Implantica MediSwiss AG, Vaduz

Report of the Independent Auditor to the Board of Directors on the Consolidated Financial Statements

Consolidated Financial Statements 2019

KPMG (Liechtenstein) AG
Vaduz, 3 June 2020

KPMG (Liechtenstein) AG
Aeulestrasse 2
LI-9490 Vaduz
Telefon +41 58 249 70 40
Telefax +41 58 249 70 50
Internet www.kpmg.li
HR Nr. FL-0001.548.458-1

Report of the Independent Auditor to the Board of Directors on the Consolidated Financial Statements of

Implantica MediSwiss AG, Vaduz

Opinion
We have audited the consolidated financial statements of Implantica MediSwiss AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2019 and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements 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 (IFRSs) as adopted by the European Union (EU), and the additional requirements pursuant to Article 17a of the Ordinance on the Liechtenstein Persons and Companies Act (PGR-VO).

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those 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 Liechtenstein law and the requirements of the Liechtenstein 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.

Responsibility of the Board of Directors for the Consolidated Financial Statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the additional requirements pursuant to Article 17a of the PGR-VO. In addition, the Board of Directors is responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Group’s financial reporting process.

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 ISAs 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG (Liechtenstein) AG

Qualified electronic signature · Swiss law

Lars Klossack
Chartered Accountant

Benjamin Marte
Swiss Certified Accountant

Vaduz, 3 June 2020

Enclosure:

- Consolidated financial statements, which comprise the consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and notes to the consolidated financial statements

Implantica

Consolidated Financial Statements

31 December 2019

Smart Medical Implants

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

in EUR	Notes	2019	2018
Net Sales		27'716	17'867
Cost of sales			
Amortization of intangible assets		-1'227'003	0
Other cost of sales		-3'123	-298
Total cost of sales		**-1'230'126**	**-298**
Gross (loss) / profit		**-1'202'410**	**17'569**
Research and development costs	*5*	-1'536'953	-607'404
General and administrative costs	*5*	-3'194'425	-4'518'013
Other income	*6*	45'709	0
Operating loss		**-5'888'079**	**-5'107'848**
Financial income	*8*	194'272	167'328
Financial expenses	*8*	-622'502	-199'164
Loss before income taxes		**-6'316'309**	**-5'139'684**
Income taxes	*9*	221'803	585'562
Loss for the year attributable to owners of the Company		**-6'094'506**	**-4'554'122**
Earnings per share			
Basic earnings (loss) per share Class A	*10*	-0.34	-0.25
Basic earnings (loss) per share Class B	*10*	-0.07	-0.05
Diluted earnings (loss) per share Class A	*10*	-0.34	-0.25
Diluted earnings (loss) per share Class B	*10*	-0.07	-0.05

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

in EUR	Notes	2019	2018
Loss for the year		**-6'094'506**	**-4'554'122**
Other comprehensive income			
Remeasurement of net defined benefit liability	*21.4*	41'180	73'704
Related income taxes		-4'942	-10'665
Items that will not be reclassified to profit or loss		*36'238*	*63'039*
Translation differences		-33'361	-22'509
Items that may be reclassified subsequently to profit or loss		*-33'361*	*-22'509*
Other comprehensive income for the year, net of tax		***2'877***	***40'529***
Total comprehensive income for the year attributable to owners of the Company		**-6'091'629**	**-4'513'593**

CONSOLIDATED BALANCE SHEET

ASSETS

in EUR	Notes	31. Dec. 2019	31. Dec. 2018
Current assets			
Cash and cash equivalents		35'375	77'725
Accounts receivable		46'554	19'208
Other current receivables	*11*	265'195	281'279
Inventories		257'919	151'998
Total current assets		**605'043**	**530'210**
Non-current assets			
Property, plant and equipment	*12*	100'661	123'325
Right-of-use assets	*13*	127'194	0
Intangible assets	*14*	16'911'127	16'169'235
Deferred tax assets	*9*	1'603'870	1'633'228
Total non-current assets		**18'742'852**	**17'925'787**
Total assets		**19'347'895**	**18'455'998**

LIABILITIES AND EQUITY

in EUR	Notes	31. Dec. 2019	31. Dec. 2018
Current liabilities			
Trade accounts payable	*15*	2'000	136'020
Other current liabilities	*16*	3'330'464	2'884'000
Total current liabilities		**3'332'464**	**3'020'020**
Non-current liabilities			
Other non-current financial liabilities	*17*	2'377'206	195'839
Pension liability	*21*	189'080	147'308
Deferred tax liabilities	*9*	949'361	0
Total non-current liabilities		**3'515'647**	**343'147**
Total liabilities		**6'848'111**	**3'363'167**
Equity			
Share capital	*19*	84'571'200	84'571'200
Capital reserves		201'371'534	198'473'434
Translation differences		-51'193	-17'832
Retained earnings		-273'391'757	-267'933'972
Total equity		**12'499'784**	**15'092'831**
Total liabilities and equity		**19'347'895**	**18'455'998**

CONSOLIDATED STATEMENT OF CASH FLOWS

in EUR	Notes	2019	2018
Loss for the year		**-6'094'506**	**-4'554'122**
Adjustments for			
Depreciation, amortization and impairment	*5, 12-14*	1'424'030	55'945
Financial income	*8*	-194'272	-167'328
Financial expenses	*8*	622'502	199'164
Income taxes	*9*	-221'803	-585'562
Expenses for share-based compensation	*20*	600'483	1'243'419
Income taxes paid		-2'980	-2'280
Other financial result		-9'079	-6'581
Change in pension liabilities		76'362	77'113
Other non-cash items		-130'382	166'943
Changes in net working capital			
(Increase) accounts receivable		-27'346	-19'208
Decrease / (Increase) other current receivables		22'496	-120'235
(Increase) inventories		-105'922	-97'489
(Decrease) / increase trade accounts payables		-134'020	81'511
Increase other current liabilities		151'644	1'567
Net cash outflow from operating activities		**-4'022'793**	**-3'727'144**
Cash flows from investing activities			
Purchase of property, plant and equipment	*12*	-8'363	-35'803
Investment in intangible assets	*14*	-2'022'346	-4'310'435
Interest received		9	17
Net cash outflow from investing activities		**-2'030'701**	**-4'346'222**
Cash flows from financing activities			
Shareholders contribution		0	8'038'646
Payment of lease liabilities		-100'083	0
Interest paid		-178	-2'421
Proceeds from financial debt	*23*	6'111'234	0
Net cash inflow from financing activities		**6'010'973**	**8'036'225**
Net (decrease) change in cash and cash equivalents		**-42'521**	**-37'140**
Effect of exchange rate fluctuations on cash held		171	112
Cash and cash equivalents, beginning of year		77'725	114'753
Cash and cash equivalents, end of year		**35'375**	**77'725**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in EUR	Notes	Share capital	Capital reserves	Translation differences	Retained earnings	Equity
Balance at December 31, 2017		**84'571'200**	**197'464'290**	**4'677**	**-271'715'808**	**10'324'358**
Loss for the year, attributable to owners of the Company		0	0	0	-4'554'122	-4'554'122
Other comprehensive Income (net)		0	0	-22'509	63'039	40'529
Total comprehensive loss (net)		***0***	***0***	***-22'509***	***-4'491'083***	***-4'513'593***
Shareholders contribution	*19.1*	0	1'009'145	0	7'029'501	8'038'646
Share based compensation	*20*	0	0	0	1'243'419	1'243'419
Total transactions with shareholders		***0***	***1'009'145***	***0***	***8'272'920***	***9'282'065***
Balance at December 31, 2018		**84'571'200**	**198'473'434**	**-17'832**	**-267'933'972**	**15'092'830**
Loss for the year, attributable to owners of the Company		0	0	0	-6'094'506	-6'094'506
Other comprehensive loss (net)		0	0	-33'361	36'238	2'877
Total comprehensive loss (net)		***0***	***0***	***-33'361***	***-6'058'268***	***-6'091'629***
Equity portion of other non-current financial liabilities due to shareholders	*17*	0	2'898'100	0	0	2'898'100
Share based compensation	*18*	0	0	0	600'483	600'483
Total transactions with shareholders		***0***	***2'898'100***	***0***	***600'483***	***3'498'583***
Balance at December 31, 2019		**84'571'200**	**201'371'534**	**-51'193**	**-273'391'757**	**12'499'784**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 INFORMATION REGARDING THE GROUP

