
Annual Report 2016

Going Digital

Going Digital

Digitalization has become the trend of our time and given us buzzwords such as “The Fourth Industrial Revolution” or “Industry 4.0”. For COLTENE, the theme of this year’s Annual Report – Going Digital – is not an end in itself. Indeed, the Group has identified digitalization as a source of growth potential and as a means of profiling itself even better in the global marketplace.

An important driver of the targeted growth will be the enlargement and enhancement of the product portfolio to address and encourage the greater digitalization of dental treatment processes in the dental practice. Restorative treatments, for example, can be performed far more quickly by using digital technology to scan a prepared tooth’s surface, model a digital restoration and then transmitting the data to an onsite machine that mills the actual dental restoration. The permanent crown is manufactured within minutes and then inserted in place. End-to-end digitalization of the supply chain is another important growth driver. It accommodates the potential that whenever a COLTENE product is taken from a drawer in the dental practice, a message is sent to the dentist’s supplier, to COLTENE and to the company that supplies the necessary raw materials for that product. Digitalization of the entire supply chain enables the simplification and optimization of supply chain management processes for all stakeholders. A third focal point with respect to digitalization concerns the adaptation of organizational structures and tools to new technologies. Administrative management of product documentation and marketing materials is a key aspect of this process. COLTENE has already introduced a Product Information Management system (PIM) that enables it to manage multiple language versions of all the product documents, images and other media it uses in a single database.

Amid all these activities, COLTENE’s overriding aim is to offer dental professionals and their patients convenience, benefit and value. Digitalization offers COLTENE innovation opportunities across the full spectrum of dental treatments that it can seize to create new products and services or to optimize existing ones. Going digital will facilitate optimal dental care and at the same time make dental treatments easier, safer and less expensive.

COLTENE is well prepared to take advantage of the benefits that digitalization offers. The narrative information on pages 12 and 13 and the visual pages separating the various sections of this Annual Report illustrate how COLTENE is embracing digitization across the entire value chain.

Product Overview

Restoration 25.1 %



The Restoratives product group contains all the products used in restorative treatment procedures. These products range from adhesive systems and restorative filling materials to curing equipment.

Prosthetics 21.0 %



In Prosthetics, COLTENE offers a broad range of condensation and addition silicon impression materials with excellent flow properties. Highly precise dental impressions improve the treatment outcomes of prosthetic procedures.

Endodontics 20.7 %



The Endodontics range is focused on products for root canal therapy, which entails root canal preparation, cleansing and obturation.

Treatment Auxiliaries 12.9 %



Treatment Auxiliaries comprises a broad range of products for wound care and treatment and moisture control. These practical supplies and materials make work easier and enhance patient comfort.

Rotary Instruments 7.8 %



COLTENE offers a comprehensive range of carbide drills, diamond burs and polishing tools. Its Rotary Instruments are distinguished by superior stability and excellent cutting action.

Infection Control 6.9 %



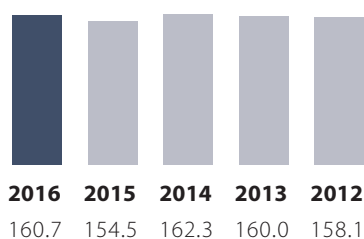
The Infection Control product category contains ultrasonic cleaning systems, sterile covers and face masks that provide an effective barrier against infection in dental practices.

Key Figures

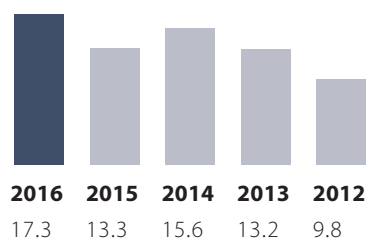
5-Year Overview (2012–2016)

(in CHF million, continuing activities, adjusted)

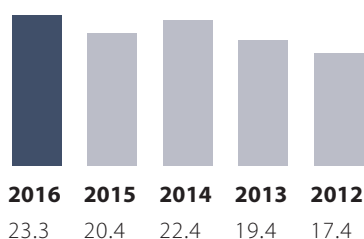
Net Sales



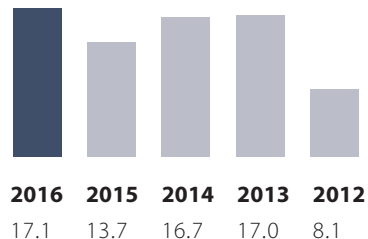
Net Profit



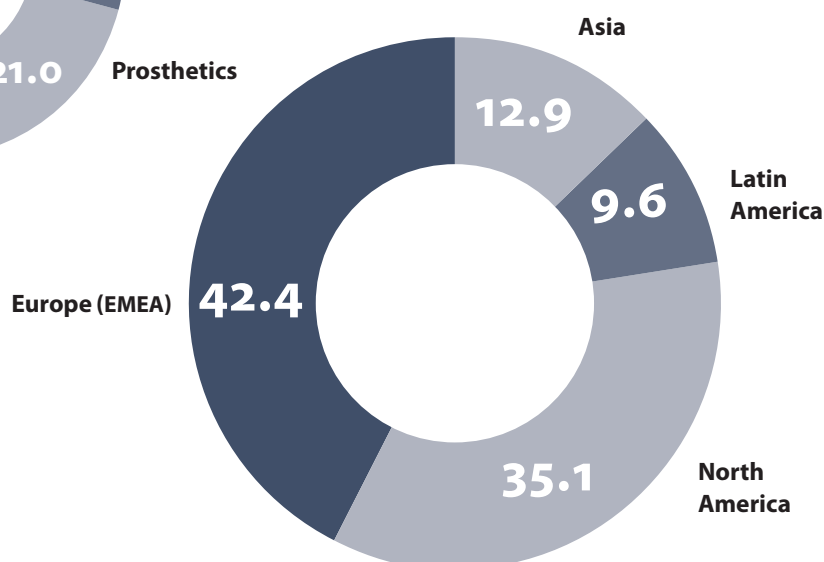
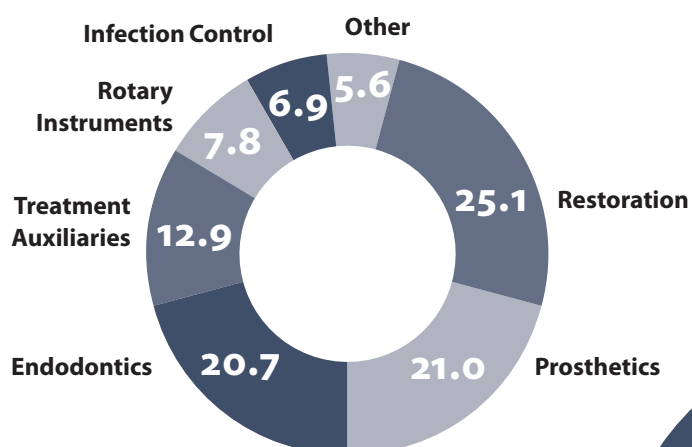
EBIT



Free Cash Flow



Net Sales 2016 in %



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Information about COLTENE share

Share Capital and Capital Structure

	2016	2015	2014	2013	2012
Par value per share (CHF)	0.10	0.10	0.10	0.10	0.10
Total registered shares	4 219 000	4 219 000	4 219 000	4 219 000	4 219 000
Cleared shares	16.30%	12.53%	19.88%	14.98%	19.44%
Number of treasury shares	3 700	5 100	100	993	9 739
Number of dividend-bearing shares	4 215 300	4 213 900	4 218 900	4 218 007	4 209 261
Registered capital (CHF 1000)	422	422	422	422	422
Conditional capital (CHF 1000)	0	0	0	0	0
Authorized capital (CHF 1000)	0	0	0	0	0
Total voting rights	4 215 300	4 213 900	4 218 900	4 218 007	4 209 261

Key Stock Exchange Figures per Share

CHF	2016	2015	2014	2013	2012
Share price high	75.50	83.65	65.40	49.80	36.00
Share price low	57.00	54.00	45.03	30.25	24.80
Closing rate	74.05	60.90	63.00	45.85	29.60
Average volume per trading day (number of shares)	2 728	5 044	5 314	5 554	5 700
Market capitalization – CHF million (31.12.)	312	257	266	193	125

Key Figures per Share

CHF	2016	2015	2014	2013	2012 ¹
Earnings per share – basic	4.10	3.16	3.71	3.13	2.33
Earnings per share – diluted	4.10	3.16	3.71	3.13	2.33
Operational cash flow per share	5.38	4.31	4.73	5.52	3.02
Free cash flow per share	4.05	3.25	3.96	4.03	1.93
Dividend per share	2.70 ²	2.20	2.50	2.20 ³	1.80 ⁴
Equity per share	26.63	24.10	24.68	23.15	22.09

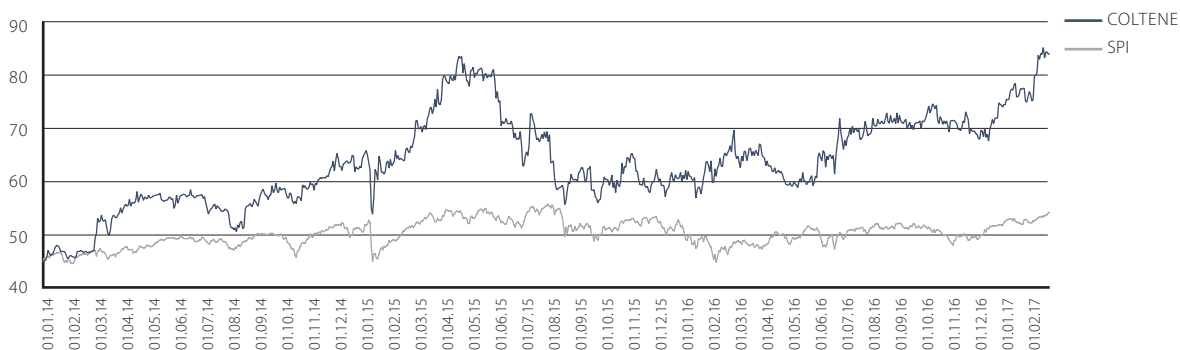
¹ Restated based on IAS 19 revised

² Board of Directors' proposal to the Annual General Meeting on March 29, 2017

³ Thereof CHF 0.28 dividend payout per share from capital reserves

⁴ Dividend payout per share from capital reserves

Share Price Performance (01/01/2014 to 22/02/2017)



COLTENE's share price increased by 21.6 % from CHF 60.90 to CHF 74.05 in 2016. In the year under review, COLTENE paid a dividend of CHF 2.20 per share at the beginning of April. The stock's total performance for the year was 25.2 %.

Shareholder Structure

As at December 31, 2016, there were 1684 shareholders entered in the share register (1633). The following shareholders held 3 % or more of the outstanding share capital of COLTENE Holding AG at year-end:

	31.12.2016	31.12.2015
Huwa Finanz- und Beteiligungs AG	25.68%	25.40%
Rätikon Privatstiftung	11.28%	10.40%
Tweedy, Browne Company LLC	6.88%	6.88%
Credit Suisse Funds AG	6.28%	5.03%
Robert Heberlein	3.97%	3.96%
UBS Fund Management (Switzerland) AG	3.80%	3.61%

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Corporate Calendar

Media and analysts' conference 2016, Annual Report 2016	March 9, 2017
Annual General Meeting 2017	March 29, 2017
Interim Report 2017	August 4, 2017
Media and analysts' conference 2017, Annual Report 2017	March 6, 2018
Annual General Meeting 2018	March 28, 2018

Highlights 2016

14.5 %

Considerable improvement in the EBIT margin

Sales growth and efficiency gains lift the EBIT margin to a higher level.

7.3 %

Strong sales growth in EMEA region

Growth in the core markets of France, the UK, Southern and Eastern Europe as well as the CIS region contributed to this pleasant progression.

33.7 mn

Prosthetics delivers the fastest sales growth

The Prosthetics product group posted the fastest sales growth at 8.5%, resulting in full-year sales of CHF 33.7 million.

15.5 %

Above-average growth in emerging markets

COLTENE Group generated considerable growth in local currencies in emerging markets on the back of intensified sales and marketing activities.

Foreword



Left: Nick Huber,
Chairman of the
Board of Directors
Right: Martin
Schaufelberger, CEO

Dear Shareholders,

COLTENE Group performed well in the 2016 financial year amid a challenging environment and its overall growth was in step with the market's growth. Thanks to innovation across its broad range of products, the selective expansion of its sales teams in key markets, and the greater digitalization of sales and marketing instruments, consolidated sales rose by 4.0% in Swiss francs to reach CHF 160.7 million. Growth in local currencies amounted to 2.2%. The Group made further pleasing progress towards its medium-term EBIT margin goal of 15%. Operating profit rose to CHF 23.3 million, an increase of 14.3% from the previous fiscal year. The EBIT margin expansion to 14.5% is largely attributed to the ongoing internationalization of the organization, efficiency gains in sales and marketing, and the unrelenting efforts to lower production costs to offset the strength of the Swiss franc. With the steady renewal of the product range, continual efficiency gains in procurement, production and marketing, and the selective strengthening of its sales organization, COLTENE Group is primed to strengthen its position in both its traditional markets and newer markets during the coming years.

COLTENE grew with the market in 2016 and took a big step towards its medium-term goal of a 15 % EBIT margin.

Turning digitalization into a competitive advantage

At the same time the increasing digitization of basic business processes and the possibilities that creates for networking internal and external data enable COLTENE to further streamline internal processes and make them more efficient, to identify market trends as they emerge and to promptly address specific needs. With its innovations, COLTENE simplifies many procedures of dentists in the digital treatment process and enables them to achieve the best possible result for every patient. For COLTENE management, digitalization is more than just a fleeting buzzword. Company management has allocated the appropriate resources to all relevant business areas so that the full potential of digitalization can be captured. Fittingly, Going Digital is the central theme of this Annual Report. The narrative information on pages 12 and 13 and the visual pages separating the various sections of this Annual Report illustrate COLTENE's approach to digitalization as well as various team projects that are under way to turn the opportunities that digitalization into a competitive advantage.

The increasing digitalization of dental treatment processes creates new growth opportunities for COLTENE.

Profitable growth

COLTENE's 2016–2018 strategic goals are focused on profitable growth. Group Management, acting in consultation with the Board of Directors, has initiated a total of twelve growth-promoting projects in the areas of sales and marketing, innovation and partnerships. The Group inaugurated two new sales and distribution companies in Turkey and Japan. In the second half of 2016 COLTENE expanded its sales force in major markets to boost organizational effectiveness and efficiency. This also included six field sales representatives in China and India so as to profit from the dynamic growth of these two markets. The newly recruited sales specialists strengthen key account management and address the needs of wholesale distributors and special markets. Management continues to promote innovation as a catalyst for future growth. Last year the focus was on the Restoration, Endodontics and Treatment Auxiliaries product groups. In restorative dentistry, modern CAD/CAM systems enable dentists to mill and insert customized dental implants from dental mill blocks during a single session. COLTENE possesses considerable know-how in the industrial fabrication of polymerized composites and is well-positioned to address this promising trend with its reinforced composite blocks launched in March 2016 under the name BRILLIANT Crios. With respect to root canal preparation, irrigation, disinfection and sealing, COLTENE has a number of promising products in its development pipeline that should broaden

its market presence in this attractive niche going forward. Stricter hygiene standards in dental practices are creating new growth potential for treatment auxiliaries and infection prevention and control products.

Enlargement of the Board of Directors

At the Annual General Meeting of shareholders on March 30, 2016, Jürgen Rauch, an entrepreneur and acknowledged expert for the production and distribution of consumer goods, was elected to the Board of Directors. Jürgen Rauch is the CEO of Rauch Fruchtsäfte GmbH & Co OG based in Rankweil, Austria. He brings valuable strategic experience in analyzing product markets and positioning leading international brands to the Company.

Outlook

COLTENE Group demonstrated strong innovation capabilities in the 2016 fiscal year. It established a firm foothold in digital dentistry treatments while also advancing the digitization of its internal procedures and customer relationship tools. By doing so, the Group is addressing the principal need of dentists for even more precision, efficiency and safety in the work they do while reducing the amount of time their patients must spend in the dental chair.

Looking ahead, COLTENE Group is determined to become even more innovative and agile. Rapid identification of new trends and needs should allow COLTENE to participate in the expected positive market developments and gradually raise its EBIT margin to 15% of sales.

On behalf of the Board of Directors and the Executive Management Board, we would like to express our gratitude to our employees for their hard work and dedication. We also thank our business partners and our shareholders for the trust they have placed in COLTENE Group.

Sincerely,
Nick Huber
Chairman of the Board of Directors



Martin Schaufelberger
CEO



The implementation of the 2016–2018 strategic targets will strengthen COLTENE Group's ability to recognize emerging trends and customer needs at an early stage.

Product Innovation

STEPPING INTO A NEW ERA

COLTENE entered the world of digital dentistry during the first quarter of 2016. In its capacity as official materials partner for Sirona's CAD/CAM CEREC system, COLTENE launched BRILLIANT Crios, reinforced composite blocs for chairside-manufactured permanent inlays, onlays, fully anatomical crowns and veneers. The successful market launch of this product bodes well for the digital future of restorative dentistry.





C
BRILLIANT
Crios

C
BRILLIANT
Crios

Going Digital

Digitalization can unlock tremendous opportunities in the market for dental consumables. Digitalization holds the potential to sharpen a company's competitive edge, which makes it an important instrument for securing profitable growth.

Digital processes in dentistry are revolutionizing treatment options, the occupational profile of a dentist, and are influencing the costs of treatment for the patient. Direct networking between customers, dealers and manufacturers is changing and simplifying communication channels. Products and services are being better aligned with customer needs by analyzing metadata drawn from numerous data points in the fields of sales, manufacturing, distribution and social media. New software solutions make real-time data management of scores of product documents in multiple languages possible, including dynamic integration into websites, online magazines or online stores.

Adjustments are also being made to the Company's organizational structure to optimally deploy and leverage the advantages digitization offers. COLTENE's digitalization projects are currently concentrated on areas ranging from product innovation to supply chain, marketing and the optimization of the organizational processes and tools.

Digitalization of dental treatments

The increasing digitalization of processes in the dental practice is changing the way dentists work and creating opportunities for manufacturers of dental consumables to offer products with higher value added. Such products simplify procedures and shorten treatment times for the patient. The advent of digital processes is, however, also

placing novel demands or expectations on incumbent products, for example bonding agents and cements for CAD/CAM blocks, and new opportunities for product innovation are emerging. An example here is BRILLIANT Crios, the new reinforced composite blocs for use with COLTENE's CAD/CAM technology.

Digital supply chain

The systematic analysis of data on the flow of goods and materials, be it from the suppliers through the distributors and dealers of the products to the dental practitioners at the end of the flow chain, serves to enhance procurement efficiency and optimize production planning. Further, it allows to identify and address customer needs and market

opportunities more quickly. By evaluating the available data, offers can be prepared based on market and customer needs and promotions can be tailor-made to meet individual preferences. The goal is to make the entire supply chain more precise, faster and cost-effective.

Digital organization

IT systems from SAP and other vendors and the recently introduced product information management system (PIM) enable centralized management and use of up-to-date, product-relevant data at any time. Research-related information, product information, a library of images and

training videos are instantly and constantly available in different languages and for a variety of information platforms. They range from product images for web shops, manuals (IFU), brochures, websites to internal training documents for sales staff.

DIGITAL TOOLS AND PROCESSES FOR



Operational Review

COLTENE Group contended with a difficult market environment in 2016. Overall market growth was in the low single-digits. COLTENE's individual markets and various product groups showed divergent developments. Business in Asia and other emerging markets continued to grow at a dynamic pace. China and India, two key markets, delivered double-digit growth in local currencies. Turning to the EMEA region, pleasing growth was recorded in Southern Europe and in the CIS countries. In North America, conversely, a trend for the better did not materialize. This was due to the continuing reduction in inventory at major distributors, which even the suspension of the US Medical Device Excise Tax (a tax on certain medical products) at the start of 2016 was unable to offset. Sales in Latin America showed pleasing developments despite the tense macroeconomic situation of some countries in that region. Turning to the product level, Prosthetics and Endodontics, the two product groups besides Treatment Auxiliaries that are the focal points of COLTENE's innovative pursuits, enjoyed the highest growth rates.

