

# The New COLTENE

Annual Report 2018



# Product Overview<sup>1</sup>

After the acquisition and integration of SciCan and Micro-Mega, COLTENE Group established the three new product groups of Infection Control, Dental Preservation and Efficient Treatment.

## Infection Control

# 30%

COLTENE offers cleaning, sterilization and disinfection products for reusable dental instruments and dental practice surfaces. Examples of its comprehensive range of products in Infection Control are state-of-the-art ultrasonic cleaning units and solutions, thermal disinfection equipment and autoclaves, and premium disinfectant wipes for dental practice surfaces.



## Dental Preservation

Restoration, Endodontics

# 30%

With its restorative and endodontic systems to conserve vital and non-vital tooth enamel, COLTENE offers a wide variety of products for lasting tooth preservation, from the crown to the root. Its attractive range of preservation products includes premium bonding solutions, composites, root canal instruments, irrigation solutions including auxiliaries and materials for root canal obturation and sealing.



## Efficient Treatment

Prosthetics, Rotary Instruments, Treatment Auxiliaries

# 40%

The Treatment Efficiency product group comprises top-quality auxiliaries that enhance efficiency in dentistry. These range from high-precision impression materials and premium wound treatment solutions to dental cotton products, efficient aspirator tips and first-class rotary instruments.



<sup>1</sup> pro forma 12-month figures

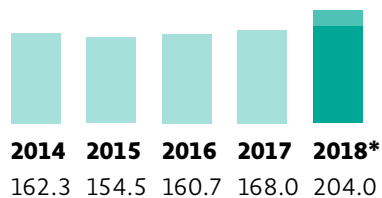
# Facts and Figures

COLTENE is an international developer, manufacturer and seller of dental consumables and equipment active in the three areas of Infection Control, Dental Preservation and Efficient Treatment. The Group has modern production facilities in the US, Canada, Brazil, Germany, France and Switzerland. COLTENE also employs its own sales force in North America, Europe, China, India, Brazil and other major markets. The new COLTENE Group has 1366 employees around the world.

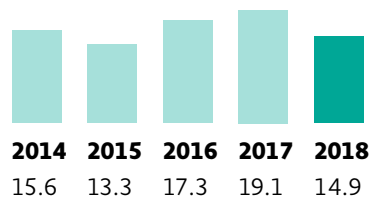
## 5-Year Overview (2014–2018)

(in CHF million)

### Net Sales

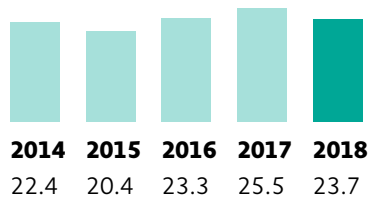


### Net Profit

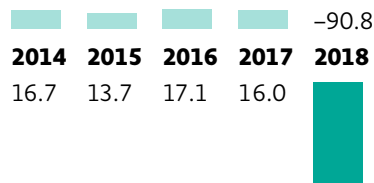


\* Sales contribution from acquisitions: CHF 30.4 million

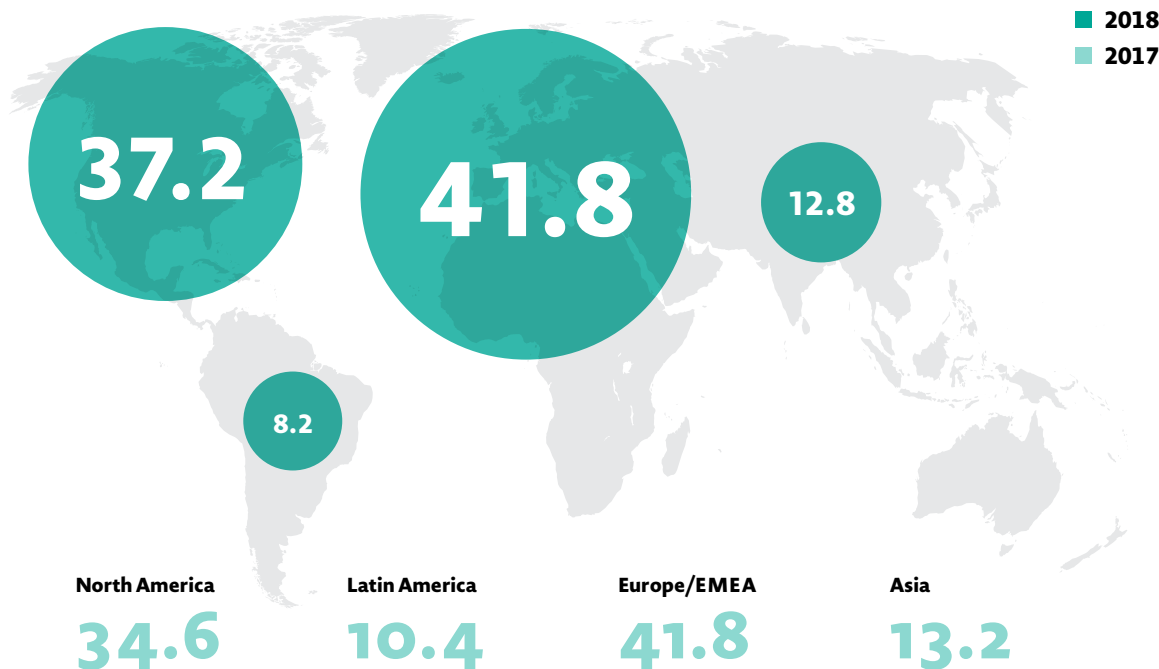
### EBIT



### Free Cash Flow



## Sales by Region in %



## Foreword

COLTENE took a pivotal step to grow its business in 2018 with the acquisition of Kenda, SciCan and Micro-Mega. Sales for the year reached a new all-time high. New and promising growth opportunities unleashed by the ensuing economies of scale and synergies are now being pursued.

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## The New COLTENE Group

COLTENE has traditionally grown by combining strong specialists and brands into a stronger whole. Like Whaledent in 1990 and ROEKO in 2002, in 2018, Kenda, SciCan and Micro-Mega joined the Group and have enhanced its expertise and innovative product range.

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## Operational Review and Financial Commentary

Fiscal 2018 was highlighted by momentous acquisitions and strong growth. The acquisitions of Kenda (diamond and silicon carbide polishers), SciCan (sterilization/disinfection systems and hygiene products) and Micro-Mega (endodontic instruments) have clearly strengthened the Group's market reach and created new growth opportunities.

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## Production and Environment

As an internationally active company, COLTENE cares about its corporate social responsibility and is constantly seeking ways of reducing its environmental impact throughout the value chain. The aim is to minimize its environmental impact while providing dentists and their patients with safe and reliable products.

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# Information about COLTENE Shares

## Share Capital and Capital Structure

	2018	2017	2016	2015	2014
Par value per share (CHF)	0.10	0.10	0.10	0.10	0.10
Total registered shares	5 975 580	4 219 000	4 219 000	4 219 000	4 219 000
Cleared shares	29.20 %	14.00 %	16.30 %	12.53 %	19.88 %
Number of treasury shares	3 265	0	3 700	5 100	100
Number of dividend-bearing shares	5 972 315	4 219 000	4 215 300	4 213 900	4 218 900
Registered capital (CHF 1000)	598	422	422	422	422
Conditional capital (CHF 1000)	0	0	0	0	0
Authorized capital (CHF 1000)	7	0	0	0	0
<b>Total voting rights</b>	<b>5 975 580</b>	<b>4 219 000</b>	<b>4 215 300</b>	<b>4 213 900</b>	<b>4 218 900</b>

## Key Stock Exchange Figures per Share

CHF	2018	2017	2016	2015	2014
Share price high	124.00	103.50	75.50	83.65	65.40
Share price low	80.00	74.50	57.00	54.00	45.03
Closing share price	84.30	94.90	74.05	60.90	63.00
Average volume per trading day (number of shares)	4 084	4 324	2 728	5 044	5 314
Market capitalization in CHF million (year-end)	504	400	312	257	266

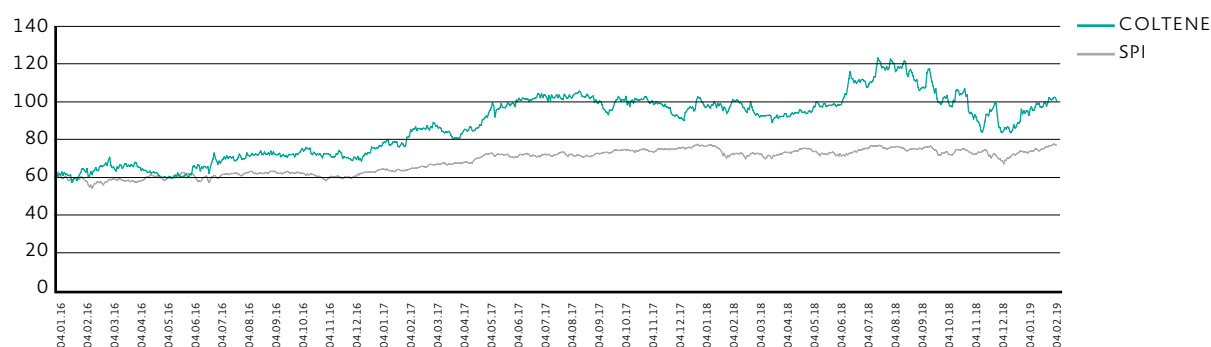
## Key Figures per Share

CHF	2018	2017	2016	2015	2014
Earnings per share – basic	3.16	4.52	4.10	3.16	3.71
Earnings per share – diluted	3.16	4.52	4.10	3.16	3.71
Operating cash flow per share	5.23	5.19	5.38	4.31	4.73
Free cash flow per share	-19.26	3.80	4.05	3.25	3.96
Dividend per share	3.00 <sup>1</sup>	3.00	2.70	2.20	2.50
Equity per share	49.56	28.85	26.63	24.10	24.68

1 Board of Directors' proposal to the Annual General Meeting on April 30, 2019: distribution of CHF 3.00 per share from capital contribution reserves excluding treasury shares.

## Share Price Performance (04.01.2016 to 05.02.2019)

CLTN registered shares / Swiss Performance Index (SPI) rebased



COLTENE's share price declined by 11.2% from CHF 94.90 to CHF 84.30 over the course of 2018, mainly on account of the market-wide decline in share prices in the final quarter of 2018. During the reporting period, COLTENE paid a dividend of CHF 3.00 per share in early April. This payout could not offset the aforementioned decline in the share price. The stock's total rate of return for 2018 was -8.0%.

## Shareholder Structure <sup>1</sup>

As at December 31, 2018, there were 2011 shareholders entered in the share register (1743). The following shareholders held 3 % or more of the outstanding share capital of COLTENE Holding AG at year-end:

	31.12.2018	31.12.2017
Huwa Finanz- und Beteiligungs AG	21.98 %	26.33 %
Arno Holding S.à.r.l.	17.20 %	n/a
Rätikon Privatstiftung	10.02 %	11.45 %
Tweedy, Browne Company LLC	4.80 %	6.80 %
Credit Suisse Asset Management Funds AG	3.75 %	5.59 %
UBS Fund Management (Switzerland) AG	3.49 %	3.95 %
Robert Heberlein	3.40 %	3.97 %

<sup>1</sup> Refer to page 31 in the Corporate Governance section of this Annual Report for further information.

## Contact

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## Corporate Calendar

Media and analyst conference on fiscal 2018	April 4, 2019
Annual General Meeting 2019	April 30, 2019
Interim Report 2019	August 22, 2019
Media and analyst conference 2019	March 5, 2020
Annual Report 2019	March 5, 2020
Annual General Meeting 2020	April 2, 2020

# Highlights 2018

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## New sales record

**Group sales, buoyed by the acquired activities of Kenda, SciCan and Micro-Mega, reached an all-time high in fiscal 2018.**

# 1366

## A momentous step for growth

**The acquisition of SciCan and Micro-Mega significantly increased the Group's headcount and, by extension, its expertise and capabilities. It has also created many promising growth opportunities.**



# 37.2 %

## Expanded footprint in North America

**With the integration of SciCan and Micro-Mega, COLTENE strengthens its market position and expands its product portfolio.**

# 35.9 %

## Leading supplier of endodontic products

**Micro-Mega enhances COLTENE's innovative product portfolio for root canal treatments and brought about a lasting increase in the Dental Preservation product group's share of consolidated sales.**

# Foreword

## Dear Shareholders,

COLTENE ushered in a new era for the Company with its acquisition of SciCan and Micro-Mega in fiscal 2018. The integration of these two dental specialists, the first focusing on sterilization and disinfection equipment as well as hygiene protection and the other on endodontic instruments and accessories, represents a pivotal step forward in the growth and development of the Company. This transaction strengthened COLTENE's market position and boosted its sales. Economies of scale and synergies will facilitate the establishment of high-performing sales and marketing operations around the world. The combined resources of the new, enlarged Group will make it easier to comply with ever-increasing regulations. In sum, the merger of the three corporate entities has created attractive opportunities for growth in the highly competitive dental market.

COLTENE has split its product portfolio into the three new product groups of Infection Control, Dental Preservation and Efficient Treatment to strengthen its market positioning. Acquisition-related growth was greatest in Infection Control and Dental Preservation.

Group sales rose by 21.4 % from the previous year to CHF 204.0 million (2017: CHF 168.0 million). Sales growth excluding the effect of currency translation and acquisitions was 2.7 %. The COLTENE Group thus outperformed the stagnating overall market. Due to acquisitions, COLTENE reported significantly higher sales in the domestic markets of SciCan (Canada) and Micro-Mega (France). Dynamic growth was generated in Japan and China, both promising growth markets for the Company. The EBIT margin for fiscal 2018 stood at 11.6 %. Extraordinary charges associated with the acquisitions and the first-time consolidation and integration of Kenda, SciCan and Micro-Mega amounted to CHF 7.0 million. Excluding these extraordinary items, the EBIT margin stood at 15.0 % and remained at the previous year's level.

### **Integration of Kenda, SciCan and Micro-Mega**

With the acquisition of SciCan, the new COLTENE Group has established itself as the undisputed market leader for dental sterilization and disinfection systems and hygiene products. Joining forces with Micro-Mega clearly strengthened the Group's position in endodontics. COLTENE now ranks among the largest, industry-leading suppliers of endodontic instruments and materials. Kenda, acquired in early January of 2018, added innovative and high-precision silicon carbide polishers to the Group's portfolio of rotary instruments.

Acquisition of SciCan and Micro-Mega is a momentous step for COLTENE's future growth. It has created promising new business opportunities.



Nick Huber, Chairman of the Board of Directors

Martin Schaufelberger, CEO

Right after both acquisitions closed, COLTENE turned its attention to integrating the new resources and teams as swiftly and smoothly as possible. Management set up several interdisciplinary and multi-site project groups to achieve this. Emphasis was placed on uniting the marketing and sales organizations to ensure an effective, unified market profile under the COLTENE umbrella brand and the quickest possible exploitation of synergies on the sales front.

#### **Enlargement of Group Management and Board of Directors**

With the successful closing of the transaction with SciCan and Micro-Mega, Stefan Helsing was appointed to COLTENE's Executive Board on November 1, 2018. He represents the new sites and product groups and assumes operational responsibility for all production sites. Stefan Helsing had previously served as the CEO of Sanavis Group, the former

owner of SciCan and Micro-Mega. The election of Allison Zwingenberger to the Board of Directors as an additional member at COLTENE Holding AG's extraordinary General Meeting on September 14, 2018, also became effective with the consummation of the acquisition. Allison Zwingenberger is an Associate Professor of Diagnostic Imaging in the Department of Veterinary Radiology at the University of California, Davis.

Due to acquisitions, sales increased in the North America and the EMEA regions, where COLTENE enlarged its local presence.

### **Accounting Standards Changed to Swiss GAAP FER**

After completing its acquisition of SciCan and Micro-Mega, COLTENE is changing its accounting and reporting standards from IFRS to Swiss GAAP FER as of the 2019 fiscal year. Its interim and closing financial statements for 2019 and subsequent reporting periods will therefore be prepared in accordance with the new standard. The decision to switch to Swiss GAAP FER had initially been announced in March 2018 but was later postponed due to the acquisitions. Swiss GAAP FER is a pragmatic accounting and reporting standard whose informative value is comparable with that of IFRS. It meets the needs of an internationally active, mid-sized company while reducing complexity and costs. Reporting under Swiss GAAP FER will continue give a "true and fair view" of the Company's financial performance and position. As a result of the transition to Swiss GAAP FER, COLTENE Holding AG will submit a request to SIX Swiss Exchange for a segment switch from the International Reporting Standard to the Swiss Reporting Standard, effective as of July 1, 2019. COLTENE Holding AG shares will remain in the indexes of the SPI family as well as in the two SXI indices, the SXI Life Sciences and SXI Bio+Medtech index.

### **Outlook**

COLTENE aspires to be a pacesetter in the market for dental supplies and equipment and to create value for dental practitioners in the form of innovative products or more efficient treatments and procedures. Management expects continued solid growth in fiscal 2019 thanks to the recently acquired activities and the pleasing course of business in its pre-merger activities. The purchased activities will make a significant contribution to consolidated sales in the current year and sales of the Group's pre-merger products should continue to grow faster than the underlying average market growth rate. This growth will be fueled by the selective expansion and strengthening of the sales teams, especially in key markets across Europe and Asia and in China. Despite further costs for the integration of the acquired companies, the COLTENE Group anticipates an increase in the EBIT margin in the current financial year. Thanks to the new growth opportunities the acquisition of SciCan and Micro-Mega has created, and the ensuing synergy

Integration of SciCan and Micro-Mega is proceeding as scheduled and in accordance with management strategy.

potential and economies of scale, COLTENE expects to re-attain the target EBIT margin of 15% in the medium term.

### **Thank You**

On behalf of the Board of Directors and the Executive Board, we welcome the new teams that have joined COLTENE Group. We want to act in unison to enhance and leverage the combined knowledge and excellent market position of the new COLTENE.

We thank our management teams around the world and our now stronger workforce of 1366 dedicated professionals for their hard work and loyalty over the past year. Successful collaboration with our customers, business partners and suppliers and the solid business relationships we share with them are also greatly appreciated. Particular thanks is due to our shareholders for the firm confidence they placed in COLTENE's Board of Directors and management over the past year.

Management is confident to increase margins again thanks to the harnessing of economies of scale and synergy potential.

Nick Huber  
Chairman of the Board of Directors




Martin Schaufelberger  
CEO











**SciCan Ltd.** is a specialized full-line provider of infection control products and sterilization solutions. Headquartered in Toronto, the company was founded in 1957 and today operates as a market leader in dental hygiene worldwide with own branches in Canada, the US, Switzerland and Germany. SciCan Ltd., including sales and repair services for the home market of Canada, employs approximately 160 employees.

“We are dedicated to providing evidence-based Infection Control recommendations, best practices and the most innovative and effective infection control equipment – focused on protecting patients and dentists alike.”

Max Cui / Production Service Technician / Toronto, Canada

# The New COLTENE Group

COLTENE, SciCan and Micro-Mega have operated in the market for dental materials and equipment as a strong corporate group since October 2018. The three dental specialists are highly complementary. With its modern production facilities in the US, Germany, Brazil and Switzerland and its own sales organizations in the key markets of Europe, North America, China and India, COLTENE is a global, leading developer and producer of a wide range of dental products and materials. SciCan, headquartered in Toronto, Canada, specializes in disinfection equipment and hygiene protection products. It is a market leader in North America. Micro-Mega operates out of Besançon, France, and is a leading supplier of endodontic instruments. It generates most of its sales in Europe and North America.

COLTENE has a history of growing through a process of amalgamation with strong specialists. After establishing common strategic objectives and standardized operating environments and procedures, senior management grants new Group entities considerable operating autonomy. Products and brands that have been firmly established in the marketplace continue to be used under the COLTENE umbrella brand. Having successfully integrated SciCan and Micro-Mega into COLTENE Group, the enlarged product range was then regrouped into the three new Infection Control, Dental Preservation and Efficient Treatment product categories.