1.1 Background and reporting entity

Implantica MediSwiss AG (the ‘Company’) is domiciled in Landstrasse 1, 9490 Vaduz, Liechtenstein. These consolidated financial statements comprise the Company and its subsidiaries (together referred to as the ‘Group’). The Group is primarily involved in the research and distribution of medical implants.

The companies which are included in the Consolidated Financial Statements are listed in note 22. These Consolidated Financial Statements were approved on 3 June 2020 by the Company’s Board of directors.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as to be applied in the European Union (EU) as at December 31, 2019, and the additional requirements pursuant to Article 17a of the Ordinance on the Liechtenstein Persons and Companies Act (PGR-VO).

The Consolidated Financial Statements are presented in Euros (EUR). The Consolidated Financial Statements are prepared on the historical cost basis except for all those assets and liabilities measured at fair value. All amounts in the consolidated financial statements of Implantica are shown in EUR, and are rounded to the nearest EUR with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amounts rather than the rounded amounts.

2.2 Going concern

The financial statements have been prepared on the going concern basis which assumes that the Group will continue in existence in the foreseeable future. The Group avail themselves from a letter of financial support from their ultimate controlling shareholder which confirms that he is able and committed to take all necessary measures to financially support the entities and will ensure that the entities will have sufficient funds available to allow it to meet all of its financial obligations in the ordinary course of business.

2.3 Basis of consolidation

Subsidiaries are all companies over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Intercompany balances, transactions and resulting unrealised income are eliminated in full.

2.4 Critical accounting estimates and judgements

The preparation of these Consolidated Financial Statements requires management to make assumptions and estimates that affect the reported amounts of expenses, assets and liabilities at the date of the Financial Statements. If in the future such assumptions and estimates deviate from the actual circumstances, the original assumptions and estimates will be modified as appropriate in the year in which the circumstances change. The valuation of the following material positions is based on the critical accounting estimates and judgements:

Intangible assets – capitalized costs:

Development expenditures at product level are capitalized when the criteria according to IAS 38.57 are fulfilled and the Group can demonstrate all of the following:

- 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 expenditure as an asset, the asset is carried at cost less any accumulated amoritisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use (i.e. when market launch has occurred). It is amortised over the expected useful life. During the development phase, the intangible asset is tested for impairment annually.

There can be no guarantee that such products will complete the development phase or will be commercialized or that market conditions will not change in the future. Hence a revision of management’s assessment of future cash flows related to those products may be required. Specifically, management is required to make estimates and judgements in the area of developing and financing the intangible assets not yet in use. As such, the Group faces development risks in terms of finalizing the development and launch of its products. Development risk includes the risk that the product does not obtain regulatory approval and therefore technical feasibility is not given. Financing risk exists should the Group not be able to raise adequate funding and/or should cash flows generated from existing products fail to sufficiently finance the development and commercialisation of products still in development. These judgements are part of the assessment whether the above mentioned criteria are met to capitalize development costs.

Deferred tax assets – recognition:

Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Group reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Group recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilized. As such, management is required to make estimates and judgements in the area of recognition of deferred tax assets because of the uncertainty related to the estimation of probable future taxable profits.

2.5 New Financial Reporting Standards applicable as of January 1, 2019

As per January 2019, the standard IFRS 16 came into effect. The Group has initially adopted IFRS 16 Leases as of January 1, 2019. IFRS 16 specifies that leases which have previously been recognised as operating leases in the income statement must now also be recognised in the balance sheet. The Group has decided not to recognise in the balance sheet short-term leases with a term of 12 months or less as well as leases for which the underlying asset is of low value. Lease payments associated with these leases are recognised as expenses on a straight-line basis over the term of the leasing arrangements. In the course of the change to IFRS 16 as per January 2019, the Group recognised right-of-use assets of EUR 229’898 and lease liabilities in the same amount adjusted by the amount of any prepaid or accrued lease payments if applicable.

The change to IFRS 16 was based on the modified retrospective transition method. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1, January 2019, with no restatement of comparative information. The comparable figures for the previous year were not restated. The Group measured the right-of-use asset as being equal to the lease liability, and therefore has no impact on its retained earnings on 1, January 2019 as a result of transitioning to IFRS 16. Based on the operating lease obligations as of December 31, 2018, the following reconciliation summarizes the opening balance of the lease liability as of January 1, 2019.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1, January 2019. The weighted average incremental borrowing rate applied to the liabilities on 1, January 2019 was 2.76%.

The change in accounting policy affected the following items in the balance sheet on 1, January 2019:

in EUR	**Effect from first-time adoption**
Operating lease obligations at January 1, 2019	**247'074**
Property charges and short term leases	-9'493
Gross lease liabilities at January 1, 2019	**237'581**
Discounting	-7'683
Lease liabilities at January 1, 2019	**229'898**

in EUR	December 31, 2018	Adj. From IFRS 16	January 1, 2019
Assets	**0**	**229'898**	**229'898**
Right-of-use assets	*0*	*229'898*	*229'898*
Liabilities	**0**	**229'898**	**229'898**
Current lease liabilities (short-term)	*0*	*100'083*	*100'083*
Non-current lease liabilities (long-term)	*0*	*129'815*	*129'815*

The non-current lease liabilities are disclosed in note 17.

Further standards and amendments became effective as at 1, January 2019:

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. The Interpretation did not have an impact on the consolidated financial statements of the Group.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

Other amendments to IFRS standards that also became effective in the reporting period did not have a material impact on the Group.

3 PUBLISHED FINANCIAL REPORTING STANDARDS THAT HAVE NOT YET BEEN APPLIED

Certain new accounting standards and interpretations have been published that are not mandatory for reporting periods ending December 31, 2019 and have not been early adopted by the group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

4 GENERAL ACCOUNTING POLICIES

4.1 Transaction and balances
Transactions in foreign currencies are converted into the functional currency of each of the group's entities at the exchange rate applicable on the transaction date. At the balance sheet date, assets and liabilities in foreign currencies are converted into the functional currency of each of the group's entities at the exchange rate applicable on that date, and any exchange rate differences are recorded in the statement of profit or loss. Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in EUR, as this will be the major currency in which revenues will be denominated. The functional currency of Implantica MediSwiss AG is the Swiss franc ("CHF").

