Share price})} = \text{number of RS allocated}$$

The number of RSUs allocated for non-Swiss-Residents is calculated as follows:

The grant amount will be converted into a number of RSUs, by dividing such amount by a share value that equals 75% of the volume-weighted average price of a share over a period of 20 trading days ending with the last trading day before the Annual General Meeting that triggers the allocation:

$$\frac{\text{Grant Amount}}{75\% * (20\text{-day volume-weighted average Share price})} = \text{number of RSUs allocated}$$

The LTI grant amounts for 2019 will be allocated to Executive Management Board members following the Annual General Meeting. The LTI compensation amount disclosed in the audited tables in section 4 show the allocated LTI grant amount for 2019, including step-up deriving from the use of the 25% discounted share price for the conversion.

As of 2021, Medartis plans to implement another compensation element:

- "Bonus Restricted Shares Plan": Members of the Executive Management Board and key employees from the Headquarter will have the possibility to receive all or part of their short-term incentive payout in the form of RS (for Swiss residents) or RSUs (for non-Swiss-residents) instead of cash. The implementation is planned for the 2020 short-term incentive payout in 2021.

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

e. Other elements and comments

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

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

Each Executive Management Board member is entitled to the following fringe benefits: a company car (or car allowance) and seniority gifts. No severance payments or notice periods of more than six months have been agreed with members of the Executive Management Board.

A buy-out award has been granted to Christoph Brönnimann (new CEO since September 2019) in the total amount of 382'697.50 CHF. Pay-out will be done according to the following 3-years (36 months) mechanism:

- 1st allocation of restricted shares: 50% or 18/36 of the total agreed amount (i.e. of 191'348.75 CHF will be done 18 months after the start date in February 2021)
- The rest will be allocated quarterly in installments of 3/36 of the total amount (i.e. 31'891.45 CHF always in the form of restricted shares (last allocation will be executed in August 2022))
- The maximum number of restricted shares allocated is calculated on the basis of the average weighted stock market price of the first five working days, i.e. from the 2nd to the 6th September 2019
- The restricted shares will be allocated only if the employment relationship between employer and employee is not terminated
- The allocated restricted shares have a blocking period of 3 years

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

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

4. Actual remuneration for the reported year

This section contains:

- the actual compensation paid to the Board of Directors for 2019;
- the actual compensation paid to the Executive Management Board for 2019;
- other compensation-related information under the OaEC;
- a general pay-for-performance review;
- comments on the alignment between paid and pre-approved amounts; and
- information on shareholdings of members of the Board of Directors and of the Executive Management Board.

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

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

a) Remuneration of the Board of Directors (audited)

The below table shows the compensation paid to members of the Board of Directors for 2019. All individuals were members of the Board of Directors during this entire period. Values in italics represent data for the year 2018.

| | Fixed board fee (cash) | Social security contributions | IPO Shares (only in 2018) | Total |
|--|--|--|----------------------------------|--|
| Thomas Straumann Chairman of the Board | 529'000 CHF <i>446'578 CHF</i> | 136'112 CHF <i>135'413 CHF</i> | n/a <i>0 CHF</i> | 665'112 CHF <i>581'991 CHF</i> |
| Dominik Ellenrieder Vice-chairman of the Board Chairman of the Remuneration Committee Member of the Finance & Audit Committee Member of the Strategy and Innovation Committee | 275'000 CHF <i>215'030 CHF</i> | 0 CHF <i>0 CHF</i> | n/a <i>0 CHF</i> | 275'000 CHF <i>215'030 CHF</i> |
| Roland Hess Member of the Board Chairman of the Audit Committee | 150'000 CHF <i>126'629 CHF</i> | 9'375 CHF <i>10'866 CHF</i> | n/a <i>87'494 CHF</i> | 159'375 CHF <i>224'989 CHF</i> |
| Jürg Greuter Member of the Board Member of the Remuneration Committee | 100'000 CHF <i>84'419 CHF</i> | 0 CHF <i>0 CHF</i> | n/a <i>24'998 CHF</i> | 100'000 CHF <i>109'417 CHF</i> |
| Daniel Herren Member of the Board Member of the Remuneration Committee Member of the Strategy and Innovation Committee | 100'000 CHF <i>84'419 CHF</i> | 8'100 CHF <i>7'485 CHF</i> | n/a <i>21'245 CHF</i> | 108'100 CHF <i>113'149 CHF</i> |
| Willi Miesch Member of the Board Chairman of the Strategy and Innovation Committee | 100'000 CHF <i>84'419 CHF</i> | 7'380 CHF <i>7'553 CHF</i> | n/a <i>0 CHF</i> | 107'380 CHF <i>91'972 CHF</i> |
| Damien Tappy Member of the Board Member of the Finance & Audit Committee | 100'000 CHF <i>70'721 CHF</i> | 0 CHF <i>0 CHF</i> | n/a <i>124'992 CHF</i> | 100'000 CHF <i>195'713 CHF</i> |
| Total all members | 1'354'000 CHF <i>1'112'215 CHF</i> | 160'967 CHF <i>161'317 CHF</i> | n/a <i>258'729 CHF</i> | 1'514'967 CHF <i>1'532'261 CHF</i> |