During the period under review COLTENE Group increased its sales by 4.0% in Swiss francs to CHF 160.7 million (2015: CHF 154.5 million). Sales growth in local currencies amounted to 2.2%. The euro and US dollar had a positive currency translation effect, whereas the Brazilian real was weaker than in the previous year despite having recovered steadily throughout the year. COLTENE Group's operating profit (EBIT) improved, bringing the EBIT margin closer to the medium-term target of 15%. Consolidated EBIT for the 2016 financial year rose by 14.3% from the previous year to CHF 23.3 million (2015: CHF 20.4 million). This widened the EBIT margin to 14.5% from 13.2% in the previous year. Net profit was buoyed by the generally more favorable exchange rates, advancing 29.5% to CHF 17.3 million (2015: CHF 13.3 million).

Efficiency gains

The higher operating profits are mainly attributed to changes in the product mix, the higher gross margin and further efficiency gains. The latter stemmed primarily from the transfer of production operations for diamond burs from the US to Switzerland, the ongoing implementation of global procurement policies and the new system that is being used to collect operational data, which has enabled COLTENE to manage and monitor the efficiency of all manufacturing sites from a central point. In marketing, the product information management system (PIM) that was introduced

COLTENE Group increased its sales by 4.0%. The EBIT margin climbed to 14.5%.

in the first half of 2016 has enabled the centralized management of product data and images as well as the global coordination of their use according to uniform standards. Reported net profit for the year was additionally boosted by a positive net financial result. This contrasts with the previous year when the net financial result was pressured by significant exchange-rate losses, especially at Vigodent after the steep drop in the value of the Brazilian real. At Vigodent, a deferred tax asset amounting to CHF 0.9 million was charged to tax expenses. This is in keeping with COLTENE Group's restrictive accounting policy with regard to tax loss carryforward.

Expansion of sales organization and marketing activities

Centralized leadership of the Group's worldwide sales organization as of October 1, 2015, has had a positive impact on sales performance. The more effective use of more modern customer relations management tools (CRM) have improved the ability to reach out to customers. Going a step further, Group Management expanded sales operations in core markets during the second half of 2016. In Japan, a wholly-owned Group subsidiary was officially established. At the same time COLTENE signed a worldwide material partnership with Sirona. In the second half of the year, COLTENE also recruited additional field sales representatives for its teams in key markets. This additional sales capacity will ensure appropriate contact with dealers and group dental practices and strengthen key account management activities in the so-called special markets such as government health agencies for example. The concurrent introduction of a comprehensive product information management system (PIM) supports COLTENE at harmonizing the Group's market approach worldwide and at creating and continuously updating marketing and sales documentation more efficiently and at lower cost.

COLTENE is expanding its sales force in major markets to boost organizational effectiveness and efficiency.

A special highlight of the period under review was the combined Latin America Congress for Key Opinion Leaders (KOL) and Dealers. It took place in Riviera Maya, Mexico from May 16–18, 2016. Keynote speeches and presentations on the latest developments in dentistry and COLTENE's state-of-the-art product portfolio were the highlight of this major event. The conference attracted considerable interest from the more than 350 dental specialists in attendance, especially those active in the fields of restoration, prosthetics and endodontics. They were joined by more than 60 dealers from 20 Latin American countries and 5 Asian countries. COLTENE launched an extensive online

and social media campaign in conjunction with the Latin America KOL Congress for the first time. By setting up a dedicated event website and using YouTube videos, Twitter and Facebook, COLTENE was able to also reach out to relevant universities and research institutes as well as to dental practitioners who were unable to attend the conference in person.

Innovation skills demonstrated

CAD/CAM systems are increasingly being used in modern dentistry. They allow dental professionals to mill and place customized restorative elements formed from dental mill blocks in a single session. COLTENE boasts considerable know-how in the industrial fabrication of polymerized composites, as demonstrated in the first half of 2016 when, in its capacity as the official materials partner for Sirona, it launched BRILLIANT Crios, reinforced composite blocs for making and placing permanent inlays, onlays, fully anatomical crowns and veneers at the chairside in a single session. In the still nascent business of modern endodontics, COLTENE is working on a promising pipeline of products for root canal preparation, irrigation, disinfection and sealing. Stricter regulations on hygiene are creating new growth opportunities for treatment auxiliaries and the solutions COLTENE offers stand for safe, efficient and compliant processes in dental practices.

Business performance by region:

Renewed growth in Asia

Sales trends across the various regions varied. In Europe, the Middle East and Africa (EMEA), sales rose by 7.3% in Swiss francs. Key factors for this growth were an upturn in economic activity in various markets across Southern and Eastern Europe and pent-up demand in the CIS region and in the Middle East. Growth in Germany, where the competitive field is still very challenging, subsided a bit. In Asia, COLTENE increased its sales in Swiss francs by 7.1% year-on-year. The Group recorded growth rates of 9.0% and 17.0% in China and India, two key markets of the future. Sales in North America were down 1.2% due to the communicated reduction in inventory at major distributors. North American dealers are optimizing their logistics and cutting costs by reducing inventory days. Sales of COLTENE products through distributors covering the North American market (sell-out) increased by 1.3% in local currency, while sales of COLTENE products to dealers decreased by 4.1% (sell-in). Excluding the inventory drawdown, COLTENE Group's sales in North America

Emerging markets
reported sales growth
of 7.1%.

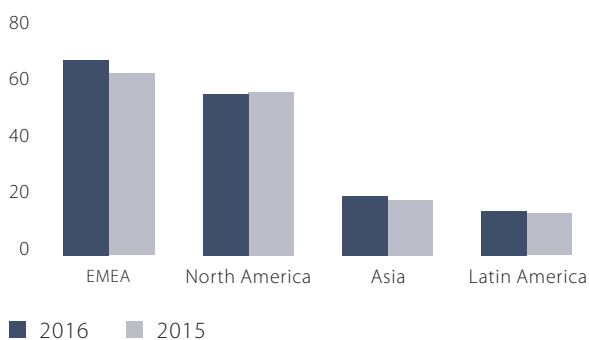
increased in accordance with the distributors' sell-out growth. Despite a weak economy in several Latin American markets, COLTENE sales in the Latin America region rose by 5.9% in Swiss francs. Intensified sales and marketing activities and the Latin America Congress for Key Opinion Leaders and Dealers had a stimulating effect on regional sales. In a move to simplify the management structure at the Brazilian subsidiary, Group Management entrusted the local finance director with general management responsibility and hired a new National Sales Manager who is responsible for managing all sales teams in the country. Local growth in Brazil was pleasingly positive again, which indicates that COLTENE was successful in adapting to the ongoing consolidation among distributors and the resulting concentration of inventory. The Brazilian subsidiary Vigodent grew its sales by 19.1% in local currency and by 13.8% in Swiss francs.

Looking at the regional breakdown of consolidated sales for the entire 2016 fiscal year, COLTENE achieved 42.4% of its total sales in EMEA, which represents Europe, the Middle East and Africa (2015: 41.2%), 35.1% in North America (2015: 36.9%), 12.9% in Asia (2015: 12.5%), and 9.6% in Latin America (2015: 9.4%). Sales in emerging markets increased by 7.1% in Swiss francs and by 15.5% at constant exchange rates, respectively, compared to the previous year. The growth is largely attributable to the positive trend in the CIS region and in Latin America, and accounted for 29.9% of consolidated sales (2015: 28.5%).

The three largest product groups delivered pleasing sales growth and enjoyed strong demand from dental professionals.

Sales by Region

in CHF million



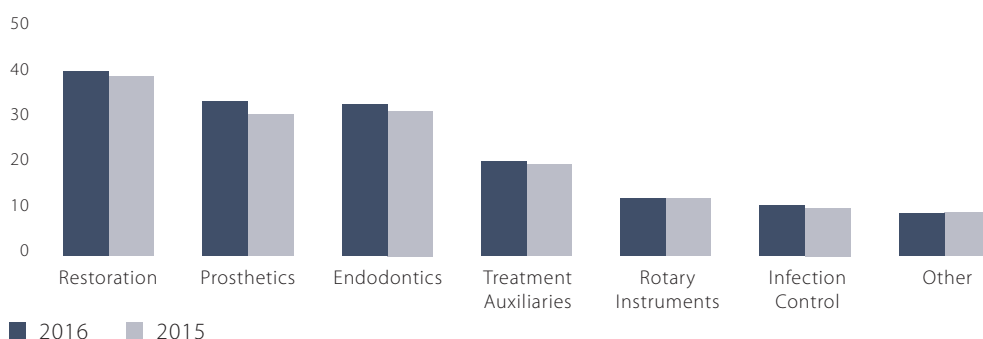
Business performance by product group:

Prosthetics strong

COLTENE recorded higher sales at its three major product groups Restoration, Prosthetics and Endodontics in the 2016 financial year. Prosthetics enjoyed the fastest growth. Sales in this product group rose by 8.5% to CHF 33.7 million (2015: CHF 31.0 million). Endodontics followed in second place with a 4.9% increase to CHF 33.2 million (2015: CHF 31.7 million). Both product groups profited from their strong line of established products and a number of newly launched products. Sales of the Restoration product group increased by 2.8% to CHF 40.3 million (2015: CHF 39.2 million). The Infection Control and Treatment Auxiliaries product groups reported growth of 5.2% and 3.0%, while sales of Rotary Instruments edged 0.5% higher. The deliberate phase-out of private label products in favor of COLTENE brand products had an impact on the latter product group and on laboratory products.

Sales by Product Group

in CHF million





Marketing

QUICKER IDENTIFICATION OF MARKET POTENTIAL

The systematic analysis of customer data and preferences enables COLTENE to address the needs of specific customer segments, or even individual dentists, more quickly and efficiently. Big data processes facilitate the identification of market potential. What's more, they allow special offers to be packaged and presented to dental professionals for products that complement the ones they are already using or that would further simplify their typical treatments.



Production and Environment

COLTENE Group's production facilities are specialized in different technologies and product offers. COLTENE understands its responsibility as global corporate citizen and undertakes extensive efforts to mitigate the Group's environmental impact throughout the entire design and production process to preserve limited resources and provide dental professionals and their patients with safe and reliable products. COLTENE's first Production & Environment report as part of the 2015 Annual Report as well as the current report publish a set of key values as well as certain activities and parameters monitored. Further, they aim to increase awareness within the Group.

Global Manufacturing Sites of COLTENE

In Altstaetten, Switzerland, COLTENE operates a chemical production site that is mainly specialized in the development and manufacturing of:

- A wide range of precision dental impression materials, including renowned C-Silicone and A-Silicone products. Impression materials from COLTENE belong to today's globally leading products and many dentists rely on the competence and expertise of these Swiss products since decades.
- High grade restorative products for innovative and clinically proven, aesthetic filling therapy as well as a wide range of adhesive and luting materials. COLTENE pioneered the development of white tooth fillings with composite material to replace amalgam fillings, which used to be the standard in earlier years.
- Key technologies include chemical processes mainly focusing on mixing and dosing.

In Langenau, Germany, the COLTENE factory is focused on the development and manufacturing of:

- Internationally renowned endodontic products and brands, ranging from root canal rinsing, drying to obturation. Products are known under the brand and trademarks of Roeko, Hygenic, Luna, or Surgitip.
- Reliably, high-quality products for wound care, moisture and infection control. Dentists like these well-established products as they make dental treatments easier and provide patient comfort. A very high standard of quality is guaranteed through fully automated manufacturing processes.
- Key technologies include gutta-percha, paper and textile related processes as well as processing and assembly of treatment auxiliary products.

The US production facility in Cuyahoga Falls/OH is mainly specialized in mechanical operations and offers a wide product range of:

- Ultrasonic cleaning and disinfection products. These appliances provide effective barriers to infection in the dental practice.
- Pins and posts like the ParaPost X system, endodontic files and carbide burs. Each product line has been market leader in many markets for decades.
- Key processes include mechanical treatment as well as manufacturing and assembly of electro-mechanical components.

Vigodent, the Brazilian manufacturer of chemical products for the Latin American market, offers products in the area of:

- Dental impression materials that allow precise impressions to be fabricated quickly and easily. Thanks to the wide product range, the user can utilize the right material for every indication.
- Composite material for restorative dentistry.
- Key technologies in Brazil base on the same manufacturing scope as at the Swiss site.

Environment

COLTENE Group is vigilantly looking for new opportunities to minimize its environmental impact. As a manufacturer of dental consumables, COLTENE is subject to stringent regulations that require it to monitor rigorously the items it produces and the processes used to manufacture them. It conducts strict quality-control protocols to test raw materials for identity, purity and content, to ensure that its products function safely and efficaciously, and to fully document all aspects of the manufacturing processes to ensure traceability and customer safety.

COLTENE's commitment to continuous improvement is supported by the COLTENE Code of Conduct, which requires that managers encourage all staff to include environmental protection in their daily responsibilities.

Apart from production and research activities, COLTENE's environmental impacts are rather low for an organization of its size, and in fact are low in comparison to many manufacturing companies. It manufactures neither implants nor amalgam fillings, and therefore does not use significant amounts of titanium metals, mercury, lead, or manganese that are often found in the production processes of other manufacturers serving the dental industry.

COLTENE's facilities and production methods are modern and environmentally efficient. The Group continuously looks for new opportunities to reduce material usage and energy consumption in order to realize improvements where they make sense from a technical and economic perspective. While the quality of its products and the safety of patients remain the overriding consideration, COLTENE will explore additional activities in this respect that benefit its business and all its stakeholders.

The environmental data monitored and disclosed focus on the key aspects of COLTENE's operations. In its production processes the main material product groups that are used are as follows:

- Restorative materials: Methacrylate matrix with glass filler
- Impression materials: Silicone polymers
- Endodontic products: NiTi metal, rubber, paper
- Treatment Auxiliaries: Rubber, metal, textile fibers, cotton, cleaning solutions
- Operating materials: Water, cleaning agents, galvanic baths solution, paper

In line with its focus to improve the manufacturing and workflow processes, COLTENE strives to reduce the use of operating materials year after year. The relatively low amounts of untreated wastewater, which is collected in drums and tanks and is disposed of by authorized specialist contractors, contain very low concentrations of cleaning detergents, solvents, acid, and oil.

In its 2015 Annual Report, COLTENE started reporting on environmental topics. Data collection as well as the preparation of the first report led to an increased awareness for the subject within the organization – a desired effect indeed. However, improvements in collecting and processing data were made throughout the process. Today, a standardized process for gathering and converting all relevant data has been established. Conversion of energy into carbon emissions respects country specific energy factors. As a result, previously reported figures are restated in this report.

In 2016, the reporting activities on environmental topics did not only increase awareness within the organization but also led to various initiatives and actions in different areas. Management focus for the year 2017 is on stabilizing correct reporting of environmental key figures and strengthening the general awareness for the topic over all group entities.













With regard to the reported figures, the following explanations shall help to understand this year's performance:

- In Germany, COLTENE inaugurated a new warehouse in 2016 equipped with a gas heating system. The new warehouse replaced previously rented warehouses with an oil heating system in place. Improved insulation, a more modern heating technology and new LED illumination contributed to reduce energy consumption and thereby CO₂ emissions.
- In Switzerland, a leakage in the water supply was discovered and repaired in cooperation with the municipal water supplier. The leaked water was excluded from the reported data. Still, the water consumption slightly increased.
- In the US, significant investments were made to replace elder air conditioners with state of the art technology. Further, an improved insulation and separated air conditioned zones led to significant energy savings.

- Teams in Switzerland, the US and Brazil managed to reduce waste generation and to increase recycling in various areas on own initiatives. With regard to recycling figures, a partial amount of the changes might also derive from more accurate tracking of material flows.

With the efforts spent in the last two years on reporting and internal awareness, COLTENE management laid the foundation to harvest sustainability improvements in the future. Group management is convinced that the efforts are already now of great value and a success.

Environmental Impact: Input and Output from 2014 to 2016

	2014	2015	2016			2014	2015	2016	Total 2015/2016
Electricity	1.02 GWh	1.06 GWh	0.98 GWh	 Germany	CO ₂	994 t	1 012 t	961 t	 5.53 GWh Electricity 5.18 GWh Electricity
Oil	16.3 t	16.3 t	0.0 t		Recycling	33.2 t	33.2 t	34.1 t	
Gas	94 963 m ³	92 000 m ³	118 200 m ³		Waste	10.6 t	10.6 t	10.9 t	
Water	1 759 m ³	1 800 m ³	1 629 m ³		Waste water	1 759 m ³	1 800 m ³	1 629 m ³	
Electricity	1.03 GWh	0.90 GWh	0.99 GWh	 Switzerland	CO ₂	336 t	292 t	305 t	 52.6 t Oil 36.3 t Oil
Oil	42.0 t	36.3 t	36.3 t		Recycling	11.3 t	30.5 t	48.9 t	
Gas	0.0 m ³	0.0 m ³	0.0 m ³		Waste	78.8 t	95.3 t	60.4 t	
Water	1 561 m ³	1 300 m ³	1 522 m ³		Waste water	1 561 m ³	1 300 m ³	1 522 m ³	
Electricity	3.19 GWh	3.16 GWh	2.77 GWh	 USA	CO ₂	2 570 t	2 511 t	2 017 t	 254 439 m ³ Gas 195 930 m ³ Gas
Oil	0.0 t	0.0 t	0.0 t		Recycling	41.1 t	14.6 t	57.5 t	
Gas	174 300 m ³	160 300 m ³	75 600 m ³		Waste	8.8 t	10.9 t	7.3 t	
Water	2 684 m ³	3 497 m ³	4 054 m ³		Waste water	2 684 m ³	3 497 m ³	4 054 m ³	
Electricity	0.40 GWh	0.41 GWh	0.44 GWh	 Brazil	CO ₂	122 t	125 t	134 t	 8 181 m ³ Water 9 031 m ³ Water
Oil	0.0 t	0.0 t	0.0 t		Recycling	3.3 t	4.7 t	1.4 t	
Gas	1 989 m ³	2 109 m ³	2 130 m ³		Waste	30.0 t	30.7 t	18.8 t	
Water	2 040 m ³	1 584 m ³	1 826 m ³		Waste water	2 040 m ³	1 584 m ³	1 826 m ³	
									 3 939 t CO ₂ 3 416 t CO ₂
									 83.0 t Recycling 141.9 t Recycling
									 147.5 t Waste 97.4 t Waste
									 8 181 m ³ Waste water 9 031 m ³ Waste water

Corporate Governance

COLTENE Holding AG

The following chapter describes the principles of corporate governance applied at Group and senior management level within the COLTENE Group. The main elements are contained in the Articles of Incorporation and organizational regulations, and are based on the “Guidelines concerning information on corporate governance” published by SIX Swiss Exchange as well as on the guidelines and recommendations set out in the “Swiss Code of Best Practice for Corporate Governance” published by *economiesuisse*. The Compensation Report is published separately in this Annual Report on page 42 to page 48. All information is valid as at December 31, 2016, unless otherwise stated. Significant changes that have occurred between that date and the publication date of this report have also been indicated as appropriate.

Group Structure and Shareholders

Group Structure

Operative Group Structure

COLTENE Group is targeting the markets for dental consumables. The Company evolved from the Health Care Division of the former Gurit-Heberlein AG and was incorporated as per December 15, 2005, under the formerly name Medisize Holding AG and listed as an independent company on June 23, 2006, on SIX Swiss Exchange. Medisize was operating with two segments in the dental and medical consumables markets. Effective as at April 30, 2008, the medical segment was sold to the Finnish Medifiq Group and the Company name was changed to COLTENE Holding AG. Since then COLTENE Group is active in the dental consumables market only and operates one segment in line with its management structure, the organizational setup, the reporting and the allocation of resources.

Legal Structure of Subsidiaries

Of all the companies consolidated, COLTENE Holding AG (the COLTENE Group's holding company) is the only one listed. It is headquartered in Altstätten/SG; COLTENE Holding AG's registered shares (security no. 2.534.325, ISIN CH0025343259, symbol CLTN) are quoted on SIX Swiss Exchange. On December 31, 2016, the market capitalization amounted to CHF 312.4 million (prior year CHF 256.9 million). All Group companies are ultimately owned at 100% by the Group's holding company. Information on the companies belonging to the COLTENE

Group, which are not listed, is shown on page 82 of the Financial Report.

Major Shareholders

On December 31, 2016, there were 1 684 shareholders (previous year: 1 633) entered in the share register and the following shareholders held stakes equaling or exceeding the legal disclosure threshold of 3% of the voting stock of COLTENE Holding AG:

Huwa Finanz- und Beteiligungs AG, Heerbrugg/SG, Switzerland, Bahnhofstrasse 2, 9435 Heerbrugg, held 1 083 463 registered shares. This equals voting rights of 25.68%. *Huwa Finanz- und Beteiligungs AG* is under control of Hans Huber, Appenzell/AI, Switzerland.

Rätikon Privatstiftung, Föhrenburgstrasse 5, 6700 Bludenz, Austria, held 475 994 registered shares. This equals voting rights of 11.28%. *Rätikon Privatstiftung* is under control of the family of Franz Rauch, Laterns, Austria.