4.2 Group companies
The results and financial position of foreign operations that have a functional currency different from the presentation currency (Euro) are translated into Euros as follows:

- assets and liabilities for each balance sheet presented are translated into Euros at the closing rate at the date of the balance sheet.
- income and expenses for the statement of profit or loss of other comprehensive income are translated into Euros at average exchange rates of the period, provided they approximate the figures which would result from the application of transaction date rates. If not, transactions are converted at effective transaction rates.
- all resulting exchange gains and losses arising from translation of foreign operations are recognized in other comprehensive income and reported separately as currency translation adjustments.

4.3 Exchange rates applied to key foreign currencies

Currency	Unit	Average rates 2019	Closing rates Dec. 31, 2019	Average rates 2018	Closing rates Dec. 31, 2018
CHF	1	0.89897	0.92166	0.86616	0.88731
USD	1	0.89324	0.89047	0.85049	0.87336
SEK	100	9.44766	9.57213	9.75347	9.75134

4.4 Cash and cash equivalents
Cash and cash equivalents comprise cash balances at financial institutions.

4.5 Trade receivables
A trade receivable without a significant financing component is initially measured at the transaction price, and subsequently measured at amortised cost using the effective interest method, less loss allowance. For trade receivables, allowances are calculated in the amount of the expected credit losses over the term. The Group analyses the credit losses incurred in the past and estimates anticipated credit losses based on the economic conditions. Management critically reviews on a single item basis each trade receivable if it is deemed recoverable. The Group has no history of losses attributable to trade receivables.

4.6 Inventories
Inventories are stated at the lower of cost and net realisable value and consist of RefluxStop™ and Deployment tools. Cost comprises cost of purchase plus any directly attributed cost. Cost are assigned to individual items of inventory on the basis of weighted average costs. Cost of purchased inventory are determined after the deduction of rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Inventories are reviewed regularly and if inventory, e.g. due to low turnover, would lead to a reduction in net realizable value, inventories would be revalued and impaired accordingly.

4.7 Property, plant & equipment
Property plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation expenses utilize the straight-line method over the estimated useful life of the assets. Assets are depreciated to their residual value, which is usually determined as zero. The useful lives are summarized as follows:

	Years
Furniture	8
Vehicles/Tools	5
IT/Hardware	5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gain and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of profit or loss.

4.8 Right-of-use asset and lease liability
The Group recognizes a right-of-use asset (i.e. buildings leased) and a lease liability at the lease commencement date. The right-of-use asset is initially measured at the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct cost incurred. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use assets are periodically reduced by impairment losses, if any. The lease liabilities are initially measured at the present value of the future lease payments (incl. extension options reasonably certain to be exercised if any), discounted using the incremental borrowing rate as the discount rate unless the rate implicit in the lease is observable.

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 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 that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

4.9 Intangible assets

Development costs and clinical trials: Development activities involve a plan or design for the production of new or substantially improved products and processes. The development expenditure is capitalized only if developments costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the assets.
Development expenditure capitalized includes the cost of materials, external services, personnel and temporary employees. Furthermore, patent costs are capitalized and include legal fees in filing of new applications, prosecuting applications and maintaining granted patents. Renewable patent fees are capitalized until finalization of the development process. Other development expenditure is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

Software: Expenditure on the implementation of software, including licenses and external consulting fees, which are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognized as intangible assets in line with the criteria of IAS 38. Costs associated with maintaining software programmes are recognized as an expense as incurred.

Amortization and Impairments:
Amortization is applied using the straight-line method over the estimated useful life of the intangible asset. Amortization begins when the asset is available for use and for each period the amortization is recognized in profit or loss. The following table shows the respective useful lives:

	Years
Software	3
Development costs	10

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. Intangible assets not yet available for use (i.e. development costs, refer to note 14) are tested for impairment at least annually and upon the occurrence of an indication of impairment.

Impairment charges of development costs not yet available for use are recorded under “research and development costs” while amortization charges of intangible assets available for use are recognized under “cost of sales” in the consolidated statement of profit or loss.

4.10 Research costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

4.11 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to OCI or to equity, in which case it is recognized in other comprehensive income or in equity, as appropriate. Current income tax is based on the taxable result for the period and any adjustment to tax payable in respect of previous years. The taxable result for the period differs from the result as reported in profit or loss because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. It is calculated using tax rates that have been enacted or substantively enacted by the end of the financial period.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current tax assets and liabilities are offset when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to set off its current tax assets and liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

4.12 Provisions
Implantica recognizes a provision if it has a present legal or constructive obligation to transfer economic benefits as a result of past events and if a reasonable estimate of the obligation can be made and an outflow of resources is probable.

4.13 Revenue Recognition
Revenue is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services. The Group mainly focuses on the sale of RefluxStop™, a medical device treating acid reflux. The products are sold to hospitals. Revenue is recognised at a point in time once the customer obtains control over the product (according to the different terms of delivery). Invoices are usually payable within 90 days.

4.14 Trade and other payables
These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of the recognition. Trade and other payables are presented as current liabilities unless payment is not due with 12 months after the reporting period. They are recorded initially at their fair value and subsequently measured at amortised cost using the effective interest method.

4.15 Non current financial debts - to main shareholder
Non current financial debts due to the main shareholder are initially recognised at fair value. If the fair value on the date of initial recognition is lower than the nominal value, i.e. the cash amountreceived, the difference between the fair value and the nominal value is recognised as a capital contribution by the shareholder, since the funding provided by the main shareholder is considered to be in his capacity as the owner of the Implantica Group.

4.16 Employee benefits – retirement and long-service leave benefit plans (IAS 19)
The Implantica Group joined a collective pension plan operated by an insurance company which covers the employees of Implantica Management AG, Zug, Switzerland, of Implantica Trading AG, Zug, Switzerland, as well as of Implantica MediSwiss AG, Vaduz, Liechtenstein. Both the Company and the participants provide monthly contributions to the pension plan which are based on the covered salary. The respective saving parts of premium are credited to employees' accounts. In addition, interest is credited to employees' accounts at the rate provided in the plan. The pension plan provides for retirement benefits as well as benefits on long-term disability and death. The pension plan qualifies as a defined benefit plan in accordance with IFRS. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising 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. Remeasurements are not reclassified to the income statement in subsequent periods.

Actuarial Valuation Method: To determine the present value of the defined benefit obligation and the related current service cost and, where applicable, past service cost, the Projected Unit Credit Method has been used. This method is based on the amount of working years at the date of the actuarial valuation and considers the future by including:

- a discount rates
- the salary development and leaving probability up to the beginning of the benefit payment
- inflation adjustments for the years after the first payment for recurring benefits

The liability recognized in the balance sheet in regard to defined benefit retirement benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets for funded plans. The defined benefit obligation (DBO) is calculated annually by independent actuaries using the projected unit credit method, considering possible risk sharing rules stated in IAS 19. When the calculation results in a benefit to the Implantica Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. The components of defined benefit costs are as follows:

- Service costs, which are recognized in the consolidated income statement within operating result

- Interest expense or income on net liability or asset, which is recognized in the consolidated statement of profit and loss within financial result
- Remeasurements, which are recognized in the consolidated statement of other comprehensive income

Service costs include current service costs, past service costs and gains or losses on plan curtailments and settlements. When the benefits of a plan are changed, or when a plan is curtailed or settled, the portion of the changed benefits related to employee service in prior periods (past service costs), or the gains or losses on curtailments and settlements, are recognized immediately in profit or loss when the plan amendments or curtailments and settlements occur. Interest expense or income is calculated by applying the discount rate to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contribution and benefit payments.