# Infection Control

## Instrument Reprocessing and Surface Disinfection



SciCan Hydrim



SciCan Statim



SciCan Bravo



SciCan Optim



BioSonic® UC150

Sales ~CHF 85 million | 30 %<sup>1</sup>

# Dental Preservation

## Restoration



ParaCore



Brilliant Crios



ParaPost

## Endodontics



MicroMega One Curve



HyFlex CM & EDM

Sales ~CHF 85 million | 30 %<sup>1</sup>

# Efficient Treatment

## Impression Materials



Affinis



President

## Rotary Instruments

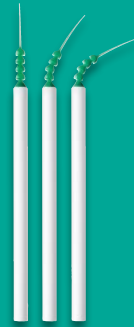


Diatech



Kenda

## Treatment Auxiliaries



Roeko Surgitip



Hygenic DentalDam



Roeko Gelatamp

Sales ~CHF 110 million | 40 %<sup>1</sup>

<sup>1</sup> pro forma 12-month figures

COLTENE delegates decision authority and accountability throughout the enterprise and this policy has proven to be a reliable engine of its long-term growth. Like Whaledent in 1990 and ROEKO in 2002, in 2018 Kenda, SciCan and Micro-Mega joined the Group and enhanced its capabilities and product range. Another critical success factor for COLTENE is the emphasis it places on entrepreneurial responsibility. The Group's core shareholders stand for stability and solidity and they are strong proponents of viable strategies for long-term success.

A strong enterprise with promising growth opportunities has been created through the amalgamation of COLTENE, Kenda, SciCan and Micro-Mega:

**Synergies**

With its combined resources, the new, enlarged Group is in an even better position to comply with increasingly stringent regulatory requirements. Economies of scale expedite the global expansion of effective and efficient sales and marketing structures while the high cost of digitalization projects can be spread across a larger portfolio.

**Market Relevance**

The combined headcount of the three companies is 1366. COLTENE's larger size gives it an even better global reach in an industry that is experiencing consolidation and stiff competition.

## Better Quality

Our high-quality products deliver what they promise. The high-performance composite block BRILLIANT Crios, for example, is one of the most flexible dental materials used in CAD/CAM technology.

## Market Access

The sales and distribution networks and the domestic markets of the three corporate entities are complementary, which opens doors to new business opportunities for the entire Group.

## Full-range Supplier

Together, SciCan, Micro-Mega and COLTENE offer a wide range of products, from dental consumables to dental instruments and equipment. The enlarged product portfolio and higher business volumes also make COLTENE more attractive to wholesale partners.

# Operational Review and Financial Commentary

**In fiscal 2018, COLTENE Group strengthened its leadership position in the market for dental materials and equipment through the significant acquisitions of Kenda, SciCan and Micro-Mega. The North America and EMEA sales regions reported significant increases in sales, as they benefited most from the newly acquired activities.**

COLTENE's total sales for fiscal 2018 amounted to CHF 204.0 million (2017: CHF 168.0 million), which represents a year-on-year increase of 21.4 % in its reporting currency of Swiss francs. Early in January of 2018, COLTENE acquired Kenda AG, a specialist for dental polishers based in Vaduz, Liechtenstein. On October 9, 2018, COLTENE acquired the SciCan Group, a specialized manufacturer of disinfection systems and hygiene protection products headquartered in Toronto, Canada, and DentalDrives GmbH, the holding company of Micro-Mega SA, a manufacturer of endodontic instruments based in Besançon, France. Including the effects of the Diatech Inc. acquisition in 2017, total acquired sales in 2018 amounted to CHF 30.4 million or 18.1 percentage points of the Group's overall sales growth. COLTENE achieved organic sales growth of 2.7 % whereas the overall market stagnated.

## **New Product Group Structure**

After the integration of Kenda, SciCan and Micro-Mega, COLTENE Group introduced a new structure for reporting sales by product:

- Infection Control,
- Dental Preservation (Restoration, Endodontics) and
- Efficient Treatment (Prosthetics, Rotary Instruments and Treatment Auxiliaries).

Management expects the Infection Control and Dental Preservation product groups to account for about 30 % each of total sales in future reporting periods and the Efficient Treatment product group to contribute the remaining 40 %. As the acquisitions of SciCan and Micro-Mega were only consolidated for the last three months of the 2018 financial year, the sales mix for 2018 differs significantly from the future sales mix. Efficient Treatment was the largest product group in 2018 with sales of CHF 101.7 million. Dental Preservation, the second-largest product group, achieved a turnover of 73.3 million. Infection Control generated revenues of 29.0 million. The pre-transaction COLTENE Group generated organic sales growth of 2.6 % with its Efficient Treatment products and of 7.0 % with its Dental Preservation products. Conversely, its sales in Infection Control declined by 8.2 % year-on-year. The organic growth in the first two product groups stemmed from the successful launch and good market uptake of new products such as Brilliant EverGlow and Brilliant Crios. Lower sales in Infection Control can be traced to a

**In a stagnating dental market, COLTENE grew organically by 2.7 % under its own steam.**

negative currency effect in its largest market USA (USD), and to some delivery backlogs that affected selected devices.

### **Presence in Core Markets Strengthened**

COLTENE Group expanded its sales teams in key target markets and emerging market countries during the course of 2018. Field sales agents were hired to enhance local presence primarily in Europe and in the fast-growing markets of China and India. COLTENE also deepened its customer relations through seminars and needs-based training courses and workshops. For example, a seminar for Key Opinion Leaders (KOL) from the Asian sales region was held in Kuala Lumpur from July 12–14, 2018. Keynote speeches and presentations on the latest developments in dentistry and on COLTENE's latest innovations and product launches attracted great interest from the key opinion leaders, professors and specialists in the fields of restoration and endodontics. As with previous KOL seminars, in 2016 for Latin America and in 2017 for Europe, COLTENE's latest KOL seminar in Kuala Lumpur was accompanied by a dedicated website and a social media campaign.

### **North America is Now the Largest Market for COLTENE**

The acquisition of the SciCan Group will make the North American market for COLTENE the largest sales region in the future. In 2018, the Group achieved sales of CHF 75.9 million in this market. In the EMEA region, which still accounted for the largest share of sales in 2018, sales amounted to CHF 85.3 million. In the Asia and Latin America regions, sales were CHF 26.1 million and CHF 16.7 million respectively. For 2019, management expects the following sales distribution: North America 45 %, EMEA 35 %, Asia 13 % and Latin America 7 %.

Sales in the emerging markets region were up 11.2 % thanks to pleasing demand for Dental Preservation and Efficient Treatment products in the markets of Russia/CIS, Middle East, Far East and China. Sales of the Group's Brazilian subsidiary Vigodent were 9.1 % lower in Swiss francs due to the weakness of the Brazilian real. In local currency, Vigodent sales were up 4.3 %, extending the positive trend from the prior year.

A regional breakdown of Group sales for 2018 after the consolidation of SciCan and Micro-Mega for approximately three months is as follows: COLTENE achieved 41.8 % of its total sales in the EMEA region (Europe, the Middle East and Africa, 2017: 41.8 %), 37.2 % in North America (2017: 34.6 %), 12.8 % in Asia (2017: 13.2 %) and 8.2 % in Latin America (2017: 10.4 %).

Infection Control and Dental Preservation will contribute about 30 % each to Group sales and Efficient Treatment about 40 %.

### **Non-recurring Effects from the First-time Consolidation of Acquired Companies Decreased the Operating Results**

Operating profit (EBIT) was impacted by non-operational, one-time extraordinary effects associated with the first-time consolidation of the acquired companies and amounted to CHF 23.7 million (2017: CHF 25.5 million) and the corresponding EBIT margin was 11.6 % (2017: 15.2 %). Factoring out the extraordinary effects of CHF 7.0 million, EBIT reached CHF 30.7 million and the EBIT margin was 15.0 %. Extraordinaries totaled CHF 7.0 million before tax and are largely related to IFRS accounting requirements. These essentially include:

- The upward revaluation of finished products to realizable selling value at the time of acquisition led to a reduction in the gross margin.
- Intangible assets recognized in the wake of the business combinations (intangible assets associated with the acquired customer relationships, technology and intellectual property rights) had to be amortized.
- Transaction costs for acquisitions increased our operating expenses.

Factoring out the extraordinary items from operating profit highlights the impact of the many measures that have been initiated on the sales and marketing front. The recruitment of additional sales professionals, effective management of the sales teams and promotional activity in several target markets led to higher sales and better margins. Improved deployment of modern tools such as CRM and product information systems produced the intended effects.

Net profit amounted to CHF 14.9 million (2017: CHF 19.1 million). Besides the above-mentioned extraordinary items, tax law changes in the US also had a negative impact on net profit for the period. A change in the way corporate income and sales tax is calculated at the state and county levels in the US required COLTENE to set aside tax provisions of CHF 0.7 million. The tax rate for the year stood at 30.4 % (2017: 22.2 %). Excluding these one-time effects, the adjusted tax rate was 25.1 %. The higher tax rate also reflects COLTENE's acquisition of companies domiciled in countries where corporate tax rates are higher than the Group's average tax rate.

Factoring out the acquisition-related extraordinary effects and the non-recurring tax effect, net profit amounted to CHF 21.3 million, which is higher than the reported year-ago figure. The adjusted net profit margin was 10.4 % (2017: 11.3 %).

The reported EBIT margin amounted to 11.6 %; excluding non-recurring effects associated with the first-time consolidation of Kenda, SciCan and Micro-Mega, it was 15.0 %.



### **Cash Flow Diminished by Acquisitions**

Cash flow from operations increased to CHF 24.6 million in fiscal 2018 (2017: CHF 21.9 million). Cash flow from investing activities surged to CHF 115.4 million (2017: CHF 5.9 million) mainly because of the aforementioned acquisitions. COLTENE Group also invested CHF 12.0 million in the construction of new manufacturing and office space at its headquarters in Altstaetten. This new modern building is already being used. Among the various departments that have moved into the new office space are sales and marketing and some administrative units. The quality management and product registration department serving the Swiss production sites has also been relocated to the new building. More staff were hired for this department during the course of 2018. COLTENE Group expanded this unit to meet the future regulatory requirements contained in the European Union's new MDR (Medical Device Regulation), which will come into force in May 2020. Management is thus ensuring that COLTENE will also be able to comply with international guidelines for MDSAP audits (Medical Device Single Audit Program). This preparatory action is necessary to ensure a smooth regulatory inspection and approval process across its international locations going forward. In the first quarter of 2019, the first of several manufacturing units were also relocated to the new, brightly lit manufacturing facility.

The net leverage ratio (net debt divided by EBITDA) was in a comfortable range at 0.9. The equity ratio remained solid at 70.5 %.

For these reasons, free cash flow was a negative CHF 90.8 million (2017: positive CHF 16.0 million).

### **Solid Balance Sheet Thanks to Capital Increases**

The issue of new shares to finance the acquisitions led to a net increase in of CHF 180.5 million, of which CHF 169.8 million are capital contribution reserves, which under current law can be distributed to shareholders (natural persons with residence in Switzerland) free of tax.

The balance sheet on the closing date of December 31, 2018, reflects the effects of the acquisitions, which increased total assets to CHF 420.2 million (2017: CHF 167.3 million).

COLTENE closed the period with a net debt position of CHF 29.2 million (2017: net cash position of CHF 13.8 million), having financed part of the acquisitions through bank loans. This was achieved by arranging a committed five-year credit line due June 30, 2023. The net leverage ratio (net debt divided by EBITDA) was in a comfortable range at 0.9. The equity ratio on the closing date was 70.5 % (2017: 72.7 %). These ratios were in compliance with the covenants of the credit line agreement.

Total comprehensive income for the year amounted to CHF 7.0 million (2017: CHF 20.5 million). This decline is attributed to the negative factors detailed in the commentary on the operating results and to non-cash transaction losses on exchange rate differences in the amount of CHF 8.1 million (2017: CHF 0.0 million) arising from the translation of the balance sheets of the Group's foreign entities into the reporting currency of Swiss francs.



# Production and Environment

As an internationally active company, COLTENE cares about its corporate social responsibility and is constantly seeking ways of reducing its environmental impact throughout the value chain. Its objective is to minimize its environmental impact while providing dentists and their patients with safe and reliable products. This section “Production and Environment” lays out our relevant core values and rules of conduct and defines the framework and scope of the parameters and activities that we monitor. Management aims to increase awareness of sustainability and sustainable business conduct across all levels of the organization. COLTENE seeks to continuously expand the scope of its sustainability management practices throughout the Group.

## COLTENE’s Global Manufacturing Footprint

COLTENE Group’s manufacturing plants specialize in various products and production techniques. The global manufacturing sites of COLTENE Group are:

The COLTENE plant in **Langenau, Germany**, specializes in developing and manufacturing the following products:

- Internationally recognized endodontic products and brands for root canal preparation, drying and obturation. These products are sold under the Roeko, Hygenic, Luna and Surgitip brands.
- Reliable, high-quality products for wound care, moisture and infection control. These time-tested products appeal to dentists around the world as they make dental treatments easier and enhance patient comfort. Fully automated manufacturing processes guarantee a very high level of product quality.
- The production of gutta-percha, paper and textile products as well as dental auxiliaries are the core activities at this plant.

COLTENE’s production site in **Altstaetten, Switzerland**, is specialized in developing and manufacturing the following products:

- A wide range of precision dental impression materials, including well-known C-silicone and A-silicone products. Impression materials from COLTENE claim world market leadership and many dentists have relied on the high functionality and quality of these Swiss products for decades.
- High-grade restorative products for innovative and clinically proven aesthetic filling solutions as well as a wide range of bonding and luting agents. COLTENE pioneered the development of white composite tooth fillings to replace amalgam fillings, which used to be the standard years ago.
- Chemical production processes with a focus on mixing and dosing technology are the core activities at this plant.

Kenda, based in **Vaduz, Principality of Liechtenstein**, specializes in the production of diamond and silicon polishing tools for dentistry applications. Its premium quality products for dentists and dental technicians include:

- Autoclavable polishers for multiple use in the dental practice.
- Polishers for single use in the dental practice.
- Polishers for dental lab technicians.

COLTENE now owns two manufacturing plants in the **US**: The plant in **Cuyahoga Falls, Ohio**, specializes in mechanical manufacturing processes. SciCan Inc. in **Pittsburgh, Pennsylvania**, is the logistics and services center of SciCan Ltd., whose headquarters and manufacturing facilities are located in Toronto, Canada. Below are the products manufactured in the US:

- A broad range of posts such as the ParaPost X system, carbide burs and endodontic instruments.
- Ultrasound cleaning and disinfection systems, including related services and customer-specific adjustments.
- Mechanical production processes and the production/assembly of electromechanical components are the core activities at these plants.

In **Rio de Janeiro, Brazil**, Vigodent manufactures chemical-based products for the Latin American market and thereby addresses the following market segments:

- Dental impression materials that allow precise impressions to be made quickly and easily. Its wide range of products gives dentists a perfect choice for every treatment.
- Composite materials for restorative dentistry.
- The core activities at the Brazil plant are similar to those at the Swiss site.

Micro-Mega, a new member of COLTENE Group that is based in **Besançon, France**, is a leading manufacturer of endodontic instruments. Its broad product range includes:

- Root canal instruments for various applications.
- Irrigation solutions for thorough and reliable root canal preparation.
- Premium quality obturation and sealing materials.

Finally, SciCan Ltd. is a full-range provider of disinfection systems and hygiene protection products with a manufacturing plant in **Toronto, Canada**. It offers a broad range of sterilization and other equipment, for instance:

- STATIM cassette autoclaves and BRAVO chamber autoclaves. SciCan's cassette-based autoclave technology ranks among the most significant innovations in the field of dental sterilization and disinfection.
- HYDRIM washer/dryer systems.
- AQUASTAT water distillers: These water distillers kill and remove 99 % of most contaminants and help to prolong the life of dental instruments and equipment.
- Dental handpieces, cleaners and handpiece maintenance devices.
- The OPTIM line of surface disinfectants.

## **Environmental Management – Numerous New Initiatives**

COLTENE Group is constantly seeking new ways of minimizing the environmental impact of its business activities. As a manufacturer of dental consumables, instruments and equipment, COLTENE is subject to stringent regulations that require rigorous monitoring and control of manufacturing processes and the finished products. It applies detailed quality-control protocols to test raw materials for identity, purity and quality to ensure that its products function safely and effectively. All aspects of the manufacturing processes are also fully documented to ensure traceability and patient safety.

COLTENE's commitment to continuous improvement is supported by the COLTENE Code of Conduct, which calls on managers to encourage their direct reports to make environmental stewardship part of their daily work.

Apart from its manufacturing and research activities, COLTENE's environmental impacts are rather low for an organization of its size and in comparison to many other manufacturing companies. COLTENE manufactures neither dental implants nor amalgam fillings and therefore does not use significant amounts of titanium, mercury, lead or manganese, toxic metals that can pose severe threats to the environment and human health.

Its plant and equipment and manufacturing methods are continually modernized and green criteria are a key factor in this process. The Group is constantly seeking to reduce the amount of materials and electric power it consumes and to implement practical improvements. While sustainable product quality and patient safety remain the overriding considerations, COLTENE regularly examines additional action that would benefit the Company and all stakeholders.

The environmental data collected and disclosed pertains to key aspects of COLTENE's operations. The main material groups used in its manufacturing processes are:

- *Hygiene and treatment auxiliaries*: Rubber, metals, textile fibers, cotton, disinfectant cleaning solutions
- *Endodontic products*: NiTi metal alloys, rubber, paper
- *Restorative materials*: Polyamide matrix with glass filler
- *Impression materials*: Silicone oils
- *Operating materials*: Water, cleaning agents, galvanic bath solutions, paper.

In line with its efforts 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 detergents, solvents, acids and oils.

COLTENE has reported on its sustainability performance since the fiscal year 2014. The collection of this data as well as the preparation of its first environmental report increased awareness of sustainability within the organization. In the meantime, improvements in the way the data is collected and processed have been made on an ongoing basis. The Company now has a uniform process in place for gathering and converting all relevant data. The conversion of energy to carbon emissions is based on country-specific energy factors.

The 2018 Production and Environment Report raised employee awareness and led to the introduction of various new initiatives and measures in various areas. In 2019, management attention will be focused on the consolidation of the key sustainability data and on strengthening general awareness of environmental stewardship across all Group entities.

Below are examples of COLTENE's efforts in 2018 to reduce its environmental impact:

- In Switzerland, COLTENE added a building with three levels of offices and a two-level manufacturing hall to its headquarters in Altstaetten in 2018. The new office space offers employees a contemporary, open workplace environment and increases COLTENE's appeal as an employer. The new manufacturing facility allows COLTENE to further optimize its work-flows and make them even greener. It will also include a cleanroom for sterile packaging procedures, which ensures COLTENE's future compliance with the ever-stricter hygiene requirements being imposed around the world. To minimize energy consumption, the envelope of new building meets Minergie standards. Thanks to the high construction quality, COLTENE expects the new building to have a long life with significantly lower energy costs. The first manufacturing operations in the new building were able to commence in early 2019. While completing the construction of this new building, COLTENE also pressed ahead with its solar power plans.
- In Germany, compressors were retrofitted with a heat recovery system at the end of 2017. This produced energy savings of about 60 000 kWh in 2018 (mainly natural gas). Compressor waste heat is now fed into the gas-fired water heater and is also utilized as process heat to dry dental cotton rolls.
- In France, Micro-Mega invested heavily in manufacturing automation systems that enhanced the efficiency and sustainability of its manufacturing processes.
- In Canada, SciCan implemented several projects and measures related to lean manufacturing that lowered its consumption of natural resources and its operating costs.
- Teams around the world, acting on their own initiative, reduced the amount of waste they produce and increased their recycling rates. At the same time, new measures were taken to reduce water consumption levels.

Group Management is confident that all these improvements will clearly enhance the Company's sustainability and its sustained success. COLTENE will continue to strive to make its activities throughout the value chain as green as possible.

### A Note About the Data

COLTENE's business activities are not the sole determinant of the environmental data presented in this report for the years 2016–2018. Its consumption of the relevant input factors of oil, gas and water is affected by many

variables. Besides the prevailing weather conditions, production volumes and the product mix, the amount of electricity and water consumed is also influenced by steadily increasing regulatory requirements. Regulations regarding workplace hygiene, manufacturing processes, packaging materials and quality controls for the finished products are being tightened around the world. Compliance with these regulations, which mostly pertain to product safety and patient safety, can lead to varying levels of electric power and water consumption.