Tweedy, Browne Company LLC, 350 Park Avenue, New York, NY 10022/USA held 290 212 registered shares representing 6.88% of the voting rights.

Credit Suisse Funds AG, Giesshübelstrasse 30, 8045 Zurich, Switzerland, held 264 958 shares or 6.28% of the voting rights.

Robert Heberlein, Zumikon/ZH, Switzerland, held directly and indirectly through Burix Holding AG, Zurich, which he controls, 167 403 registered shares, representing 3.97% of the voting rights.

UBS Fund Management (Switzerland) AG, P.O. Box, 8098 Zurich, held 160 270 shares or 3.80% of the voting rights.

All other shareholders held a stake of 42.11% of the voting rights of COLTENE Holding AG.

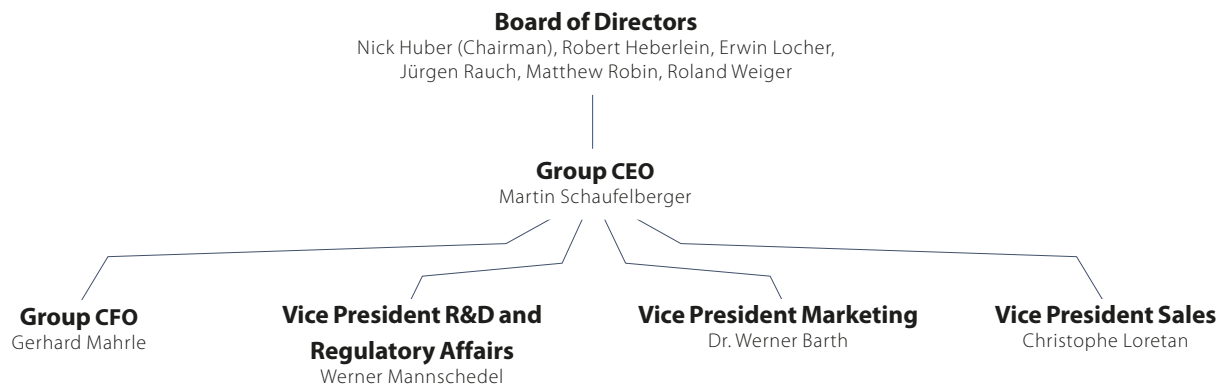
The Company held treasury shares amounting to 0.09% (0.12%) at the balance sheet date. Shares pending registration of transfer amounted to 16.3% (12.5%) of the total as at December 31, 2016.

Cross-Shareholding

COLTENE Holding AG has no cross-shareholding arrangements with other companies.

Structure of Group Operations

The management organization of the COLTENE Group as per January 1, 2017, appears as follows:



The COLTENE Group is operationally headed by the Group Management. On October 1, 2015, the Group increased the number of seats on its Group Management Board to five to better support its global setup. This decision established a broader base for top-level executive leadership and will help it to guide and grow the internationalized organization. The COLTENE Group Management, chaired by Martin Schaufelberger as CEO, consists of Gerhard Mahrle, CFO, who acts also as deputy CEO, Werner Mannschedel, Vice President R&D and Regulatory Affairs, Dr. Werner Barth, Vice President Marketing, and Christophe Loretan, Vice President Sales. The Group Management is responsible for the operational management of the holding company and the COLTENE Group. The Group is managed by the Board of Directors through the Group Management. The Board of Directors and the Group Management are assisted in their work by central Group functions. The separation of responsibilities between the Board of Directors and the Group Management is explained on page 30.

Capital Structure

Information about the capital structure can be found in COLTENE Holding AG's Articles of Incorporation, in the Financial Statements of COLTENE Holding AG as well as in the Investor Relations section on page 2 of this report. The Articles of Incorporation in German as well as an unofficial translation in English are available on the website at <https://docs.coltene.com/statuten> (German version) and <https://docs.coltene.com/aoi> (English version).

Capital

Details on the capital are included in the COLTENE Holding AG's financial statements on pages 86 and 87.

Authorized or Contingent Capital in Particular

COLTENE Holding AG has no authorized or contingent capital.

Changes in Capital

The following changes in equity of COLTENE Holding AG have occurred during the last three financial years. Due to the first application of the new Swiss accounting law with the financial statements of 2015, the balance sheet and equity table are newly structured. Treasury shares are recognized at weighted average cost and

deducted from shareholders' equity at the time of acquisition and no longer shown as assets. The former reserves for treasury shares is now contained in the net income brought forward. For improvement of the legibility, the prior years' figures were adapted accordingly.

Changes in equity			
In CHF 1 000	31.12.2016	31.12.2015	31.12.2014
Share capital	422	422	422
Statutory reserves	84	84	84
Capital contribution reserve	0	0	0
Reserves for treasury shares	-259	-307	-6
Net income brought forward	38 037	38 325	46 276
Total	38 284	38 524	46 776

Based on the AGM's decision on March 30, 2016, the Company distributed a dividend of CHF 2.20 per share to its shareholders on April 5, 2016. The total amount paid was TCHF 9 276.

Shares and Participation Certificates

The Company's share capital consists of 4 219 000 registered shares with a par value of CHF 0.10 each. All shares are fully paid up and entitled to dividends. They entitle the holder to one vote at the General Meeting. The right to apply the special rules concerning treasury shares held by the company is reserved, particularly in relation to the exemption from the entitlement to dividends.

The shares are traded in the main segment of SIX Swiss Exchange (security no. 2.534.325, ISIN CH0025343259, symbol CLTN). COLTENE Holding AG has not issued any participation certificates.

Profit-Sharing Certificates

COLTENE Holding AG has not issued any profit-sharing certificates.

Restrictions on Transferability of Shares and Nominee Registrations

According to §4 of the Articles of Incorporation, only individuals who are registered in the share register may be recognized as the owners or beneficiaries of traded shares. Registration of ownership may be refused only in cases where the purchaser does not expressly declare that he has acquired the shares for his or her own account. The Board of Directors may cancel a registration of a shareholder

or nominee in the share register, after hearing the respective parties, if the entry was made based on false declarations. The relevant party is to be immediately informed of this cancellation. The Board of Directors may define principles for the registration of fiduciaries or nominees and stipulate the necessary rules to guarantee compliance with the aforementioned principles.

Convertible Bonds and Warrants/Options

COLTENE Holding AG has no outstanding convertible bonds or options.

Board of Directors

Members of the Board of Directors

On December 31, 2016, the Board of Directors of COLTENE Holding AG consisted of six members. The Articles of Incorporation stipulate a minimum of three. The General Meeting of Shareholders elected at the meeting of March 30, 2016, Jürgen Rauch as an additional member of the Board for the first time. All Board members are non-executive and have no material business interest with the COLTENE Group. They are independent in the sense of the Swiss Code of Best Practice for Corporate Governance, and have not served on either the management of COLTENE Holding AG (holding company) or the management board of any subsidiary during the past three years. In the year under review the law firm Lenz & Staehelin, Zurich, where Robert Heberlein serves as a Counsel, received CHF 3 974 for legal advice.

The personal details together with the other activities and vested interests of individual members of the actual Board of Directors are listed on pages 32 to 34.

Election and Term of Office

The members of the Board of Directors are elected by the shareholders for a period of one year. At the end of their term of office, members may be re-elected. There is no limit to the period of office or age of members of the Board of Directors. The members of the Board of Directors are elected person by person.

Restrictions on Activities outside of COLTENE Group

Restrictions on activities outside of the COLTENE Group of the members of the Board of Directors are governed in §18 of the Articles of Incorporation.

Internal Organization

Allocation of Tasks within the Board of Directors

The Board of Directors is ultimately responsible for the management of the Company and the supervision of the persons in charge of the management. The Board of Directors represents the Company and takes care of all matters which are not delegated by law, the Articles of Incorporation, or the organizational regulations to another body.

The Board of Directors' main duties can be summarized as follows:

- determination and formulation of the business strategy
- purchase and sale of participations or establishment and liquidation of Group companies
- approval of investments in and divestments of fixed assets exceeding CHF 200 000 in value
- definition of COLTENE Group's finance strategy
- determination of financial accounting and reporting, financial control, and financial planning
- definition of COLTENE Group's organizational structure
- appointment of the persons in charge of the management and their supervision
- approval of the Auditor's report and Annual Report as well as preparation of the General Meeting of Shareholders and the execution of its resolutions

Membership of the Committees of the Board of Directors, their Duties and Responsibilities

The Board of Directors has delegated the operational management to the Group Management headed by the Chief Executive Officer (CEO). The chairman of the Board of Directors organizes and manages the work of the Board of Directors.

The permanent committees of the Board of Directors are composed as follows:

Audit and Corporate Governance Committee

Until the Annual General Meeting 2016 the Audit and Corporate Governance Committee was headed by Robert Heberlein and all other Board members were also members of the Audit and Corporate Governance Committee. Since then, the Audit and Corporate Governance Committee has been set up by the Board as follows:

Chairman: Erwin Locher

Members: Robert Heberlein, Jürgen Rauch

The Audit and Corporate Governance Committee assists the Board of Directors in its supervisory duties and has to perform the following main tasks and duties:

- approval of the auditing program and audit fees and form a judgment of the effectiveness of the external audits
- review, amendment and approval of the risk management assessment and system as well as control of the fulfillment of defined measures
- review and assessment of the functioning of the internal control system and control of the fulfillment of corrective actions
- review of the consolidated financial statements as well as interim statements intended for publication
- regular review of the principles concerning Corporate Governance
- proposals to the Board of Directors of amendments to the Articles of Incorporation or internal regulations if necessary

Nomination and Compensation Committee

The Nomination and Compensation Committee is elected every year by the Annual General Meeting. Until the Annual General Meeting 2016, the Nomination and Compensation Committee was headed by Matthew Robin and all other Board members were also members of the Nomination and Compensation Committee. Since then, the Nomination and Compensation Committee has been composed as follows:

Chairman: Matthew Robin

Members: Nick Huber, Roland Weiger

The Nomination and Compensation Committee carries out the following duties:

- recommendation of the remuneration of the members of the Board of Directors
- definition of the principles for the remuneration of the members of the Group Management and submission of these to the Board of Directors for approval
- definition of principles for the selection of candidates for election or re-election to the Board of Directors
- preparation of the selection and assessment of the candidates for the position of the CEO
- approval of appointments of members of the senior management
- approval of the remuneration to be paid to the senior management

- approval of the general guidelines for the Human Resources management of the Group
- yearly elaboration of the Compensation Report to be presented to the AGM

Working Methods of the Board of Directors and its Committees

The Board of Directors meets annually for at least four ordinary, mainly one-day meetings. Extraordinary meetings may be held as necessary. Every member of the Board of Directors is entitled to request an immediate meeting, provided that he names its purpose. In 2016, the Board of Directors met seven times. These meetings lasted in average four to eight hours. The Audit and Corporate Governance Committee met three times for a two hours' meeting. The Nomination and Compensation Committee met three times for a two hours' meeting.

Meetings are summoned in writing by the Chairman. An invitation together with a detailed agenda and documentation is sent to all participants normally seven days in advance of the date set for the meeting.

As a rule, the Chief Executive Officer and the Chief Financial Officer attend meetings of the Board of Directors as well as meetings of the committees. In order to ensure that the Board of Directors has sufficient information to make decisions, other members of the Group Management team or other members of staff or third parties may also be invited to attend.

The Board of Directors is quorate if all members have been duly invited and the majority of its members take part in the decision-making process. Members may participate in deliberations and the passing of resolutions by telephone, by video conference or other suitable electronic media if all participants are in agreement. The decisions of the Board of Directors are taken on the basis of the votes submitted. In the event of a tie, the Chairman has the casting vote. Decisions may also be made in writing.

Proposals may also be sent to all members and they are regarded as passed if the majority of members agree unconditionally and no member insists on discussion of the issues in question in a formal meeting. Members of the Board of Directors are obliged to leave meetings when issues are discussed that affect their own interests or the interests of persons close to them.

All proposals and decisions are entered in the minutes to the meeting of the Board of Directors and its committees. The minutes also contain a summary of important requests to speak and any deliberations.

Definition of Areas of Responsibility

The areas of responsibility between the Board of Directors and the Group Management are defined in COLTENE Holding AG's organizational regulations and can be summarized as follows: with the exception of decisions which according to article 716a of the Swiss Code of Obligations are part of its indefeasible and non-transferable duties, and those additional duties listed on pages 29 to 30, the Board of Directors has delegated the executive control of COLTENE Group and, with it, operational management of the entire COLTENE Group, to the Group Management.

Information and Control Instruments vis-à-vis Group Management

As a rule, the Group Management updates the Board of Directors on operations and COLTENE Group's financial position every month. In addition, the CEO and CFO report on business and all matters of relevance to the Board of Directors at each meeting of the Board of Directors. Every member of the Board of Directors has the right to ask any member of the Group Management for information about matters within his remit, even outside meetings. The Chairman of the Board of Directors is also informed by the CEO about all businesses and issues of a fundamental nature or of special importance.

Based on an approved Risk Management policy by the Board of Directors, an extensive system for monitoring and controlling the risks linked to the business activities is in place. The Group Management is responsible for the risk identification, analysis, controlling, reporting and monitoring the implementation. The Board of Directors reviews once a year the risk management and the results of implemented corrective actions.

Based on an approved Internal Control System policy by the Board of Directors the internal control mechanisms are reviewed and documented based on defined requirements. At least once a year a member of the audit committee reviews in detail the assessments made and corrective actions implemented. These findings are reviewed regularly by the Board of Directors.

Regarding the management of financial risks see the Notes to Group Financial Statements on pages 65 and 66.

Membership of the Board of Directors

Members of the Board of Directors	Board of Directors	Born in	Year of first election	Term of office until AGM of	Audit and Compliance Committee	Nomination and Compensation Committee
Nick Huber	Chairman	1964	2005	2017		Member
Robert Heberlein	Member	1941	2005	2017	Member	
Erwin Locher	Member	1953	2009	2017	Chairman	
Jürgen Rauch	Member	1967	2016	2017	Member	
Matthew Robin	Member	1965	2006	2017		Chairman
Roland Weiger	Member	1961	2013	2017		Member

Board of Directors

The Board of Directors of COLTENE has committed itself to maintaining the highest standards of integrity and transparency in its governance of the Company.



From left to right: Matthew Robin, Jürgen Rauch, Nick Huber, Robert Heberlein, Erwin Locher, and Roland Weiger

Nick Huber

- Chairman of the Board of Directors
(year of first election: 2005)
- Non-executive member
- Businessman, Stanford Executive Program
- Swiss citizen, born in 1964

Professional background (main stages)

- 1990–1995 Account Manager, IBM (Switzerland) AG, Zurich/ZH
- 1995–2005 Divisional Head, SFS Unimarket AG, Heerbrugg/SG
- 2005–2016 Member of the Executive Management of SFS Services AG, Heerbrugg/SG

Other important activities and vested interests

- Member of the Board of Directors of Huwa Finanz- und Beteiligungs AG, Heerbrugg/SG
- Member of the Board of Directors of Gurit Holding AG, Wattwil/SG

Key knowledge and experience

- International and strategic management – many years of operational leadership experience in management positions in the SFS group and longtime experience as member of the board of international companies.
- Human resources – longtime operational responsibility of the human resources department of the SFS group.
- Marketing and sales – operational management experience as divisional head of direct and indirect consumables business.

Robert Heberlein

- Member of the Board of Directors
(year of first election: 2005)
- Non-executive member
- Attorney-at-law
- Swiss citizen, born in 1941

Professional background (main stages)

- 1977–2008 Partner, Lenz & Staehelin, Zurich/ZH
- Since 2009 Counsel of Lenz & Staehelin, Zurich/ZH

Other important activities and vested interests

- Chairman of the Board of Directors of Huwa Finanz- und Beteiligungs AG, Heerbrugg/SG

Key knowledge and experience

- Financial management and audit – longtime counseling of an international clientele in the finance and manufacturing industry on corporate, tax, regulatory and strategic issues.
- Legal affairs and compliance – chairman or member of the Board of Directors or audit committees of public and private companies and foundations in Switzerland.

Erwin Locher

- Member of the Board of Directors
(year of first election: 2009)
- Non-executive member
- Economist, University of Basel, MBA, University of Toronto (Rotman)/University of St. Gallen/SG
- Swiss citizen, born in 1953

Professional background (main stages)

- 1979–1982 Internal Auditor, Sandoz AG, Basel/BS
- 1982–1986 Head Logistics, Mibelle AG, Buchs/AG
(subsidiary of Migros)
- 1986–1987 Treasurer, Zellweger AG, Uster/ZH
- 1987–1991 Vice President Finance, Mibelle AG, Buchs/AG
(subsidiary of Migros)
- 1991–1996 Vice President Finance, and then President,
Allo Pro AG, Baar/ZG (subsidiary of
Sulzer Medica)
- 1996–2004 CEO and President Synthes Division, Mathys
Medical AG, Bettlach/SO

Other important activities and vested interests

- CEO and Member of the Board of Directors
of Thommen Medical AG, Grenchen/SO
- Member of the Board of Directors of Mathys AG,
Bettlach/SO
- Management and consultancy function for Ziemer
Ophthalmic Systems AG, Port/BE

Key knowledge and experience

- International and strategic management, marketing
and sales – experience as former CEO of a global
medical device company.
- Financial management, audit and compliance –
many years of experience as Vice President of finance
in a national and international company.
- Dental industry – operational responsibility for the
COLTENE Group as CEO ad interim in 2011/2012.

Jürgen Rauch

- Member of the Board of Directors
(year of first election: 2016)
- Non-executive member
- Business economist, University of Innsbruck/AT
- Austrian citizen, born in 1967

Professional background (main stages)

- 1993–1994 Management function at Pittra Inc,
New York/USA
- 1994–2004 General Manager of Rauch Hungaria Kft,
Budapest/HU
- Since 2004 CEO of Rauch Fruchtsäfte GmbH & Co OG,
Rankweil/AT

Other important activities and vested interests

- Jürgen Rauch has no other important activities
and vested interests.

Key knowledge and experience

- Production and distribution – long lasting experience
in building up and in general management of an
international bottling company for liquid consumables.
- Marketing and branding – many years of experience
in the positioning and marketing of an international
renowned brand in the consumables industry.

Matthew Robin

- Member of the Board of Directors
(year of first election: 2006)
- Non-executive member
- M. Eng. in Chemical Engineering, Imperial College,
University of London/UK
- British and Swiss citizen, born in 1965

Professional background (main stages)

- 1987–1998 Various functions in the USA and in Switzerland (last function: Business Director US Custom Manufacturing), Lonza Fine Chemicals
- 1998–2003 Various senior management functions (last function: Head Disetronic Injection Systems), Disetronic, Burgdorf/BE
- 2003–2006 CEO, Ypsomed Holding AG, Burgdorf/BE
- 2007–2011 Divisional Head Liquid Handling & Robotics, Tecan Holding AG, Männedorf/ZH
- Since 2011 CEO, ELSA/Mifroma, Estavayer-le-Lac/FR

Other important activities and vested interests

- Matthew Robin has no other important activities and vested interests.

Key knowledge and experience

- International and strategic management – longtime operational and strategic leadership and experience in the medical device and other regulated international businesses.
- Manufacturing, innovation and human resources – many years of experience as business director and CEO of large producing companies.

Roland Weiger

- Member of the Board of Directors
(year of first election: 2013)
- Non-executive member
- Prof. Dr. med. dent., University of Tübingen, Germany
- German citizen, born in 1961

Professional background (main stages)

- 2000–2002 Professor of Endodontology,
University of Tübingen, Germany
- 2002–2011 Chairman of the Research Committee,
European Society of Endodontology (ESE)
- Since 2002 Professor and Director, Clinic of
Periodontology, Endodontology and
Cariology at the University of Basel/BS
- 2012–2015 Director of the Department of Dental
Medicine, University of Basel/BS
- Since 2016 Director of the University Dental Clinics and
member of the Executive Board of the
University Center of Dentistry (UZB), Basel/BS

Other important activities and vested interests

- Member of the Expert Commission of the Swiss Society for Preventative, Restorative and Esthetic Dentistry (SSPRE)
- Member of the Board of the Swiss Society of Periodontology (SSP)
- Appointed expert for the Swiss federal examinations in dentistry

Key knowledge and experience

- Expertise in general dentistry and specialized conservative dentistry – longtime leadership experience as chairman of a dental department and higher-level clinical university institution.
- Experience in dental technology and dental market – profound expertise in research, teaching and clinical procedures as professor in conservative dentistry and professional competence as practicing dentist specialized in endodontology and restorative dentistry.