4.17 Share-based payment arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service is expected to be met, such that the amount ultimately recognised is based on the number of awards that meets the related service at the vesting date.

4.18 Segment Reporting

The Group operates in one segment, focusing on the discovery, development and prospective commercialization of medical products and implants that are intended for use in different treatment fields like in the area of gastrointestinal surgery and urology. The segment is reported in a manner consistent with management reporting to the CEO, which is the chief operating decision-maker. All revenues recorded by the Group during 2018 and 2019 have been generated with RefluxStop^{TM} in Switzerland.

5 OPERATING EXPENSES BY NATURE

in EUR	2019	2018
Personnel expense	-1'754'471	-2'313'403
Marketing	-202'704	-190'261
Material & equipment	-15'190	-33'330
Rental expense	-29'005	-132'678
Consulting expense	-1'985'294	-1'792'740
Communication & IT	-237'682	-250'637
Depreciation and amortization	-197'027	-55'945
Insurance, charges & capital taxes	-75'189	-58'058
Other operating expense	-234'816	-298'366
Total operating expenses	**-4'731'378**	**-5'125'418**

6 OTHER INCOME

in EUR	2019	2018
Other income	45'709	0
Total other income	**45'709**	**0**

Other income represents the settlement amount of a legal dispute.

7 PERSONNEL EXPENSE

in EUR	2019	2018
Salaries and wages	-805'628	-692'414
Social security contributions	-78'460	-67'464
Pension defined benefits plans	-98'720	-96'662
Share based compensation	-600'483	-1'243'419
Other personnel expenses	-171'180	-213'444
Total personnel expenses	**-1'754'471**	**-2'313'403**

Average number of employees	*15*	13
Average number of contract staff with employee like terms	*17*	*19*
Total	***32***	***32***

8 FINANCIAL INCOME AND EXPENSE

in EUR	2019	2018
Interest income	8	17
Foreign exchange gains	194'264	167'311
Total financial income	**194’272**	**167'328**
Interest expense	-11’116	-2’422
Bank charges	-9'079	-6'581
Interest expense on lease liabilities	-4'845	0
Unwinding effective interest on shareholder loan	-345'673	0
Foreign exchange losses	-251'789	-190'161
Total financial expenses	**-622’502**	**-199'164**

9 INCOME TAXES

9.1 Income taxes in statement of profit or loss and reconciliation

in EUR	2019	2018
Current income taxes	-9'637	-1'559
Deferred income taxes	231'440	587'121
Total income taxes	**221'803**	**585'562**

The income taxes can be analysed as follows:

in EUR	2019	2018
Loss before taxes	-6'316'309	-5'139'684
Group's weighted average rate	25.9%	19.0%
Income taxes at expected Group tax rate	**1'633'793**	**976'107**
Tax losses not capitalized	-1'497'050	-725'321
Changes in tax rate	-109'888	0
Capitalisation of previously unrecognised deferred tax assets	194'948	394'877
Income taxed at other rates	0	-60'101
Income taxes reported	**221'803**	**585'562**
Effective tax rate	3.5%	11.4%

The tax rate of the Group is the weighted average tax rate obtained by applying the currently expected rate for each individual jurisdiction to its respective loss before taxes. As a result of changes in the country mix of the profit before taxes, the Group's weighted average tax rate changed from 19.0% (2018) to 25.9% (2019).

On 19 May 2019, Swiss voters have approved the Federal Act on Tax Reform and AHV Financing (TRAF). It has entered into force on 1 January 2020. Amongst other impacts, the tax reform provides for an abolishment of the privileged tax regimes on cantonal level (holding, mixed and domiciliary company regime), the introduction of a patent box (both mandatory), an R&D super deduction, a notional interest deduction on surplus equity and exemptions for capital tax purposes. As a consequence of the TRAF, cantons in Switzerland will change their corporate tax rates. For the Group corporate tax rates from Canton Zug are applicable. These rates will change from 14.5% to 12.0% and therefore a deferred tax expense of EUR 109'888 was recognized due to the revaluation of deferred tax assets.

9.2 Deferred income taxes

9.2.1 Overview

Deferred tax assets and liabilities are attributable to the following:

in EUR 2019	Deferred tax assets / (liabilities) Jan 1	Deferred tax (expenses) / income	Deferred tax through OCI	Deferred tax through equity	Translation differences	Deferred tax assets / (liabilities) Dec. 31
Intangible assets	1'008'400	27'413	0	0	0	1'035'813
Share based compensation	602'258	72'893	0	0	21'653	696'804
Pension defined benefits plans	21'316	9'163	-4'942	0	932	26'469
Inventory	1'254	22'705	0	0	0	23'959
Total deferred tax assets	**1'633'228**	**169'530**	**-4'942**	**0**	**22'585**	**1'783'045**
Set-off of deferred tax assets	0					-179'175
Net deferred tax assets	**1'633'228**					**1'603'870**
Financial debts	0	99'935	0	-1'225'897	-1'902	-1'127'864
Leasing	0	-669	0	0	-3	-672
Total deferred tax liabilities	**0**	**99'266**	**0**	**-1'225'897**	**-1'905**	**-1'128'536**
Set-off of deferred tax liabilities	0					179'175
Net deferred tax liabilities	**0**					**-949'361**

in EUR 2018	Deferred tax assets / (liabilities) Jan-1	Deferred tax (expenses) / income	Deferred tax through OCI	Deferred tax through equity	Translation differences	Deferred tax assets / (liabilities) Dec. 31
Intangible assets	613'523	394'877	0	0	0	1'008'400
Share based compensation	406'100	179'923	0	0	16'235	602'258
Pension defined benefits plans	20'148	11'067	-10'665	0	766	21'316
Inventory	0	1'254	0	0	0	1'254
Total deferred tax assets	**1'039'771**	**587'121**	**-10'665**	**0**	**17'001**	**1'633'228**
Deferred tax liabilities	0	0	0	0	0	0
Total deferred tax liabilities	**0**	**0**	**0**	0	**0**	**0**

9.2.2 Not capitalized tax loss carry-forwards

The tax loss carry-forward not capitalized refers to the losses in the Liechtenstein, the Malta entities as well as to the losses within the Swiss Companies. Losses carry forward in Liechtenstein and Malta could – according to local carry forward rules - be utilized for an unlimited time. Losses carry forward in Switzerland can be utilized up to seven years following the realization of the respective tax loss for corporate income tax purposes.