Energy		2016	2017	2018
--------	--	------	------	------

Electricity	MWh	980	869	893
Oil	t	0.0	0.0	0.0
Gas	m <sup>3</sup>	118.2	105.7	108.9
Water	m <sup>3</sup>	1629	1280	1337



Germany

Electricity	MWh	988	947	1127
Oil	t	42.2	44.6	44.7
Gas	m <sup>3</sup>	0.0	0.0	4.5
Water	m <sup>3</sup>	15 228	10 103	9 248



CH and FL

Electricity	MWh	2 767	2 682	2 702
Oil	t	0.0	0.0	0.0
Gas	m <sup>3</sup>	75.6	106.6	121.1
Water	m <sup>3</sup>	4 054	3 086	4 656



USA

Electricity	MWh	440	629	520
Oil	t	0.0	0.0	0.0
Gas	m <sup>3</sup>	2.1	2.4	2.6
Water	m <sup>3</sup>	1826	2 029	2 034



Brazil

Electricity	MWh	n/a	n/a	1521
Oil	t	n/a	n/a	9.0
Gas	m <sup>3</sup>	n/a	n/a	56.9
Water	m <sup>3</sup>	n/a	n/a	1829



France

Electricity	MWh	n/a	n/a	1109
Oil	t	n/a	n/a	0.0
Gas	m <sup>3</sup>	n/a	n/a	86.2
Water	m <sup>3</sup>	n/a	n/a	8 415



Canada

Energy		2016	2017	2018
--------	--	------	------	------

CO <sub>2</sub>	t	961	854	872
Recycling	t	34.1	45.5	69.3
Waste	t	10.9	12.0	29.8
Wastewater	m <sup>3</sup>	1 629	1 280	1 337

CO <sub>2</sub>	t	330	335	346
Recycling	t	49.4	43.9	75.2
Waste	t	63.8	67.4	90.1
Wastewater	m <sup>3</sup>	15 228	10 103	9 248

CO <sub>2</sub>	t	2 017	2 048	2 103
Recycling	t	57.5	55.2	51.2
Waste	t	7.3	28.9	17.0
Wastewater	m <sup>3</sup>	4 054	3 086	4 656

CO <sub>2</sub>	t	134	189	158
Recycling	t	1.4	0.0	0.0
Waste	t	18.8	20.7	24.5
Wastewater	m <sup>3</sup>	1 826	2 029	2 034

CO <sub>2</sub>	t	n/a	n/a	378
Recycling	t	n/a	n/a	8.0
Waste	t	n/a	n/a	27.0
Wastewater	m <sup>3</sup>	n/a	n/a	1 829

CO <sub>2</sub>	t	n/a	n/a	552
Recycling	t	n/a	n/a	22.8
Waste	t	n/a	n/a	240.8
Wastewater	m <sup>3</sup>	n/a	n/a	8 415

Total 2017/2018

5127 MWh Electricity  
7871 MWh Electricity

44.58 t Oil  
53.74 t Oil

215 m<sup>3</sup> Gas  
380 m<sup>3</sup> Gas

16 498 m<sup>3</sup> Water  
27 519 m<sup>3</sup> Water

3426 t CO<sub>2</sub>  
4410 t CO<sub>2</sub>

144.6 t Recycling  
226.5 t Recycling


129.0 t Waste  
429.2 t Waste

16 498 m<sup>3</sup> Wastewater  
27 519 m<sup>3</sup> Wastewater







The background of the image is a blurred photograph of a modern industrial manufacturing facility. In the foreground, there are various pieces of machinery, including what appears to be a dental instrument manufacturing machine with blue coiled hoses. In the background, there are glass-walled enclosures, possibly for precision manufacturing or storage, with some orange and blue lighting visible inside. The overall scene conveys a sense of high-tech industrial production.

**Micro-Mega SA** For over a century, Micro-Mega has been designing and manufacturing dental surgical instruments in the heart of Besançon, the French clock-making and micro-technology capital. The highly experienced specialists in endodontic products produce high-quality instruments for root canal treatments. Micro-Mega SA markets its products mainly in Europe and North America and employs around 180 associates in Besançon.

“Our technical expertise, innovation and quality promise characterize the Micro-Mega manufacturing process – allowing us to develop ever simpler, safer, faster and more effective root canal preparation methods with NiTi instruments.”

Gaelle Batista / Technical Support Logistics / Besançon, France

# 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 *économie-suisse*. The compensation report is published separately in this Annual Report on page 54 to page 61. All information is valid as at December 31, 2018, unless otherwise stated. Significant changes that have occurred between that date and the publication date of this report have also been indicated as appropriate.**

Whenever a reference is made in this Corporate Governance report to the Articles of Incorporation, they are available in German as well as in an unofficial translation in English on the website at: <https://www.coltene.com/de/investoren-medien/corporate-governance/> (German version) and <https://www.coltene.com/investor-relations/corporate-governance/> (English version).

### Group Structure and Shareholders

#### Group Structure

##### *Operative Group Structure*

COLTENE Group is targeting the markets for dental consumables and small equipment for dental practices. 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 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 Altstaetten/SG, Switzerland. COLTENE Holding AG’s registered shares (security no. 2.534.325, ISIN CH0025343259, symbol CLTN) are quoted on SIX Swiss Exchange. On December 31, 2018, the market capitalization amounted to CHF 503.7 million (prior year CHF 400.4 million). All Group companies are ultimately owned at 100 % by the Group’s holding company.

At the beginning of January 2018, COLTENE bought and consolidated Kenda AG, Vaduz, Liechtenstein. Kenda was established in 1977 and is a specialized, international manufacturer of diamond and silicone polishing instruments for dentistry applications. The additional annual turnover of Kenda is approx. CHF 4 million.

October 9, 2018, the COLTENE Group acquired SciCan Ltd., headquartered in Toronto, Canada, and Dental-Drives GmbH, domiciled in Leutkirch, Germany, with all their respective subsidiaries. The SciCan Group with its main subsidiaries in the USA and Germany offers infection control equipment and hygiene products. SciCan has about 230 employees, is active worldwide and claims a market-leader position in his domain in North America. DentalDrives’ main subsidiary Micro-Mega SA, located in Besançon, France, is focused primarily on endodontic instruments and employs approx. 180 people. Most of its sales are generated in Europe and North America. COLTENE intends to retain all manufacturing and product expertise of SciCan and Micro-Mega at the current sites of operation. Likewise, SciCan’s and Micro-Mega’s products and brands with their excellent market reputation will be retained under the overarching COLTENE brand. The newly acquired companies will increase annual consolidated sales of the COLTENE Group by approximately CHF 100.0 million.

In September 2018, Dentronix Inc., located in Cuyahoga Falls, Ohio, USA, a small distributor for orthodontic products, was merged with Coltène/Whaledent Inc., also located in Cuyahoga Falls.

On April 1, 2017, the Group acquired the business and the assets of Diatech LLC, domiciled in Mount Pleasant, South Carolina, USA. COLTENE integrated the business into the newly established Diatech Inc., a subsidiary of Coltène/Whaledent Inc., Cuyahoga Falls, Ohio, USA. Diatech Inc. is a tele sales and online vendor, specializing in diamond and carbide burs as well as orthodontic products.

Information on the companies belonging to the COLTENE Group, which are not listed, is shown on page 95 of the Financial Report.

### Major Shareholders

On December 31, 2018, there were 2011 shareholders (previous year 1743) 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, Switzerland, held 1 313 176 registered shares. This equals voting rights of 21.98 %. *Huwa Finanz- und Beteiligungs AG* is representing the families of Ruedi Huber, Balgach, Switzerland, Helene Huber, Heerbrugg, Switzerland, and Nick Huber, Balgach, Switzerland. Further details are available on the disclosure of shareholdings website of SIX Swiss Exchange.

*Arno Holding S.à.r.l.*, Luxemburg, Luxemburg, held 1 027 501 registered shares. This equals voting rights of 17.2 %. *Arno Holding S.à.r.l.* is under 100 % control of Arthur Zwingenberger, Lucerne, Switzerland, and former major shareholder of SciCan Ltd. and DentalDrives GmbH that was sold to the COLTENE Group on October 9, 2018.

*Rätikon Privatstiftung*, Bludenz, Austria, held 598 493 registered shares. This equals voting rights of 10.02 %. *Rätikon Privatstiftung* is under control of the family of Franz Rauch, Laterns, Austria. Direct shareholder is ESOLA Beteiligungsverwaltungs GmbH, Rankweil, Austria.

*Tweedy, Browne Company LLC*, New York, USA, held 286 847 registered shares representing 4.80 % of the voting rights.

*Credit Suisse Funds AG*, Zurich, Switzerland, held 223 946 registered shares or 3.75 % of the voting rights.

*UBS Fund Management (Switzerland) AG*, Zurich, Switzerland, held 208 252 registered shares or 3.49 % of the voting rights.

*Robert Heberlein*, Zumikon, Switzerland, held directly and indirectly through Burix Holding AG, Zurich, which he controls, 203 207 registered shares, representing 3.40 % of the voting rights.

All other shareholders held a stake of 35.38 % of the voting rights of COLTENE Holding AG.

The Company held treasury shares amounting to 0.05 % (0.00 %) at the balance sheet date. Shares pending registration of transfer amounted to 29.20 % (14.00 %) of the total as at December 31, 2018.

Disclosure notifications pertaining to shareholdings are published on the electronic publication platform of SIX Swiss Exchange AG. The notifications can be accessed via the following link to the database of the disclosure office of SIX Swiss Exchange: <https://www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html>

### Lock-up Agreements

At the closing of this annual report the following lock-up agreements were in place and running. By April 4, 2019, the date of publication of this annual report, all lock-up agreements mentioned below with a period of six months have expired.

The lock-up agreements relate to the acquisition of the SciCan Group and the DentalDrives Group by the COLTENE Group from Arno Holding S.à.r.l. and Stefan Helsing (as the Sellers), which closed on October 9, 2018 (the Acquisition). In the context of the Acquisition, COLTENE Holding AG issued on September 14, 2018, a Prospectus relating to (i) the offering of up to 703 167 registered shares with a nominal value of CHF 0.10 in COLTENE Holding AG (the Offer Shares) (the Offering) and (ii) the listing of up to 1 150 000 registered shares in COLTENE Holding AG to be issued to the Sellers as part of the consideration (the Consideration Shares) in connection with the Acquisition.

COLTENE Holding AG, the members of the Board of Directors, and the members of the Group Management entered into a lock-up undertaking ending six months after September 28, 2018 (the first day of trading of the Offer Shares), subject to customary exceptions.

In connection with the Offering, Esola Beteiligungsverwaltungs GmbH and Huwa Finanz- und Beteiligungs AG each individually entered into a Shareholder Commitment, which provides for, among other things, a lock-up undertaking ending six months after September 28, 2018 (the first day of trading of the Offer Shares), subject to customary exceptions. For purposes of disclosure of significant shareholders, Esola Beteiligungsverwaltungs GmbH and Huwa Finanz- und Beteiligungs AG formed a group due to their lock-up and other undertakings under the Shareholder Commitments.

Under the terms of the transaction agreement regarding the Acquisition, the Sellers and Arthur Zwingenberger have agreed to (i) a lock-up undertaking, beginning on October 9, 2018, the date of the completion of the Acquisition and ending, subject to certain circumstances resulting in an earlier termination, twelve months after the completion of the Acquisition, subject to customary exceptions, and (ii) a standstill undertaking according to which they will not, for a period of twelve months following the completion of the Acquisition, jointly or individually, directly or indirectly, cause, arrange for or launch a public tender offer or any other offer for shares in COLTENE Holding AG or share options aiming at taking direct or indirect control over COLTENE Holding AG.

For a detailed description of the above mentioned lock-up agreements please see chapter “Offering and Sale – Lock-up Agreements” on page 84 et seq. of the Prospectus, available in English at Zürcher Kantonalbank, IHKT, P.O. Box, 8010 Zurich, Switzerland (e-mail: [prospectus@zkb.ch](mailto:prospectus@zkb.ch), phone: +41 44 293 67 35).

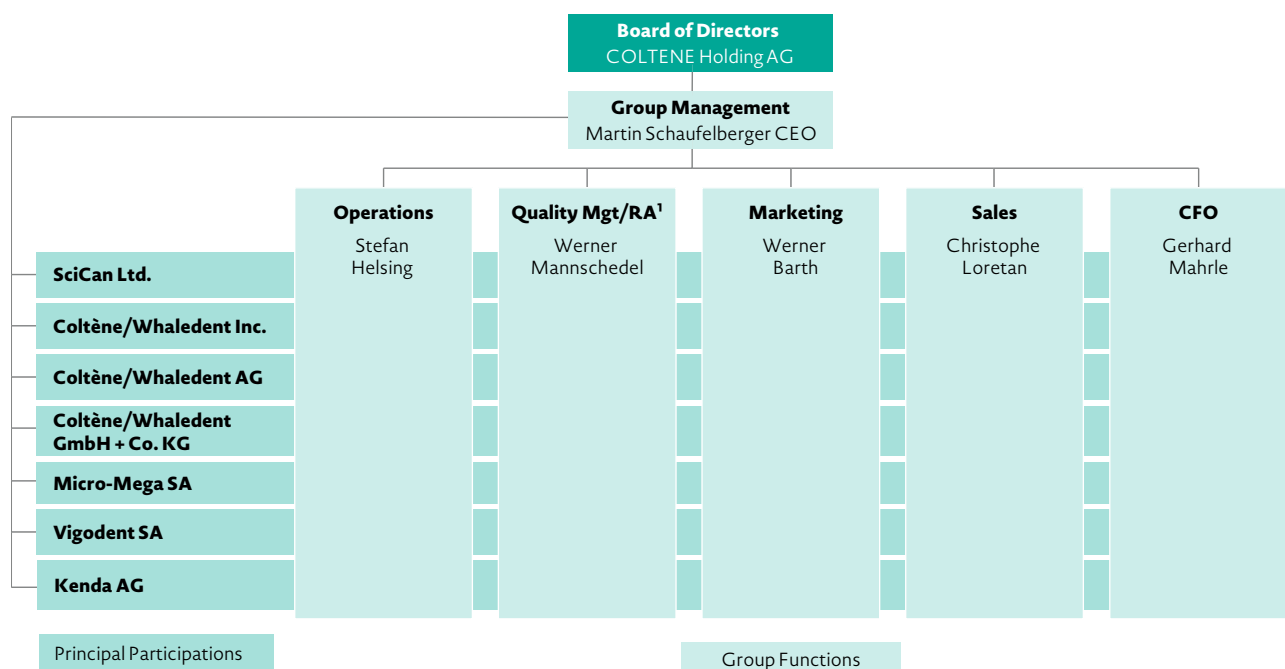
### **Cross-Shareholding**

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

### **Structure of Group Operations**

The COLTENE Group is operationally headed by the Group Management. 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 Quality Management and Regulatory Affairs, Werner Barth, Vice President Marketing, and Christophe Loretan, Vice President Sales. On November 1, 2018, Stefan Helsing joined the Group Management as COO (Chief Operating Officer) to lead the integration of the new locations and product groups of SciCan and Micro-Mega that were acquired by COLTENE on October 9, 2018, and to manage the overall operations of the COLTENE Group. Stefan Helsing was previously CEO of the Sanavis Group to which SciCan and Micro-Mega belonged. 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 37.

Group structure and management organization of the COLTENE Group as per January 1, 2019:



<sup>1</sup> Quality Management/Regulatory Affairs

## 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.

## Capital

Details on the capital are included in the COLTENE Holding AG's financial statements on pages 100 and 101.

## Authorized or Contingent Capital in Particular

According to §3 para. 9 of the Articles of Incorporation, the Board of Directors shall be authorized to increase the share capital of COLTENE Holding AG in an amount not exceeding CHF 6842 (which corresponds to approximately 1.14 % of the current share capital) at any time until September 13, 2020, by way of issuance of up to 68 420 registered shares with a nominal value of CHF 0.10 each to be fully paid in. Increases in partial amounts shall be permitted. The registered shares to be newly issued are subject to the registration restrictions set forth in §4 of the Articles of Incorporation. The time of issuance of the new shares, the issue price and subscription price, the nature of contributions and the starting date of dividend entitlement will be determined by the Board of Directors. The authorized share capital must be used exclusively for the acquisition of the SciCan group of companies based in Toronto/Canada. In doing so, the Board of Directors shall be authorized to exclude the shareholders' subscription rights and to allocate these to the sellers of the SciCan group of companies based in Toronto/Canada.

COLTENE Holding AG has no conditional capital.



## Changes in Capital

The changes in equity of COLTENE Holding AG that occurred during the last three financial years are shown in the table below. Treasury shares are recognized at weighted average cost and deducted from shareholders' equity at the time of acquisition.

### Changes in equity

In CHF 1000	31.12.2018	31.12.2017	31.12.2016
Share capital	598	422	422
Statutory reserves	84	84	84
Capital contribution reserve	169 784	0	0
Reserves for treasury shares	-303	0	-259
Net income brought forward	30 036	33 785	38 037
<b>Total</b>	<b>200 199</b>	<b>34 291</b>	<b>38 284</b>

On September 27, 2018, COLTENE Holding AG completed an ordinary capital increase as the first of two capital increases to partially finance the acquisition of SciCan Ltd. and DentalDrives GmbH. The Company issued 675 000 shares with a par value of CHF 0.10 each as part of a rights offering "at market" to existing and new shareholders at an offer price of CHF 104. COLTENE Holding AG generated gross proceeds of CHF 70 200 000. This corresponds to net proceeds of CHF 69 546 000. The listing and first day of trading of the offer shares were set to September 28, 2018. The payment of the offer price against delivery of offer shares was made on October 2, 2018. On the closing date of the transaction on October 9, 2018, to further finance the transaction, the Company issued 1 081 580 consideration shares with a par value of CHF 0.10 each at an issue price of CHF 94.29 to the sellers of SciCan Ltd. and DentalDrives GmbH against contribution in kind of all shares in SciCan Ltd. in the course of a capital increase out of authorized share capital. The transaction cost for this second capital increase amounted to TCHF 1571. The sellers (Arthur Zwingenberger's Arno Holding S.à.r.l. and Stefan Helsing) hold 18.1% of the total capital and voting rights of COLTENE Holding AG after completion of the transaction. These consideration shares are locked-up for a period of twelve months, which started on October 9, 2018. After the completion of both capital increases, the share capital of COLTENE Holding AG amounts to CHF 597 558, divided into 5 975 580 registered shares with a par value of CHF 0.10 each.

Based on the Annual General Meeting's decision on March 28, 2018, the Company distributed a dividend of CHF 3.00 (previous year CHF 2.70) per share to its shareholders on April 6, 2018. The total amount paid was TCHF 12 654 (previous year TCHF 11 381).

## Shares and Participation Certificates

The Company's share capital consists of 5 975 580 (previous year 4 219 000) registered shares with a par value of CHF 0.10 each (previous year CHF 0.10). 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. Other than set out above, there is no additional conditional or authorized capital.

The shares are traded in the International Reporting Standard 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, 2018, the Board of Directors of COLTENE Holding AG consisted of seven members. The Articles of Incorporation stipulate a minimum of three.

The Extraordinary General Meeting of shareholders on September 14, 2018, expanded the Board's know-how by electing Allison Zwingerberger, a former board member of SciCan Ltd., Toronto, Canada, specializing in infection control in the dental industry with additional experience in information technology and technology in general. Allison Zwingerberger is Associate Professor at the Department of Veterinary Radiology at the University of California, Davis, USA, and the daughter of Arthur Zwingerberger, the founder and former principal owner of SciCan and Micro-Mega via Arno Holding S.à.r.l., Luxemburg.

The General Meeting of Shareholders elected at the meeting of March 29, 2017, Astrid Waser as an additional member of the Board for the first time. As of the 2017 General Meeting, Robert Heberlein stepped down as member of the Board and Vice Chairman of the Board of Directors of COLTENE Holding AG for reasons of age.

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 and Astrid Waser is partner, received CHF 790 000 (previous year CHF 66 000) for legal advice. Lenz & Staehelin acted as an advisor to the Board of Directors and the Group Management during the transaction (due diligence, transaction agreement, capital increases, bank financing, etc.) in regard of the acquisitions of Kenda, SciCan Ltd. and DentalDrives GmbH.

The personal details together with the other activities and vested interests of individual members of the actual Board of Directors are listed on pages 39 to 43.

#### **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. The Chairman of the Board of Directors is elected by the shareholders for a period of one year. In the event of incapacity of the Chairman, the Chairman of the Audit and Corporate Governance Committee will temporarily assume the role of the Vice Chairman of the Board of Directors.

#### **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 that 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
- approval of intercompany loans in excess of CHF 400 000 per fiscal year per Group company
- 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 the former Board member Robert Heberlein and all other Board members were 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: Jürgen Rauch, Astrid Waser

All members of the Board of Directors normally attend the Audit and Corporate Governance Committee Meetings. The Board Members that are not members of the Audit and Corporate Governance Committee attend the meetings as guests with no voting rights.