Group Management

The Group Management of COLTENE has committed itself to the highest principles of sustainability, integrity and responsibility that build the foundation of COLTENE's corporate culture.



From left to right: Werner Mannschedel, Gerhard Mahrle, Christophe Loretan, Martin Schaufelberger, and Werner Barth

Martin Schaufelberger

- Chief Executive Officer COLTENE Group (since 2012)
- Electrical Engineer, Fachhochschule für Technik, Rapperswil/SG
- MBA Marketing, City University of Seattle, Zurich/Seattle
- Swiss citizen, born in 1964

Professional background (main stages)

- 1988–1998 Various functions in Switzerland and Japan (last function: General Manager Strategic Marketing), Zellweger Uster AG, Uster/ZH
- 1998–2001 Head Marketing and Sales, Kunststoff Schwanden AG, Schwanden/GL
- 2001–2007 Deputy CEO Kunststoff Schwanden AG, Schwanden/GL
- 2007–2012 CEO Kunststoff Schwanden AG, Schwanden/GL

Martin Schaufelberger has no other important activities and vested interests.

Gerhard Mahrle

- Chief Financial Officer COLTENE Group (since 2014)
- lic. oec. HSG, University of St. Gallen
- Swiss citizen, born in 1957

Professional background (main stages)

- 1985–1992 Various senior positions in finance at the Galenica Group and the Hilti Group
- 1992–1998 CFO Eugster/Frismag Group, Romanshorn/TG
- 1998–2000 CFO Batigroup Holding AG, Basel/BS
- 2000–2009 CFO sia Abrasives Holding AG, Frauenfeld/TG
- 2009–2013 CFO Kardex AG, Zürich/ZH

Gerhard Mahrle has no other important activities and vested interests.

Werner Mannschedel

- Vice President R&D and Regulatory Affairs COLTENE Group
- Member of the Group Management since 2015
- Pharmacist and Biologist, University of Erlangen/Germany
- German citizen, born in 1956

Professional background (main stages)

- 1988–1992 Head Quality Control and Analytic, ROEKO GmbH + Co. KG, Langenau/Germany
- 1992–1998 Head Operations, ROEKO GmbH + Co. KG, Langenau/Germany
- 1998–2002 General Manager, ROEKO GmbH + Co. KG, Langenau/Germany
- 2002–2007 Head European Operations (EMEA), COLTENE Group, Altstätten/SG
- 2007–2011 President European Operations (EMEA), COLTENE Group, Altstätten/SG
- 2011–2012 Head Global Operations, COLTENE Group, Altstätten/SG
- 2012–2015 Head Global R&D and Regulatory Manager COLTENE Group, and General Manager Coltène/Whaledent GmbH + Co. KG, Langenau/Germany

Werner Mannschedel has no other important activities and vested interests.

Werner Barth

- Vice President Marketing COLTENE Group
- Member of the Group Management since 2015
- Dr. sc. techn. ETH, Zurich/ZH
- Swiss citizen, born in 1966

Professional background (main stages)

- 1999–2001 Head Business Unit Medical Products, VOLPI AG, Schlieren/ZH
- 2001–2004 Product manager and Sales manager HMT High Medical Technologies AG, Lengwil/TG
- 2005–2006 Head Marketing & Sales, Ziemer Ophthalmic Systems AG, Port/BE
- 2006–2013 Vice President Sales, Ziemer Ophthalmic Systems AG (Ziemer Group), Port/BE
- 2013–2015 Global Director Marketing, Coltène/Whaledent AG, Altstätten/SG

Werner Barth has no other important activities and vested interests.

Christophe Loretan

- Vice President Sales COLTENE Group
- Member of the Group Management since 2015
- Dipl. sc. nat. ETH Zurich/ZH
- MBA University of Rochester, Bern/BE
- Swiss citizen, born in 1970

Professional background (main stages)

- 1998–2002 Marketing Manager and Area Sales Manager
Division Biomaterials, Geistlich Pharma AG,
Wolhusen/LU
- 2002–2003 Business Development Manager Pharma/
Gastroenterology, Tillotts Pharma AG,
Ziefen/BL
- 2003–2005 Global Marketing Manager, Novozymes
Switzerland AG, Dittingen/BL
- 2006–2013 Customer Solutions Director EMEA,
Novozymes Switzerland AG, Dittingen/BL
- 2013–2015 Technical Service and Sales Director EMEA,
Novozymes Switzerland AG, Dittingen/BL

Christophe Loretan has no other important activities and vested interests.

Group Management

On December 31, 2016, COLTENE Holding AG's Group Management consisted of the Chief Executive Officer (CEO) Martin Schaufelberger, the Chief Financial Officer (CFO) Gerhard Mahrle, who also acts as deputy CEO, Werner Mannschedel, Vice President R&D and Regulatory Affairs, Dr. Werner Barth, Vice President Marketing, and Christophe Loretan, Vice President Sales.

Members of the Group Management

The personal details together with the other activities and vested interests of individual members of the actual Group Management are listed on pages 35 to 37.

Management Contracts

No agreements pertaining to the provision of managerial services exist between COLTENE Holding AG and other companies or natural persons outside the COLTENE Group.

Restrictions on Activities outside of COLTENE Group

Restrictions on activities outside of the COLTENE Group of the members of the Group Management are governed in §18 of the Articles of Incorporation.

Principles on Compensation of the Members of the Board of Directors and the Group Management

Principles applicable to performance-related payments and to the allocation of equity securities, convertible rights and options, as well as the additional amount for payments to members of the Group Management appointed after the vote on the compensation at the General Meeting of Shareholders are governed in §§22 et seqq. of the Articles of Incorporation.

Loans, credit facilities and post-employment benefits for members of the Board of Directors and the Group Management are governed in §28 of the Articles of Incorporation.

Regulations on the vote of the General Meeting of Shareholders on the compensation are governed in §§13.3 and 21 et seqq. of the Articles of Incorporation.

Further information regarding the compensation of the Board of Directors and the Group Management is available in the section of the Compensation Report on pages 42 to 48 of this Annual Report.

Shareholders' Participation Rights

Details of shareholders' participation rights can be found in the Articles of Incorporation of COLTENE Holding AG. The Articles of Incorporation in German and in English are available on the website at <https://docs.coltene.com/statuten> (German version) and <https://docs.coltene.com/aoi> (English version).

Voting Right Restrictions and Representation

The Articles of Incorporation contain no restrictions on voting rights. Every registered share represented at the General Meeting is entitled to one vote. A shareholder may vote his own shares or be represented at the General Meeting by way of a written proxy. Since the Annual General Meeting 2015 every shareholder can use also the online platform of ShareCommService AG ("Indirect Voting System – IDVS") in order to grant the independent proxy a power of attorney and to forward his instructions to such independent proxy.

Statutory Quorums

Unless otherwise determined by law, a General Meeting convened in accordance with the Articles of Incorporation is quorate regardless of the number of shareholders attending or the number of shares represented. To be valid and subject to legal or statutory provisions, resolutions require an absolute majority of the votes submitted.

Important decisions of the General Meeting as defined in article 704 §1 of the Swiss Code of Obligations require at least two-thirds of the votes present and the absolute majority of the par value of shares represented.

Convocation of the General Meeting of Shareholders

The ordinary General Meeting of Shareholders takes place annually within six months of the end of the Company's financial year. Extraordinary General Meetings can be called by decision of the General Meeting, the Board of Directors, at the request of the auditors, or if shareholders representing at least a tenth of the share capital submit a request in writing, stating the purpose to the Board of Directors.

The invitation to the General Meeting of Shareholders is published in the Swiss Official Commercial Gazette. All shareholders whose addresses are registered in the share register are notified by a letter or by e-mail at their choice.

Agenda

The Articles of Incorporation contain no regulations relating to agendas that differ from those set forth by the law.

Entries in the Share Register

Shareholders and/or beneficiaries of registered shares are entitled to vote if they are registered in the share register at the time of the General Meeting of Shareholders. The Board of Directors shall determine and indicate in the invitation to any General Meeting of Shareholders the relevant cut-off date for registrations in the share register that shall be relevant for the eligibility of any shareholder to participate in and vote at such General Meeting.

Changes of Control and Defense Measures

Public Purchase Offers

The Articles of Incorporation of COLTENE Holding AG do not stipulate an alleviation or exemption for the duty to submit a public offer according to articles 32 and 52 of the Swiss Federal Act on Stock Exchanges and Securities Trading (SESTA) (Bundesgesetz über die Börsen und den Effektenhandel, BEHG).

Clauses on Changes of Control

No change of ownership clauses are in effect at December 31, 2016, at COLTENE Group and senior management level.

Auditors

Duration of Mandate and Lead Auditor's Term of Office

Ernst & Young AG, St. Gallen (EY), has been elected as COLTENE Holding AG's statutory auditor the first time at the Annual General Meeting of April 20, 2012, for a one-year term. Since then, EY has been elected every year again for a one-year period. EY also serves as Group auditors. Rico Fehr has been the lead auditor since that date.

The Audit and Corporate Governance Committee ensures that the lead auditor is rotated at least every seven years.

Auditing Fees

The total sum charged for auditing services during the year under review by EY in its capacity as COLTENE

Group's statutory auditor amounted to CHF 227 360 (CHF 247 400 in previous year).

Audit services are defined as the standard audit work performed each year in order to issue opinions on the Group companies in scope and consolidated financial statements of the Group, to issue opinions relating to the existence of the Group's internal control system, and to issue reports on local statutory financial statements if required. Also included are audit services that are only provided by the Group auditor, such as auditing of non-recurring transactions and implementation of new accounting policies, as well as audits of accounting infrastructure system controls.

Additional Fees

EY was also paid fees totaling CHF 8 750 (CHF 21 400 in previous year) for non-audit-related services. The entire amount was paid for tax advice.

Supervisors and Control Instruments Pertaining to the Auditors

As explained on page 29, the Board of Directors has established an Audit and Corporate Governance Committee to monitor the external auditors (statutory and COLTENE Group auditors).

The Audit and Corporate Governance Committee, acting on behalf of the Board of Directors, is responsible for overseeing the activities of EY and statutory auditors. During 2016, the Audit and Corporate Governance Committee held three meetings. At these meetings, the Group auditors of EY participated during the discussion of agenda items that dealt with accounting, financial reporting or auditing matters and any other matters relevant for their audit.

As part of its duties, the Audit and Corporate Governance Committee also assesses the services and fees charged by the external auditors as well as their independence from the entire Board of Directors and COLTENE management. Criteria applied for the performance assessment include technical and operational competence, independent and objective view, sufficient resources employed, focus on areas of significant risk to COLTENE Holding AG, willingness to probe and challenge, ability to provide effective, practical recommendations and open and effective communication and coordination with the Audit and Corporate Governance Committee.

On an annual basis, the Audit and Corporate Governance Committee and EY discuss EY's independence from COLTENE Group and COLTENE management.

Based on the outcome of the performance of EY as well as other criteria, the Audit and Corporate Governance Committee decides on its recommendation to the Board of Directors whether EY should be proposed to the Annual General Meeting for re-election. Based on the recommendation by the Audit and Corporate Governance Committee the Board of Directors nominates an independent auditor for election at the Annual General Meeting.

The Audit and Corporate Governance Committee recommended to the Board of Directors the approval, and the Board of Directors approved the Annual Report for the year ended December 31, 2016, including the audited financial statements.

Information Policy

COLTENE Holding AG provides its shareholders with information in the form of the Annual Report and Half-year Report. Important events are published immediately through press releases and/or letters to shareholders. Further information can be requested at the contact address indicated on page 3 and page 95.

Internet

Shareholders and other interested parties can obtain information about COLTENE Group on the Internet at www.coltene.com and subscribe to a news service.

Ad Hoc Publicity

COLTENE Holding AG maintains regular contact with the financial world in general and with important investors. At the same time, it abides by the legally prescribed principle of treating all parties equally as regards communication. Relevant new facts are published openly and are available to all interested parties.

For important dates of publications this year, the following year and contact addresses refer to page 3.



Treatment Processes

MORE AESTHETIC AND SAFE TREATMENTS

Digital technology, processes and procedures have become a fixture of modern dental offices. They have changed the way dentists work. Computer-assisted systems and applications are simplifying dental treatments and shortening treatment times. Patients are being rewarded with more aesthetic treatment results and better safety.



Compensation Report

1 Introduction

This report provides an overview of COLTENE's compensation principles and practices. It provides information on the compensation of Senior Management, Group Management and Directors in 2015 and in 2016. It explains the variable compensation systems and equity participation programs and discloses equity participations of Directors and Management in the Company.

These principles and practices are designed to:

- align the interests of the leadership team and employees with those of our shareholders
- support our attractiveness as a global employer, helping us to retain and recruit an engaged workforce
- reward individuals according to clear targets
- encourage entrepreneurship, above-market performance, accountability and value creation

We believe that our scheme is balanced and in line with current best practices.

1.1 Reporting Standards

This report is in line with the 'Swiss Code of Best Practice for Corporate Governance'. In accordance with the IFRS financial reporting standards and Swiss law, the compensation paid or awarded to Directors and the Group Management is also presented in our audited Financial Report (see pages 81 and 90).

1.2 Management Structure

Annual General Meeting
Board of Directors / Nomination and Compensation Committee
Group Management
Senior Management
Employees

Fig. 1: Management Structure

The Board of Directors (BoD) is headed by the Chairman Nick Huber. The General Meeting of shareholders on March 30, 2016 expanded the board's know-how by electing Jürgen Rauch, an acknowledged entrepreneur and consumer goods specialist, as a new Director. Jürgen Rauch is CEO of Rauch Fruchtsäfte GmbH & Co OG based in Rankweil, Austria. His strategic experience in market analysis and international brand positioning will be of great

value to the Company. Erwin Locher, chairman of the Audit Committee, Matthew Robin, chairman of the Nomination and Compensation Committee, Robert Heberlein and Roland Weiger complete the Board of Directors. More information regarding the members of the Board of Directors is available on pages 32 to 34.

The Group Management (= Geschäftsleitung) is since October 1, 2015, composed of the Group CEO Martin Schaufelberger, the Group CFO Gerhard Mahrle, the Vice President R&D and Regulatory Affairs Werner Mannschedel, the Vice President Marketing Dr. Werner Barth, and the Vice President Sales Christophe Loretan. Christophe Loretan joined the COLTENE Group on October 1, 2015, and Werner Mannschedel and Werner Barth execute their functions within the COLTENE Group already since several years. More information regarding the members of the Group Management is available on pages 35 to 37.

1.3 Corporate Governance

The Board of Directors proposes candidates for the Nomination and Compensation Committee (NCC) to be elected annually by shareholders at the Annual General Meeting (AGM). Until the AGM 2016 all members of the Board of Directors were members of the NCC, which is chaired by Matthew Robin. Since the AGM 2016 the NCC is composed as follows:

Chairman: Matthew Robin

Members: Nick Huber, Roland Weiger

NCC meetings are normally attended by all members of the Board. The board members that were not elected as members of the NCC attend the meetings as guests with no voting rights.

The Board of Directors determines the NCC's responsibilities, and passes all resolutions on the Company's compensation system (see pages 43 to 45). The NCC is entrusted with the design of the compensation system that applies to Directors, Group Management and Senior Management. It reviews the principles and programs for compensation, and ensures that the compensation paid by the Company is based on market- and performance-related criteria. The NCC reports to the Board of Directors on compensation practices as well as on Management compensation at least once a year and proposes changes when necessary. Any recommendations made to the Board of Directors by the NCC are discussed, adjusted if

required and formally approved by the Board of Directors. Among others, the NCC carries out the following duties:

- recommendation of the remuneration of the members of the Board of Directors
- definition of the principles for the remuneration of the members of the Group Management and submission of these to the Board of Directors for approval
- approval of the remuneration to be paid to the senior management
- yearly elaboration of the Compensation Report to be presented to the AGM

Recommendation and decision responsibilities with regard to compensation

Recipient	Recommendation	Decision	Approval
Chairman of the Board of Directors	NCC	BoD	AGM
Other members of the Board of Directors	NCC	BoD	AGM
CEO	NCC	BoD	AGM
Other members of the Group Management	CEO	BoD	AGM
Senior Management		Group Management	Group Management

NCC: Nomination and Compensation Committee
BoD: Board of Directors
AGM: Annual General Meeting

This table above describes the recommendation, decision and approval process of the COLTENE Group with regard to compensation to the Board of Directors, to the Group Management and to the senior management level (including the split in fixed and variable amounts and the approval of the maximum payout). According to the Ordinance Against Excessive Compensation in Public Corporations (VegÜV), effective since 2014 and the Articles of Incorporation of COLTENE Holding AG of April 15, 2014, the compensation to the Board of Directors and to the Group Management has to be approved by the Annual General Meeting (AGM). COLTENE has chosen that the AGM approves the compensation for subsequent fiscal year. While the NCC recommends the remuneration packages, the BoD decides on the compensation packages that are submitted to the AGM for approval. The Group Management decides and approves the compensation for the Senior Management within the guidelines set by the NCC. For all other employees, the Group Management is responsible for setting the guidelines for compensation which is implemented by the Senior Management.

2 Compensation Principles

2.1 Driving Values through Compensation

We are convinced that a compensation system based on value creation encourages sustainable performance, loyalty and entrepreneurship and is thus in the interests of management, employees and shareholders. We are committed to compensating our staff, management and Directors in a way that is competitive and rewards sustainable, short-term and long-term performance with the objective of driving value.

It is COLTENE's view that the success of a Company depends largely on the quality and engagement of its people. A modern compensation system is an important instrument for attracting, retaining and motivating talented people. COLTENE's compensation system takes these factors into account in that it:

- offers competitive salaries
- fosters a high-performance culture that differentiates and rewards above-average individual performance, both in the short and long term
- links variable long-term compensation to value generated by the Company over the long term based on shareholder expectations
- is benchmarked with other companies in the industry
- provides employees with benefits based on good practices and regulations in local markets

The system is periodically reviewed by the NCC for effectiveness and adjusted if required.

2.2 Comprehensive Benchmark

Our policy is to pay employees, management and Directors a base compensation that is close to the median of comparable companies in the respective market. The variable pay is set with the potential to move overall compensation toward the upper quartile for outstanding performance. It is Company policy to avoid excessive compensation on all levels.

Benchmark reviews for the remuneration of the Board of Directors, the Group Management, and the Senior Management are conducted regularly by COLTENE, including the use of independent specialists and/or external studies if appropriate. Comparable companies in similar industries are selected for the benchmark applying the following criteria:

- comparable scope and business complexity
- similar geographic footprint and size
- competitiveness to attract talent

2.3 Ethical, Fair Standards

We are committed to fair and equal treatment of all our employees and seek to be in full compliance with the regional labor standards. Compensation is not influenced by gender or by non-performance-related criteria other than specific professional experience.

3 Total Compensation and Compensation Elements

Total compensation for all employees including management and Directors can be found in the financial section of the Annual Report on page 69. The compensation of managers comprises fixed and variable components, the mix of which is defined by role, profile, location and strategic impact. For Group Management and Senior Management, emphasis is placed on the long-term variable component, in line with our strategic goal of promoting ownership. The compensation mix for Group Management includes a long-term variable remuneration element, part of which is paid in shares blocked for 3 years. Directors receive a fixed annual cash fee and a fixed amount of money in shares, also blocked for 3 years.

The split of the total maximum compensation is set as follows:

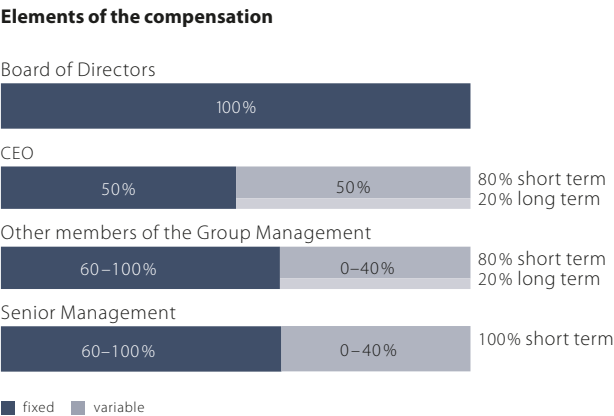


Fig. 2: Display of the compensation

3.1 Fixed Components

The fixed compensation elements include the following components:

- base salary
- pension plans¹
(depending on local practices and regulations)
- other benefits
(depending on local practices and regulations)

¹ The Board of Directors is not entitled to a pension scheme according to Swiss legislation (BVG).