	Gross value		Potential tax benefits	
in EUR	2019	2018	2019	2018
Tax loss carry-forwards capitalized at December 31	**0**	**0**	**0**	**0**
Expiring in				
4th to 5th year	15'542	93'365	1'865	13'510
6th to 7th year	687'214	1'227'959	82'466	177'686
Unlimited	7'097'346	2'489'641	1'756'627	532'567
Tax loss carry-forwards not capitalized at December 31	**7'800'102**	**3'810'965**	**1'840'958**	**723'762**
Total tax loss carry-forwards	**7'800'102**	**3'810'965**	**1'840'958**	**723'762**

10 EARNINGS PER SHARE

For purposes of the earnings per share calculation, management has used the weighted, average number of outstanding shares between January 1, and December 31, 2019 as the denominator. The share capital of the Company is CHF 90’000’000, fully paid and divided into 13’500’000 registered shares (Class A), each with a nominal value of CHF 5 and 22’500’000 registered shares (Class B), each with a nominal value of CHF 1. Earnings per category of share were calculated on the basis of the portion of net loss attributable to the shareholders of Implantica MediSwiss AG, based on their portion of the share capital and the average number of outstanding shares. The impact of share based payments arrangements were not considered in the diluted earnings per share calculation for Class A shares for financial years 2019 and 2018 because their effect would have been anti-dilutive. Class B shares are not affected since based on the employee share option plan shares shall be made available and issued only through Class A shares.

The basic and diluted earnings per share are as follows:

in EUR	2019	2018
Loss for the year	-6'094'506	-4'554'122
Percentage of Class A outstanding in comparison with the Share capital outstanding	75.00%	75.00%
Percentage of Class B outstanding in comparison with the Share capital outstanding	25.00%	25.00%
Class A shares		
Loss for the year, attributable to Class A shareholders	-4'570'880	-3'415'592
Weighted average number of shares outstanding	13'500'000	13'500'000
Basic and diluted (loss) per share Class A (in EUR)	**-0.34**	**-0.25**
Class B shares		
Loss for the year, attributable to Class B shareholders	-1'523'627	-1'138'531
Weighted average number of shares outstanding	22'500'000	22'500'000
Basic and diluted (loss) per share Class B (in EUR)	**-0.07**	**-0.05**

11 OTHER CURRENT RECEIVABLES

in EUR	31. Dec. 2019	31. Dec. 2018
VAT and other tax receivables	72'130	34'753
Prepaid expenses	193'065	246'526
Total other current receivables	**265'195**	**281'279**

12 PROPERTY, PLANT AND EQUIPMENT

in EUR	Furniture	IT/Hardware	Vehicles/Tools	**Total**
At cost				
Balance at January 1, 2018	42'231	78'500	21'949	142'680
Additions	12'047	23'756	0	35'803
Translation differences	1'386	1'494	0	2'880
Balance at December 31, 2018	**55'664**	**103'750**	**21'949**	**181'363**
Balance at January 1, 2019	55'664	103'751	21'949	181'363
Additions	0	3'826	4'537	8'363
Translation differences	1'527	1'781	0	3'308
Balance at December 31, 2019	**57'190**	**109'358**	**26'486**	**193'033**

in EUR	Furniture	IT/Hardware	Vehicles/Tools	**Total**
Accumulated depreciation				
Balance at January 1, 2018	-5'122	-19'711	-2'927	-27'760
Annual depreciation	-6'311	-18'710	-4'390	-29'411
Translation differences	-286	-581	0	-867
Balance at December 31, 2018	**-11'719**	**-39'002**	**-7'317**	**-58'038**

Balance at January 1, 2019	-11'720	-39'003	-7'316	-58'039
Annual depreciation	-7'023	-21'073	-4'781	-32'876
Translation differences	-497	-962	0	-1'458
Balance at December 31, 2019	**-19'239**	**-61'037**	**-12'097**	**-92'373**

in EUR	Furniture	IT/Hardware	Vehicles/Tools	**Total**
Net book value				
Net book value December 31, 2018	**43'945**	**64'748**	**14'632**	**123'325**
Net book value December 31, 2019	**37'951**	**48'321**	**14'389**	**100'660**

13 Leases

in EUR	**Right-of-use assets**	**Total**
At cost		
Balance at January 1, 2019	**0**	**0**
First time adoption IFRS 16	229'898	229'898
Balance at January 1, 2019	**229'898**	**229'898**
Translation differences	6'348	6'348
Balance at December 31, 2019	**236'246**	**236'246**

in EUR	**Right-of-use assets**	**Total**
Accumulated amortisation		
Balance at January 1, 2019	**0**	**0**
Additions	0	0
Annual depreciation	-106'765	-106'765
Translation differences	-2'288	-2'288
Balance at December 31, 2019	**-109'052**	**-109'052**

in EUR	**Right-of-use assets**	**Total**
Net book value		
Net book value December 31, 2018	**0**	**0**
Net book value December 31, 2019	**127'194**	**127'194**

in EUR	**Lease liabilities**	**Total**
Balance at January 1, 2019	**0**	**0**
First time adoption IFRS 16	229'898	229'898
Balance at January 1, 2019	**229'898**	**229'898**
Decrease	-109'014	-109'014
Accrued interest	4'845	4'845
Translation differences	4'087	4'087
Balance at December 31, 2019	**129'815**	**129'815**

in EUR	**Building leased recognized in profit or loss**	**Total**
Depreciation expense of right-of-use assets	106'765	106'765
Interest expense on lease liabilities	4'845	4'845

Expense relating to leases of low-value assets (included in rental expense)	8'630	8'630
Total amount recognized in profit or loss	**120'240**	**120'240**

Lease liabilities are accounted for within the other current liabilities as well as within the other non-current liabilities.

14 INTANGIBLE ASSETS

The intangible assets consist of two categories including software and development cost for medical devices. Software is depreciated over its useful life. RefluxStop™ became available for use in 2019 and therefore the amortization over it's useful life started in the current financial year. All other products are not yet available for use and therefore not amortized but tested for impairment annually. Amortization will only commence upon market launch.

in EUR	**Development Cost**	**Software**	**Total**
At cost			
Balance at January 1, 2018	11'882'475	0	11'882'475
Additions	4'166'809	143'626	4'310'435
Translation differences	0	3'507	3'507
Balance at December 31, 2018	**16'049'284**	**147'133**	**16'196'417**
Balance at January 1, 2019	16'049'284	147'133	16'196'417
Additions	1'993'047	29'300	2'022'347
Translation differences	0	6'435	6'435
Balance at December 31, 2019	**18'042'331**	**182'868**	**18'225'199**

in EUR	**Development Cost**	**Software**	**Total**
Accumulated amortisation and impairment			
Balance at January 1, 2018	0	0	0
Additions	0	0	0
Annual amortization	0	-26'534	-26'534
Translation differences	0	-648	-648
Balance at December 31, 2018	**0**	**-27'182**	**-27'182**
Balance at January 1, 2019	0	-27'182	-27'182
Additions	0	0	0
Annual amortization	-1'227'003	-57'386	-1'284'389
Translation differences	0	-2'501	-2'501
Balance at December 31, 2019	**-1'227'003**	**-87'069**	**-1'314'072**

in EUR	Development	Software	**Total**
Net book value			
Balance at December 31, 2018	**16'049'284**	**119'951**	**16'169'235**
Balance at December 31, 2019	**16'815'328**	**95'799**	**16'911'127**

Allocation of development costs:

in EUR	2019	2018
RefluxStop	11'043'029	12'324'508
Other products not yet available for use	5'772'299	3'724'776
Total	**16'815'328**	**16'049'284**

The impairment test is performed by comparing the carrying value of three cash-generating units with their recoverable amount. Implantica determines the recoverable amount by applying a value in use calculation. An impairment will be recorded if the carrying value of the cash-generating units exceeds its value in use. The valuation is carried out on the basis of projected future free cash flows from cash-generation using the discounted cash flow (DCF) method. The values assigned to the key assumptions outlined further below represent management's assessment of the core product's commercialization potential as well as of future trends in the relevant industry and have been based on historical data from both external and internal sources.