Comments:

- "Fixed board fee (cash)": Gross amounts before deduction of employee contributions to social security, occupational pension schemes and other mandatory charges, as far as applicable.
- "Social security contributions": Company contributions to social security and occupational pension schemes, as far as applicable.

b) Remuneration of the Executive Management Board (audited)

The below table shows the compensation paid to the CEOs and other members of the Executive Management Board for 2019. The Executive Management Board consists of the CEO and five additional members. The CEO position has changed in September and one member has joined the Executive Management Board in June.

All other members have been members of the Executive Management Board during the entire period.

For the two withdrawals from the Executive Management Board (Willi Miesch, CEO till August and Oliver Marx till October), the compensation paid during their respective notice period have been included in the table here after (the compensation to be paid during the remainder of their notice period will be included in the remuneration report for 2020). Values in italics represent data for the year 2018.

| | Fixed compensation | Variable compensation in cash | Variable compensation in equity | | Indirect compensation | Total |
|---|--|--|--|---------------------------------|---|--|
| | Fixed base salary | Annual short-term incentive (STI) | Long-term incentive (LTI) | IPO Shares (only in 2018) | Social security contributions and fringe benefits | |
| Willi Miesch CEO | 598'600 CHF <i>600'600 CHF</i> | 94'720 CHF <i>199'200 CHF</i> | 333'333 CHF <i>275'000 CHF</i> | n/a <i>0 CHF</i> | 282'554 CHF <i>190'721 CHF</i> | 1'309'207 CHF <i>1'265'521 CHF</i> |
| Christoph Brönnimann CEO (from September 2019) | 167'666 CHF <i>n/a</i> | 37'000 CHF <i>n/a</i> | 166'667 CHF <i>n/a</i> | n/a <i>n/a</i> | 74'843 CHF <i>n/a</i> | 446'175 CHF <i>n/a</i> |
| Other members of the Executive Management Board (excl. CEOs) | 1'284'292 CHF <i>1'144'000 CHF</i> | 94'967 CHF <i>185'920 CHF</i> | 444'444 CHF <i>387'500 CHF</i> | n/a <i>79'997 CHF</i> | 527'588 CHF <i>402'718 CHF</i> | 2'351'292 CHF <i>2'200'135 CHF</i> |
| Total all members of the Executive Management Board (incl. CEOs) | 2'050'558 CHF <i>1'744'600 CHF</i> | 226'687 CHF <i>385'120 CHF</i> | 944'444 CHF <i>662'500 CHF</i> | n/a <i>79'997 CHF</i> | 884'985 CHF <i>593'439 CHF</i> | 4'106'675 CHF <i>3'465'656 CHF</i> |

Comments:

- "Fixed base salary": Gross amounts before deduction of employee contributions to social security, occupational pension schemes and other mandatory charges, as far as applicable.
- "Annual short-term incentive (STI)": Amounts based on the performance in 2019, payable in 2020. Gross amounts before deduction of employee contributions to social security, occupational pension schemes and other mandatory charges, as far as applicable.
- "Long-term incentive (LTI)": As further explained in section 3.2 d), the disclosed amounts are LTI grant amounts for 2019 (though not converted into restricted shares yet), plus step-up in value deriving from the use of a 25% reduced conversion price. Gross amounts before deductions of employee contributions to social security, occupational pension schemes and other mandatory charges, as far as applicable.
- "Social security contributions and fringe benefits": Company contributions to social security and occupational pension schemes, as far as applicable. This column further includes the value of fringe benefits, consisting of company car private use (or car allowance) and seniority gifts (paid for only one member in 2019).

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

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

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

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

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

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

In 2019, the target achievement levels for the three metrics in the annual short-term incentive for members of the Executive Management Board led to a payout ratio of 30% of the target amount (previous year: 41%).

Consequently and in total, the STI payout to members of the Executive Management Board (excl. CEOs) for 2019 equals CHF 94'967 (previous year CHF 185'920) as stated in the above compensation tables, which represents 7% (previous year: 16%) of the fixed base salary in the same period. For the CEOs (only for Willi Miesch), the STI payout of CHF 94'720 (previous year: CHF 199'200) represents 16% of the base salary (previous year: 33%).

In addition, and as also set out in the above compensation tables, the grant value of restricted shares under the LTI was CHF 444'444 (previous year: 387'500) for the entire Executive Management Board (excl. CEOs), CHF 333'333 for the CEO (Willi Miesch) in 2019 which is 21% higher compared to 2018 (previous year: CHF 275'000). This increase is linked to two factors: an increase of the LTI potential by around 14% and the higher discount on the share prices of the new LTI plan (at 25%) compared to the one from the previous LTI plan (20%).