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 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

All members of the Board of Directors normally attend the Nomination and Compensation Committee Meetings. The Board Members that are not members of the Nomination and Compensation Committee attend the meetings as guests with no voting rights.

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, if he/she names its purpose. In 2018, the Board of Directors met ten times (previous year eight times). These meetings lasted in average four to eight hours. In one meeting, the Board of Directors discussed the Group Strategy together with the enlarged Group management during a two-day workshop. The Audit and Corporate Governance Committee met twice (previous year three times) for a two hours' meeting. The Nomination and Compensation Committee met also twice (previous year 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 inalienable and non-transferable duties, and those additional duties listed on pages 34 to 37, 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 the 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 76 and 77.

Set out below are the names, position, age, year of first election and committee memberships of the Board of Directors:

#### Membership of the Board of Directors

Members	Function	Born in	Year of first election	2018	
				Audit and Compliance Committee	Nomination and Compensation Committee
Nick Huber	Chairman	1964	2005	Chairman Member Member	Member
Erwin Locher	Member	1953	2009		
Jürgen Rauch	Member	1967	2016		
Matthew Robin	Member	1965	2006		Chairman
Astrid Waser	Member	1971	2017		
Roland Weiger	Member	1961	2013		Member
Allison Zwingenberger	Member	1970	2018		

# 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.**



Matthew  
Robin

Allison  
Zwingenberger

Jürgen  
Rauch

Nick  
Huber

Astrid  
Waser

Roland  
Weiger

Erwin  
Locher

### Nick Huber

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

#### *Professional background (main stages)*

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

#### *Other important activities and vested interests*

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

#### *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

### 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
- British and Swiss citizen, born in 1965

#### *Professional background (main stages)*

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

#### *Other important activities and vested interests*

- President of the Qids Future Foundation

#### *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

### 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
- Swiss citizen, born in 1953

#### *Professional background (main stages)*

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

#### *Other important activities and vested interests*

- Chairman of the Board of Directors of Thommen Medical AG, Grenchen
- Member of the Board of Directors of Mathys AG, Bettlach

#### *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

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

#### *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

### Jürgen Rauch

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

#### *Professional background (main stages)*

- |            |  |
|------------|--|
| 1993–1994  | Pittra Inc, New York, various management functions |
| 1994–2004  | Rauch Hungaria Kft, Budapest, General Manager      |
| Since 2004 | Rauch Fruchtsäfte GmbH & Co OG, Rankweil, CEO      |

#### *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

### Astrid Waser

- Member of the Board of Directors (year of first election: 2017)
- Non-executive member
- Dr. iur., attorney-at-law, LL.M., University of Lausanne
- Swiss citizen, born in 1971

#### *Professional background (main stages)*

- |            |                                     |
|------------|-------------------------------------|
| 2002–2011  | Lenz & Staehelin, Zurich, Associate |
| 2004       | Foreign Associate, Brussels         |
| since 2012 | Lenz & Staehelin, Zurich, Partner   |

#### *Other important activities and vested interests*

Astrid Waser has no other important activities and vested interests.

#### *Key knowledge and experience*

- Legal affairs – proven expert in competition and procurement law and long-standing experience in counselling firms in the field of business law
- Compliance – proven expert particularly regarding internal and regulatory investigations and compliance matters

### Allison Zwingenberger

- Member of the Board of Directors  
(year of first election: 2018)
- Non-executive member
- DVM, University of Guelph
- Canadian and German citizen, born in 1970

#### *Professional background (main stages)*

Since 2005 University of California, Davis, Associate  
Professor of Veterinary Radiology  
2006–2018 SciCan Ltd., Toronto, Member of the Board  
of Directors  
2015–2017 American College of Veterinary Radiology  
(ACVR), President CT/MRI Society  
2016–2018 President, European College of Veterinary  
Diagnostic Imaging (ECVDI)  
Since 2018 University of California, Davis, Cancer  
Center, Co-Director In Vivo Translational  
Imaging Shared Resource

#### *Other important activities and vested interests*

Allison Zwingenberger has no other important activities and vested interests.

#### *Key knowledge and experience*

- Experience as a Board member of SciCan Ltd., specializing in infection control in the dental industry, experience in information technology and technology in general
- Associate Professor at a leading School of Veterinary Medicine with experience in leadership, healthcare, and education
- Experience in biomedical and clinical science as a researcher in translational imaging

# 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.**



Werner  
Barth

Werner  
Mannschedel

Martin  
Schaufelberger

Gerhard  
Mahrle

Christophe  
Loretan

Stefan  
Helsing



### **Martin Schaufelberger**

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

#### *Professional background (main stages)*

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

#### *Other important activities and vested interests*

- Zünd Systemtechnik AG, Altstaetten, Chairman of the Board of Directors

### **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 Eugster/Frismag Group, Romanshorn, CFO
- 1998–2000 Batigroup Holding AG, Basel, CFO
- 2000–2009 sia Abrasives Holding AG, Frauenfeld, CFO
- 2009–2013 Kardex AG, Zurich, CFO

#### *Other important activities and vested interests*

Gerhard Mahrle has no other important activities and vested interests.

### Stefan Helsing

- Chief Operating Officer (COO) of the COLTENE Group
- Member of the Group Management since 2018
- lic. oec. HSG, University of St. Gallen
- Swiss citizen, born in 1958

#### *Professional background (main stages)*

- 1985–1994 Management Zentrum St. Gallen and Indevo AB, Management Consultant
- 1994–2000 Swissair AG, Zurich, Network Management and CEO Balair Airline
- 2000–2005 STA Travel Ltd., Zurich, CEO
- 2005–2008 Hotelplan Management AG, Glattbrugg, Production Management
- 2008–2018 Sanavis Group, various functions (last function: CEO)

#### *Other important activities and vested interests*

Stefan Helsing has no other important activities and vested interests.

### Werner Mannschedel

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

#### *Professional background (main stages)*

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

#### *Other important activities and vested interests*

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 | VOLPI AG, Schlieren, Head Business Unit Medical Products                     |
| 2001–2004 | HMT High Medical Technologies AG, Lengwil, Product manager and Sales manager |
| 2005–2006 | Zieler Ophthalmic Systems AG, Port, Head Marketing & Sales                   |
| 2006–2013 | Zieler Ophthalmic Systems AG (Zieler Group), Port, Vice President Sales      |
| 2013–2015 | Coltene/Whaledent AG, Altstaetten, Global Director Marketing                 |

#### *Other important activities and vested interests*

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
- MBA University of Rochester, Bern
- Swiss citizen, born in 1970

#### *Professional background (main stages)*

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

#### *Other important activities and vested interests*

Christophe Loretan has no other important activities and vested interests.

## Group Management

On December 31, 2018, COLTENE Holding AG's Group Management consisted of six persons (previous year five persons): the Chief Executive Officer (CEO) Martin Schaufelberger, the Chief Financial Officer (CFO) Gerhard Mahrle, who also acts as deputy CEO, Stefan Helsing, Chief Operating Officer (COO), Werner Mannschedel, Vice President Quality Management and Regulatory Affairs, Werner Barth, Vice President Marketing, and Christophe Loretan, Vice President Sales.

## Members of the Group Management

The personal details together with other activities and vested interests of individual members of the actual Group Management are listed on pages 44 to 47.

## 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

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 to members of the Board of Directors and the Group Management 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 54 to 61 of this Annual Report.

## Shareholders' Participation Rights

Details of shareholders' participation rights can be found in the Articles of Incorporation. They are available in German as well as in an unofficial translation in English on the website at: <https://www.coltene.com/de/investoren-medien/corporate-governance/> (German version) and <https://www.coltene.com/investor-relations/corporate-governance/> (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 135 and 163 of the Swiss Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIA) (Bundesgesetz über die Finanzmarktinfrastrukturen und das Marktverhalten im Effekten- und Derivatehandel, FinfraG).

#### **Clauses on Changes of Control**

No change of ownership clauses are in effect at December 31, 2018, 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. Fiscal year 2018 is the last year of responsibility as lead auditor for Rico Fehr. He will be replaced by Andreas Bodenmann due to the expiry of the seven-year period where Rico Fehr was in charge.

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 479 000 (CHF 230 000 in previous year). The significant increase of the audit fees is owed to the additional audits that were required for the capital increases of COLTENE Holding AG in the course of the acquisition of SciCan Ltd. and DentalDrives GmbH.

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 408 000 (CHF 17 000 in previous year) for other audit-related services. The amount was mainly paid for services in connection with the capital increases for the acquisition of SciCan Ltd. and DentalDrives GmbH.

## **Supervisors and Control Instruments Pertaining to the Auditors**

As explained on page 36, 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 2018, the Audit and Corporate Governance Committee held two 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, 2018, 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. At the publication date of the annual results, COLTENE informs at the annual press and analysts conference and later at the Annual General Meeting in detail about its business activity. At the publication date of the half-year results COLTENE informs about the business activity by means of a conference call. 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 108.

## **Internet**

Shareholders and other interested parties can obtain information about the COLTENE Group on the Internet at [www.coltene.com](http://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. All press releases and ad hoc publications can be found as follows: <https://www.coltene.com/investor-relations/media-releases/>

## **Financial Publications**

<https://www.coltene.com/investor-relations/financial-publications/>

## **Articles of Incorporation**

<https://www.coltene.com/investor-relations/corporate-governance/>

## **Corporate Communications and Investor Relations**

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Corporate Communication/Investor Relation  
Feldwiesenstrasse 20  
9450 Altstaetten, Switzerland  
+41 71 7575 54 37  
[investor@coltene.com](mailto:investor@coltene.com)

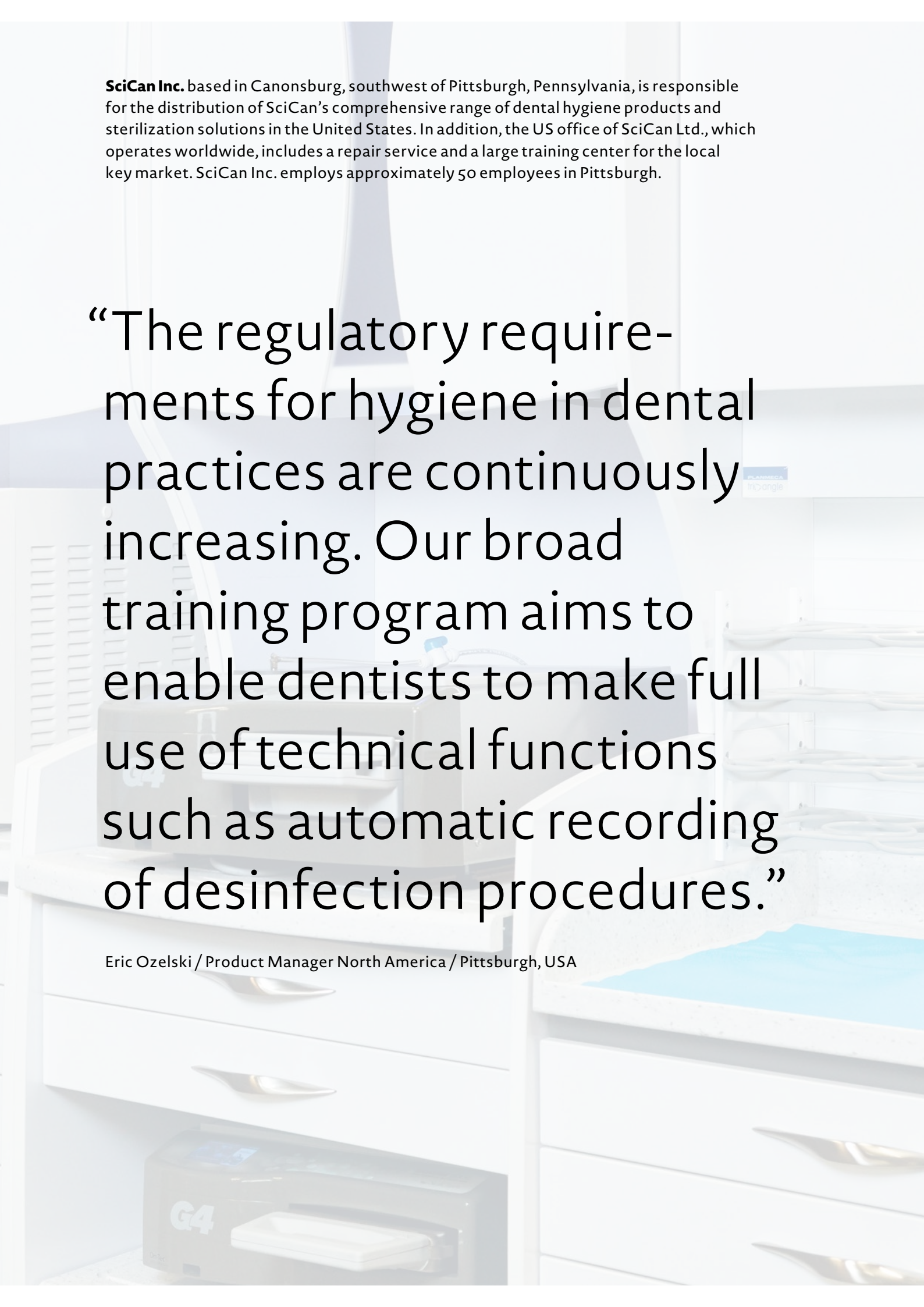


For important dates of publications this year, the following year and contact addresses refer to page 3.

**Non-applicability/negative statement**

It is explicitly declared that all statements that are not included or mentioned in this report are considered as either not applicable or negative statements according to the directive on information relating to Corporate Governance published by SIX Swiss Exchange AG or the associated commentary.



The background of the image shows a dental clinic environment. In the foreground, there is a white cabinet with drawers. On top of the cabinet, there is a sink and a G4 sterilization unit. The G4 unit is a black and white device with a digital display and a handle. The text is overlaid on the image, providing information about SciCan Inc. and its products.

**SciCan Inc.** based in Canonsburg, southwest of Pittsburgh, Pennsylvania, is responsible for the distribution of SciCan's comprehensive range of dental hygiene products and sterilization solutions in the United States. In addition, the US office of SciCan Ltd., which operates worldwide, includes a repair service and a large training center for the local key market. SciCan Inc. employs approximately 50 employees in Pittsburgh.

“The regulatory requirements for hygiene in dental practices are continuously increasing. Our broad training program aims to enable dentists to make full use of technical functions such as automatic recording of disinfection procedures.”

Eric Ozelski / Product Manager North America / Pittsburgh, USA

# Compensation Report

## 1 Introduction

This report provides an overview of COLTENE's compensation principles and practices. It provides information on the compensation of Directors, Group Management and Senior Management in 2017 and in 2018. 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 granted to Directors and the Group Management is presented in our audited Financial Report (see pages 94 and 104).

### 1.2 Management Structure

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

Fig. 1: Management Structure

The Chairman Nick Huber heads the Board of Directors (BoD). The Extraordinary General Meeting of shareholders on September 14, 2018, expanded the Board's know-how by electing Allison Zwingenberger, a former board member of SciCan Ltd., Toronto, Canada, specializing in infection control in the dental industry with additional experience in information technology and technology in general. Allison Zwingenberger is Associate Professor at the Department of Veterinary Radiology at the University of California, Davis, USA. Erwin Locher, chair of the Audit Committee, Matthew Robin, chair of the Nomination and Compensation Committee, Jürgen Rauch, Roland Weiger and Astrid Waser complete the Board of Directors. More information regarding the members of the Board of Directors is available on pages 39 to 43.

Since October 1, 2015, the Group Management (= Geschäftsleitung) is composed of the Group CEO Martin Schaufelberger, the Group CFO Gerhard Mahrle, the Vice President Quality Management and Regulatory Affairs Werner Mannschedel, the Vice President Marketing Werner Barth, and the Vice President Sales Christophe Loretan. On November 1, 2018, Stefan Helsing joined the Group Management as COO (Chief Operating Officer) to lead the integration of the new locations and product groups of SciCan and Micro-Mega that were acquired by COLTENE on October 9, 2018, and to manage the overall operations of the COLTENE Group. Stefan Helsing was previously CEO of the Sanavis Group, to which SciCan and Micro-Mega belonged. More information regarding the members of the Group Management is available on pages 44 to 47.

### 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). Since the AGM 2016, the NCC is composed as follows:

Chairman: Matthew Robin

Members: Nick Huber, Roland Weiger

All members of the Board normally attend NCC meetings. 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 55 to 58). 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  
CEO: Chief Executive Officer

This table 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 October 9, 2018, 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 over-all 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 82. 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 three years. Directors receive a fixed annual cash fee and a fixed amount of money in shares, also blocked for three years.

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

### Elements of the compensation

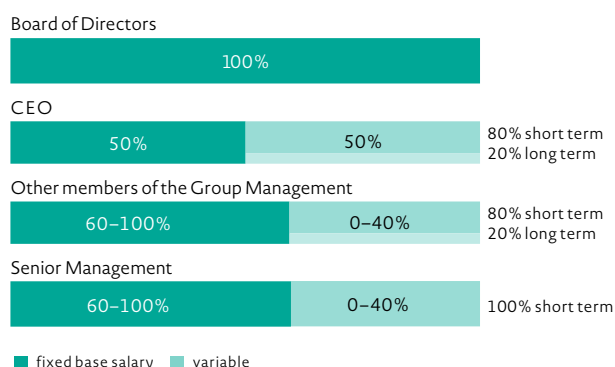


Fig. 2: Display of the compensation

### 3.1 Fixed Compensation Elements

The fixed compensation elements include the following components:

- base salary
- pension plans<sup>1</sup> (depending on local practices and regulations)
- other benefits (depending on local practices and regulations)

<sup>1</sup> 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 Elements

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 55). 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. The entitlement for a bonus based on financial targets normally starts at 80 % fulfillment of the defined target but it may start at a higher percentage than at 80 % of the defined target. The maximum bonus for the achievement of a single financial target is 150 % of the defined bonus for this single target.

#### Scale of variable compensation elements

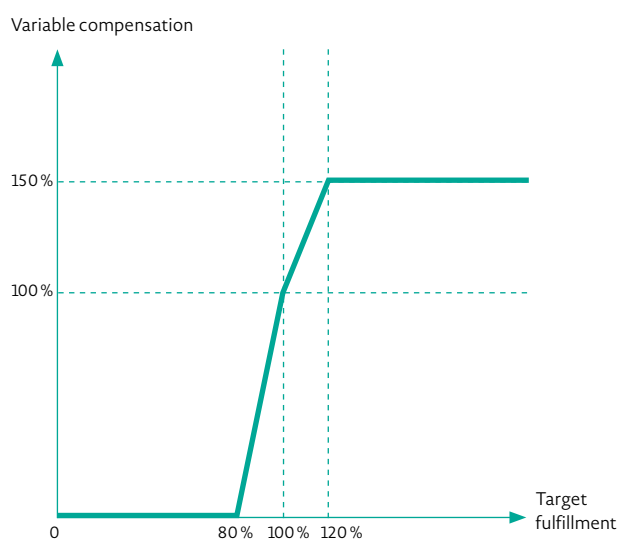


Fig. 3: Scale of variable compensation (financial targets)

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 with each member of the management and may not exceed the total fixed compensation comprising all elements according to section 3.1. Fixed Components Elements on pages 56 to 57.

#### Illustration target achievement

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

#### 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 three years. The calculation of the grant price for these shares is based on the Swiss Performance Index (SPI) of the SIX Swiss stock exchange. The free-float-adjusted SPI is considered Switzerland's overall stock market index. It comprises practically all of the SIX Swiss Exchange-traded equity securities of companies that are domiciled in Switzerland or the Principality of Liechtenstein. The shares are granted at an index price based on COLTENE's share price of that year. The index price is recalculated every four years forming the base for the following four-year period. Based on this index price the relative year-on-year performance of the SPI is applied to calculate the new grant price for COLTENE shares during the following four-year period.

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 twelve 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 2017 and 2018.