Base salary

Each COLTENE employee receives a base salary based on:

- job profile
- experience and skills
- comparison with external benchmarks
- location and local regulations
- strategic impact

Other benefits

COLTENE’s benefit programs including local pension schemes are an integral part of the total compensation and are designed to enable the Company to compete effectively for talent and retain it. Benefits are structured to support our overall business strategy, and are aligned with local legislation and practices. Group Management members and certain members of the Senior Management, depending on their travel frequency, are entitled to a Company car.

3.2 Variable Components

Variable compensation components included one or more of the following:

- performance-related incentives
- short-term and long-term component

Performance-related incentives

The payout under the incentive scheme is based on a combination of the following:

- company performance
- financial and functional target achievement
- individual performance

Performance indicators

Earnings before interest and tax (EBIT) in combination with revenue growth are the key performance indicators for COLTENE and the performance targets are set prior to the respective performance cycle. Targets for EBIT margin and revenue are based on the medium-term business plan and the relevant budget. The Board of Directors in consultation with Group Management sets these targets together with the focus area for individual discretionary targets.

Weighting of performance criteria

The weighting of the different targets depends on the role and responsibilities of the individual (see table on page 45). Overall, there is a stronger focus on individual targets as determined by management, making it possible to encourage and reward above-average individual performance appropriately. The measurement scale for the achievement of financial targets (company performance and financial targets) extends from 0% to a maximum of 120% and is based on a line joining three points as explained in the illustration.

Scale of variable compensation elements

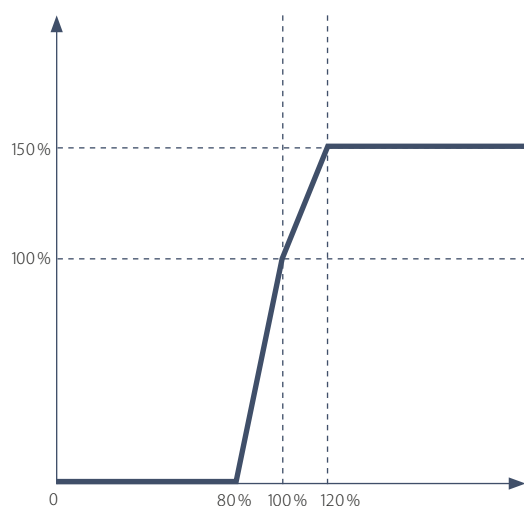


Fig. 3: Scale of variable compensation (financial targets)

The assessment scale for individual and functional target achievement extends from 0% to 100%. Partial financial targets might be over 100% fulfilled (up to a maximum of 120%); however, the total variable compensation is capped at the maximum variable compensation agreed.

Illustration target achievement

Function	Financial weight of variable component	Functional/ discretionary weight of variable component	Maximum variable compensation as % of fixed salary
CEO	80 %	20%	100%
Other members of the Group Management	60–80 %	40–20%	0–66 %
Senior Management	40–60 %	40–60%	0–25 %

Long-term component

For Group Management, 20% of the variable component is defined as long-term and is remunerated in the form of shares which are blocked for 3 years. For the calculation of the number of shares awarded, the relative performance of COLTENE's shares in comparison with the SPI index over a certain period of time is taken into account. See also Fig. 2.

The remuneration plan contractually agreed to by all eligible employees dictates that all rights granted in respect of a variable payment shall be immediately, automatically and definitively forfeited in the case of termination for cause.

3.3 Contract Duration and Notice Period

Duration of term of office of the members of the Board of Directors:

Each member of the Board of Directors is elected every year at the AGM for one year of service until the next AGM.

Notice period for members of the Group Management:

No member of the Group Management has a notice period that exceeds 12 months.

3.4 Other Types of Payment

There are no severance payments, payments in advance, and no specific payments for change of control events.

In the event of a change of control the Board of Directors decides whether there is full vesting under the long-term component of variable compensation or not.

4 Remuneration to Directors and Group Management

The tables below show the compensation paid to the members of the Board of Directors and to the Group Management for the years 2015 and 2016.

Remuneration to the Board of Directors

In CHF	Base remuneration		Variable remuneration ¹		Other remuneration		Total
	in cash	in shares	in cash	in shares	Social security ³	Other benefits	
2016²							
Nick Huber	85 000	20 000	0	0	14 322	0	119 322
Robert Heberlein	65 000	10 000	0	0	7 443	0	82 443
Erwin Locher	72 500	10 000	0	0	12 509	0	95 009
Jürgen Rauch ⁴	45 000	10 000	0	0	6 393		61 393
Matthew Robin	72 500	10 000	0	0	12 509	0	95 009
Roland Weiger	65 000	10 000	0	0	11 444	0	86 444
Total	405 000	70 000	0	0	64 620	0	539 620
2015⁵							
Nick Huber	100 000	15 750	0	0	17 078	0	132 828
Robert Heberlein	80 000	15 750	0	0	9 634	0	105 384
Erwin Locher	80 000	15 750	0	0	14 075	0	109 825
Matthew Robin	80 000	15 750	0	0	14 075	0	109 825
Roland Weiger	80 000	15 750	0	0	14 075	0	109 825
Total	420 000	78 750	0	0	68 937	0	567 687

Remuneration to the Group Management

In CHF	Base remuneration		Variable remuneration ¹		Other remuneration		Total
	in cash	in shares	in cash	in shares ⁵	Social security ⁶	Other benefits	
2016							
Martin Schaufelberger	370 000	0	289 468	85 088	127 623	23 022	895 201
Other members	961 049	0	288 216	84 663	246 590	57 020	1 637 538
Total	1 331 049	0	577 684	169 751	374 213	80 042	2 532 739
2015							
Martin Schaufelberger	370 000	0	206 935	60 102	137 813	23 944	798 794
Other members	796 947	0	182 410	52 983	257 097	64 433	1 353 870
Total	1 166 947	0	389 345	113 085	394 910	88 377	2 152 664

¹ The variable remuneration which includes cash bonus and shares is not paid out in the reporting period. It is accrued for and paid out in the following year based on the decision of the Nomination and Compensation Committee.

² The value of the number of shares granted is calculated on the weighted average share price of the month of March of the subsequent year.

³ Company paid social security contribution incl. AHV, IV and ALV.

⁴ On the General Meeting, 30.03.2016, Jürgen Rauch was elected as a new Board member.

⁵ The value of shares granted is calculated with the share price at closing of the grant date. For 2015 it was February 17, 2016, and the share price was CHF 63.00. For 2016 it was February 22, 2017, and the share price was CHF 84.10.

⁶ Company paid social security contribution incl. pension funds payments, AHV, IV, ALV, NBU and KTG.

Approved remuneration to the Board of Directors and the Group Management by the AGM

On March 25, 2015, the AGM for the first time had to approve the remuneration for the Board of Directors and the Group Management for the financial year 2016 based on the Ordinance Against Excessive Compensation in Public Corporations (VegüV) and the Articles of Incorporation of COLTENE Holding AG of April 15, 2014.

Approved remuneration to the Board of Directors for 2016

The AGM approved an aggregate remuneration to the members of the Board of Directors of CHF 500 000 plus CHF 82 500 for the allocation of 1250 shares of the Company for the financial year 2016. In total the Board of Directors received as compensation CHF 469 620 in cash and CHF 70 000 in shares.

Compensation to the Board of Directors in 2016 in CHF

	Actual compensation	Approved compensation
Total remuneration in cash	469 620	500 000
Total compensation in shares	70 000	82 500
Overall remuneration	539 620	582 500

The remuneration to the Board of Directors for 2016 was within the approved amounts.

Approved remuneration to the Group Management for 2016

The AGM approved an aggregate remuneration to the Group Management of CHF 1 600 000 for the financial year 2016. In total the Group Management received as compensation CHF 2 532 739. At the time of the approval of the remuneration to the Group Management by the AGM, the Group Management included two members. On October 1, 2015, the Group Management Team was enlarged by three new members and in consequence the remuneration increased. The articles of incorporation of COLTENE Holding AG provide for such a case in §23 an additional amount. The maximal amount for each additional member corresponds 150% of the average remuneration of the existing members of the Group Management. Based on this rule the maximal approved remuneration for five members is CHF 4 957 065.

Compensation to the Group Management in 2016 in CHF

	Average compensation	Actual compensation	Approved compensation
Compensation to the Group Management (two members)	746 014	1 492 029	1 600 000
150% of average compensation to two members of the Group Management according to §23 of the articles of incorporation	1 119 022	3 x	
Provision for three new Group Management members			3 357 065
Total compensation to the enlarged Group Management of five members		2 532 739	4 957 065

The compensation to two members of the Group Management for 2016 was within the approved amount and the remuneration to the enlarged Group Management of five members for 2016 was also within the approved amount and the provision set by §23 of the articles of incorporation.

Loans

In the reporting period, no loans, advances or credits were granted to any member of the Board of Directors or Group Management.

Number of shares held by the Board of Directors

	31.12.2016	31.12.2015
Nick Huber, Chairman	3 800	3 550
Robert Heberlein, Member	167 403	167 153
Erwin Locher, Member	7 306	7 556
Jürgen Rauch, Member	0	n.a.
Matthew Robin, Member	4 350	3 500
Roland Weiger, Member	750	500
Total	183 609	182 259

Number of shares held by the Group Management

	31.12.2016	31.12.2015
Martin Schaufelberger	6 932	5 978
Gerhard Mahrle	1 080	621
Werner Barth	645	448
Werner Mannschedel	1 650	2 821
Christophe Loretan	39	0
Total	10 346	9 868

5 Approval of the Compensation Report

This compensation report provides comprehensive transparency with regard to the Company's general compensation principles and in particular to the compensation of the Group Management and the Board of Directors. The Board of Directors will present this report to the shareholders for consultative approval at the Annual General Meeting on March 29, 2017.

Report of the Statutory Auditor

Report of the Statutory Auditor to the General Meeting of COLTENE Holding AG, Altstätten

Report of the Statutory Auditor on the Compensation Report



We have audited the compensation report of COLTENE Holding AG (pages 46 to 48) for the year ended 31 December 2016.

Board of Directors' Responsibility



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

Auditor's Responsibility



Our responsibility is to express an opinion on the compensation 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 compensation 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 compensation 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 compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation 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 compensation report for the year ended 31 December 2016 of COLTENE Holding AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

Rico Fehr
Licensed audit expert
(Auditor in charge)

Iwan Zimmermann
Licensed audit expert

St. Gallen, February 22, 2017



Supply Chain

OPTIMIZED PRODUCTION PLANNING

Intelligent networking and evaluation of data on the flow of goods and materials, be it from suppliers through distributors and dealers to the dental professionals at the end of the supply chain, enables COLTENE to simplify procurement, production, ordering and sales & marketing processes and to enhance the expediency and efficiency of processes for customers, suppliers and employees alike. Moreover, COLTENE uses the knowledge gained to enrich the offers it prepares for its clients and the communications channels it shares with them.



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Financial Commentary

COLTENE generated sales of CHF 160.7 million in fiscal 2016 (2015: CHF 154.5 million), which represents an increase of 4.0 % in its reporting currency of Swiss francs. In local currency, sales went up by 2.2 % from the year-ago level. In China and India, two important markets of the future, sales rose by 13.0 % (2015: 16.3 %) and 19.4 % (2015: 6.2 %) in local currency. Due to the ongoing stock optimization of the dealers in North America, sales decreased by 4.1 % in local currency. In EMEA the stable currency situation has led to a sales increase by 7.3 %. In Latin America sales increased by 7.6 % in local currencies.

Operating profit increased by 14.3 %, from CHF 20.4 million in 2015 to CHF 23.3 million in 2016. The EBIT margin increased significantly to 14.5 % (2015: 13.2 %). Crucial for the increase of the EBIT margin was the ongoing internationalization, increase of efficiency in sales and marketing as well as cost reductions in production.

In 2016, the currency situation was relatively stable. Compared to the prior year the euro was slightly weaker at year end whereas the US Dollar was stronger. Therefore, exchange rate differences and other financial expenses decreased sharply from CHF 2.0 million in the previous year to CHF 0.4 million. On the other side the financial income increased in 2016 significantly from CHF 0.1 million to CHF 0.8 million.

Due to the increased profit, tax expenses increased from CHF 4.6 million to CHF 6.2 million. The effective tax rate increased from 25.5 % to 26.3 %. This increase is due to a lower profit of COLTENE Holding AG compared to the prior year which is fully tax exempt, lower losses which were not capitalized, and the amortization of the deferred tax asset of Vigodent in the amount of CHF 0.9 million.

Net profit for the 2016 fiscal year amounted to CHF 17.3 million, an increase of 29.5 % compared to the previous year (2015: CHF 13.3 million). This increased the corresponding net profit margin significantly to 10.7 % compared to 8.6 % in prior year.

COLTENE's cash flow from operating activities for the period under review amounted to CHF 22.7 million. This is CHF 4.5 million more than in the preceding period, mainly due to the higher net profit as well as a decrease in interests and income taxes paid. Cash flow from investment activities amounted to CHF 5.6 million, most of which was spent on replacement and maintenance of machinery for production. Net investment in plant and equipment amounted to CHF 5.1 million. Free cash flow amounted to CHF 17.1 million (2015: CHF 13.7 million).

With bank loans of CHF 12.9 million, COLTENE's equity ratio remains high at 70.0% (2015: 68.1%). With cash and cash equivalents in the amount of CHF 21.6 million, the COLTENE Group has a net cash position of CHF 8.6 million (2015: CHF 0.9 million)

Group Statement of Profit and Loss

In CHF 1000	Ref.	2016	2015
Net sales	1	160 665	154 496
Changes in inventories of finished goods and work in progress		- 85	1 727
Work performed and capitalized		36	42
Raw material and consumables used	2	- 44 177	- 47 255
Personnel expenses	3	- 56 484	- 54 155
Other operating expenses	5	- 31 040	- 28 993
Depreciation and amortization	6	- 5 606	- 5 477
Operating profit (EBIT)		23 309	20 385
Financial income	7	838	52
Financial expenses	7	- 704	- 2 534
Net profit before tax expenses		23 443	17 903
Tax expenses	8	- 6 176	- 4 568
Net profit for the period	10	17 267	13 335
Earnings per share	10	CHF 4.10	CHF 3.16
Diluted earnings per share	10	CHF 4.10	CHF 3.16

Group Statement of Comprehensive Income

In CHF 1000	Ref.	2016	2015
Net profit for the period		17 267	13 335
Other comprehensive income (OCI)			
OCI to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations		1 703	- 4 650
Net OCI to be reclassified to profit or loss in subsequent periods		1 703	- 4 650
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains/(losses) on defined benefit plans	4	1 072	- 428
Income tax effect		- 187	75
Net OCI not to be reclassified to profit or loss in subsequent periods		885	- 353
OCI, net of tax		2 588	- 5 003
Total comprehensive income, net of tax		19 855	8 332
Profit for the period attributable to the owner of the parent		17 267	13 335
Comprehensive income for the period attributable to the owner of the parent		19 855	8 332

Group Statement of Financial Position

In CHF 1000	Ref.	31.12.2016	31.12.2015
Cash and cash equivalents		21 570	14 644
Trade accounts receivable	11	33 426	29 993
Tax receivables		136	198
Other receivables and prepaid expenses	12	2 445	2 830
Inventories	13	30 822	29 938
Current assets		88 399	77 603
Property, plant, and equipment	1, 14	29 958	29 345
Financial assets	15	4	20
Intangible assets	1, 16	41 551	40 814
Deferred tax assets	9	480	1 405
Non-current assets		71 993	71 584
Total assets		160 392	149 187
Financial liabilities	17	12 921	13 780
Trade accounts payable	18	4 698	4 883
Other accounts payable and accruals	19	11 076	9 220
Tax liabilities		2 514	2 745
Provisions	20	264	455
Current liabilities		31 473	31 083
Deferred tax liabilities	9	8 212	7 320
Provisions	20	8 456	9 206
Non-current liabilities		16 668	16 526
Total liabilities		48 141	47 609
Share capital		422	422
Treasury shares		- 258	- 307
Currency translation adjustments		- 31 498	- 33 201
Retained earnings		143 585	134 664
Total equity	22	112 251	101 578
Total liabilities and equity		160 392	149 187

The notes are part of COLTENE Group financial statements.

Group Cash Flow Statement

In CHF 1000	Ref.	2016	2015
Net profit for the period		17 267	13 335
Depreciation and amortization	6, 14, 16	5 606	5 477
Other non-cash items		4 263	6 652
Change in accounts receivable from deliveries and sales		-3 006	3 260
Change in inventories		576	-1 755
Change in other current assets		417	210
Change in current liabilities		2 601	-3 213
Interest paid		-363	-795
Interest received		15	37
Income tax paid		-4 700	-5 044
Cash flow from operating activities		22 676	18 164
Purchase of property, plant, and equipment		-5 066	-3 977
Proceeds from sale of property, plant, and equipment		112	20
Purchase of intangible assets		-671	-537
Proceeds of financial assets net		17	43
Cash flow from investing activities		-5 608	-4 451
Proceeds from loans and financial liabilities		7 103	4 042
Repayments of loans and financial liabilities		-8 033	-10 352
Dividends to shareholders	22	-9 276	-10 547
Proceeds/Purchase of treasury shares (net)		96	-312
Cash flow from financing activities		-10 110	-17 169
Exchange rate differences		-32	-177
Change in cash and cash equivalents		6 926	-3 633
Cash and cash equivalents at beginning of year		14 644	18 277
Cash and cash equivalents at end of year		21 570	14 644

The notes are part of COLTENE Group financial statements.

Group Statement of Changes in Equity

In CHF 1000	Ref.	Share capital	Treasury shares	Currency translation adjustments	Retained earnings	Total
01.01.2015		422	-2 599	-28 551	134 845	104 117
Comprehensive income for the year		0	0	-4 650	12 982	8 332
Share-based payment transactions	3, 24	0	304	0	0	304
Dividends	22	0	0	0	-10 547	-10 547
Change in treasury shares		0	-628	0	0	-628
Remeasurement treasury shares ¹		0	2 616	0	-2 616	0
31.12.2015		422	-307	-33 201	134 664	101 578
Comprehensive income for the year		0	0	1 703	18 152	19 855
Share-based payment transactions	3, 24	0	192	0	0	192
Dividends	22	0	0	0	-9 276	-9 276
Change in treasury shares		0	-98	0	0	-98
Remeasurement treasury shares		0	-45	0	45	0
31.12.2016		422	-258	-31 498	143 585	112 251

¹ Valuation of treasury shares changed from the acquisition cost principal to weighted average cost.
The notes are part of COLTENE Group financial statements.

Notes to Group Financial Statements

Reporting Entity

COLTENE Holding AG, the holding company of the COLTENE Group ("the Group"), is a stock corporation according to Swiss Code of Obligations. The Company's legal domicile is in Altstätten, Switzerland. COLTENE Holding AG was founded in accordance with Swiss company law on December 15, 2005. The Group is active in the dental consumables market. COLTENE Holding AG was listed as an independent company at the SIX Swiss Exchange on June 23, 2006.

Operating Segments and Products

Under the umbrella brand COLTENE the Group develops, manufactures, and sells mainly via distribution channels a broad and comprehensive range of disposables and tools for dentists and dental laboratories. The Group operates one operating segment defined in line with management structure, the organizational setup, the reporting and allocation of resources by the chief decision maker and the products of the Group. Therefore internal and external reporting are aligned.

Principles of Consolidation

General Remarks

The Group financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the IASB. The figures are based on the historical cost convention except for certain financial assets and liabilities carried at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates which could impact the assets, liabilities, and contingent liabilities at the balance sheet date as well as income and expenses of the reporting period. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. If subsequently such judgments and estimates made by management differ from the actual circumstances, the original judgments and estimates made are changed for the year in which the respective circumstances have occurred.

The International Accounting Standard Board (IASB) and the IFRS Interpretation Committee (IFRIC) issued the following new and amended IFRS interpretations to be applied by the Group in financial year 2016:

- IAS 1 – Disclosure Initiative
- IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
- Annual Improvements 2012–2014 Cycle

These improvements include:

- IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 – Financial Instruments: Disclosures
- IAS 19 – Employee Benefits
- IAS 34 – Interim Financial Reporting

These amendments do not have any impact on the Group's financial statement.

Forthcoming standards and interpretations are:

IFRS 9 Financial Instruments

(effective date: January 1, 2018)

The Group plans to adopt the new standard on the required effective date. During 2016, the Group has performed a high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its financial statements.

IFRS 15 Revenue from Contracts with Customers

(effective date: January 1, 2018)

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group will monitor any further developments. However, the Group expects no significant impact on its consolidated financial statements.