The projected cash flows are derived from the business plan of Implantica which has been prepared by the management of the Group. For the annual impairment test the applied (post-tax) weighted average cost of capital (WACC) is 31%. The WACC has been derived by using market data from peer group companies and considering the development status of Implantica's products. The terminal growth rate is assumed to be 1%.

The impairment test carried out on this cash generating unit shows that in the event of a possible increase in the discount rate of 5 percentage points or/and terminal sales growth being zero, all values in use would still exceed the respective book value.

15 TRADE ACCOUNTS PAYABLE

in EUR	31. Dec. 2019	31. Dec. 2018
Trade accounts payable CHF	2'000	29'697
Trade accounts payable SEK	0	106'323
Total Trade accounts payable	**2'000**	**136'020**

16 OTHER CURRENT LIABILITIES

in EUR	31. Dec. 2019	31. Dec. 2018
Liabilities to related parties	77'199	8'327
Subtotal to shareholders and other related parties	**77'199**	**8'327**
Accounts payable	2'552'988	1'674'485
VAT and other tax payables	61'782	6'304
Accrued expenses	245'494	945'478
Current lease liabilities	95'128	0
Other current liabilities	297'873	249'406
Subtotal to third parties	**3'253'265**	**2'875'673**
Total other current liabilities	**3'330'464**	**2'884'000**

17 OTHER NON-CURRENT FINANCIAL LIABILITIES

in EUR	Financial debts	Other non-current liabilities	Non-current lease liabilities	**Total other non-current financial liabilities**
Balance at January 1, 2018	0	0	0	0
Increase	0	195'839	0	195'839
Balance at December 31, 2018	**0**	**195'839**	**0**	**195'839**
Balance at January 1, 2019	0	195'839	0	195'839
First time adoption IFRS 16	0	0	129'815	129'815
Balance at January 1, 2019	**0**	**195'839**	**129'815**	**325'655**
Increase / (Decrease)	6'111'234	-201'812	-96'160	5'813'262
Accrued interest	0	9'451	0	9'451
Capital contribution on shareholder loan	-4'123'997	0	0	-4'123'997
Unwinding effective interest on shareholder loan	345'674	0	0	345'674
Translation differences	9'608	-3'478	1'031	7'161
Balance at December 31, 2019	**2'342'519**	**0**	**34'687**	**2'377'206**

The financial debts comprise an interest free and subordinated shareholder loan. The shareholder loan may be paid, settled by offsetting or replacement/novation, or newly secured, either in full or in part only with the previous written information and approval of the Board of Directors of Implantica MediSwiss AG. Such approval shall only be granted once the year end audited consolidated financial statements of the Implantica Group presents a positive cash flow from operating activities. Implantica Group has therefore an unconditional right to avoid settlement of this conditional settlement provision for 12 months after each reporting period. The difference between the nominal value of the loan, i.e. the cash amount received, and their fair value on initial recognition of EUR 4’123’997 is reflected as a capital contribution. An amount of EUR 2’898’100 (net of tax EUR 1’225’897) was therefore recognised in capital reserves in 2019.

Prior year other non-current liabilities arising from service provider (2018: 195’839) have been reclassified due to their maturity within other short-term liabilities. The liabilities arising from service provider are due at an interest rate of 5% and expire in 2020.

18 RELATED PARTIES

in EUR	31. Dec. 2019	31. Dec. 2018
Related parties liabilities	**2’419’718**	**8'327**
thereof other short-term liabilities to companies controlled by the BoD	40'994	0
thereof accounts payable to companies controlled by the BoD	36'205	8'327
thereof other non-current financial liabilities to main shareholder (Peter Forsell)	2'342'519	0

The related parties liabilities show amounts with companies controlled by the main shareholder as well amounts with companies controlled by the Board of Directors. The services rendered by companies controlled by Board of Directors were related to legal counselling as well as to administrative work in relation to the development activities. The services purchased from related parties amounted to EUR 99’667 for 2019 (EUR 150’143 in 2018). For contributions from Dr. Peter Forsell, in quality as main shareholder, refer to notes 17 and 19.1.

Group Executive board's compensation comprised the following:

in EUR	2019	2018
Short-term employee benefits	-310'252	-286'219
Pension defined benefits plans	-95'895	-98'161
Share-based compensation	-600'483	-1'243'419
Total	**-1'006'629**	**-1'627'799**

Compensation of the Group Executive board includes salaries and social security contributions, post-employment defined benefit plan as well as share based compensation arrangements.

19 EQUITY

As part of the formation of Implantica Group the Company issued ordinary shares to Dr. Peter Forsell, resulting in share capital of CHF 90'000'000 (EUR 84'571'200). The share capital is fully paid and divided into 13'500'000 registered shares (Class A), each with a nominal value of CHF 5 and 22'500'000 registered shares (Class B), each with a nominal value of CHF 1.

19.1 Shareholders contribution

In 2019, no capital contributions have been made. Dr. Peter Forsell has made irrevocable and unconditional capital contributions in the amount of EUR 8'038'646 in 2018, EUR 6'751'769 in 2017 and EUR 56'031'153 in 2016.

19.2 Translation differences

The translation reserve comprises all foreign currency differences arising from the translation of the Financial Statements of foreign operations.

20 SHARE-BASED COMPENSATION

The Group has committed to a share option based compensation plan to employees who distinguished themselves by a particular strong commitment to the Group. The total share-based payment expense amounts to EUR 600'483 in 2019 and EUR 1'243'419 in 2018.

20.1 Share option program with employees and board of directors

In May 2017 a new share option program was defined, replacing the old share option program dated November 1, 2015. The options were granted to one executive management employee with the right to convert these in ordinary Class A shares of Implantica MediSwiss AG. The program was implemented for 5 years and divided into 6 tranches. The key terms and conditions related to the grants under this program are as follows; all options are to be settled by the physical delivery of shares. The shares were allocated to the employee free of charge (exercise price = 0 CHF). The fair value at grant date of the equity-settled share-based payment plans granted, amounts to CHF 43 per unit, considering a risk-free interest rate of zero and an exercise price of zero.

	Nr. of options	Grant date	Vesting date	Expiration date
Tranche 1	24'938	31.05.17	31.05.17	31.05.22
Tranche 2	15'750	31.05.17	31.05.18	31.05.23
Tranche 3	15'750	31.05.17	31.05.19	31.05.24
Tranche 4	15'750	31.05.17	31.05.20	31.05.25
Tranche 5	6'562	31.05.17	31.10.20	31.05.23
Tranche 6	11'250	31.05.17	31.05.17	31.05.22
Total	90'000			

On January 1, 2018, options were granted to two board of directors, one executive management employee as well as to an employee with the right to convert these in Class A shares of Implantica MediSwiss AG. The program was implemented for 5 years and divided into 6 tranches. The key terms and conditions related to the grants under this program are as follows; all options are to be settled by the physical delivery of shares. The shares were allocated to the employee free of charge (exercise price = 0 CHF). The fair value at grant date of the equity-settled share-based payment plans granted in 2018, amounts to CHF 21.55 per unit, considering a risk-free interest rate of zero and an exercise price of zero.