### Remuneration to the Board of Directors

In CHF

	Base remuneration		Other remuneration	Total
	in cash	in shares <sup>1,2</sup>	Social security <sup>3</sup>	
<b>2017</b>				
Nick Huber	80 000	20 000	14 363	114 363
Robert Heberlein <sup>4</sup>	15 000	2 500	2 512	20 012
Erwin Locher	70 000	10 000	11 443	91 443
Jürgen Rauch	60 000	10 000	10 023	80 023
Matthew Robin	70 000	10 000	11 443	91 443
Astrid Waser <sup>5</sup>	45 000	7 500	6 393	58 893
Roland Weiger	60 000	10 000	10 023	80 023
<b>Total</b>	<b>400 000</b>	<b>70 000</b>	<b>66 200</b>	<b>536 200</b>
<b>2018</b>				
Nick Huber	80 000	20 000	14 363	114 363
Erwin Locher	70 000	10 000	7 665	87 665
Jürgen Rauch	60 000	10 000	0	70 000
Matthew Robin	70 000	10 000	11 438	91 438
Astrid Waser	60 000	10 000	9 647	79 647
Roland Weiger	60 000	10 000	10 017	80 017
Allison Zwingenberger <sup>6</sup>	15 000	2 500	2 131	19 631
<b>Total</b>	<b>415 000</b>	<b>72 500</b>	<b>55 261</b>	<b>542 761</b>

<sup>1</sup> 2017: 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.

<sup>2</sup> 2018: The value of the number of shares granted is calculated on the weighted average share price of the month of May of the subsequent year.

<sup>3</sup> Company paid social security contribution incl. AHV, IV and ALV.

<sup>4</sup> On the General Meeting, March 29, 2017, Robert Heberlein stepped down as Board member for reasons of age.

<sup>5</sup> On the General Meeting, March 29, 2017, Astrid Waser was elected as a new Board member.

<sup>6</sup> On the Extraordinary General Meeting, September 14, 2018, Allison Zwingenberger was elected as a new Board member.

### Remuneration to the Group Management

In CHF

	Base remuneration	Variable remuneration <sup>1</sup>		Other remuneration		Total
	in cash	in cash	in shares <sup>2</sup>	Social security <sup>3</sup>	Other benefits	
<b>2017</b>						
Martin Schaufelberger	370 000	292 098	99 676	147 890	23 022	932 686
Other members	970 082	293 172	99 971	269 499	54 235	1 686 959
<b>Total</b>	<b>1 340 082</b>	<b>585 270</b>	<b>199 647</b>	<b>417 389</b>	<b>77 257</b>	<b>2 619 645</b>
<b>2018</b>						
Martin Schaufelberger	370 000	296 000	111 276	148 729	19 212	945 217
Other members	1 037 467	333 568	125 235	271 604	48 420	1 816 294
<b>Total</b>	<b>1 407 467</b>	<b>629 568</b>	<b>236 511</b>	<b>420 333</b>	<b>67 632</b>	<b>2 761 511</b>

<sup>1</sup> 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 Board of Directors.

<sup>2</sup> The value of shares granted is calculated with the share price at closing of the grant date. For 2017, it was February 20, 2018, and the share price was CHF 98.30. For 2018, it was March 19, 2019, and the share price was CHF 99.00.

<sup>3</sup> 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 29, 2017, the AGM had to approve the remuneration for the Board of Directors and the Group Management for the financial year 2018 based on the Ordinance Against Excessive Compensation in Public Corporations (VegüV) and the Articles of Incorporation of COLTENE Holding AG of October 9, 2018.

#### Approved remuneration to the Board of Directors for 2018

The AGM approved an aggregate remuneration to the members of the Board of Directors of CHF 560 000 for the financial year 2018. In total, the Board of Directors received as compensation CHF 470 261 in cash and CHF 72 500 in shares.

#### Compensation to the Board of Directors in 2018 in CHF

	Approved compensation	Actual compensation
Total compensation in cash	n/a	470 261
Total compensation in shares	n/a	72 500
<b>Overall compensation</b>	<b>560 000</b>	<b>542 761</b>

The remuneration to the Board of Directors for 2018 was within the approved amount. The AGM approved in 2017 only the overall compensation 2018 for the Board of Directors.

#### Approved remuneration to the Group Management for 2018

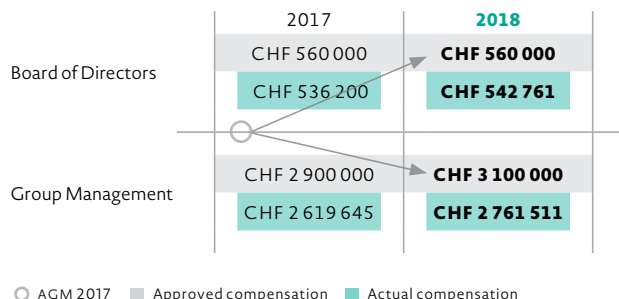
The AGM approved an aggregate remuneration to the Group Management of CHF 3 100 000 for the financial year 2018. In total, the Group Management received as compensation CHF 2 761 511.

#### Compensation to the Group Management in 2018 in CHF

	Approved compensation	Actual compensation
Total fix compensation in cash	2 100 000	1 895 432
Total variable compensation in cash and shares	1 000 000	866 079
<b>Overall compensation</b>	<b>3 100 000</b>	<b>2 761 511</b>

The remuneration to the Group Management for 2018 was within the approved amounts.

#### Compensation to the Board of Directors and the Group Management



#### Loans

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

#### Number of shares held by the Board of Directors

	31.12.2018	31.12.2017
Nick Huber	14 297	4 096
Erwin Locher	6 162	5 154
Jürgen Rauch	277	148
Matthew Robin	5 235	4 248
Astrid Waser, since AGM 2017	97	0
Roland Weiger	1 198	898
Allison Zwingenberger, since Extraordinary GM 2018	0	n/a
<b>Total Board of Directors</b>	<b>27 266</b>	<b>14 544</b>

#### Number of shares held by the Group Management

	31.12.2018	31.12.2017
Martin Schaufelberger	10 675	8 137
Gerhard Mahrle	2 509	1 659
Werner Barth	1 307	903
Stefan Helsing, since November 1, 2018	54 079	n.a.
Werner Mannschedel	2 262	1 819
Christophe Loretan	396	232
<b>Total Group Management</b>	<b>71 228</b>	<b>12 750</b>

### 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 April 30, 2019.

# 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 remuneration report of COLTENE Holding AG for the year ended December 31, 2018. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables in chapter 4 on pages 54 to 60 of the remuneration report.

#### Board of Directors' Responsibility



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

#### Auditor's Responsibility



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

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

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

#### Opinion



In our opinion, the remuneration report for the year ended December 31, 2018, 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)

Ralf Truffer  
Licensed audit expert

St. Gallen, April 2, 2019





**Coltène/Whaledent AG** The COLTENE Group modernizes and expands its headquarters in Altstaetten, Switzerland, with a supplementary building inaugurated at the beginning of 2018. The new building will allow production capacities to be expanded and cooperation and knowledge exchange between the interdisciplinary teams to be improved. The new premises offer the highly motivated development, marketing and sales specialists a modern working environment. Production is primarily focused on chemical processes to manufacture high-precision dental impression materials, high-quality restorative products and a wide range of adhesive and luting materials. COLTENE employs around 190 people in Altstaetten.

“Quality management and regulatory affairs are some of today’s big challenges. It is not a question whether we meet these challenges, but how we tackle them. Our experts and know-how give us the confidence to follow this path with excellence.”

Jasmin Gaby, QM / Regulatory Affairs Office / Altstaetten, Switzerland



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# Group Statement of Profit and Loss

In CHF 1000	Ref.	2018	2017
<b>Net sales</b>	<b>1</b>	<b>203 952</b>	<b>167 990</b>
Changes in inventories of finished goods and work in progress		-4 747	1 613
Work performed and capitalized		26	32
Raw material and consumables used	2	-56 891	-47 930
Personnel expenses	3	-70 635	-58 796
Other operating expenses	5	-40 870	-31 713
Depreciation and amortization	6	-7 155	-5 711
<b>Operating profit (EBIT)</b>		<b>23 680</b>	<b>25 485</b>
Financial income	7	169	247
Financial expenses	7	-2 413	-1 220
<b>Net profit before tax expenses</b>		<b>21 436</b>	<b>24 512</b>
Tax expenses	8	-6 525	-5 452
<b>Net profit for the period</b>	<b>10</b>	<b>14 911</b>	<b>19 060</b>
Earnings per share	10	CHF 3.16	CHF 4.52
Diluted earnings per share	10	CHF 3.16	CHF 4.52

The notes are part of COLTENE Group financial statements.

## Group Statement of Comprehensive Income

In CHF 1000	Ref.	2018	2017
<b>Net profit for the period</b>		<b>14 911</b>	<b>19 060</b>
<b>Other comprehensive income (OCI)</b>			
OCI to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations		-8 115	-35
<b>Net OCI to be reclassified to profit or loss in subsequent periods</b>		<b>-8 115</b>	<b>-35</b>
Items not to be reclassified to profit or loss in subsequent periods:			
Actuarial gains/(losses) on defined benefit plans	4	194	1 800
Income tax effect		-28	-313
<b>Net OCI not to be reclassified to profit or loss in subsequent periods</b>		<b>166</b>	<b>1 487</b>
<b>OCI, net of tax</b>		<b>-7 949</b>	<b>1 452</b>
<b>Total comprehensive income, net of tax</b>		<b>6 962</b>	<b>20 512</b>

The notes are part of COLTENE Group financial statements.

# Group Statement of Financial Position

In CHF 1000	Ref.	31.12.2018	31.12.2017
Cash and cash equivalents		20 901	22 040
Trade accounts receivable	11	56 233	37 068
Tax receivables		570	174
Prepaid expenses		2 816	900
Other receivables	12	4 839	2 341
Inventories	13	55 552	31 551
<b>Current assets</b>		<b>140 911</b>	<b>94 074</b>
Property, plant, and equipment	1, 14	42 452	28 413
Financial assets	12	391	393
Intangible assets	1, 15	234 859	43 191
Deferred tax assets	9	1 609	1 240
<b>Non-current assets</b>		<b>279 311</b>	<b>73 237</b>
<b>Total assets</b>		<b>420 222</b>	<b>167 311</b>
Financial liabilities	16	44 991	8 281
Trade accounts payable	18	12 430	6 506
Other accounts payable and accruals	19	28 032	12 103
Tax liabilities		3 964	4 119
Provisions	20	836	347
<b>Current liabilities</b>		<b>90 253</b>	<b>31 356</b>
Financial liabilities	16, 17	5 069	0
Deferred tax liabilities	9	20 617	7 236
Provisions	20	8 113	7 014
<b>Non-current liabilities</b>		<b>33 799</b>	<b>14 250</b>
<b>Total liabilities</b>		<b>124 052</b>	<b>45 606</b>
Share capital		598	422
Capital reserves		180 283	0
Treasury shares		-303	0
Currency translation adjustments		-39 648	-31 533
Retained earnings		155 240	152 816
<b>Total equity</b>	<b>22</b>	<b>296 170</b>	<b>121 705</b>
<b>Total liabilities and equity</b>		<b>420 222</b>	<b>167 311</b>

The notes are part of COLTENE Group financial statements.

# Group Cash Flow Statement

In CHF 1000	Ref.	2018	2017
Net profit for the period		14 911	19 060
Depreciation and amortization	6,14,15	7 155	5 711
Other non-cash items		5 980	4 626
Change in accounts receivable from deliveries and sales		-5 200	-3 501
Change in inventories		5 171	-943
Change in other current assets		-2 427	1 030
Change in current liabilities		7 243	2 396
Interest paid		-479	-302
Interest received		28	27
Income tax paid		-7 752	-6 209
<b>Cash flow from operating activities</b>		<b>24 630</b>	<b>21 895</b>
Purchase of property, plant, and equipment		-12 431	-4 101
Proceeds from sale of property, plant, and equipment		232	192
Purchase of intangible assets		-545	-297
Proceeds/purchase of financial assets net		257	-389
Acquisition of subsidiaries (net of cash)		-102 949	-1 275
<b>Cash flow from investing activities</b>		<b>-115 436</b>	<b>-5 870</b>
Proceeds from first capital increase (net of transaction costs)		69 546	0
Transaction costs of second capital increase		-1 571	0
Proceeds from loans and financial liabilities		43 047	70
Repayments of loans and financial liabilities		-7 830	-4 678
Dividends to shareholders	22	-12 654	-11 381
Proceeds/purchase of treasury shares		-585	330
<b>Cash flow from financing activities</b>		<b>89 953</b>	<b>-15 659</b>
Exchange rate differences		-285	104
<b>Change in cash and cash equivalents</b>		<b>-1 139</b>	<b>470</b>
Cash and cash equivalents at beginning of year		22 040	21 570
Cash and cash equivalents at end of year		20 901	22 040

The notes are part of COLTENE Group financial statements.



# Group Statement of Changes in Equity

In CHF 1000

	Ref.	Share capital	Capital reserves	Treasury shares	Currency translation adjustments	Retained earnings	Total
<b>01.01.2017</b>		<b>422</b>	<b>0</b>	<b>-258</b>	<b>-31 498</b>	<b>143 585</b>	<b>112 251</b>
Net profit of the period		0	0	0	0	19 060	19 060
Other comprehensive income		0	0	0	-35	1 487	1 452
<b>Comprehensive income for the period</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>-35</b>	<b>20 547</b>	<b>20 512</b>
Share-based payment transactions	3, 23	0	0	284	0	0	284
Dividends	22	0	0	0	0	-11 381	-11 381
Change in treasury shares		0	0	39	0	0	39
Remeasurement treasury shares		0	0	-65	0	65	0
<b>31.12.2017</b>		<b>422</b>	<b>0</b>	<b>0</b>	<b>-31 533</b>	<b>152 816</b>	<b>121 705</b>
Net profit of the period		0	0	0	0	14 911	14 911
Other comprehensive income		0	0	0	-8 115	167	-7 948
<b>Comprehensive income for the period</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>-8 115</b>	<b>15 078</b>	<b>6 963</b>
Share-based payment transactions	3, 23	0	0	282	0	0	282
Dividends	22	0	0	0	0	-12 654	-12 654
Change in treasury shares		0	0	-585	0	0	-585
First capital increase for cash	22	68	70 132	0	0	0	70 200
Transaction costs of first capital increase		0	-654	0	0	0	-654
Second capital increase consideration shares	22	108	112 376	0	0	0	112 484
Transaction costs of second capital increase		0	-1 571	0	0	0	-1 571
<b>31.12.2018</b>		<b>598</b>	<b>180 283</b>	<b>-303</b>	<b>-39 648</b>	<b>155 240</b>	<b>296 170</b>

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 on December 15, 2005 and has been listed on SIX Swiss Exchange since June 23, 2006. The Group is active in the dental consumables and small dental equipment market.

## Operating Segments and Products

The Group develops, manufactures, and sells mainly via distribution channels a broad and comprehensive range of disposables, tools and equipment 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. Internal and external reporting are aligned.

## Basis of Preparation

### 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 accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards and interpretations effective as of January 1, 2018.

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. All amounts presented are denominated in CHF thousand (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 April 2, 2019, for issue. The financial statements are subject to approval by the Annual General Meeting of Shareholders scheduled to take place on April 30, 2019.

### Announced Adoption of Swiss GAAP FER Accounting Standards

The Board of Directors decided in February 2019 to switch its accounting standards as of January 1, 2019, from IFRS to Swiss GAAP FER. Swiss GAAP FER is a recognized, comprehensive and straightforward set of accounting standards which will allow the Group to continue publishing high-quality and transparent financial reports in compliance with a true and fair presentation framework. The conversion from IFRS to Swiss GAAP FER will impact the consolidated financial statements mainly in the following areas:

Goodwill identified in business combinations will be offset directly with equity. Under IFRS, goodwill was capitalized and not amortized but tested annually for impairment.

According to Swiss GAAP FER 16 “Pension benefit obligations”, the existing economic obligations or benefits relating to the Swiss, Liechtenstein and French pension fund are measured based on the pension fund’s financial statements in accordance with Swiss GAAP FER 26 “Accounting of pension plans”. It will be a matter of judgment to determine if an economic benefit or obligation exists. Under IFRS, defined benefit plans were measured using the projected unit credit method and recognized in accordance with IAS 19. The Swiss GAAP FER restatement as of January 1, 2018, will be published in the Group’s half-year report as at June 30, 2019.

#### New and Amended Standards Adopted by the Group

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 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations
- Amendments to IAS 40 Transfers of Investment Property
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

With the exception of IFRS 9 and IFRS 15, described hereafter, these amendments had no impact on the Group Financial Statements.

#### Adoption of IFRS 9 Financial Instruments

Since January 1, 2018, the Group applied IFRS 9 for the first time. The main effects of the new standard are the classification and measurement of financial assets and impairments on financial assets.

#### Classification and Measurement of Financial Assets

Since January 1, 2018, the Group has reclassified its financial assets as “at fair value through profit or loss”, or “at amortized cost”. Financial assets were previously classified as “loans and receivables” or “at fair value through profit or loss”.

The classification is based on the respective business model for managing these financial assets in accordance with the contractually specified cash flows and with other relevant facts.

The application of IFRS 9 has no significant impact and no adjustments were recorded due to the first time application of IFRS 9 on January 1, 2018.

#### Financial assets and liabilities

In CHF 1000

	Classification and measurement as per December 31, 2017			Classification and measurement as per January 1, 2018 (IFRS 9)	
	Loans and receivables	At fair value through profit or loss	Amortized cost	At fair value through profit or loss	Amortized cost
Trade accounts receivable	37 068				37 068
Financial assets	393				393
<b>Total financial assets</b>	<b>37 461</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>37 461</b>
Financial liabilities			8 281		8 281
Trade accounts payable			6 506		6 506
Other accounts payable and accruals			11 951		11 951
Forwards <sup>1</sup>		150		150	
<b>Total financial liabilities</b>	<b>0</b>	<b>150</b>	<b>26 738</b>	<b>150</b>	<b>26 738</b>

<sup>1</sup> Included in line item “Other accounts payable and accruals” in the Group statement of financial position, see also note 19.

### **Impairment on Financial Assets**

In accordance with IFRS 9, the Group recognizes impairments on financial assets based on expected losses. The Group applies the simplified expected credit loss model for its trade receivables, which provides for expected losses over all the remaining lifetime, from the recognition date of the receivables.

The credit risk on accrued income and other receivables and financial assets is expected to be low. In this case, IFRS 9 provides that losses recognized are expected to be incurred over the next twelve months.

In accordance with transitional requirements of IFRS 9, the Group has not adjusted its previous-year figures. Instead, the provision for bad debts on trade accounts receivable and the provision on other receivables and prepaid expenses were reassessed in accordance with the new impairment model as of January 1, 2018. The impact on the provisions noted was not significant and no adjustments were recorded in the opening balance as at January 1, 2018.

The changed approach of IFRS 9 had no impact on the measurement of other receivables or financial assets. Management has assessed the collectability of these balances and concluded the probability of default to be minimal.

### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group has chosen the modified

retrospective approach and has applied IFRS 15 on January 1, 2018.

All sales recorded in the period January 1 to December 31, 2018, meet the criteria for revenue recognition at a point in time and there are no significant adjustments due to the first time application of IFRS 15.

Volume rebates are applied retrospectively and are accounted for as variable consideration. This is because the final price of each good or service sold depends on the customer's total purchases subject to the rebate program. The Group accounts for variable consideration as a reduction to the transaction price. A corresponding refund liability is recorded within other accounts payable and accruals on the balance sheet until the related payments to the customer are made.

Revenue information is disclosed in note 1.

## **Summary of Significant Accounting Policies**

### **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 95. All intra-Group assets and liabilities, income and expenses are eliminated in full on consolidation.

### **Business Combination and Goodwill**

Business combinations are accounted for using the acquisition 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.

### **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 generally due for settlement within 30 days and therefore are all classified as current. Trade receivables and other receivables are recognized initially at the amount of consideration that is unconditional. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost.

### **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, Equipment**

Property, plant, equipment and finance lease comprises:

- 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 (Accounting Policies Applied January 1, 2018)**

#### *Classification*

From 1 January 2018 with the adoption of IFRS 9, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit and loss (FVTPL), and
- those to be measured at amortized cost.

For assets measured at FVTPL, gains and losses will be recorded in profit and loss.

#### *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

#### *Measurement*

At initial recognition (with the exception of trade receivables), the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit and loss.

Interest income from financial assets measured at cost is included in finance income using the effective interest rate method. Gains or losses from foreign exchange differences are presented in financial income/expenses.

#### *Impairment*

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see note 11 for further details.