IFRS 16 Leases (effective date: January 1, 2019)

In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

Amendments to IAS 12 (effective date: January 1, 2017)

These amendments are not expected to have any impact on the Group.

Amendments to IAS 7 (effective date: January 1, 2017)

Application of the amendments will result in additional disclosures provided by the Group.

Amendments to IFRS 2 (effective date: January 1, 2018)

These amendments are not expected to have any impact on the Group.

The Group financial statements are based on the individual financial statements of the Group's subsidiaries, prepared in accordance with the Group's accounting principles as of December 31. The Group financial statements were prepared in accordance with IFRS and comply with Swiss law. All amounts presented are denominated in thousand CHF (except otherwise noted). Swiss francs are the functional currency of the holding company as well as the presentation currency of the Group.

The COLTENE Holding AG Board of Directors authorized these financial statements on March 06, 2017, for issue. The financial statements are subject to approval by the Annual General Meeting of Shareholders scheduled to take place on March 29, 2017.

Companies Consolidated

Group subsidiaries, controlled directly or indirectly by COLTENE Holding AG, are fully consolidated. Subsidiaries are fully consolidated as of the date on which control is obtained. Subsidiaries are deconsolidated as of the date on which control ceases. The companies consolidated are shown in the summary provided on page 82.

Consolidation Method and Goodwill

Business combinations are accounted for using the purchase method. Acquisition costs comprise the consideration paid, including the proportion of the purchase price retained for contractual representations and warranties, and contingent consideration. The latter is recognized at fair value on the transaction date. Subsequent changes in the fair value of contingent consideration

are recognized in the income statement. Transaction costs are recognized as operating expenses.

Net assets acquired comprise identifiable assets, liabilities, and contingent liabilities and are recognized at fair value. The difference between the acquisition costs and the fair value of the proportionate interest in the net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets, the negative difference is accounted for in the income statement.

Transaction with non-controlling interests without change in control may result in a difference between consideration paid and the share of net assets acquired. This difference is taken to equity.

The assets, liabilities as well as the income and expenses of the consolidated subsidiaries are recorded in their entirety in the consolidated financial statements. The share of profit and equity to which non-controlling shareholders are entitled is shown separately in the Group statement of financial position and income statement. Intra-Group transactions are eliminated.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement and its share of post-acquisition movements in other comprehensive income and equity is also directly recognized in other comprehensive and equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Principles of Valuation

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown in current liabilities on the Group statement of financial position.

Accounts Receivable

Accounts receivable in respect of deliveries and services and other accounts receivable are initially recognized at fair value and subsequently measured at amortized cost, minus allowance for doubtful accounts. Allowance is made when it is objectively foreseeable that the carrying amount cannot be collected in full. Allowance corresponds to the difference between the carrying amount and the present value of estimated future cash flows.

Inventories

Inventories are stated at the lower of weighted average cost and net realizable value. The cost of finished goods and work in progress comprises design costs, raw material, direct labor, other direct costs, and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Value adjustments are made for obsolete and slow-moving items.

Property, Plant, and Equipment

Property, plant, and equipment take into account the categories listed in the following:

- Machinery and equipment
- Land
- Buildings (including installations)
- Assets under construction

Machinery and equipment are stated at acquisition cost less depreciation on a straight-line basis over the useful life of normally five to ten years, 15 years in exceptional cases. Buildings are stated at historical cost less depreciation on a straight-line basis over the useful life of 40 to 50 years. Land is stated at historical cost and is not depreciated.

Leases in which the Company holds all significant risks and rewards of ownership are classified as financial leases. The respective assets are carried as property, plant, and equipment and are depreciated. The corresponding lease obligations are shown as financial liabilities. Leasing installments are allocated accordingly to capital repayments and interest expenses.

Financial Assets

Classification

The Group classifies its financial assets as follows:

- At fair value through profit or loss
- Loans and receivables

The classification depends on the purpose of the financial assets. Management determines the classification of its financial assets at initial recognition. In the current and prior reporting periods, the Group only held financial assets at fair value through profit or loss as well as loans and receivables.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise from the ordinary course of business or from lending activities. Receivables are included in current assets, except for maturities greater than twelve months after the balance sheet date. Such loans and receivables are classified as non-current financial assets.

Financial Assets at Fair Value Through Profit or Loss

This category has two subcategories, i.e. financial assets held for trading, and assets designated at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or by management, if so designated. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within twelve months following the reporting date.

Recognition

Regular purchases and sales of investments are recognized on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial

assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Subsequent Measurement/Impairment

Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from fair value changes are presented in the income statement as financial income or financial expense in the period in which they arise. Loans and receivables are carried at amortized cost using the effective interest method.

The fair values of quoted investments are based on a price within the bid-ask spread that is most representative for fair value. If the market for a financial asset is not active as well as for unlisted securities, the Group establishes fair value by means of specific valuation techniques: recent arm's length transactions, reference to other similar instruments, discounted cash flow analysis, or option pricing models. On each reporting date, the Group determines whether there is objective evidence that financial assets were impaired. In the case of an impairment of the financial assets, the respective expenses are recorded in the income statement.

Intangible Assets

Goodwill

Goodwill is the difference of the costs of acquisition over the Group's share of the fair value of the identifiable net assets acquired and represents the future economic benefit, which cannot be recognized as a separate asset. Goodwill is carried in the currency of the acquired business and tested annually for impairment and carried at cost less accumulated impairment losses. All goodwill is allocated to the cash-generating unit COLTENE Group as the entire Group benefits from acquisitions and is therefore also monitored on Group level.

Intangible Assets Other Than Goodwill

Intangible assets contain patents, software, and others. They are stated at historical costs less amortization on a straight-line basis over the useful life normally not

exceeding seven years. Intangible assets resulting from purchase price allocations such as trademarks, brand names, or customer relations are amortized up to 25 years.

Impairment of Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortization or depreciation and are tested annually for impairment. Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Loans and Other Liabilities

Loans and other liabilities are recognized initially at fair value, net of transaction costs incurred. Loans and other liabilities are subsequently carried at amortized cost; any differences between the proceeds (net of transaction costs) and the redemption amount is recognized in the income statement over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources which can be reliably estimated will be required to settle the obligation. Such provisions are made to cover guarantee obligations and liability claims where these are not insured. Provisions for restructuring measures are made as soon as the corresponding decision is taken and communicated.

Cash-out may differ from the amount provided for as it is based on assumptions and estimates available at that time.

Post-Employment Benefits

The Group maintains various pension fund schemes according to state law and other legal requirements according to the respective local regulations. The non-governmental pension plans are mostly organized in form of legally independent pension funds; contributions are paid both by employer and employee. All pension plans outside Switzerland are accounted for as defined contribution plans. The Swiss pension plan is administered by an independent insurance company and accounted for as defined benefit plan according to IAS 19. The pension liability resulting from defined benefit plans is calculated annually by an independent actuary using the "projected unit credit method". Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding interest recognized in profit and loss), are recognized immediately in other comprehensive income with corresponding debit or credit to the statement of financial position in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

The Group recognizes the following changes in the net defined benefit obligation under personnel expenses and financial expenses in the consolidated statement of profit and loss:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and settlements (personnel expenses)
- Net interest expense or income (financial expenses)

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.

Share-Based Payments

All members of the Board of Directors are paid for their services with a yearly fixed amount in cash. In addition, all members of the Board of Directors receive a fixed number of shares having a blocking period of three years without any vesting conditions. The valuation of the shares takes place on the grant date, the related expense is recognized immediately in the income statement. The yearly compensation of the Board of Directors awarded is determined by the Nomination and Compensation Committee annually depending on the Company's performance.

A bonus and share participation program is in place for the members of the Executive Management as well as a limited number of key managers. The parameters of this program are measuring the performance to targets to key performance indicators (KPI) such as EBIT and net sales as well as to the fulfillment of personal targets. KPIs account for 40% to 80% and personal targets for 20% to 60%. Depending on the seniority of a participant, up to 20% of the bonus is allocated in shares at a fixed share price benchmarked to the SPI. Total bonus, including shares (if any), is capped depending on the seniority between 67% and 100% of the fixed salary of any participant (see Compensation Report on page 46 and Notes to COLTENE Holding AG, page 90). The program is defined and reviewed by the Nomination and Compensation Committee annually.

Taxes

All taxes payable on income for the financial year are provided for in full at the reporting date and in compliance with the applicable tax laws. According to the liability method, deferred income tax on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group financial statements at enacted or substantially enacted tax rates on reporting date is provided in full. Deferred tax assets are recognized to the extent that future taxable profit will be available to use tax loss carried forward and temporary differences. No provisions are recognized for non-reclaimable withholding taxes on dividends. Such withholding taxes are only payable when dividends are paid out.

Net Sales

Net sales comprise the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Net sales are shown net of value-added tax, rebates and discounts, and after eliminating intra-Group transactions. The Group recognizes net sales when the amount of net sales can be reliably measured, it is probable that future economic benefits will flow to a Group entity, and when specific criteria have been met, for example risks and rewards of ownership have been transferred to the customer.

Repair and Maintenance Costs

Repair and maintenance costs (included in other operating expenses) are recognized in the income statement when they occur.

Research and Development

Research costs are expensed in other operating expenses as incurred. Development costs are capitalized if they can be determined accurately and if it can be safely assumed that the project in question will be completed successfully and result in future benefits. Development costs capitalized are amortized on a straight-line basis over a maximum period of five years.

Earnings per Share

Earnings per share are calculated by dividing the profit attributable to shareholders of the Group by the weighted average number of shares issued during the year excluding shares purchased by the Group and held as treasury shares.

Dividend and Capital Distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders, until paid out.

Foreign Currency

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 (functional currency). Transactions conducted in foreign currencies are converted into the functional currency at the exchange rate applicable on the transaction date. E.g. accounts receivable and payable as well as loans in foreign currencies are shown at the year-

end exchange rates. Gains and losses are reported in the income statement.

The statement of financial position and income statement of foreign subsidiaries are converted into Swiss francs (presentation currency) upon consolidation at the rate applicable at year-end respectively at the average exchange rate for the year. Differences resulting from the conversion into the Group presentation currency are recognized in equity. In the event of the sale of a subsidiary, foreign currency differences are taken into account as part of the gain or loss resulting from the sale. Goodwill from acquisition of foreign companies and fair-value adjustments of assets and liabilities in connection with acquisitions are also converted at year-end rates.

The most important exchange rates are listed below:

The most important exchange rates				
	31.12.2016	Ø 2016	31.12.2015	Ø 2015
1 USD	1.0188	0.9885	0.9927	0.9624
1 EUR	1.0739	1.0906	1.0826	1.0681

Financial Risk Management

Financial risk management is ensured according to the principles defined by Group Management. These principles define how credit, interest, and currency risks are to be managed. Additional rules governing the management of liquidity and other financial assets were also defined.

The subsidiaries manage their financial risk according to the defined risk policy. If appropriate, derivative financial instruments are used to hedge certain risk positions. The Group does not apply hedge accounting. Derivative financial instruments are only agreed upon with high quality counterparties (banks with rating A or better).

Credit Risk

There is no substantial credit risk concentration in the Group. Group subsidiaries, however, have relationships with certain key accounts (see note 1). Management regularly assesses the credit risk of all counterparties (especially key accounts) on the basis of historic experiences. If appropriate, management also applies credit insuring instruments, for example credit limits or prepayments.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of bank credit lines and the ability to close out market positions. Group Management monitors rolling forecasts of the Group's liquidity reserve (comprises unused credit lines [see note 17] and cash and cash equivalents) on the basis of expected cash flows.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Financial liabilities cash outflows

In CHF 1000	Total	< 1 year	1–5 year
2016			
Financial liabilities	12 921	12 921	0
Trade accounts payable	4 698	4 698	0
Other accounts payable and accruals	11 076	11 076	0
Forwards ¹	0	0	0
Total	28 695	28 695	0
2015			
Financial liabilities	13 780	13 780	0
Trade accounts payable	4 883	4 883	0
Other accounts payable and accruals	9 220	9 220	0
Forwards ¹	83	83	0
Total	27 966	27 966	0

¹ Included in line item Other accounts payable and accruals in the Group statement of financial position, see also note 19.

Interest Risk

Bank loans are subject to fixed as well as variable interest rates, with management deciding upon the interest rate risk to be taken on a case by basis. For further details see note 17.

If the interest rates had been higher by 50 bps for 2016 with all other variables held constant, net profit for the year would have been TCHF 60 (previous year TCHF 83) lower, as a result of higher interest expenses on current bank loans. If the interest rates had been lower by 50 bps for 2016 with all other variables held constant, net profit for the year would have been TCHF 60 (previous year TCHF 83) higher, as a result of lower interest expenses on current bank loans.

Currency Risk

The Group is internationally active and thus exposed to currency fluctuations mainly in EUR and USD. If possible and feasible, currency risk is reduced by matching the currency in- and outflows. The estimated exposure in the main currencies is hedged by forwards. Forwards are placed on a rolling base at the end of each quarter. For the actual quarter 40% to 80% of the estimated exposure is hedged. For the next quarter 20% to 60%, for the next to last quarter 0% to 40% and for the last quarter 0% to 20% is hedged. Hedges are made by management based on approved guidelines by the Board of Directors. Risk associated with the translation of the foreign currency financial positions of subsidiaries is not hedged.

The following tables demonstrate the sensitivity to a reasonably possible change of US Dollar (USD) and Euro (EUR) exchange rates, with all other variables held constant. The impact on the Group's net profit is due to changes in the fair value of monetary assets and liabilities. The impact on the Group's equity is due to the conversion of the financial statements of foreign subsidiaries. Group's exposure to foreign currency changes for all other currencies is not material.

Foreign currency sensitivity

In CHF 1000	2016	2015
Effect of change in currency rate on net profit		
USD +5%	-497	-519
USD -5%	497	519
EUR +5%	127	116
EUR -5%	-127	-116
Effect of change in currency rate on equity		
USD +5%	1 521	1 476
USD -5%	-1 521	-1 476
EUR +5%	471	450
EUR -5%	-471	-450

Categories of Financial Assets and Liabilities

Financial assets

In CHF 1000

	Loans and receivables	Financial assets at fair value through profit and loss	Carrying amount 31.12. ²	Fair value level
2016				
Cash and cash equivalents	21 570		21 570	n/a
Trade accounts receivable	33 426		33 426	n/a
Other receivables and prepaid	2 445		2 445	n/a
Total	57 441	0	57 441	
2015				
Cash and cash equivalents	14 644		14 644	n/a
Trade accounts receivable	29 993		29 993	n/a
Other receivables and prepaid	2 830		2 830	n/a
Total	47 467	0	47 467	

Financial liabilities

In CHF 1000

	Financial liabilities measured at amortized cost	Financial liabilities at fair value through profit and loss	Carrying amount 31.12. ²	Fair value level
2016				
Financial liabilities	12 921		12 921	n/a
Trade accounts payable	4 698		4 698	n/a
Other accounts payable and accruals	11 076		11 076	n/a
Forwards ¹	0	0	0	Level 2 ³
Total	28 695	0	28 695	
2015				
Financial liabilities	13 780		13 780	n/a
Trade accounts payable	4 883		4 883	n/a
Other accounts payable and accruals	9 220		9 220	n/a
Forwards ¹	0	83	83	Level 2 ³
Total	27 883	83	27 966	

¹ Included in line item Other accounts payable and accruals in the Group statement of financial position, see also note 19.

² Carrying amount is a reasonable approximation for fair value.

³ Level 2: financial instruments with directly observable market inputs.

Capital Risk Management

The Group's objective when managing capital is to assure the Group's ability to maintain the ability of the Group to continue as going concern to support the Group's strategy, to provide attractive returns to shareholders and to aim for an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may propose to adjust the dividend policy, to return capital to shareholders or issue new shares. In line with industry measures, the Group monitors the capital basis with the two ratios interest-bearing debt divided by EBITDA (leverage factor) and total equity divided by total liabilities and equity (equity ratio). These ratios were at December 31 as follows:

Capital risk management		
In CHF 1000	2016	2015
Interest-bearing debt	12 921	13 780
EBITDA	28 915	25 862
Leverage factor	0.4	0.5
Equity ratio in %	70.0%	68.1%

Targets for these ratios are for leverage factor below 3.0 and for equity ratio above 40%. Group Management would allow these ratios to be higher respectively lower for a short period of time in case strong evidence is given that the targets can again be achieved within a reasonable time frame.

Significant Estimates and Judgments

The Group makes judgments and estimates concerning the future. The resulting accounting estimates therefore may not correspond to the actual results. The estimates and assumptions bearing a significant risk of entailing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the following section.

Goodwill

The Group's goodwill is tested annually for impairment using discounted cash flow projections. These calculations require the use of estimates regarding projected sales, product prices and costs, interest rate as well as tax rate (see note 16).

IAS 19 Post-Employment Benefits

The status of defined benefit plans depends on long-term actuarial assumptions that may differ from actual future developments. The determination of the discount rate, future changes in salaries/wages and mortality are important assumptions in actuarial valuations.

Tax

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Tax liabilities comprise expected income tax payments based on taxable profit of the year as well as pending tax assessments. The Group recognizes deferred tax assets very restrictively and allows the recognition only if they can be used within a period of 5 years in general. All tax credits from capitalized tax losses are assessed annually. The assessments are based on business plans. Underlying estimation and assumptions are main sources of uncertainties.

1 Group-wide Information

Net sales by geographical areas (determined by site of customer) and by products and services are as follows:

Net sales by geographical areas		
In CHF 1000	2016	2015
Switzerland	1 839	1 930
Germany, Austria	16 638	16 575
Great Britain, Ireland	6 979	5 892
France	6 182	5 652
Other Europe	23 373	21 455
Russia and other CIS	5 762	4 531
Middle East and Africa	7 412	7 541
North America	56 407	57 070
Brazil	5 189	5 160
Other South America	10 197	9 375
China	6 017	5 522
India	3 262	2 787
Other Far East, Oceania	11 407	11 007
Net sales	160 665	154 496

Net sales by products and services		
In CHF 1000	2016	2015
Endodontics	33 223	31 680
Prosthetics	33 679	31 045
Rotary Instruments	12 524	12 468
Restoration	40 270	39 181
Laboratory	6 732	6 805
Infection Control	11 083	10 536
Treatment Auxiliaries	20 672	20 074
Miscellaneous	2 482	2 706
Net sales	160 665	154 496

Net sales of TCHF 32 598 (previous year TCHF 33 382) corresponding to 20.3% of Group net sales (previous year 21.6%) were generated with one customer (large distribution group). No other major customers exist.

Property, plant, and equipment and intangible assets by geographical areas are as follows:

Property, plant, and equipment geographical areas		
In CHF 1000	31.12.2016	31.12.2015
Switzerland	12 146	11 700
Germany	1 713	1 526
Other Europe	209	209
China	42	51
India	150	80
USA	13 868	14 513
Brazil	1 830	1 266
Property, plant, and equipment	29 958	29 345

Intangible assets by geographical areas		
In CHF 1000	31.12.2016	31.12.2015
Switzerland	6 382	6 733
Germany	16 333	16 458
Other Europe	97	91
China	10	0
India	4	3
USA	13 461	13 223
Brazil	5 264	4 306
Intangible assets	41 551	40 814

2 Raw Material and Consumables Used

Raw material and consumables used amounted to 27.5% (previous year 30.6%) of net sales.

3 Personnel Expenses

The average workforce amounted to 864 employees (previous year 888). Detailed information on personnel expenses:

Personnel expenses		
In CHF 1000	2016	2015
Wages and salaries	44 404	43 082
Expenses for defined benefit plans	1 078	262
Expenses for defined contribution plans	2 935	2 686
Other personnel expenses	8 067	8 125
Total	56 484	54 155

Personnel expenses include TCHF 192 (previous year TCHF 304) for share-based payment transactions with the Board of Directors and Group Management. For information on expenses for post-employment benefits according to IAS 19, please refer to note 4.

4 Pension Liabilities

Employee Benefit Obligation

To complement the benefits provided by state-regulated pension schemes, COLTENE maintains additional employee pension plans for a number of subsidiaries. In principle these fall into the following categories:

Defined Contribution Pension Plans:

Some of the COLTENE subsidiaries operate defined contribution pension plans. In these, employees and employer regularly contribute to funds administered by third parties. This does not give rise to any assets or liabilities in the consolidated balance sheet.

Defined Benefit Pension Plans:

Defined benefit pension plans for management and staff exist only for Coltène/Whaledent AG in Switzerland. These pension plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), which states that pension plans are to be managed by independent, legally autonomous entities. 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, different measures can be taken, such as the adjustment of the pension commitment by altering the conversion rates or increasing current contributions. In the current year, as in the previous year, the Swiss pension plans are showing a surplus under BVG and it is not expected that additional contributions will be necessary for the next year. The employees have the opportunity to withdraw pension benefits in the form of a lump sum.