Options granted to board of directors in 2018:

	Nr. of options	Grant date	Vesting date	Expiration date
Tranche 1	4'924	01.01.18	31.12.18	31.12.22
Tranche 2	6'719	01.01.18	31.12.19	31.12.23
Tranche 3	6'719	01.01.18	31.12.20	31.12.24
Tranche 4	6'719	01.01.18	31.12.21	31.12.25
Tranche 5	6'719	01.01.18	31.12.22	31.12.26
Tranche 6	3'996	01.01.18	31.12.18	31.12.22
Total	35'796			

Options granted to one executive management employee in 2018:

	Nr. of options	Grant date	Vesting date	Expiration date
Tranche 1	11'695	01.01.18	31.12.18	31.12.25
Tranche 2	1	01.01.18	31.12.19	31.12.26
Tranche 3	1	01.01.18	31.12.20	31.12.27
Tranche 4	1	01.01.18	31.12.21	31.12.28
Tranche 5	1	01.01.18	31.12.22	31.12.26
Tranche 6	1	01.01.18	31.12.18	31.12.25
Total	11'700			

Options granted to an employee in 2018:

	Nr. of options	Grant date	Vesting date	Expiration date
Tranche 1	350	01.01.18	31.12.18	31.12.22
Tranche 2	700	01.01.18	31.12.19	31.12.23
Tranche 3	700	01.01.18	31.12.20	31.12.24
Tranche 4	700	01.01.18	31.12.21	31.12.25
Tranche 5	700	01.01.18	31.12.22	31.12.26
Tranche 6	350	01.01.18	31.12.18	31.12.22
Total	3'500			

On January 1, 2019, options were granted to one employee with the right to convert these in Class A shares of Implantica MediSwiss AG. The program was implemented for 5 years and divided into 6 tranches. The key terms and conditions related to the grants under this program are as follows; all options are to be settled by the physical delivery of shares. The shares were allocated to the employee free of charge (exercise price = 0 CHF). The fair value at grant date of the equity-settled share-based payment plans granted in 2019, amounts to CHF 12.50 per unit considering a risk-free interest rate of zero and an exercise price of zero.

	Nr. of options	Grant date	Vesting date	Expiration date
Tranche 1	2'319	01.01.19	31.12.19	31.12.26
Tranche 2	2'320	01.01.19	31.12.20	31.12.27
Tranche 3	2'320	01.01.19	31.12.21	31.12.28
Tranche 4	2'320	01.01.19	31.12.22	31.12.28
Tranche 5	2'320	01.01.19	31.12.23	31.12.29
Tranche 6	1	01.01.19	31.12.19	31.12.26
Total	11'600			

20.2 Measurement of fair values

All equity-settled transactions are measured at fair value at grant date and recognized as expense over the vesting period. Share-based payment transactions with employees are measured with reference to the fair value of the equity instruments granted.

20.3 Reconciliation of outstanding share options.

With the exception of 6’240 share options forfeited in 2019, all of the above share options were outstanding as at December 31, 2019, of which 119’628 were exercisable at December 31, 2019.

21 RETIREMENT BENEFIT ASSETS AND OBLIGATIONS

21.1 Legal aspects of the pension plan

Pension plans and their benefits are governed in Switzerland by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), which stipulates that pension plans are to be managed by independent, legally autonomous units. Pension plans are regulated by a state supervisory body. A pension plan's most senior governing body (Board of Trustees) must be composed of equal numbers of employee and employer representatives.

The employer has to arrange for an affiliation contract with a pension fund to comply with legal requirements. The pension fund has to provide at least occupational benefits according to law. Implantica MediSwiss AG has an affiliation contract with the collective foundation of AXA, AXA Stiftung Berufliche Vorsorge.

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

21.2 Technical accounting aspects of the pension plan (IFRS)

The pension plan qualifies as a defined benefit plan under IAS 19. Once a year, a report is prepared in accordance with IFRS requirements by an independent actuary. In this process, plan assets are valued at fair market values and liabilities are calculated according to the projected unit credit method.

21.3 Amounts recognized in the balance sheet

The amounts recognized in the balance sheet are as follows:

in EUR	31. Dec. 2019	31. Dec. 2018
Defined benefit obligation	2'854'080	2'641'248
Fair value of plan assets	2'665'000	2'493'940
Deficit	189'080	147'308
Net defined benefit liability	**189'080**	**147'308**

21.4 Components of defined benefit cost

in EUR	2019	2018
Current service cost	95'895	94'839
Past service cost	0	3'323
Defined benefit cost included in operating profit	**95'895**	**98'161**
Interest expense on defined benefit obligation	21'821	15'048
Interest (income) on plan assets	-20'333	-14'008
Net interest cost on liability post-employment benefits	**1'488**	**1'040**
Administration cost excl. cost for managing plan assets	1'338	1'220
Defined benefit cost recognized in profit or loss	**98'720**	**100'422**
thereof service cost and administration cost	*97'232*	*99'382*
thereof net interest on the net defined benefit liability (asset)	*1'488*	*1'040*
Actuarial (gain) / loss on obligations		
Actuarial (gain) / loss arising from changes in financial assumptions	38'153	650
Actuarial (gain) / loss arising from changes in demogr. Assumptions	0	-8'568
Actuarial (gain) / loss arising from experience adjustments	-56'714	-52'190
Actuarial (gain) / loss on defined benefit obligation	**-18'561**	**-60'108**
Return on plan assets (excluding interest income)	-22'619	-13'595
Remeasurement (gain) / loss, incl. in other comprehensive income	**-41'180**	**-73'704**
Translation differences, included in other comprehensive income	-5'659	-4'526
Total defined benefit cost recognized in other comprehensive income	**-46'839**	**-78'229**

21.5 Changes in the present value of the defined benefit obligations

Changes in the present value of the defined benefit obligations are as follows:

in EUR	2019	2018
Defined benefit obligation, beginning of the period	**2'641'248**	**2'409'697**
Interest expense on defined benefit obligation	21'821	15'048
Current service cost	95'895	94'839
Past service cost	0	3'323
Contributions by plan participants	22'358	23'938
Benefits (paid) / deposited	-14'822	59'525
Administration cost (excl. cost for managing plan assets)	1'338	1'220
Actuarial (gain) / loss on defined benefit obligation	-18'561	-60'108
Translation differences	104'804	93'766
Defined benefit obligation, end of the period	**2'854'080**	**2'641'248**

21.6 Changes in the fair value of plan assets and in the defined benefit obligation

Changes in the fair value of plan assets are as follows:

in EUR	2019	2018
Fair value of plan assets, beginning of the year	**2'493'940**	**2'270'461**
Interest income on plan assets	20'333	14'008
Contributions by the employer	22'358	23'938
Contributions by plan participants	22'358	23'938
Benefits (paid) / deposited	-14'822	59'525
Return on plan assets excl. interest income	22'619	13'595
Translation differences	98'214	88'475
Fair value of plan assets, end of the year	**2'665'000**	**2'493'940**

21.7 Key actuarial assumptions

Principal actuarial assumptions are at the balance sheet date:

in EUR	31. Dec. 2019	31. Dec. 2018
Discount rate	0.30%	0.80%
Interest rate on retirement savings capital	0.50%	0.80%
Future salary increases	0.50%	0.50%
Mortality tables	BVG2015 GT	BVG2015 GT

21.8 Plan asset classes

Plan assets are composed as follows:

in EUR	31. Dec. 2019	31. Dec. 2018
Insurance	2'665'000	2'493'940
Total plan assets at fair value	**2'665'000**	**2'493'940**

The insurance company bearing the investment risk is also making these investments on behalf of the foundation. As a result, the assets of the Swiss plan consist of a receivable from the insurance policy.