#### **Financial Assets (Accounting Policies Applied December 31, 2017)**

Prior to the adoption of IFRS 9 the Group applied the incurred loss model to determine its bad debt allowance. Apart from this change, all financial assets and liabilities previously measured at either amortized cost or fair value through profit or loss continue to be measured in the same way under IFRS 9 (refer to the explanation on page 71), and therefore the Group does not repeat in detail the previous IAS 39 accounting policies applied until December 31, 2017.

#### **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.

##### *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 are amortized over the following periods:

- technology five years
- brand ten years
- customer relations twelve 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 of disposal 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 inflows (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 Financial 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 assurance type warranties and liability claims. 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 the form of legally independent pension funds; contributions are paid both by employer and employee. Except for two legal entities in Switzerland, a legal entity in Liechtenstein and one legal entity in France all pension plans are accounted for as defined contribution plans. The Swiss, Liechtenstein and the France pension plans are administrated by independent institutions and accounted for as defined benefit plans according to IAS 19. The pension liability resulting from defined benefit plans is calculated annually by independent actuaries using the "projected unit credit method". Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling, excluding net interest and the return on plan assets (excluding 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 receive a fixed amount in shares with a blocking period of three years without any vesting conditions. The Group Management receives a variable remuneration. Part of the variable remuneration is paid in shares with 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. For further details see pages 54 to 60 in the Compensation Report.

### **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 losses carried forward and temporary differences.

### **Net Sales**

The accounting policies for the Group's revenue from contracts with customers are explained in note 1.

### **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 reliably 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 and re-translated at year-end, 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

	31.12.2018	Ø 2018	31.12.2017	Ø 2017
1 USD	0.9842	0.9786	0.9757	0.9849
1 EUR	1.1269	1.1550	1.1702	1.1116
1 CAD	0.7221	0.7554	n/a	n/a

### 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. Management regularly assesses the credit risk of all counterparties (especially key customers) on the basis of historic experiences. If appropriate, management also applies credit monitoring instruments, for example credit limits or prepayments.

### Trade Receivables

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item. Refer to note 11.

## 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 16] and cash and cash equivalents) on the basis of expected cash flows.

The table below summarizes 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 years
<b>2018</b>			
Financial liabilities	49 064	44 991	4 073
Financial lease liabilities	996	0	996
Trade accounts payable	12 430	12 430	0
Other accounts payable and accruals	28 015	28 015	0
Forwards <sup>1</sup>	17	17	0
<b>Total</b>	<b>90 522</b>	<b>85 453</b>	<b>5 069</b>
<b>2017</b>			
Financial liabilities	8 281	8 281	0
Trade accounts payable	6 506	6 506	0
Other accounts payable and accruals	11 951	11 951	0
Forwards <sup>1</sup>	150	150	0
<b>Total</b>	<b>26 888</b>	<b>26 888</b>	<b>0</b>

<sup>1</sup> 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 16.

If the interest rates had been higher by 50 bps for 2018 with all other variables held constant, net profit for the year would have been TCHF 89 (previous year TCHF 42) lower, as a result of higher interest expenses on current bank loans. If the interest rates had been lower by 50 bps for 2018 with all other variables held constant, net profit for the year would have been TCHF 89 (previous year TCHF 42) 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 Euro, US dollar and Canada dollar. 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), Euro (EUR) and Canada dollar (CAD) 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. Group's exposure to foreign currency changes for all other currencies is not material.

### Foreign currency sensitivity

In CHF 1000	2018	2017
<b>Effect of change in currency rate on net profit</b>		
USD +5 %	132	-283
USD -5 %	-132	283
EUR +5 %	198	134
EUR -5 %	-198	-134
CAD +5 %	0	n/a
CAD -5 %	0	n/a

## Categories of Financial Assets and Liabilities

### Financial assets

In CHF 1000

	Financial assets at amortized cost	Financial assets at fair value through profit and loss	Carrying amount 31.12. <sup>2</sup>	Fair value level
<b>2018</b>				
Cash and cash equivalents	20 901		20 901	n/a
Trade accounts receivable	56 233		56 233	n/a
<b>Total</b>	<b>77 134</b>	<b>0</b>	<b>77 134</b>	
<b>2017<sup>4</sup></b>				
Cash and cash equivalents	22 040		22 040	n/a
Trade accounts receivable	37 068		37 068	n/a
<b>Total</b>	<b>59 108</b>	<b>0</b>	<b>59 108</b>	

### Financial liabilities

In CHF 1000

	Financial liabilities measured at amortized cost	Financial liabilities at fair value through profit and loss	Carrying amount 31.12. <sup>2</sup>	Fair value level
<b>2018</b>				
Financial liabilities	50 060		50 060	n/a
Trade accounts payable	12 430		12 430	n/a
Other accounts payable and accruals	28 015		28 015	n/a
Forwards <sup>1</sup>	0	17	17	Level 2 <sup>3</sup>
<b>Total</b>	<b>90 505</b>	<b>17</b>	<b>90 522</b>	
<b>2017</b>				
Financial liabilities	8 281		8 281	n/a
Trade accounts payable	6 506		6 506	n/a
Other accounts payable and accruals	11 951		11 951	n/a
Forwards <sup>1</sup>	0	150	150	Level 2 <sup>3</sup>
<b>Total</b>	<b>26 738</b>	<b>150</b>	<b>26 888</b>	

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

<sup>2</sup> Carrying amount is a reasonable approximation for fair value.

<sup>3</sup> Level 2: financial instruments with directly observable market inputs.

<sup>4</sup> Loans and receivables.

## Capital Management

The Group's objective when managing capital is to assure the Group's ability 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	2018	2017
Interest-bearing debt	50 060	8 281
EBITDA	30 835	31 196
<b>Leverage factor</b>	<b>1.6</b>	<b>0.3</b>
<b>Equity ratio in %</b>	<b>70.5 %</b>	<b>72.7 %</b>

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 15).

## 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 (see note 4).

## 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 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. 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.

## Acquisitions

### Kenda AG, Vaduz (FL)

On January 1, 2018, COLTENE Holding AG acquired 100 % of the issued share capital of KENDA AG, an unlisted company headquartered in Vaduz, Liechtenstein. KENDA AG is a specialized, internationally active manufacturer of silicone polishing instruments for dentists. The acquisition has enhanced the Group's Rotary Instruments product portfolio, technology knowhow and sales flows.

Purchase consideration in CHF 1000:

Cash paid:	9 149
<b>Total purchase consideration:</b>	<b>9 149</b>

The assets and liabilities recognized as a result of the acquisition are as follows:

In CHF 1000	Fair value recognised on acquisition
Cash and cash equivalents	1 376
Trade accounts receivable	141
Other receivables and prepaid expenses	45
Inventories	1 768
<b>Current assets</b>	<b>3 330</b>
Property, plant, and equipment	570
Intangible assets	3 019
<b>Non-current assets</b>	<b>3 589</b>
<b>Total assets</b>	<b>6 919</b>
Trade accounts payable	56
Other accounts payable and accruals	187
Tax liabilities	79
<b>Current liabilities</b>	<b>322</b>
Deferred tax liabilities	480
Provisions	129
<b>Non-current liabilities</b>	<b>609</b>
<b>Total liabilities</b>	<b>931</b>
<b>Total identifiable net assets at fair value</b>	<b>5 988</b>
Goodwill arising on acquisition	3 161
<b>Purchase consideration transferred</b>	<b>9 149</b>
<b>Analysis of cash flow on acquisition</b>	
Net cash acquired with the subsidiary	1 376
Cash paid	-9 149
<b>Net cash flow on acquisition</b>	<b>-7 773</b>

The goodwill is attributable to the unique production technology and to the workforce of the acquired business. It will not be deductible for tax purposes.

The acquired business contributed revenues of TCHF 3614 and net profit before taxes of TCHF 198 to the Group for the period from January 1 to December 31, 2018.

Acquisition-related cost of TCHF 233 are included in other operating expenses in profit and loss and in operating cash flows in the statement of cash flows.

## SciCan Ltd., Toronto (CA) and DentalDrives GmbH, Leutkirch (D)

On October 9, 2018, COLTENE Holding AG acquired 100 % of the issued share capital of SciCan Ltd. and DentalDrives GmbH, both unlisted companies headquartered in Toronto, Canada resp. Leutkirch, Germany.

The assets and liabilities recognized as a result of the acquisition are as follows:

In CHF 1000	Fair value recognised on acquisition
Cash and cash equivalents	5 039
Trade accounts receivable	13 901
Other receivables and prepaid expenses	3 183
Inventories	28 486
<b>Current assets</b>	<b>50 609</b>
Property, plant, and equipment	6 177
Intangible assets	59 714
Deferred tax assets	1 039
<b>Non-current assets</b>	<b>66 930</b>
<b>Total assets</b>	<b>117 539</b>
Trade accounts payable	3 148
Other accounts payable and accruals	9 373
Tax liabilities	950
Provisions	513
<b>Current liabilities</b>	<b>13 984</b>
Deferred tax liabilities	14 561
Financial liabilities	7 490
Provisions	1 000
<b>Non-current liabilities</b>	<b>23 051</b>
<b>Total liabilities</b>	<b>37 035</b>
<b>Total identifiable net assets at fair value</b>	<b>80 504</b>
Goodwill arising on acquisition	135 695
<b>Purchase consideration transferred</b>	<b>216 199</b>
<b>Analysis of purchase consideration on acquisition</b>	
Cash paid	100 215
Ordinary shares issued	112 484
Accrued consideration	3 500
<b>Total purchase consideration</b>	<b>216 199</b>
<b>Analysis of cash flow on acquisition</b>	
Net cash acquired with the subsidiary	5 039
Cash paid	-100 215
<b>Net cash flow on acquisition</b>	<b>-95 176</b>



For the acquisition, a purchase price of TCHF 100 215 was paid in cash and 1 081 580 of COLTENE ordinary shares at a fair value of TCHF 104 per share have been delivered to the sellers. The accrued consideration was paid to the sellers on March 6, 2019.

From the date of acquisition, SciCan Group and Dental-Drives Group contributed TCHF 26 459 of net sales and TCHF -768 to the net profit before tax from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been TCHF 102 426 and the net profit before tax from continuing operations for the period would have been TCHF 3940.

The goodwill recognized is primarily attributed to the expected synergies and other benefits from combining the assets and activities of SciCan Group and Dental-Drives Group with those of the Group.

Transaction costs have been expensed of which TCHF 1293 are included within other operating expenses, TCHF 25 commitment fee are included within financial expenses in the statement of profit or loss.

The above amounts represent the preliminary allocation of the purchase price. Due to the timing of the acquisition, certain information required to complete the final purchase price allocation remains outstanding. The net assets recognized in the December 31, 2018, financial statements are based on a provisional assessment of their fair values. While the Group has obtained an independent valuation for the customer relationships acquired in the business combination, the valuation and allocation to legal entities of these intangible assets as well as the assessment of the related deferred taxes have not been completed by the date the 2018 financial statements were approved for issue by the Board of Directors. Additionally, the purchase price of the transaction may be adjusted once the final net working capital as at the acquisition date has been determined. These and other items as well as the resulting goodwill may therefore be subject to change as the Group progresses with and finalizes the purchasing accounting during the twelve-month measurement period after the acquisition date.

## 1 Group-Wide Information

### Net Sales from Contracts with Customers

The Group derives revenue from the transfer of goods and services at a point in time in the following major geographical regions and product lines:

#### Net sales by geographical regions

In CHF 1000	2018	2017
EMEA	85 291	70 145
North America	75 905	58 104
Latin America	16 677	17 509
Asia/Oceania	26 079	22 232
<b>Net sales</b>	<b>203 952</b>	<b>167 990</b>

Rounding differences from prior year are adjusted.

#### Net sales by geographical areas

In CHF 1000	2018	2017
Switzerland	2 648	2 024
Germany, Austria	16 503	15 856
Great Britain, Ireland	8 183	7 128
France	10 028	6 882
Other Europe	31 356	24 816
Russia and other CIS	7 022	6 232
Middle East and Africa	9 551	7 207
Canada	10 089	5 110
USA	65 816	52 994
Brazil	6 535	7 507
Other South America	10 141	10 001
China	9 004	6 755
India	3 970	4 050
Other Far East, Oceania	13 106	11 428
<b>Net sales</b>	<b>203 952</b>	<b>167 990</b>

Rounding differences from prior year are adjusted.

#### Net sales by products and services

In CHF 1000	2018	2017
Infection Control	29 047	11 142
Dental Preservation	73 276	75 977
Efficient Treatment	101 629	80 871
<b>Net sales</b>	<b>203 952</b>	<b>167 990</b>

Net sales of TCHF 41 373 (previous year TCHF 33 647) corresponding to 20.3% of Group net sales (previous year 20.9%) were generated with one 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	31.12.2018	31.12.2017
Switzerland	20 594	12 774
Germany	3 104	2 096
France	3 503	0
Other Europe	1 156	271
China	34	113
India	134	67
USA	11 206	11 348
Canada	1 204	0
Brazil	1 517	1 745
<b>Property, plant, and equipment</b>	<b>42 452</b>	<b>28 414</b>

#### Intangible assets by geographical areas

In CHF 1000	31.12.2018	31.12.2017
Switzerland	5 548	5 640
Germany	33 596	17 830
France	2 296	0
Other Europe	5 960	99
China	11	10
India	10	8
USA	14 835	14 756
Canada	168 511	0
Brazil	4 092	4 848
<b>Intangible assets</b>	<b>234 859</b>	<b>43 191</b>

## 2 Raw Material and Consumables Used

Raw material and consumables used amounted to 27.9 % (previous year 28.5 %) of net sales.

## 3 Personnel Expenses

The average workforce amounted to 1045 employees (previous year 885). Detailed information on personnel expenses:

#### Personnel expenses

In CHF 1000	2018	2017
Wages and salaries	56 615	46 053
Expenses for defined benefit plans	1 294	958
Expenses for defined contribution plans	1 656	2 959
Other personnel expenses	11 070	8 826
<b>Total</b>	<b>70 635</b>	<b>58 796</b>

Personnel expenses include TCHF 282 (previous year TCHF 284) 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 for Coltène/Whaledent AG in Switzerland. SciCan Medtech AG in Switzerland, Kenda AG in Liechtenstein and MicroMega SA in France.

*Plan description (Switzerland)*

Pension plans are regulated by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (LPP/BVG). The pension solution adopted for the Group's Swiss companies is affiliated to legally independent collective foundations or occupational benefits solutions offered by insurance companies. Plan participants are insured against the financial consequences of old age, disability and death. The benefits are financed through regular employer and employee contributions. The most senior governing body of the pension plan is the Board of Trustees, which consists of an equal number of employer and employee representatives. The Board of Trustees is responsible for the investment of the plan assets. All investment decisions made by the Board of Trustees need to conform to the guidelines set out in a long-term investment strategy. This strategy is based on legal requirements, expected future contributions and expected future obligations. All governing and administration bodies have an obligation to act in the interests of the plan participants. The law grants some minimum guarantees regarding occupational benefits. Due to these minimum guarantees, the Swiss plans are treated as defined benefit plans for the purposes of these IFRS financial statements, although they have many characteristics of defined contribution plans. Retirement benefits are based on the individual accumulated savings capital, which can either be drawn as a lifelong pension or as a lump sum payment. The pension is calculated by multiplying the balance of the accumulated savings capital with the applicable conversion rate. The plan is exposed to actuarial risks, such as longevity risk, interest rate risk and capital market risk. In case of an underfunding, the Board of Trustees is required to take the necessary measures to ensure that full funding can be expected to be restored within a reasonable period. The measures may include increasing employee and company contributions, lowering the interest rate on retirement savings account balances or reducing prospective benefits. The employees have the opportunity to withdraw pension benefits in the form of a lump sum.

*Plan description (Principality of Liechtenstein)*

The pension solution adopted for the Group's Liechtenstein company is affiliated to legally independent collective foundations or occupational benefits solutions offered by insurance companies. Plan participants are insured against the financial consequences of old age, disability and death and the benefits are financed through regular employer and employee contributions.

*Plan description (France)*

Pension plans are regulated by French Law on general social security scheme (RGSS). The main post-employment defined benefit plans as adopted for the French companies concern the retirement termination benefits. Employee benefits for retirement bonuses and the agreement are based on the rights accumulated at the balance sheet date, according to the scale set out in the collective agreement or the Company-wide agreement.

The calculated provision amount for future pension liabilities includes the social charges to be paid by the Company on the retirement date of the employees.

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.

## Pension liabilities

In CHF 1000	2018	2017
<b>Pension costs</b>		
Current service cost	1 294	958
Past service cost	-1 499	0
Interest expenses on defined benefit obligation (DBO)	226	189
Interest income on plan assets	-180	-136
<b>Total</b>	<b>-159</b>	<b>1 011</b>
<b>Reconciliation of the present value of the DBO</b>		
DBO 1.1.	28 674	26 224
Additions business combinations	4 590	0
Current service cost	1 294	958
Past service cost	-1 499	0
Ordinary contribution paid by employees	939	733
Interest expenses on (DBO)	226	189
Benefits paid/transferred	-1 042	869
Actuarial (gain) and loss arising from changes in financial assumptions	-937	-350
Actuarial (gain) and loss arising from experiences adjustments	723	51
Actuarial (gain)/loss arising from changes in demographic assumptions	0	0
<b>DBO 31.12.</b>	<b>32 968</b>	<b>28 674</b>
<b>Reconciliation of fair value of plan assets</b>		
Fair value 1.1.	22 296	18 156
Additions business combinations	2 827	0
Interest income on plan assets	180	136
Ordinary contribution paid by employer	1 135	902
Ordinary contribution paid by employees	939	733
Benefits paid/transferred	-841	869
Return on plan assets excl. interest income (gains/losses)	-65	1 500
<b>Fair value 31.12.</b>	<b>26 471</b>	<b>22 296</b>
<b>Details to plan assets</b>		
Receivables from insurance company	26 471	22 296
<b>Total</b>	<b>26 471</b>	<b>22 296</b>

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

TCHF 31 290 of the total DBO at December 31, 2018, and TCHF 25 672 of the total plan assets at December 31, 2018, relate to Swiss pension funds.

The past service cost of TCHF 1499 relates to a decrease of the conversion rates of the Swiss pension plan to 5.8 % between 2019 and 2022.

### Pension liabilities

In CHF 1000

	2018	2017
<b>Net defined liability (asset)</b>		
Present value of the defined benefit obligation, 31.12.	32 968	28 674
Fair value of plan assets, 31.12.	-26 471	-22 296
<b>Net defined benefit liability (asset) recognized in balance sheet<sup>1</sup></b>	<b>6 497</b>	<b>6 378</b>
<b>Changes in net amount</b>		
Net defined benefit liability (asset), 1.1.	6 377	8 068
Additions business combinations	1 763	0
Defined benefit cost recognized in profit and loss	-315	1 012
Defined benefit cost recognized in other comprehensive income	-194	-1 800
Ordinary contribution paid by employer	-1 135	-903
<b>Balance 31.12.</b>	<b>6 496</b>	<b>6 377</b>
<b>Actuarial assumptions</b>		
Coltène/Whaledent AG, Kenda AG		
Discount rate	0.90 %	0.70 %
Future salary increase	1.00 %	1.00 %
Mortality (GT) Switzerland, Liechtenstein	BVG 2015 GT	BVG 2015 GT
SciCan Medtech AG		
Discount rate	0.90 %	n/a
Future salary increase	1.50 %	n/a
Mortality (GT) Switzerland, Liechtenstein	BVG 2015 GT	n/a
MicroMega SA		
Discount rate	1.57 %	n/a
Future salary increase	1.19 %	n/a
Mortality (GT) France	INSEE 2017	n/a

<sup>1</sup> The pension liabilities are reported in other long-term provisions.

### Pension liabilities – Sensitivity analysis

In CHF 1000

	2018	2017
<b>Sensitivity to discount rate assumptions</b>		
Discount rate +0.50 % – effect on DBO	-2 574	-2 343
Discount rate -0.50 % – effect on DBO	2 946	2 693
<b>Sensitivity to salary increase assumptions</b>		
Salary increase rate +0.50 % – effect on DBO	510	498
Salary increase rate -0.50 % – effect on DBO	-515	-486
<b>Sensitivity to mortality assumptions</b>		
+1 additional year – effect on DBO	726	687
-1 additional year – effect on DBO	-629	-592

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	2018	2017
Within the next 12 months (next annual reporting period)	1 157	1 942
Between 2 and 5 years	4 608	7 895
Between 5 and 10 years	5 964	7 192

The weighted average duration of the defined benefit plan obligation at the end of the reporting period is for Coltène/Whaledent AG 16.9 years, for Kenda AG 15.1 years, for SciCan Medtech AG 17.4 years and for MicroMega SA 13.0 years. (2017: Coltène/Whaledent AG 17.6 years).