The pension plans of Coltène/Whaledent AG account for 100% of COLTENE's entire defined benefit pension obligations and 100% of plan assets. These pension plans are full insurance solutions within a completely independent collective foundation run on a separate basis by a Swiss insurance company. All actuarial risks are borne by the foundation and all of the foundation's actuarial risks of death and invalidity are reinsured. The Company (employer) and the beneficiaries (employees) are represented equally in a board of trustees.

In accordance with local statutory requirements, COLTENE has no obligations to these pension plans beyond the regulatory contributions and any recapitalization contributions that may become necessary. According to IAS 19, the Swiss pension plans qualify as defined benefit plans, so the actuarially calculated surplus or deficit is recognized in the consolidated balance sheet.

Pension liabilities		
In CHF 1000	2016	2015
Pension costs		
Current service cost	1 078	1 092
Past service cost	0	–830
Interest expenses on defined benefit obligation (DBO)	188	196
Interest income on plan assets	–122	–121
Total	1144	337
Reconciliation of the present value of the DBO		
DBO 1.1.	25 010	23 048
Current service cost	1 078	262
Ordinary contribution paid by employees	620	611
Interest expenses on (DBO)	188	196
Contribution paid by plan participants	817	1 254
Benefits paid	–942	–941
Actuarial (gain) and loss arising from changes in financial assumptions	–1 036	–148
Actuarial (gain) and loss arising from experiences adjustments	1 012	728
Actuarial (gain)/loss arising from changes in demographic assumptions	–523	0
DBO 31.12.	26 224	25 010
Reconciliation of fair value of plan assets		
Fair value 1.1.	16 231	14 271
Interest income on plan assets	122	121
Ordinary contribution paid by employer	784	762
Ordinary contribution paid by employees	620	611
Contribution paid by plan participants	817	1 254
Contribution paid to plan participants	–942	–941
Return on plan assets excl. interest income (gains/losses)	524	152
Fair value 31.12.	18 156	16 231
Details to plan assets		
Receivables from insurance company	18 156	16 231
Total	18 156	16 231
Split of plan assets (in %)		
Fixed interest-bearing securities	70.68%	77.11%
Mortgages	7.34%	6.38%
Shares and fund participation	5.99%	2.46%
Private equity and hedge funds	0.07%	0.10%
Shares in investments and in affiliated companies	0.34%	0.53%
Real estate	14.00%	12.07%
Other capital investments	1.58%	1.35%
Total	100.00%	100.00%

No significant investments were made in COLTENE Holding AG. For both periods no short-term payables against pension plans exist.

Pension liabilities		
In CHF 1000	2016	2015
Net defined liability (asset)		
Present value of the defined benefit obligation, 31.12.	26 224	25 010
Fair value of plan assets, 31.12.	- 18 156	- 16 231
Net defined benefit liability (asset) recognised in balance sheet¹	8 068	8 780
Changes in net amount		
Net defined benefit liability (asset), 1.1.	8 780	8 777
Defined benefit cost recognised in profit and loss	1 144	337
Defined benefit cost recognised in other comprehensive income	- 1 072	428
Ordinary contribution paid by employer	- 784	- 762
Balance 31.12.	8 068	8 780
Actuarial assumptions		
Discount rate	0.70%	0.75%
Future salary increase	1.00%	1.00%
Mortality (GT)	BVG 2015 GT	BVG 2010

¹ The pension liabilities are reported in other long-term provisions.

Pension liabilities – Sensitivity analysis		
In CHF 1000	2016	2015
Sensitivity to discount rate assumptions		
Discount rate + 0.50% – effect on DBO	- 2 255	- 2 252
Discount rate – 0.50% – effect on DBO	2 596	2 606
Sensitivity to salary increase assumptions		
Salary increase rate + 0.50% – effect on DBO	184	213
Salary increase rate – 0.50% – effect on DBO	- 184	- 206
Sensitivity to mortality assumptions		
+1 additional year – effect on DBO	551	535
-1 additional year – effect on DBO	- 577	- 516

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

The following payments are expected contributions to the defined benefit plan in future years:

Future expected contributions to the defined benefit plans		
In CHF 1000	2016	2015
Within the next 12 months (next annual reporting period)	1 101	984
Between 2 and 5 years	5 690	4 058
Between 5 and 10 years	5 834	5 399

The average duration of the defined benefit plan obligation at the end of the reporting period is 18.5 years (2015: 19.4 years).

5 Other Operating Expenses

Other operating expenses

In CHF 1000	2016	2015
Energy	908	946
Rental	1 281	1 207
Repair and maintenance	1 870	1 911
Other production expenses	1 379	1 704
Freight and distribution	2 246	2 622
Marketing	7 472	7 042
Insurance	530	519
IT	1 013	1 018
Consulting	3 238	2 431
Travel	2 874	2 683
Vehicle	1 853	1 887
Other selling and administration	5 885	5 013
Gain from sale of property, plant and equipment	-15	-8
Loss from sale of property, plant and equipment	506	18
Total	31 040	28 993

In 2016, TCHF 4704 (previous year TCHF 4466) were spent on research and development and recorded as an expense in the income statement.

6 Depreciation and Amortization

Depreciation and amortization

In CHF 1000	2016	2015
Depreciation on property, plant, and equipment	4 419	4 092
Amortization of intangible assets	1 187	1 385
Total	5 606	5 477

7 Financial Income and Expenses

Financial income and expenses

In CHF 1000	2016	2015
Interest income on cash and cash equivalents	15	37
Exchange rate differences and other financial income	823	15
Total financial income	838	52
Interest expenses for bank overdrafts and loans	-343	-563
Exchange rate differences and other financial expenses	-361	-1 971
Total financial expenses	-704	-2 534
Total financial result (net)	134	-2 482

8 Tax Expenses

Tax expenses comprise the following positions:

Tax expenses

In CHF 1000	2016	2015
Current taxes	4 529	5 229
Deferred taxes	1 647	-661
Total	6 176	4 568

Tax expenses can be analyzed as follows:

Tax expenses

In CHF 1000	2016	2015
Net profit before tax expenses	23 443	17 903
Tax expenses at applicable tax rate of 25.8% (28.6%)	6 057	5 118
Effects of non-tax-deductible expenses	103	116
Effects of tax-exempt or -reduced income	-917	-1 826
Effects of tax loss not capitalized in current year	1 208	1 430
Effects of tax loss used not capitalized in prior years	-27	31
Effects of change in tax rate on deferred taxes	-238	-295
Tax adjustments prior years by tax authorities	-31	-20
Other impacts	21	14
Actual tax expense	6 176	4 568
Effective tax rate in %	26.3%	25.5%

The applicable tax rate represents a weighted average rate based on all Group companies. Compared to last year the applicable tax rate decreased from 28.6% to 25.8%. The decrease is related to the changed taxable contribution of the different entities with different tax rates.

The expected tax rates applied by the different companies are unchanged to prior year.

Tax expenses of TCHF 6176 represent an effective tax rate of 26.3% (prior year 25.5%) of net profit before tax. For 2016 the difference between applicable and effective tax rate is mainly due to tax losses not capitalized and effects of lower income of the Holding company.

The Group has the following tax-relevant losses to be carried forward:

Tax losses		
In CHF 1000	2016	2015
Tax losses capitalized		
Expiration within 1 year	0	19
Expiration between 1 and 5 years	251	693
Expiration over 5 years	819	2 681
Total	1070	3 393
Tax credits of capitalized tax losses		
Expiration within 1 year	0	-5
Expiration between 1 and 5 years	247	469
Expiration over 5 years	188	768
Total	435	1 232
Tax losses not capitalized		
Expiration within 1 year	0	0
Expiration between 1 and 5 years	0	0
Expiration over 5 years	12 044	8 154
Total	12 044	8 154
Tax credits of not capitalized tax losses		
Expiration within 1 year	0	0
Expiration between 1 and 5 years	0	0
Expiration over 5 years	4 095	2 720
Total	4 095	2 720

Tax losses capitalized in 2016 are attributable to the Group Companies in China and India. In the prior year also tax losses of the Group Companies in Brazil and Great Britain were recognized. In 2016, the tax losses capitalized of the Group Company in Great Britain were used as this Group Company was profitable. The main portion of the reduction of tax losses capitalized in 2016 is attributable to the Brazilian Group Company Vigodent. After a re-assessment of the deferred tax asset (DTA) of Vigodent by the the Group Management, considering facts and circumstances of this year, the DTA of Vigodent was booked out. The Group recognizes DTA very restrictively based on losses and allows the recognition of DTA only if they can be used within a period of five years in general. In consequence of this decision, tax losses not capitalized increased in 2016.

9 Deferred Taxes

Deferred tax assets		
In CHF 1000	2016	2015
1.1.	1 405	2 809
Additions	0	0
Reversals	-1 009	-987
Currency effects	84	-418
31.12.	480	1 405
Deferred tax liabilities		
In CHF 1000	2016	2015
1.1.	7 320	9 500
Additions	483	-2 060
Reversals	361	320
Currency effects	48	-439
31.12.	8 212	7 320

Deferred tax assets and liabilities are based on the valuation differences between Group valuation and tax valuation in the following financial position items:

Deferred tax details				
In CHF 1000	2016		2015	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Receivables and accruals	0	172	0	158
Inventories	1 539	347	751	375
Property, plant, and equipment	0	2 590	0	4 622
Intangible assets	0	8 101	0	4 254
Provisions	1 556	52	1 551	39
Deferred taxes from losses carried forward	435	0	1 231	0
Offset of deferred assets and liabilities	-3 050	-3 050	-2 128	-2 128
Total	480	8 212	1 405	7 320

Deferred tax assets to be recovered after more than twelve months amount to TCHF 1991 (previous year TCHF 2782). Deferred tax assets to be recovered within twelve months amount to TCHF 1539 (previous year TCHF 751).

Deferred tax liabilities to be recovered after more than twelve months amount to TCHF 10 743 (previous year TCHF 8915). Deferred tax liabilities to be recovered within twelve months amount to TCHF 519 (previous year TCHF 533). Compared to prior year the calculation of maturity of deferred tax assets and deferred tax liabilities has been changed. The position "offset of deferred assets and liabilities" is not included in the calculation anymore. The prior year figures have been adjusted accordingly.

10 Earnings per Share

Net profit amounts to TCHF 17 267 (previous year TCHF 13 335). Earnings per share (EPS) are calculated as follows:

Earnings per share	2016	2015
Weighted number of shares issued at 31.12. ¹	4 215 531	4 217 123
Earnings per share (based on net profit for the period)	CHF 4.10	CHF 3.16
Diluted earnings per share (based on net profit for the period)	CHF 4.10	CHF 3.16

¹ The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year.

11 Trade Accounts Receivable

Trade accounts receivable

In CHF 1000	2016	2015
Trade accounts receivable (gross)	34 302	30 587
Allowance	-876	-594
Total	33 426	29 993

Trade accounts receivable by currency

In CHF 1000	2016	2015
CHF	2 882	2 428
EUR	8 996	8 191
USD	17 853	16 513
Other currencies	3 695	2 861
Total	33 426	29 993

Trade accounts receivable (gross) by maturity

In CHF 1000	2016	2015
Not due	27 721	25 800
Past due 1 to 30 days	3 491	2 478
Past due 31 to 60 days	504	300
Past due 61 to 90 days	329	207
Past due 91 to 120 days	427	221
Past due over 120 days	1 830	1 581
Total	34 302	30 587

Trade accounts receivable by maturity including allowance

In CHF 1000	2016	2015
Not due	27 600	25 697
Past due 1 to 30 days	3 478	2 466
Past due 31 to 60 days	490	282
Past due 61 to 90 days	302	172
Past due 91 to 120 days	386	169
Past due over 120 days	1 170	1 207
Total	33 426	29 993

Change in allowance

In CHF 1000	2016	2015
1.1.	594	748
Additions	323	68
Used	-82	-65
Reversals	0	-120
Currency effects	41	-37
31.12.	876	594

The amounts due are monitored on a monthly basis. The carrying amount of receivables also represents the maximum exposure to credit risk.

No collaterals exist in both reporting periods. The change in the allowance due to addition or reversal is included in other operating expenses.

As per December 31, 2016, no trade accounts receivable are pledged (previous year also none).

12 Other Receivables and Prepaid Expenses

These items include:

Other receivables and prepaid expenses		
In CHF 1000	2016	2015
Other receivables	1 838	1 708
Prepaid expenses	624	1 139
Allowance	-17	-17
Total	2 445	2 830

13 Inventories

Inventories are as follows:

Inventories (net)		
In CHF 1000	2016	2015
Raw materials	8 582	9 191
Trade merchandise	1 666	1 157
Work in progress	8 405	6 672
Finished goods	12 169	12 918
Total	30 822	29 938

No inventories are pledged or measured at selling price less variable selling expenses (net realizable value) neither at December 31, 2015, nor 2016.

Inventories (gross)		
In CHF 1000	2016	2015
Raw materials	10 562	11 315
Trade merchandise	1 792	1 332
Work in progress	9 348	7 959
Finished goods	13 763	14 372
Total	35 465	34 977

Change in allowance		
In CHF 1000	2016	2015
1.1.	5 039	4 332
Additions	31	390
Used	250	364
Reversals	-747	0
Currency effects	70	-47
31.12.	4 643	5 039

14 Property, Plant, and Equipment

Gross values

In CHF 1000	Machinery and Equipment	Land	Buildings (incl. inst.)	Assets under Construction	Total
Value 31.12.2014	43 664	3 594	41 597	506	89 361
Additions	752	0	1 650	1 652	4 054
Disposals	-133	0	-132	-9	-274
Currency effects	-1 274	-59	-767	16	-2 084
Reclassification	504	0	198	-702	0
Value 31.12.2015	43 513	3 535	42 546	1 464	91 058
Additions	1 140	0	1 964	1 853	4 957
Disposals	-1 307	0	-803	0	-2 110
Currency effects	796	60	601	42	1 499
Reclassification	887	0	436	-1 323	0
Value 31.12.2016	45 029	3 595	44 744	2 036	95 404

Accumulated depreciation

In CHF 1000	Machinery and Equipment	Land	Buildings (incl. inst.)	Assets under Construction	Total
Value 31.12.2014	32 513	653	26 027	0	59 192
Depreciation	2 347	58	1 688	0	4 092
Disposals	-127	0	-117	0	-244
Currency effects	-980	4	-352	0	-1 328
Reclassification	4	0	-4	0	0
Value 31.12.2015	33 756	715	27 242	0	61 713
Depreciation	2 523	59	1 837	0	4 419
Disposals	-777	0	-730	0	-1 507
Currency effects	555	21	245	0	821
Reclassification	7	0	-7	0	0
Value 31.12.2016	36 064	795	28 587	0	65 446

Net values

In CHF 1000	Machinery and Equipment	Land	Buildings (incl. inst.)	Assets under Construction	Total
Value 31.12.2014	11 150	2 941	15 571	506	30 168
Value 31.12.2015	9 757	2 820	15 303	1 464	29 345
Value 31.12.2016	8 965	2 800	16 157	2 036	29 958

Contractual Commitments

As per December 31, 2016, contractual commitments to acquire machinery and equipment of TCHF 94 were entered upon (previous year TCHF 463).

Pledged Assets

No property, plant, and equipment was pledged as of December 31, 2016 and 2015.

15 Financial Assets

Financial assets consist of TCHF 4 loans (previous year TCHF 20).

16 Intangible Assets

Group Management monitors goodwill on a Group level. Goodwill is allocated to the Group's cash-generating unit (CGU), which is the Group in total. The impairment test for goodwill is based on the discounted cash flow method and on approved budgets and key business plan figures (2017–2021). Cash flow after this period is extrapolated by the rates given below. The value in use is the basis to calculate the recoverable amount.

Following assumptions were made:

Goodwill assumptions

	2016	2015
CGU Group		
Inflation rate	2.3%	2.6%
Growth rate	2.6%	2.6%
Pre-tax discount rate	14.1%	13.1%

A change in the basic data used, e.g. in the event of a sustained deterioration in operating profit while the balance sheet and cost structure remain the same, would not result in an impairment of goodwill. Even if cash flow forecasts were based on zero growth, the carrying amount would not exceed the recoverable amount. An increase of 1 percentage point in the assumed discount rate would not alter the results of the impairment test.

Gross values

In CHF 1000	Goodwill	Other intangible assets	Total
Value 31.12.2014	40 471	12 714	53 185
Additions	0	551	551
Currency effects	– 3 382	– 837	– 4 219
Value 31.12.2015	37 089	12 428	49 517
Additions	0	653	653
Disposal	0	– 1 355	– 1 355
Currency effects	989	468	1 457
Value 31.12.2016	38 078	12 194	50 272

Accumulated amortization

In CHF 1000	Goodwill	Other intangible assets	Total
Value 31.12.2014	0	7 598	7 598
Amortization	0	1 384	1 384
Currency effects	0	– 280	– 280
Value 31.12.2015	0	8 702	8 702
Amortization	0	1 187	1 187
Disposal	0	– 1 355	– 1 355
Currency effects	0	187	187
Value 31.12.2016	0	8 721	8 721

Net values

In CHF 1000	Goodwill	Other intangible assets	Total
Value 31.12.2014	40 471	5 116	45 587
Value 31.12.2015	37 089	3 725	40 814
Value 31.12.2016	38 078	3 473	41 551

No intangible assets with an indefinite useful life are held by the Group. The other intangible assets mainly consist of the ERP system amounting to CHF 1.2 million, trade names and customer relationship amounting to CHF 0.7 million, as well as patents amounting to CHF 0.3 million.

No impairment was recognized for the periods presented.

As per December 31, 2016 and 2015, there are no contractual commitments to acquire intangible assets.

17 Bank Loans

The following tables show details of current bank loans as well as of non-current bank loans. Book values are equal to fair values.

Current bank loans

In CHF 1000	2016	2015
Unsecured bank loans	12 921	13 780
Total	12 921	13 780

Current bank loans

In CHF 1000				
Maturity	Currency	Interest rate		2016
31.01.2017 unsecured	USD	1.50%		1 119
31.01.2017 unsecured	USD	1.57%		3 076
31.01.2017 unsecured	USD	1.54%		1 398
31.01.2017 unsecured	USD	1.49%		4 892
31.01.2017 unsecured	USD	1.47%		2 097
31.12.2016 unsecured	INR	11.50%		339
Total				12 921

Current bank loans

In CHF 1000				
Maturity	Currency	Interest rate		2015
29.01.2016 unsecured	USD	1.24%		5 153
29.01.2016 unsecured	USD	1.23%		3 008
29.01.2016 unsecured	USD	1.13%		2 209
29.01.2016 unsecured	USD	1.44%		1 211
29.01.2016 unsecured	USD	1.17%		1 178
31.12.2015 unsecured	INR	11.50%		394
14.01.2016 unsecured	BRL	18.05%		501
current account unsecured	BRL	28.32%		125
Total				13 780

Total uncommitted credit lines amount to TCHF 101 739 (previous year TCHF 101 896) of which 13% are used (previous year 14%). Covenants exist for selected bank loans. Covenants were met for both periods.

The Group intends to repay the current bank loans of TCHF 12 921 within less than twelve months and to finance cash needs by renewing existing bank loans and by additional bank loans out of existing credit lines.

18 Trade Accounts Payable

Trade accounts payable

In CHF 1000	2016	2015
CHF	711	856
EUR	1 249	1 445
USD	2 011	2 104
Other currencies	727	478
Total	4 698	4 883

All accounts payable to suppliers fall due and will be paid within 120 days.

19 Other Accounts Payable and Accruals

Other accounts payable and accruals

In CHF 1000	2016	2015
Other accounts payable	2 351	2 197
Accruals	8 725	7 023
Total	11 076	9 220

Derivative financial instruments

In CHF 1000	2016	2015
Currency-related instruments		
Fair value (included in other accounts payable and accruals).	0	-83

Forward exchange rate contracts by currencies

EUR	6 324	5 642
GBP	-755	-1 477
USD	1 828	800

The tables show the contract or underlying principal amounts and fair values of derivative financial instruments analyzed by type of contract at December 31, 2016 and 2015. Contracts or underlying principal amounts indicate the volume of business outstanding at the consolidated balance sheet date and do not represent amounts at risk. The fair values are determined by reference to market prices or standard pricing models that used observable market inputs at December 31, 2016 and 2015.