The aggregate variable compensation (STI and LTI) for 2019 represents 71% (previous year: 79%) of the fixed base salary for the CEO (Willi Miesch). This is the total pay mix for the regular compensation elements.

The aggregate variable compensation (STI and LTI) for 2019 represents 42% (previous year: 50%) of the fixed base salary for the entire Executive Management Board (excl. CEOs). This is the total pay mix for the regular compensation elements.

Total compensation paid for 2019 was higher than for 2018, mainly because of the additional members (Christoph Brönnimann, CEO as of September 2019 and Anthony Durieux-Menage, CHRO as of June 2019). With respect to the other compensation elements, the remuneration architecture did not undergo any relevant changes apart from the new LTI plan which provides for a conversion of the grant amount with a 25% discount on the share price instead of 20% in 2018 and the one-time IPO program specific for the year 2018.

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

At the ordinary annual General Meeting of Medartis Holding AG on 10 May 2019, the shareholders approved, with binding effect and in separate votes, the following maximum aggregate amounts:

| | |
|--|---------------|
| Compensation to the Board of Directors for the period from the General Meeting 2019 to the General Meeting 2020: | CHF 1'600'000 |
| Fixed base salary to the Executive Management Board (incl. CEO) for the business year 2020: | CHF 2'900'000 |
| Variable compensation to the Executive Management Board for the business year 2019: | CHF 2'800'000 |

Board of Directors:

As shown in the above Board remuneration table, the total compensation paid to the Board of Directors for services in the financial year 2019 (subtotal fixed board fee and social security contributions) amounts to CHF 1'514'967 (previous year: CHF 1'273'532) which is within the limits of the pre-approved maximum amounts at the General meetings.

Executive Management Board, fixed base salary 2019:

The total amount approved by the Annual General Meeting in 2018 for the fixed base salary of the Executive Management Board for the period from 1st January 2019 to 31st December 2019 amounts to CHF 2'423'525.

The sum of the total fixed base salary paid to the Executive Management Board (incl. CEOs and new members) for the year 2019 amounts to CHF 2'843'000. The portion of the total amount paid for 2019 without the two new members amounts to 2'423'451 (previous year: CHF 2'203'102) and is within the limits approved by the Annual General Meeting for the same period.

The amount paid for the new CEO and the new Executive Management Board member are compliant with the rules defined in section 1 of the remuneration report.

Executive Management Board, variable compensation for 2019:

Variable compensation includes the annual short-term incentive (STI) and the long-term incentive (LTI). The total aggregate amount of those two elements for 2019, as shown in the above compensation tables, equaled CHF 1'171'131 (previous year: CHF 1'193'915) for the entire Executive Management Board (incl. CEOs). This is within the limits of the maximum amount approved by the General Meeting for the same period (CHF 2'800'000).

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

See attachment to the 2019 financial statements of Medartis Holding AG.



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To the General Meeting of
Medartis Holding AG, Basel

Basle, 27 February 2020

Report of the statutory auditor on the remuneration report

We have audited the remuneration report of Medartis Holding AG for the year ended 31 December 2019. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled “audited” on pages 47 to 50 of the remuneration report.



Board of Directors' responsibility

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



Auditor's responsibility

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

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

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



Opinion

In our opinion, the remuneration report for the year ended 31 December 2019 of Medartis Holding AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

Elisa Alfieri
Licensed audit expert
(Auditor in charge)

André Schaub
Licensed audit expert



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2019 | Financial Report

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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 or 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.

| (CHF) | Carrying amount 31.12.2019 | Total | Cash outflows | | |
|--|-------------------------------|-------------------|-------------------|-------------------|----------------------|
| | | | 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 |

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

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.

| 31 December 2019 | Carrying amount (based on measurement basis) | | | | Total |
|------------------------------------|--|--------------------|--------------------|--------------------|--------------------------|
| | Amortized cost | Fair value level 1 | Fair value level 2 | Fair value level 3 | |
| 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 |

| 31 December 2018 | Carrying amount (based on measurement basis) | | | | Total |
|------------------------------------|--|--------------------|--------------------|--------------------|---------------------------|
| | Amortized cost | Fair value level 1 | Fair value level 2 | Fair value level 3 | |
| 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 |
| Total¹⁾ | 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

| (CHF) | Maturity | | | |
|---|-------------------|------------------|-------------------|------------------|
| | 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 | | | |

| (CHF) | Maturity | | | |
|---|------------------|------------------|------------------|--------------|
| | 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 Lebensversicherungsgesellschaft 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 statements 2019 have occurred.

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



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

Informations for investors

Financial calendar

| | |
|----------------|--|
| 17 April 2020 | Annual General Meeting |
| 18 August 2020 | Publication of 2020 first-half results |
| 09 March 2021 | Publication of 2020 full-year results |

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Disclaimer

Forward-looking statements

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

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