## 5 Other Operating Expenses

#### Other operating expenses

In CHF 1000	2018	2017
Energy	949	852
Rental	1 873	1 409
Repair and maintenance	2 544	1 965
Other production expenses	1 643	1 636
Freight and distribution	3 178	2 383
Marketing	9 779	7 811
Insurance	684	564
IT	1 401	1 082
Consulting	5 167	2 313
Travel	3 543	3 271
Vehicle	2 174	1 925
Other selling and administration	7 731	6 510
Gain from sale of property, plant, and equipment	-34	-14
Loss from sale of property, plant, and equipment	238	6
<b>Total</b>	<b>40 870</b>	<b>31 713</b>

In 2018, TCHF 8149 (previous year TCHF 5288) 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	2018	2017
Depreciation on property, plant, and equipment	4 678	4 423
Amortization of intangible assets	2 477	1 288
<b>Total</b>	<b>7 155</b>	<b>5 711</b>

## 7 Financial Income and Expenses

#### Financial income and expenses

In CHF 1000	2018	2017
Interest income on cash and cash equivalents	28	27
Exchange rate differences and other financial income	141	220
<b>Total financial income</b>	<b>169</b>	<b>247</b>
Interest expenses for bank overdrafts and loans	-476	-302
Exchange rate differences and other financial expenses	-1 937	-918
<b>Total financial expenses</b>	<b>-2 413</b>	<b>-1 220</b>
<b>Total financial result (net)</b>	<b>-2 244</b>	<b>-973</b>

## 8 Tax Expenses

Tax expenses comprise the following positions:

#### Tax expenses

In CHF 1000	2018	2017
Current taxes	6 957	7 735
Deferred taxes	-432	-2 283
<b>Total</b>	<b>6 525</b>	<b>5 452</b>

Tax expenses can be analyzed as follows:

#### Tax expenses

In CHF 1000	2018	2017
Net profit before tax expenses	21 436	24 512
Tax expenses at applicable tax rate of 21.8 % (30.3 %)	4 658	7 330
Effects of non-tax-deductible expenses	230	79
Effects of tax-exempt income/ income taxed at another rate	750	-1 095
Effects of tax loss not capitalized in current year	597	236
Effects of tax loss used not capitalized in prior years	-125	0
Effects of change in tax rate on deferred taxes	222	-1 218
Tax adjustments prior years by tax authorities	53	0
Other impacts	140	120
<b>Actual tax expense</b>	<b>6 525</b>	<b>5 452</b>
Effective tax rate in %	30.4 %	22.2 %

The applicable tax rate represents a weighted average rate based on all Group companies. Compared to last year the applicable tax rate decreased from 30.3 % to 21.8 %. This decrease is mainly related to the reduction of the applicable tax rate in the US.

Tax expenses of TCHF 6525 represent an effective tax rate of 30.4 % (22.2 %) of net profit before tax. For 2018 the difference between applicable and effective tax rate relates to various items (e.g. not capitalized tax losses, release of deferred taxes at a tax rate which differs from the applicable tax rate, etc.).

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

<b>Tax losses</b>		
In CHF 1000	2018	2017
<b>Tax losses capitalized</b>		
Expiration between 1 and 5 years	221	239
Expiration over 5 years	717	776
<b>Total</b>	<b>938</b>	<b>1015</b>
<b>Deferred tax assets of capitalized tax losses</b>		
Expiration between 1 and 5 years	51	164
Expiration over 5 years	166	234
<b>Total</b>	<b>217</b>	<b>398</b>
<b>Tax losses not capitalized</b>		
Expiration between 1 and 5 years	0	0
Expiration over 5 years	11 114	11 674
<b>Total</b>	<b>11 114</b>	<b>11 674</b>
<b>Estimated tax effect of not capitalized tax losses</b>		
Expiration between 1 and 5 years	0	0
Expiration over 5 years	3 779	3 969
<b>Total</b>	<b>3 779</b>	<b>3 969</b>

Tax losses capitalized in 2018 are attributable to the Group company in India. Tax losses not capitalized are mainly attributable to Brazil. The tax losses of Brazil as it is not probable that these losses can be utilized were not capitalized in accordance with Group policy as it is not probable that these losses can be utilized.

## 9 Deferred Taxes

### Deferred tax assets

In CHF 1000	2018	2017
1.1.	1 240	480
Additions – business combinations	1 046	0
Additions	16	1 106
Reversals	–663	–358
Currency effects	–30	12
<b>31.12.</b>	<b>1 609</b>	<b>1 240</b>

### Deferred tax liabilities

In CHF 1000	2018	2017
1.1.	7 236	8 212
Additions – business combinations	15 048	0
Additions	201	105
Reversals	–1 273	–1 341
Currency effects	–595	260
<b>31.12.</b>	<b>20 617</b>	<b>7 236</b>

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	2018		2017	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Receivables and accruals	393	248	119	170
Inventories	1 883	810	1 763	404
Property, plant, and equipment	0	2 142	0	1 702
Intangible assets	0	19 340	10	7 086
Provisions	1 106	68	1 129	54
Deferred taxes from losses carried forward	217	0	399	0
Offset of deferred assets and liabilities	–1 990	–1 991	–2 180	–2 180
<b>Total</b>	<b>1 609</b>	<b>20 617</b>	<b>1 240</b>	<b>7 236</b>

## 10 Earnings per Share

Net profit amounts to TCHF 14 911 (previous year TCHF 19 060). Earnings per share (EPS) are calculated as follows:

### Earnings per share

	2018	2017
Weighted number of shares issued at 31.12. <sup>1</sup>	4 713 749	4 217 427
Earnings per share (based on net profit for the period)	CHF 3.16	CHF 4.52
Diluted earnings per share (based on net profit for the period)	CHF 3.16	CHF 4.52

<sup>1</sup> The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions and the capital increase during the year.



## 11 Trade Accounts Receivable

### Trade accounts receivable

In CHF 1000	2018	2017
Trade accounts receivable (gross)	57 516	38 121
Allowance	-1 283	-1 052
<b>Total</b>	<b>56 233</b>	<b>37 069</b>

### Trade accounts receivable by currency

In CHF 1000	2018	2017
CHF	3 053	3 059
EUR	18 971	10 743
USD	25 742	18 378
CAD	3 203	0
Other currencies	5 264	4 889
<b>Total</b>	<b>56 233</b>	<b>37 069</b>

### Trade accounts receivable (gross) by maturity

In CHF 1000	2018	2017
Not due	41 315	30 624
Past due 1 to 30 days	12 516	4 028
Past due 31 to 60 days	1 262	731
Past due 61 to 90 days	245	1 104
Past due 91 to 120 days	522	151
Past due over 120 days	1 656	1 483
<b>Total</b>	<b>57 516</b>	<b>38 121</b>

### Trade accounts receivable by maturity including allowance

In CHF 1000	2018	2017
Not due	41 185	30 422
Past due 1 to 30 days	12 466	4 014
Past due 31 to 60 days	1 239	726
Past due 61 to 90 days	244	1 015
Past due 91 to 120 days	507	122
Past due over 120 days	592	770
<b>Total</b>	<b>56 233</b>	<b>37 069</b>

The closing loss allowances for trade accounts receivables as at December 31, 2018, reconcile to the opening loss allowances as follows:

### Allowance trade receivables

In CHF 1000	31.12.2018	31.12.2017
<b>December 31, 2018 – calculated under IAS 39</b>	<b>1 052</b>	<b>876</b>
Opening loss allowances as at January 1, 2018 – calculated under IFRS 9	1 052	876
Increase in allowances recognized in profit and loss during the year	338	250
Receivables written off during the year as uncollectible	-110	-59
Unused amounts reversed	0	0
Currency effects	3	-15
<b>At 31 December</b>	<b>1 283</b>	<b>1 052</b>

The Group applies the IFRS 9 simplified approach to measures expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before December 31, 2018, or January 1, 2018, respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

In CHF 1000	Expected loss rate	Gross carrying amount trade receivables	Loss allowance
<b>31.12.2018</b>			
Current	0.31 %	41 315	130
Past due 1 to 30 days	0.40 %	12 516	50
Past due 31 to 60 days	1.82 %	1 262	23
Past due 61 to 90 days	0.41 %	245	1
Past due 91 to 120 days	2.87 %	522	15
Past due over 120 days	64.25 %	1 656	1 064
<b>Total</b>		<b>57 516</b>	<b>1 283</b>

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, 2018, no trade accounts receivable are pledged (previous year also none).

## 12 Other Financial Assets at Amortized Cost

Financial assets at amortized cost include the following debt investments:

### Other Financial Assets at Amortized Cost

In CHF 1000

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Loans to third parties		391	391		393	393
Other receivables	4 856		4 856	2 358		2 358
	<b>4 856</b>	<b>391</b>	<b>5 247</b>	<b>2 358</b>	<b>393</b>	<b>2 751</b>
Less: loss allowance for debt investments at amortized cost	-17		-17	-17		-17
<b>Total</b>	<b>4 839</b>	<b>391</b>	<b>5 230</b>	<b>2 341</b>	<b>393</b>	<b>2 734</b>

See Note 1 for the impact of the change in accounting policy following the adoption of IFRS 9 on the classification of financial assets.

Section Financial Risk Management sets out information about the Group's exposure to credit risks (impairment of financial assets at amortized cost as at December 31, 2018: TCHF 17, as at December 31, 2017: TCHF 17).

All of the financial assets at amortized cost are denominated in Swiss francs, Euro and Canadian dollar. As a result, there is no exposure to foreign currency risk. There is also no exposure to price risk as the investments will be held to maturity.

## 13 Inventories

Inventories are as follows:

### Inventories (net)

In CHF 1000	2018	2017
Raw materials	17 818	8 857
Trade merchandise	8 155	1 808
Work in progress	10 776	8 631
Finished goods	18 803	12 255
<b>Total</b>	<b>55 552</b>	<b>31 551</b>

No inventories are pledged neither at December 31, 2017, nor 2018.

### Inventories (gross)

In CHF 1000	2018	2017
Raw materials	19 947	10 739
Trade merchandise	8 332	1 934
Work in progress	12 329	10 036
Finished goods	20 276	14 731
<b>Total</b>	<b>60 884</b>	<b>37 440</b>

### Change in allowance

In CHF 1000	2018	2017
1.1.	5 889	4 643
Additions	223	1 123
Used	561	360
Reversals	-1 392	-161
Currency effects	51	-76
<b>31.12.</b>	<b>5 332</b>	<b>5 889</b>

## 14 Property, Plant, and Equipment

### Gross values

In CHF 1000

	Machinery and Equipment	Land	Buildings (incl. inst.)	Assets under Construction	Total
<b>Value 31.12.2016</b>	<b>45 029</b>	<b>3 595</b>	<b>44 744</b>	<b>2 036</b>	<b>95 404</b>
Additions	714	0	1 355	2 504	4 573
Disposals	-936	0	-1 655	-27	-2 618
Currency effects	-344	-54	-362	-46	-806
Reclassification	254	0	218	-1 861	-1 389
<b>Value 31.12.2017</b>	<b>44 717</b>	<b>3 541</b>	<b>44 300</b>	<b>2 606</b>	<b>95 164</b>
Additions – business combinations	4 441	661	1 644	1	6 747
Additions	1 347	0	1 372	9 994	12 713
Disposals	-688	-1	-1 045	-17	-1 751
Currency effects	-367	-16	-237	-3	-623
Reclassification	351	0	331	-688	-6
<b>Value 31.12.2018</b>	<b>49 801</b>	<b>4 185</b>	<b>46 365</b>	<b>11 893</b>	<b>112 244</b>

### Accumulated depreciation

In CHF 1000

	Machinery and Equipment	Land	Buildings (incl. inst.)	Assets under Construction	Total
<b>Value 31.12.2016</b>	<b>36 064</b>	<b>795</b>	<b>28 587</b>	<b>0</b>	<b>65 446</b>
Depreciation	2 403	59	1 961	0	4 423
Disposals	-872	0	-1 562	0	-2 434
Currency effects	-145	-34	-138	0	-317
Reclassification	-367	0	0	0	-367
<b>Value 31.12.2017</b>	<b>37 083</b>	<b>820</b>	<b>28 848</b>	<b>0</b>	<b>66 751</b>
Depreciation	2 498	52	2 128	0	4 678
Disposals	-296	0	-1 019	0	-1 315
Currency effects	-265	7	-64	0	-322
Reclassification	0	0	0	0	0
<b>Value 31.12.2018</b>	<b>39 020</b>	<b>879</b>	<b>29 893</b>	<b>0</b>	<b>69 792</b>

### Net values

In CHF 1000

	Machinery and Equipment	Land	Buildings (incl. inst.)	Assets under Construction	Total
Value 31.12.2017	7 634	2 721	15 452	2 606	28 413
<b>Value 31.12.2018</b>	<b>10 781</b>	<b>3 306</b>	<b>16 472</b>	<b>11 893</b>	<b>42 452</b>

### Contractual Commitments

As per December 31, 2018, contractual commitments to acquire building, machinery, equipment and software of TCHF 851 were entered into (previous year TCHF 561).

### Finance Leases

The carrying value of plant and machinery held under finance leases and hire purchase contracts at December 31, 2018, was TCHF 996. Additions from business combinations during the year include TCHF 996 (2017: TCHF 0) of plant and machinery under finance leases and hire purchase contracts. Leased assets and assets

under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

### Pledged Assets

No other property, plant, and equipment was pledged as of December 31, 2018 and 2017.

## 15 Intangible Assets

Group Management monitors and tests the goodwill based on two cash-generating units (CGU). In 2017 all goodwill was tested in one CGU COLTENE Group Level. This CGU has been renamed to “Dental Consumables” and comprises the businesses of dental consumables except the SciCan business. The CGU “SciCan” comprises solely the entire business of the SciCan Group. The impairment test for goodwill is based on the discounted cash flow method and on approved budgets and key business plan figures (2020–2023).

Cash flow after this period is extrapolated by the rates given on the following page. The value in use is the basis to calculate the recoverable amount.

Following assumptions were made:

### Goodwill carrying amount and assumptions

	2018	2017
<b>CGU Dental Consumables</b>		
Inflation rate	1.8 %	2.3 %
Growth rate	1.8 %	2.6 %
Pre-tax discount rate	12.2 %	14.3 %
Goodwill	54 719	39 763

The former CGU Group was renamed in CGU Dental Consumables in 2018. In 2017 this CGU comprised the entire COLTENE Group. In 2018 the CGU Dental Consumables consists of the old COLTENE Group as in 2017 plus the DentalDrives Group which was acquired in 2018.

### Goodwill carrying amount and assumptions

	2018	2017
<b>CGU SciCan</b>		
Inflation rate	1.9 %	n/a
Growth rate	1.9 %	n/a
Pre-tax discount rate	12.1 %	n/a
Goodwill	118 049	n/a

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
<b>Value 31.12.2016</b>	<b>38 078</b>	<b>12 194</b>	<b>50 272</b>
Additions <sup>1</sup>	939	430	1 369
Disposal	0	-175	-175
Currency effects	746	-178	568
Reclassification	0	1 022	1 022
<b>Value 31.12.2017</b>	<b>39 763</b>	<b>13 293</b>	<b>53 056</b>
Additions – business combinations	138 856	62 733	201 589
Additions	0	661	661
Disposal	0	-261	-261
Currency effects	-5 851	-2 337	-8 188
<b>Value 31.12.2018</b>	<b>172 768</b>	<b>74 089</b>	<b>246 857</b>

## Accumulated amortization

In CHF 1000

	Goodwill	Other intangible assets	Total
<b>Value 31.12.2016</b>	<b>0</b>	<b>8 721</b>	<b>8 721</b>
Amortization	0	1 287	1 287
Disposal	0	-75	-75
Currency effects	0	-68	-68
<b>Value 31.12.2017</b>	<b>0</b>	<b>9 865</b>	<b>9 865</b>
Amortization	0	2 477	2 477
Disposal	0	-160	-160
Currency effects	0	-184	-184
<b>Value 31.12.2018</b>	<b>0</b>	<b>11 998</b>	<b>11 998</b>

## Net values

In CHF 1000

	Goodwill	Other intangible assets	Total
Value 31.12.2017	39 763	3 428	43 191
<b>Value 31.12.2018</b>	<b>172 768</b>	<b>62 091</b>	<b>234 859</b>

<sup>1</sup> Acquisition Diatech

No impairment was recognized for the periods presented.

As per December 31, 2018 and 2017, there are no contractual commitments to acquire intangible assets.

## 16 Financial Liabilities

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

### Bank loans

In CHF 1000	2018	2017
Unsecured current bank loans	44 991	8 281
Unsecured non current bank loans	4 073	0
<b>Total</b>	<b>49 064</b>	<b>8 281</b>

Total uncommitted credit lines amount to TCHF 150 919 (previous year TCHF 71 702) of which 30 % are used (previous year 10 %). Covenants exist for selected bank loans. Covenants were met for both periods.

Total committed credit lines amount to TCHF 75 000 (previous year 0) of which TCHF 34 000 are used (previous year 0). Covenants were met for both periods.

The Group intends to repay the current bank loans of TCHF 49 064 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.

## 17 Finance Leases

The Group leases various plant and equipment with a carrying amount of TCHF 1573 under finance leases expiring within one to five years.

Some leases provide for the payment of incremental contingent rentals based on changes in current market rentals for comparable properties. Contingent rentals paid during the year were TCHF 0.

### Finance lease liabilities

In CHF 1000	Minimum lease payments	Interest	Present value of minimum lease
<b>31.12.2018</b>			
Less than 1 year	0	0	0
1 to 5 years	1 021	25	996
<b>Total</b>	<b>1 021</b>	<b>25</b>	<b>996</b>

## 18 Trade Accounts Payable

### Trade accounts payable

In CHF 1000	2018	2017
CHF	2 948	1 450
EUR	4 609	1 933
USD	3 155	2 356
CAD	1 095	0
Other currencies	623	767
<b>Total</b>	<b>12 430</b>	<b>6 506</b>

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	2018	2017
Other accounts payable	14 027	2 904
Accruals	14 005	9 199
<b>Total</b>	<b>28 032</b>	<b>12 103</b>

### Derivative financial instruments

In CHF 1000	2018	2017
<b>Currency-related instruments</b>		
Fair value (included in other accounts payable and accruals).	-17	-166
<b>Forward exchange rate contracts by currencies</b>		
EUR	7 212	7 605
GBP	-754	-792
USD	1 773	1 753

The tables show the contract or underlying principal amounts and fair values of derivative financial instruments analyzed by type of contract at December 31, 2018 and 2017. The fair values are determined by reference to market prices or standard pricing models that used observable market inputs at December 31, 2018 and 2017. TCHF 3901 (previous year 0) are related to liabilities from refund liabilities.

## 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
<b>31.12.2016</b>	<b>273</b>	<b>8 192</b>	<b>255</b>	<b>8 720</b>
Additions	179	37	228	444
Reversals	0	0	-130	-130
Used	0	-1 691	-2	-1 693
Currency effects	-6	7	19	20
<b>31.12.2017</b>	<b>446</b>	<b>6 545</b>	<b>370</b>	<b>7 361</b>
Additions – business combinations	0	1 846	1 547	3 393
Additions	49	31	271	351
Reversals	-104	0	-259	-363
Used	0	-1 705	-2	-1 707
Currency effects	-13	-23	-50	-86
<b>31.12.2018</b>	<b>378</b>	<b>6 694</b>	<b>1 877</b>	<b>8 949</b>

### Provision by maturity

In CHF 1000

	Legal & personnel-related	Pension plans & social security	Guarantees & others	Total
<b>31.12.2017</b>				
Short-term provisions	190	0	157	347
Long-term provisions	256	6 544	214	7 014
<b>31.12.2018</b>				
Short-term provisions	165	0	671	836
Long-term provisions	213	6 694	1 206	8 113

## 21 Operating Leasing

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

### Leasing

In CHF 1000

	Operating leasing	
	2018	2017
Not later than 1 year	2 751	1 258
1 to 5 years	7 888	3 526
Later than 5 years	4 398	2 726
<b>Total</b>	<b>15 037</b>	<b>7 510</b>
<b>Total later than 1 year</b>	<b>12 286</b>	<b>6 252</b>

For 2018, lease expenses amounted to TCHF 2467 (previous year TCHF 1912). Operating leasing contracts for property, plant, and equipment exist.