20 Provisions

The column "Legal & personnel-related" covers the risk of litigation and employment contract termination benefits. The next category "Pension plans & social security" includes provisions for pension plans and other social security as well as future pension claims and age-related part-time work agreements, promised pension or capital payments to the extent to which these payables are not included or reinsured by a legally separate fund. The remaining column "Guarantees & others" mainly contains provisions for estimated guarantees based on experience for guarantee claims that cannot be insured and are based on the assessment of specific cases. A capital outflow from long-term provisions is expected in the next one to five years with the exception of pension plans where the outflow lasts more than five years. Provisions are as follows:

Provisions

In CHF 1000	Legal & personnel-related	Pension plans & social security	Guarantees & others	Total
31.12.2014	382	8 885	562	9 828
Additions	190	19	21	231
Reversals	0	0	-256	-256
Used	-8	0	-31	-39
Currency effects	-70	-4	-30	-104
31.12.2015	494	8 900	266	9 660
Additions	82	0	11	93
Reversals	-65	0	0	-65
Used	-272	-708	-20	-1 000
Currency effects	34	0	-2	32
31.12.2016	273	8 192	255	8 720

Provision by maturity

In CHF 1000	Legal & personnel-related	Pension plans & social security	Guarantees & others	Total
31.12.2015				
Short-term provisions	184	0	271	455
Long-term provisions	159	8 829	218	9 206
31.12.2016				
Short-term provisions	0	0	264	264
Long-term provisions	121	8 121	214	8 456

21 Operating Leasing

Operating leasing and rental commitments not recognized in the balance sheet are as follows:

Leasing In CHF 1000	Operating leasing	
	2016	2015
Not later than 1 year	1 173	1 261
1 to 5 years	3 268	3 253
Later than 5 years	3 157	3 879
Total	7 598	8 393
Total later than 1 year	6 425	7 132

For 2016 lease expenses amounted to TCHF 1682 (previous year TCHF 1699).

Several operating leasing contracts for property, plant, and equipment exist.

22 Equity

The share capital represents the capital of COLTENE Holding AG adjusted by treasury stock. Treasury stock on December 31, 2016, included 3700 shares (previous year 5100).

The outstanding capital consists of 4 219 000 (previous year 4 219 000) registered shares of CHF 0.10 (previous year CHF 0.10) par value per share. All shares are issued and fully paid; there is no additional conditional or approved capital.

The distribution of CHF 2.70 per share will be proposed to the General Meeting on March 29, 2017.

Based on the General Meeting decision on March 30, 2016, the Company distributed a dividend of CHF 2.20 (previous year CHF 2.50) per share to its shareholders on March 31, 2015. The total amount paid was TCHF 9276 (previous year TCHF 10 547).

23 Contingent Liabilities

On April 30, 2008, COLTENE Holding AG sold its entire medical segment by transferring the shares of the two subsidiaries Medisize Schweiz AG and Medisize Medical Business Beheer B.V. together with its subsidiaries to Medifiq Healthcare Corporation. Consequently, the Group signed a sale and purchase agreement in which the Group represents and warrants to the buyer a comprehensive catalogue of items to an extent generally in line with industry standard for such kind of transactions. The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities other than provided for. With regard to operating activities, the Group has no contingent liabilities resulting from bills of exchange, letter of credits or guarantees.

24 Transactions with Related Parties

Key management compensation ¹		
In CHF 1000	2016	2015
Salaries and other short-term employee benefits	2 394	2 053
Share-based payments	240	183
Post-employment benefits	439	464
Total	3 073	2 701

¹ See also notes COLTENE HOLDING AG page 90.

For further details concerning the remuneration to the Board of Directors and Group Management see compensation report on pages 42 to 49 and notes to COLTENE Holding AG on page 90.

25 Subsequent Events

The Board of Directors authorized the Group financial statements on March 6, 2017, for issue. As per this date, the Board of Directors and the Executive Management were unaware of any important events subsequent to the reporting date.

Major Group Companies

Company	Activity	Currencies	Registered capital	Group ownership 2016	Group ownership 2015
Coltène/Whaledent AG, Altstätten CH	1	CHF	1 600 000	100%	100%
Coltène/Whaledent Vertriebsservice und Marketing GmbH, Altstätten CH	2	CHF	20 000	100%	100%
Coltène/Whaledent GmbH + Co. KG, Langenau DE	1	EUR	1 850 000	100%	100%
Dentalia Kft., Bicske HU	1	HUF	3 000 000	100%	100%
Coltène/Whaledent Ltd., Burgess Hill GB	3	GBP	200 000	100%	100%
Coltène/Whaledent S.à.r.l., Lezennes FR	3	EUR	503 000	100%	100%
Coltène Italy S.r.l., Milano IT	3	EUR	10 000	100%	100%
Coltène Iberia S.L., Madrid ES	3	EUR	10 000	100%	100%
Coltene Turkey Diş Sağlığı Ürünleri Ltd. Şti, Istanbul TR	3	TRY	20 000	100%	0%
Coltène/Whaledent Dental Materials & Equipment Trading Co. Ltd, Beijing CN	3	CNY	10 000 000	100%	100%
Coltène/Whaledent Private Limited, Mumbai IN	3	INR	64 800 000	100%	100%
Coltene Japan LLC, Tokyo JP	3	JPY	1 400 000	100%	0%
Coltène/Whaledent Inc., Cuyahoga Falls US	1	USD	8 400 000	100%	100%
Dentronix Inc., Cuyahoga Falls US	1	USD	1 265 000	100%	100%
Vigodent SA Indústria e Comércio, Rio de Janeiro BR	1	BRL	33 578 255	100%	100%

¹ Production and sales of dental specialties.

² Sales services and marketing of dental specialties.

³ Sales of dental specialties.

Statutory Auditor's Report

Statutory Auditor's Report to the General Meeting of COLTENE Holding AG, Altstätten

Statutory Auditor's Report on the Audit of the Consolidated Financial Statements



Opinion



We have audited the consolidated financial statements of COLTENE Holding AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 and the 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 56 to 82) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, 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.

Valuation of Inventory

Area of Focus

The total balances of inventory and inventory allowance as of 31 December 2016 amount to CHF 35 million and CHF 5 million, respectively. We focused on this position because the gross inventory and related allowance are material to the financial statements, involve a high level of judgment and are subject to uncertainty due to market demand changes.

See the "principles of valuation" to the financial statements on page 62 and note 13 "Inventories" to the financial statements on page 76.

Our Audit Response

We assessed the process, method and assumptions used to identify slow moving, excess or obsolete items and to calculate the related allowance. We completed procedures to assess the amount of the allowance including a comparison of management's calculations for consistency against those used in the prior year.

We tested the reliability of the underlying data used by management to calculate the inventory allowance, typically an aged inventory analysis revealing the latest movements, by re-performing the ageing calculation driven by the system. We also tested the accuracy of the calculation by assessing the calculation criteria. Furthermore we compared the net realizable value with the carrying value for a sample of products to identify a needed impairment.

Goodwill Impairment Testing

Area of Focus

The annual impairment test was significant to our audit because the assessment process is complex and the test imposes estimates. In performing the impairment testing for goodwill, the Company used various assumptions in respect of future market and economic conditions, market share, revenue growth and margin development.

See note 16 "Intangible Assets" to the financial statements on page 78.

Our Audit Response

We assessed and tested the assumptions, methodology, the weighted average cost of capital and other data used by the Company, by comparing them to external data, such as expected inflation rates, external market growth expectations and by analysing sensitivities in COLTENE's valuation model. We included in our team a valuation specialist to assist us with these procedures. We focused on the sensitivity in the available headroom, evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount.

We also assessed the historical accuracy of the Board of Management's estimates about those assumptions to which the outcome of the impairment test is most sensitive.

Other Information in the Annual Report



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

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements



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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements



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

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

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

Rico Fehr
Licensed audit expert
(Auditor in charge)

Iwan Zimmermann
Licensed audit expert

St. Gallen, February 22, 2017

Income Statement COLTENE Holding AG

In CHF	2016	2015
Dividend income	9 545 515	23 125 705
Other financial income	808 002	468 997
Total income	10 353 517	23 594 702
Financial expenses	– 174 998	– 182 099
Personnel expenses	– 583 571	– 616 044
Other operating expenses	– 607 414	– 600 075
Impairment losses on investments	0	– 19 600 000
Direct taxes	0	13
Total expenses	– 1 365 983	– 20 998 205
Profit of the year	8 987 534	2 596 497

Balance Sheet COLTENE Holding AG

In CHF	31.12.2016	31.12.2015
Cash and cash equivalents	12 128 305	8 626 911
Other accounts receivable from third parties	7 944	2 887
Other accounts receivable from subsidiaries	2 809 105	1 734 418
Current assets	14 945 354	10 364 216
Long-term receivables from subsidiaries	15 758 506	20 757 039
Investments in subsidiaries	20 343 269	20 343 269
Non-current assets	36 101 775	41 100 308
Total assets	51 047 129	51 464 524
Trade accounts payable to third parties	6 434	10 812
Current interest-bearing liabilities to third parties	12 581 934	12 759 907
Other accounts payable to third parties	3 799	15 240
Accrued liabilities and deferred income to third parties	169 924	153 280
Current provision	1 200	1 200
Current liabilities	12 763 291	12 940 439
Share capital	421 900	421 900
Legal reserves from retained earnings	84 380	84 380
Voluntary reserves from retained earnings	29 048 969	35 728 894
Treasury shares	– 258 945	– 307 586
Profit of the year	8 987 534	2 596 497
Total equity	38 283 838	38 524 085
Total liabilities and equity	51 047 129	51 464 524

Statements of Changes in Equity COLTENE Holding AG

In CHF	Share capital	Statutory reserves	Treasury shares	Net income brought forward	Total
31.12.2014	421 900	84 380	-6 283	46 276 394	46 776 390
Distribution to shareholders				-10 547 500	-10 547 500
Change in treasury shares			-301 303	0	-301 303
Profit of the year				2 596 497	2 596 497
31.12.2015	421 900	84 380	-307 586	38 325 391	38 524 085
Distribution to shareholders				-9 276 422	-9 276 422
Change in treasury shares			48 641	0	48 641
Profit of the year				8 987 534	8 987 534
31.12.2016	421 900	84 380	-258 945	38 036 503	38 283 838

Notes to COLTENE Holding AG

Principals

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law, the significant accounting and valuation principles applied are described below. It should be noted that to ensure the Company's going concern, the Company's financial statements may be influenced by the creation and release of hidden reserves.

Financial Assets

Financial assets include long-term loans. Loans granted in foreign currencies are translated at the rate at the balance sheet date.

Treasury Shares

Treasury shares are recognized at weighted average cost and deducted from shareholders' equity at the time of acquisition. In case of a resale, the gain or loss is recognized through the income statement as financial income or financial expenses.

Investments

Investments include securities with a long-term holding period and are valued individually at their acquisition cost adjusted for impairment losses. Investments are tested on an annually base for impairment needs.

Foregoing a Cash Flow Statement and Additional Disclosures in the Notes

As COLTENE Holding AG has prepared its consolidated financial statements in accordance with a recognized accounting standard (IFRS), it has decided to forego presenting additional information on interest-bearing liabilities and audit fees in the notes as well as a cash flow statement and a management report in accordance with the law.

In CHF 31.12.2016 31.12.2015

Full-time equivalents

COLTENE Holding AG has no employees

Contingent liabilities

Warrants Medifiq Healthcare Corporation (see notes to the Group financial statements, note 23)	p. m.	p. m.
Joint and several liability from group taxation for current and future value-added tax liabilities of Coltène/Whaledent AG and Coltène/Whaledent Vertriebservice und Marketing GmbH	p. m.	p. m.

Significant investments

See list on page 82

Treasury shares

	Average rate of transactions in CHF	Quantity
Inventory as of 1.1.2015		100
Acquisitions	66.67	38 961
Sales	67.62	–33 961
Inventory as of 31.12.2015		5100
Acquisitions	65.13	25 259
Sales	63.53	–26 659
Inventory as of 31.12.2016		3700
Significant shareholders*		
Huwa Finanz- und Beteiligungs AG, Heerbrugg	25.68%	25.40%
Rätikon Privatstiftung, Bludenz/ Austria	11.28%	10.40%
Tweedy, Browne Company LLC, New York/ USA	6.88%	6.88%
Credit Suisse Asset Management Funds AG, Zürich	6.28%	5.03%
Robert Heberlein, Zumikon	3.97%	3.96%
UBS Fund Management (Switzerland) AG, Zürich	3.80%	3.61%
Number of shares held by the Board of Directors		
Nick Huber, Chairman	3 800	3 550
Robert Heberlein, Member	167 403	167 153
Erwin Locher, Member	7 306	7 556
Jürgen Rauch, Member	0	n.a.
Matthew Robin, Member	4 350	3 500
Roland Weiger, Member	750	500
Total	183 609	182 259
Number of shares held by the Group Management		
Martin Schaufelberger; CEO	6 932	5 978
Gerhard Mahrle, CFO	1 080	621
Werner Barth, Vice President Marketing	645	448
Werner Mannschedel, Vice President R&D and Regulatory Affairs	1 650	2 821
Christophe Loretan, Vice President Sales	39	0
Total	10 346	9 868

* The Company is aware of the following registered shareholders who own over 3 % of the shares.

Remuneration to the Board of Directors

In CHF	Base remuneration		Variable remuneration ¹		Other remuneration		Total
	in cash	in shares	in cash	in shares	Social security ³	Other benefits	
2016²							
Nick Huber, Chairman	85 000	20 000	0	0	14 322	0	119 322
Robert Heberlein, Member	65 000	10 000	0	0	7 443	0	82 443
Erwin Locher, Member	72 500	10 000	0	0	12 509	0	95 009
Jürgen Rauch, Member ⁴	45 000	10 000	0	0	6 393	0	61 393
Matthew Robin, Member	72 500	10 000	0	0	12 509	0	95 009
Roland Weiger, Member	65 000	10 000	0	0	11 444	0	86 444
Total	405 000	70 000	0	0	64 620	0	539 620
2015⁵							
Nick Huber, Chairman	100 000	15 750	0	0	17 078	0	132 828
Robert Heberlein, Member	80 000	15 750	0	0	9 634	0	105 384
Erwin Locher, Member	80 000	15 750	0	0	14 075	0	109 825
Matthew Robin, Member	80 000	15 750	0	0	14 075	0	109 825
Roland Weiger, Member	80 000	15 750	0	0	14 075		109 825
Total	420 000	78 750	0	0	68 937	0	567 687

Remuneration to the Group Management

In CHF	Base remuneration		Variable remuneration ¹		Other remuneration		Total
	in cash	in shares	in cash	in shares ⁵	Social security ⁶	Other benefits	
2016							
Martin Schaufelberger	370 000	0	289 468	85 088	127 623	23 022	895 201
Other members	961 049	0	288 216	84 663	246 590	57 020	1 637 538
Total	1 331 049	0	577 684	169 751	374 213	80 042	2 532 739
2015							
Martin Schaufelberger	370 000	0	206 935	60 102	137 813	23 944	798 794
Other members	796 947	0	182 410	52 983	257 097	64 433	1 353 870
Total	1 166 947	0	389 345	113 085	394 910	88 377	2 152 664

¹ The variable remuneration which includes cash bonus and shares is not paid out in the reporting period. It is accrued for and paid out in the following year based on the decision of the Nomination and Compensation Committee.

² The value of the number of shares granted is calculated on the weighted average share price of the month of March of the subsequent year.

³ Company paid social security contribution incl. AHV, IV and ALV.

⁴ On the General Meeting, 30.03.2016, Jürgen Rauch was elected as a new Board member.

⁵ The value of shares granted is calculated with the share price at closing of the grant date. For 2015 it was February 17, 2016, and the share price was CHF 63.00. For 2016 it was February 22, 2017, and the share price was CHF 84.10.

⁶ Company paid social security contribution incl. pension funds payments, AHV, IV, ALV, NBU and KTG.

Proposed Appropriation of Disposable Profit and Dividend Distribution

In CHF	2016	2015
Allocation of the profit of the year		
Available earnings carried forward from prior year	28 741 383	35 722 611
Profit of the year	8 987 534	2 596 497
Change in treasury shares	48 641	– 301 303
Total amount at the disposal of the AGM	37 777 558	38 017 805
Dividend distribution (2.70 per share)	– 11 391 300 *	– 9 276 422
Balance to be carried forward	26 386 258	28 741 383

* Amount will be adapted according to the amount of treasury shares.

Report of the Statutory Auditor

Report of the Statutory Auditor to the General Meeting of COLTENE Holding AG, Altstätten Report of the Statutory Auditor on the Financial Statements



As statutory auditor, we have audited the financial statements of COLTENE Holding AG, which comprise the balance sheet, income statement, statement of changes in equity and notes (pages 86 to 91), for the year ended 31 December 2016.

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 2016 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 judgement, 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 responsibilities 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

Area of Focus

The valuation of investments in accordance with the provisions of the Swiss Code of Obligations is important to our statutory audit as it represents a significant judgment area. The investments balance represent 40% of the total assets of COLTENE Holding AG. The Company used the same valuation model as used for the impairment testing of goodwill in the Group financial statements.

See notes to COLTENE Holding AG on page 88, statement in the section "Investments".

Our Audit Response

Our audit procedures included an assessment and test of the assumptions, methodology, the weighted average cost of capital and other data used by the Company, for example by comparing them to external data, such as expected inflation rates, external market growth expectations and by analysing sensitivities in COLTENE's valuation model. Furthermore, we included in our team a valuation specialist to assist us with these procedures. We specifically focused on the sensitivity by evaluating whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of the Board of Management's estimates.

Report on other Legal Requirements



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

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

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

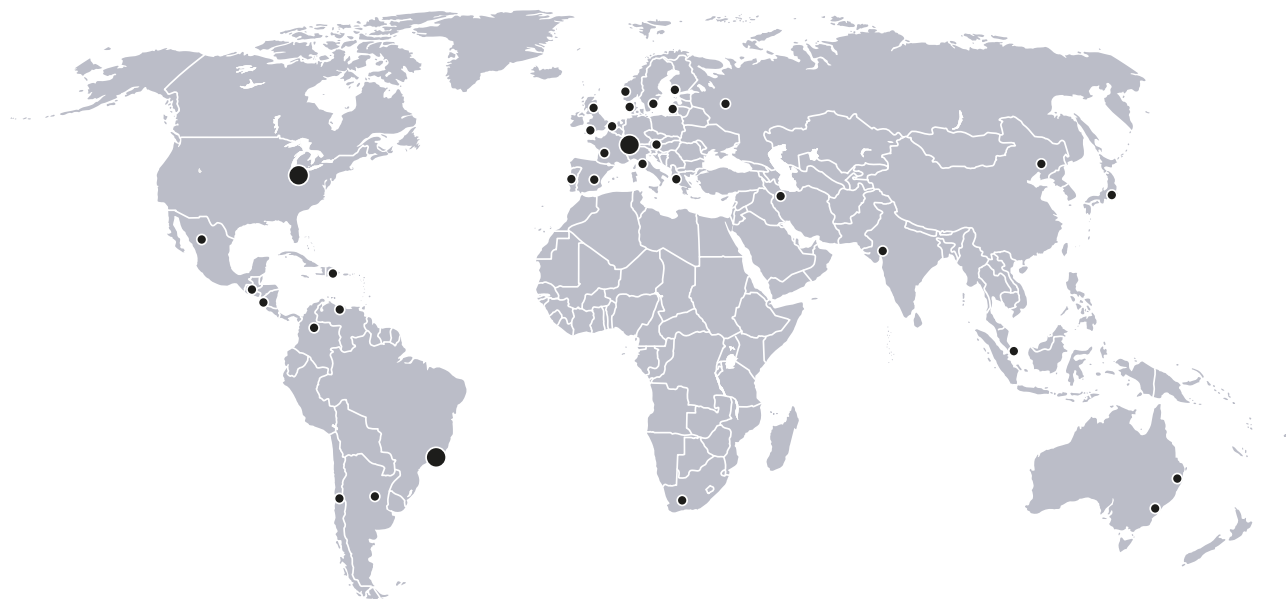
Ernst & Young Ltd

Rico Fehr
Licensed audit expert
(Auditor in charge)

Iwan Zimmermann
Licensed audit expert

St. Gallen, February 22, 2017

Portrait



COLTENE is an internationally leading developer, manufacturer, and seller of consumables and small equipment for dental practitioners. COLTENE has four state-of-the-art production centers in Switzerland, Brazil (chemical-based products), Germany (auxiliaries), and the USA (mechanical and electromechanical products). Group marketing bridges the activities and priorities of the technology centers with the market needs of the sales regions in Europe (EMEA), North America, South America, and Asia.

Important Addresses

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