21.9 Sensitivity

Changes of significant assumptions would have the following impact to the defined benefit obligation:

in EUR	31. Dec. 2019
Discount rate decrease by -0.25%	2'881'592
Discount rate increase by +0.25%	2'828'746
Rate of salary decrease by -0.25%	2'852'210
Rate of salary increase by +0.25%	2'856'211
Life expectancy increase by +1 year	2'861'902
Life expectancy decrease by -1 year	2'846'406

21.10 Future expected contributions to the defined benefit plans
The expected employer contributions to the defined benefit plan within the next 12 months (next annual reporting period) amounts to EUR 11'064 (2018: EUR 9'823). The weighted average duration of the defined benefit plan obligation as of December 31, 2019 is 20.0 years (2018:19.3 years).

22 COMPANIES INCLUDED IN CONSOLIDATED FINANCIAL STATEMENTS

Company	Domicile	Purpose	Share Capital	2019	2018
Implantica MediSwiss AG [1)]	LI	Holding	CHF 90,000,000	n.a	n.a
Implantica Group Holding Ltd.	Malta	Holding	EUR 790'000'000	100%	100%
Implantica CE Reflux Ltd.	Malta	R&D	EUR 1'200	100%	100%
Implantica Marketing Ltd	Malta	Distribution/Marketing	EUR 1'200	100%	100%
Implantica Patent Ltd. [2)]	Malta	Patent	EUR 1'200	100%	100%
Implantica Management AG	CH	Management	CHF 100,000	100%	100%
Implantica Trading AG	CH	Distribution/Marketing	CHF 100,000	100%	100%

[1)] Implantica MediSwiss AG was founded on 22 February 2017.
[2)] Implantica IP Ltd. and Implantica Patent Ltd. merged with effect 1 January 2018, with Implantica Patent Ltd. absorbing Implantica IP Ltd.

23 FINANCIAL RISK MANAGEMENT (IFRS 7)

The Group has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring risk, and the Group's management of capital.

23.1 Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash equivalents.

The carrying amounts of financial assets represent the maximum credit exposure.

The Group is not significantly exposed to credit risk.

23.2 Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivery of cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation. The Group avail themselves from a letter of financial support from their ultimate controlling shareholder which confirms that he is able and committed to take all necessary measures to financially support the entities and will ensure that the entities will have sufficient funds available to allow it to meet all of its financial obligations in the ordinary course of business. This engagement remains binding until 12 months after the signing of the financial statements of any of the entities.

The contractual maturities of the Group's financial liabilities which falls over one year comprises outstanding non-current account from the main shareholder as well as non-current lease liabilities. The non-current account from the main shareholder is interest free and subordinated.

in EUR	Maturities			
	Up to 1 year	From 1 to 2 years	From 3 to 4 years	Carrying amount
December 31, 2019				
Trade accounts payable	2'000	0	0	2'000
Accounts payable	2'552'988	0	0	2'552'988
Accrued expenses	245'494	0	0	245'494
Short-term liabilities – related parties	77'199	0	0	77'199
Other short-term liabilities	297'873	0	0	297'873
Lease liabilities	95'128	17'104	17'583	129'815
Financial liabilities - related parties	0	0	6'136'404	6'136'404
Total financial liabilities	**3'270'682**	**17'104**	**6'153'987**	**9'441'773**

As of 31 December 2018, the contractual maturities of the Group's financial liabilities fell within two years. The contractual cash flows did not materially deviate from the carrying amounts.

The changes in liabilities arising from financing activities are presented below:

in EUR	1 January 2019	Cash Flows	Non-cash effective adjustments	Translation differences	31 December 2019
Lease liabilities	100'083	-5'027	0	73	95'129
Non-Current lease liabilities	129'815	-95'233	0	105	34'687
Financial liabilities - related parties	0	6'111'234	-3'778'323	9'608	2'342'519
Total	**229'898**	**6'010'974**	**-3'778'323**	**9'786**	**2'472'334**

Non-cash effective adjustments arised due to the difference between the nominal value of funds received from the shareholder and their fair value on initial recognition (refer to note 17).

23.3 Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange risk will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Implantica is not significantly exposed to interest risk and foreign exchange risk.

23.4 Capital management

The directors aim to maintain a strong capital base to sustain future development of the business. The directors monitor the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity. There were no changes in the Group's approach to capital management during the period. The Group is not subject to externally imposed capital requirements.

23.5 Financial assets and financial liabilities

The following table shows the classification and carrying amounts of financial instruments held:

in EUR	Carrying amount		
	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Total
December 31, 2018			
Cash and cash equivalents	77'725	0	77'725
Accounts receivables	19'208		19'208
Total financial assets	**96'933**	**0**	**96'933**
Accounts payable	0	136'020	136'020
Other short-term liabilities	0	158'525	158'525
Total financial liabilities	**0**	**294'546**	**294'546**

December 31, 2019			
Cash and cash equivalents	35'375	0	35'375
Accounts receivables	46’554	0	46’554
Total financial assets	**81’929**	**0**	**81’929**
Total trade accounts payable	0	2'000	2'000
Other current liabilities	0	3'268'683	3'268'683
Other non-current financial liabilities	0	34'687	34'687
Other non-current financial liabilities related parties	0	2'342'519	2'342'519
Total financial liabilities		**5'647'889**	**5'647'889**

The fair value of the financial assets and liabilities is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. At December 31, 2019, the carrying amounts of cash and cash equivalents, other current receivables, accounts payable, accrued expenses, other short-term liabilities equal its fair values based on their nature, maturity or due date.

The Group has no Financial assets or liabilities valued at Fair Value other than those quoted or with prices in active market. Therefore, no other techniques have been applied by the Group. The company has no financial assets or liabilities that are measured at fair value through profit and loss

24 CONTINGENT LIABILITIES, COMMITMENTS, AND ENCUMBRANCES OF ASSETS

There are non contingent liabilities, commitments or other encumbrances of assets.

25 EVENTS AFTER THE BALANCE SHEET DATE

On 6 February 2020, Implantica AG was incorporated as a fully owned subsidiary of Implantica MediSwiss AG. Implantica AG is intended to become to commercially operating Holding entity of the Implantica Group.

The full extent of the COVID-19 outbreak over the beginning of 2020 is difficult to assess. Management recognises that COVID-19 is likely to have a negative impact on the pace that Implantica’s can develop its operations in the near term. This due to non-emergency surgeries being delayed and challenges for sales representatives to engage hospital staff in the near term. The impact of COVID-19 on Implantica is expected to be temporary. Structurally, the underlying demand for Implantica’s products are not expected to change. The increased uncertainty due to COVID-19 is being reflected in the projected free cash flows underlying the impairment tests. Also after considering the COVID-19 adjustments, carrying values of assets are still lower than the expected value in use.