## 22 Equity

The share capital represents the capital of COLTENE Holding AG. Treasury stock on December 31, 2018, included 3265 shares (previous year 0).

On September 27, 2018, COLTENE Holding AG completed the first capital increase to partially finance the acquisition of SciCan Ltd. and DentalDrives GmbH. The Company issued 675 000 shares with a par value of CHF 0.10 each as part of a rights offering “at market” to existing and new shareholders at an offer price of CHF 104.00. COLTENE Holding AG generated gross proceeds of CHF 70 200 000. This corresponds to net proceeds of CHF 69 546 000. The listing and first day of trading of the offer shares were set to September 28, 2018. The payment of the offer price against delivery of offer shares was made on October 2, 2018. On the closing date of the transaction, on October 9, 2018, to further finance the transaction, the Company issued 1 081 580 consideration shares with a par value of CHF 0.10 each at an issue price of CHF 104 to the sellers of SciCan Ltd. and DentalDrives GmbH as part of a contribution in kind capital increase (second capital increase). At the fair value of CHF 104 the consideration shares amount to TCHF 112 484. The transaction cost for this second capital increase amounted to TCHF 1571. The sellers (Arthur Zwingenberger’s Arno Holding S.à.r.l. and Stefan Helsing) hold thereafter 18.1 % of the total capital and voting rights of COLTENE Holding AG after completion of the transaction. These consideration shares are locked up for a period of twelve months.

After the completion of both capital increases the share capital of COLTENE Holding AG amounts to CHF 597'558, divided into 5'975'580 registered shares with a par value of CHF 0.10 each.

The outstanding capital consists of 5'975'580 (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.

TCHF 2225 of equity issue costs have been deducted from the proceeds of the capital increase and been taken to capital reserves.

The distribution of CHF 3.00 per share will be proposed to the General Meeting on April 30, 2019.

Based on the General Meeting decision on March 28, 2018, the Company distributed a dividend of CHF 3.00 (previous year CHF 2.70) per share to its shareholders on April 6, 2018. The total amount paid was TCHF 12'654 (previous year TCHF 11'381).

## 23 Transactions with Related Parties

Transactions with related parties are generally conducted based on usual market conditions.

### Business relationships with Related Parties

Compensation to key management personnel (Board of Directors and Group Management) as well as business transactions with related companies are summarized below:

In CHF 1000	2018	2017
Compensation to key management personnel	3'284	3'151
Rent of production and office buildings	202	n/a
Interest paid	29	n/a
Loan repayments	120	n/a
Loan balance due at the end of the reporting period	4'042	n/a
Payables (accrued consideration)	3'500	n/a

## 24 Subsequent Events

As per the release date of this annual report, the Board of Directors and the Executive Management were not aware of any further important events subsequent to the reporting date.



# Major Group Companies

Company	Activity	Currencies	Registered capital	Group ownership 2018	Group ownership 2017
<b>Coltène/Whaledent AG, Altstätten CH</b>	<b>1</b>	<b>CHF</b>	<b>1 600 000</b>	<b>100 %</b>	<b>100 %</b>
Coltène/Whaledent Vertriebservice 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 %	100 %
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 %	100 %
Coltene Australia Pty Ltd., Sydney AU	3	AUD	15 000	100 %	100 %
DentalDrives GmbH, Leutkirch DE	4	EUR	100 000	100 %	n/a
MicroMega International, Besançon FR	4	EUR	419 700	100 %	n/a
MicroMega SA, Besançon FR	1	EUR	2 900 000	100 %	n/a
<b>Coltène/Whaledent Inc., Cuyahoga Falls US</b>	<b>1</b>	<b>USD</b>	<b>8 400 000</b>	<b>100 %</b>	<b>100 %</b>
Diatech Inc., Mount Pleasant US	1	USD	100 000	100 %	100 %
<b>Vigodent SA Indústria e Comércio, Rio de Janeiro BR</b>	<b>1</b>	<b>BRL</b>	<b>54 677 752</b>	<b>100 %</b>	<b>100 %</b>
<b>Kenda AG, Vaduz LI</b>	<b>1</b>	<b>CHF</b>	<b>50 000</b>	<b>100 %</b>	<b>n/a</b>
<b>SciCan Ltd., Toronto CAN</b>	<b>1</b>	<b>CAD</b>	<b>729</b>	<b>100 %</b>	<b>n/a</b>
SciCan Medtech AG, Zug CH	3	CHF	100 000	100 %	n/a
SciCan Inc., Canonsburg PA	3	USD	100	100 %	n/a
SciCan GmbH, Leutkirch DE	3	EUR	25 564	100 %	n/a

Entities in bold are 100% direct participations of COLTENE Holding AG.

<sup>1</sup> Production and sales of dental specialties.

<sup>2</sup> Sales services and marketing of dental specialties.

<sup>3</sup> Sales of dental specialties.

<sup>4</sup> Holding company

# Non-IFRS Measures as Defined by COLTENE Group

COLTENE Group uses certain non-IFRS metrics when measuring performance, especially when measuring current-year results against prior periods, including core results, constant currencies, free cash flow and net debt. Despite the use of these measures by management in setting goals and measuring the Group's performance, these are non-IFRS measures that have no standardized meaning prescribed by IFRS. As a result, such measures have limits in their usefulness to investors. Because of their non-standardized definitions, the non-IFRS measures (unlike IFRS measures) may not be comparable to the calculation of similar measures of other companies. These non-IFRS measures are presented solely to permit investors to more fully understand how the Group's management assesses underlying performance. These non-IFRS measures are not, and should not be viewed as, a substitute for IFRS measures. As an internal measure of Group performance, these non-IFRS measures have limitations, and the Group's performance management process is not solely restricted to these metrics.

## **Growth Rate Calculation**

For ease of understanding, COLTENE Group uses a sign convention for its growth rates such that a reduction in operating expenses or losses compared to the prior year is shown as a positive growth.

## **Free Cash Flow**

Free cash flow is presented as additional information because management believes it is a useful supplemental indicator of the Group's ability to operate without reliance on additional borrowing or use of existing cash. Free cash flow is a measure of the net cash generated that is available for debt repayment, investment in strategic opportunities and for returning to shareholders. Free cash flow is a non-IFRS measure, which means it should not be interpreted as a measure determined under IFRS. Free cash flow is not intended to be a substitute measure for cash flow from operating activities as determined under IFRS.

COLTENE Group defines free cash flow as cash flow from operating activities and cash flow associated with the purchase or sale of property, plant, and equipment, as well as intangible, other non-current and financial assets, excluding marketable securities. The definition of free cash flow used by COLTENE Group does not

include amounts related to changes in investments in associated companies or related acquisitions or divestments of subsidiaries.

## **Net Debt**

Net debt is presented as additional information because management believes it is a useful supplemental indicator of the Group's ability to pay dividends, to meet financial commitments and to invest in new strategic opportunities, including strengthening its balance sheet. Net debt is a non-IFRS measure, which means it should not be interpreted as a measure determined under IFRS.

COLTENE Group defines net debt as current and non-current financial debt less cash and cash equivalents, current investments and derivative financial instruments.

## **EBITDA**

COLTENE Group defines earnings before interest, tax, depreciation and amortization (EBITDA) as operating income from continuing operations excluding depreciation of property, plant, and equipment (including any related impairment charges) and amortization of intangible assets (including any related impairment charges).

## **Leverage Factor**

The COLTENE Group relates interest-bearing debt to EBITDA to determine the leverage factor. A leverage ratio is any one of several financial measurements that look at how much capital comes in the form of debt (loans), or assesses the ability of a company to meet its financial obligations. The leverage ratio is important given that companies rely on a mixture of equity and debt to finance their operations and knowing the amount of debt held by a company is useful in evaluating whether it can pay its debts off as they come due.

# 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 2018 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 66 to 95) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

### Basis for Opinion



We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards.

Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### Key Audit Matters



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

### Valuation of Inventory

#### Area of Focus

The total balances of inventory and inventory allowance as of 31 December 2018 amount to CHF 61 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 73 and Note 13 "Inventories" to the financial statements on page 89.

#### *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 underlying data used by management to calculate the inventory allowance, typically an aged inventory analysis with the latest movements, by re-performing the ageing calculation determined by the ERP-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.

Our audit procedures did not lead to any reservations relating to the method and the assumptions used to calculate the valuation of inventory.

#### **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 15 "Intangible Assets" to the financial statements on page 91.

#### *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.

Our audit procedures did not lead to any reservations relating to the used assumptions, the methodology and the weighted average cost of capital and the other data used.

#### **Acquisition of SciCan and MicroMega**

##### *Area of Focus*

As outlined in Section "Acquisitions", COLTENE acquired 100 % of the issued share capital and control of SciCan Group and Micro Mega Group. Both acquisitions were significant to our audit due to the financial magnitude and due to significant judgments and assumptions involved in the recognition and measurement of the acquired assets and assumed liabilities. As a result of the transaction a goodwill of CHF 135.7 million and other intangible assets of CHF 59.7 million were recognized.

See Section "Acquisitions" to the financial statements on page 80.

#### *Our audit response*

We audited the purchase price allocation (PPA) with regard to the acquisition. This includes an analysis of the fair value of the identifiable assets acquired and liabilities assumed supporting the purchase price allocation as at the acquisition date. We assessed, amongst others, the valuation and accounting of the purchase consideration, audited the identification and valuation of the assets and liabilities acquired, including the underlying assumptions such as tax rates as well as discount and growth rates. We involved our internal valuation specialists to assist us with the evaluation of the methods used and the assumptions made by the management. Furthermore, we assessed the accounting treatment and the disclosures made.

Our audit procedures did not lead to any reservations concerning the assumptions, the valuation and the accounting of the transaction.

### 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 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)

Ralf Truffer  
Licensed audit expert

St. Gallen, April 2, 2019

# Income Statement COLTENE Holding AG

In CHF	2018	2017
Dividend income	10 921 700	8 272 690
Other financial income	293 425	470 073
<b>Total income</b>	<b>11 215 125</b>	<b>8 742 763</b>
Financial expenses	-352 199	-168 920
Personnel expenses	-621 078	-578 706
Other operating expenses	-1 335 731	-866 151
<b>Total expenses</b>	<b>-2 309 008</b>	<b>-1 613 777</b>
<b>Profit of the year</b>	<b>8 906 117</b>	<b>7 128 986</b>

# Balance Sheet COLTENE Holding AG

In CHF	31.12.2018	31.12.2017
Cash and cash equivalents	1 873 252	11 811 853
Other accounts receivable from third parties	84 940	6 059
Other accounts receivable from subsidiaries	749 826	214 781
<b>Current assets</b>	<b>2 708 018</b>	<b>12 032 693</b>
Long-term receivables from subsidiaries	33 444 137	12 900 935
Investments in subsidiaries	214 622 365	20 343 269
<b>Non-current assets</b>	<b>248 066 502</b>	<b>33 244 204</b>
<b>Total assets</b>	<b>250 774 520</b>	<b>45 276 897</b>
Trade accounts payable to third parties	1 057 596	25 187
Current interest-bearing liabilities to third parties	44 446 445	7 903 493
Other accounts payable to third parties	18 564	24 277
Other accounts payables from subsidiaries	3 500 000	2 554 714
Other accounts payables from related parties	1 249 514	0
Accrued liabilities and deferred income to third parties	219 677	477 361
Current provision	83 655	1 200
<b>Current liabilities</b>	<b>50 575 451</b>	<b>10 986 232</b>
Share capital	597 558	421 900
Legal reserves from retained earnings	84 380	84 380
Capital contribution reserves	169 783 747	0
Voluntary reserves from retained earnings	21 130 591	26 655 399
Treasury shares	-303 324	0
Profit of the year	8 906 117	7 128 986
<b>Total equity</b>	<b>200 199 069</b>	<b>34 290 665</b>
<b>Total liabilities and equity</b>	<b>250 774 520</b>	<b>45 276 897</b>

# Statements of Changes in Equity COLTENE Holding AG

In CHF	Share capital	Statutory reserves	Capital contribution reserves	Treasury shares	Net income brought forward	Total
<b>31.12.2016</b>	<b>421 900</b>	<b>84 380</b>	<b>0</b>	<b>-258 945</b>	<b>38 036 503</b>	<b>38 283 838</b>
Distribution to shareholders					-11 381 104	-11 381 104
Change in treasury shares				258 945	0	258 945
Profit of the year					7 128 986	7 128 986
<b>31.12.2017</b>	<b>421 900</b>	<b>84 380</b>	<b>0</b>	<b>0</b>	<b>33 784 385</b>	<b>34 290 665</b>
Distribution to shareholders					-12 653 793	-12 653 793
Capital increase	175 658		169 783 747			169 959 404
Change in treasury shares				-303 324	0	-303 324
Profit of the year					8 906 117	8 906 117
<b>31.12.2018</b>	<b>597 558</b>	<b>84 380</b>	<b>169 783 747</b>	<b>-303 324</b>	<b>30 036 709</b>	<b>200 199 069</b>



# 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 re-sale, 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 annual 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.

## Investments in Subsidiaries

The major investments in subsidiaries are listed on page 95 of this Annual Report.

## Full-time equivalents

COLTENE Holding AG has no employees

## Contingent liabilities

	31.12.2018	31.12.2017
Joint and several liability from group taxation for current and future value-added tax liabilities of Coltène/Whaledent AG and Coltène/Whaledent Vertriebsservice und Marketing GmbH	p. m.	p. m.

## Significant investments

See list on page 95

### Treasury shares

	Average rate of transactions in CHF	Quantity
<b>Inventory as of 1.1.2017</b>		<b>3 700</b>
Acquisitions	83.06	8 397
Sales	79.06	-12 097
<b>Inventory as of 31.12.2017</b>		<b>0</b>
Acquisitions	94.36	6 200
Sales	95.99	-2 935
<b>Inventory as of 31.12.2018</b>		<b>3 265</b>

### Significant shareholders\*

	31.12.2018	31.12.2017
Huwa Finanz- und Beteiligungs AG, Heerbrugg	21.98%	26.33%
Arno Holding S.à.r.l., Luxembourg	17.20%	0.00%
Rätikon Privatstiftung, Bludenz/Austria	10.02%	11.45%
Tweedy, Browne Company LLC, New York/USA	4.80%	6.80%
Credit Suisse Asset Management Funds AG, Zürich	3.75%	5.59%
Robert Heberlein, Zumikon	3.40%	3.97%
UBS Fund Management (Switzerland) AG, Zürich	3.49%	3.95%

\* The Company is aware of the following registered shareholders who own over 3% of the shares. For more details see page 30.

### Number of shares held by Board of Directors

	31.12.2018	31.12.2017
Nick Huber, Chairman	14 297	4 096
Erwin Locher, member	6 162	5 154
Jürgen Rauch, member	277	148
Matthew Robin, member	5 235	4 248
Astrid Waser, member	97	0
Roland Weiger, member	1 198	898
Allison Zwingenberger, member <sup>1</sup>	0	0
<b>Total</b>	<b>27 266</b>	<b>14 544</b>

### Number of shares held by Executive Management

	31.12.2018	31.12.2017
Martin Schaufelberger, CEO	10 675	8 137
Gerhard Mahrle, CFO	2 509	1 659
Werner Barth, Vice President Marketing	1 307	903
Stefan Helsing, COO	54 079	0
Werner Mannschedel, Vice President QM & RA	2 262	1 819
Christophe Loretan, Vice President Sales	396	232
<b>Total</b>	<b>71 228</b>	<b>12 750</b>

<sup>1</sup> Since extraordinary GM 2018.

## Remuneration to the Board of Directors

In CHF

	Base remuneration		Other remuneration	Total
	in cash	in shares <sup>1,2</sup>	Social security <sup>3</sup>	
<b>2017</b>				
Nick Huber	80 000	20 000	14 363	114 363
Robert Heberlein <sup>4</sup>	15 000	2 500	2 512	20 012
Erwin Locher	70 000	10 000	11 443	91 443
Jürgen Rauch	60 000	10 000	10 023	80 023
Matthew Robin	70 000	10 000	11 443	91 443
Astrid Waser <sup>5</sup>	45 000	7 500	6 393	58 893
Roland Weiger	60 000	10 000	10 023	80 023
<b>Total</b>	<b>400 000</b>	<b>70 000</b>	<b>66 200</b>	<b>536 200</b>
<b>2018</b>				
Nick Huber	80 000	20 000	14 363	114 363
Erwin Locher	70 000	10 000	7 665	87 665
Jürgen Rauch	60 000	10 000	0	70 000
Matthew Robin	70 000	10 000	11 438	91 438
Astrid Waser	60 000	10 000	9 647	79 647
Roland Weiger	60 000	10 000	10 017	80 017
Allison Zwingenberger <sup>6</sup>	15 000	2 500	2 131	19 631
<b>Total</b>	<b>415 000</b>	<b>72 500</b>	<b>55 261</b>	<b>542 761</b>

<sup>1</sup> 2017: 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.

<sup>2</sup> 2018: The value of the number of shares granted is calculated on the weighted average share price of the month of May of the subsequent year.

<sup>3</sup> Company paid social security contribution incl. AHV, IV and ALV.

<sup>4</sup> On the General Meeting, March 29, 2017, Robert Heberlein stepped down as Board member for reasons of age.

<sup>5</sup> On the General Meeting, March 29, 2017, Astrid Waser was elected as a new Board member.

<sup>6</sup> On the Extraordinary General Meeting, September 14, 2018, Allison Zwingenberger was elected as a new Board member.

## Remuneration to the Group Management

In CHF

	Base remuneration	Variable remuneration <sup>1</sup>		Other remuneration		Total
	in cash	in cash	in shares <sup>2</sup>	Social security <sup>3</sup>	Other benefits	
<b>2017</b>						
Martin Schaufelberger	370 000	292 098	99 676	147 890	23 022	932 686
Other members	970 082	293 172	99 971	269 499	54 235	1 686 959
<b>Total</b>	<b>1 340 082</b>	<b>585 270</b>	<b>199 647</b>	<b>417 389</b>	<b>77 257</b>	<b>2 619 645</b>
<b>2018</b>						
Martin Schaufelberger	370 000	296 000	111 276	148 729	19 212	945 217
Other members	1 037 467	333 568	125 235	271 604	48 420	1 816 294
<b>Total</b>	<b>1 407 467</b>	<b>629 568</b>	<b>236 511</b>	<b>420 333</b>	<b>67 632</b>	<b>2 761 511</b>

<sup>1</sup> 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 Board of Directors.

<sup>2</sup> The value of shares granted is calculated with the share price at closing of the grant date. For 2017, it was February 20, 2018, and the share price was CHF 98.30.

For 2018, it was March 19, 2019, and the share price was CHF 99.00.

<sup>3</sup> Company paid social security contribution incl. pension funds payments, AHV, IV, ALV, NBU and KTG..

## Subsequent Events

For more information refer to page 94 at the end of the financial reporting about the COLTENE Group.

# Proposed Appropriation of Disposable Profit and Dividend Distribution

In CHF	2018	2017
<b>Allocation of the profit of the year</b>		
Net income carried forward from prior year	21 130 591	26 396 453
Profit of the year	8 906 117	7 128 986
Transfer to reserves for treasury stocks	-303 324	258 945
<b>Total amount at the disposal of the AGM</b>	<b>29 733 384</b>	<b>33 784 384</b>
Dividend distribution (CHF 3.00 per share)	0	-12 653 793
Balance to be carried forward	29 733 384	21 130 591
<b>Distribution out of reserves from capital contributions</b>		
Available reserves from capital contributions	169 783 747	0
Distribution to shareholders of CHF 3.00 per share without treasury shares	-17 926 741 *	0
Available capital contribution reserves after distribution	151 857 006	0

\* 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 income statement, balance sheet, statement of changes in equity and notes (pages 100 to 105), for the year ended 31 December 2018.

#### Board of Directors' Responsibility



The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility



Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures

that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion



In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

#### Report on Key Audit Matters Based on the Circular 1/2015 of the Federal Audit Oversight Authority



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's 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 86.5 % 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 Note to COLTENE Holding AG to the financial statements on page 102.

### 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.

Our audit procedures did not lead to any reservations relating to the used assumptions, the methodology and the weighted average cost of capital and the other data used.

## 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)

Ralf Truffer  
Licensed audit expert

St. Gallen, April 2, 2019

# Important Addresses

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### **Disclaimer**

The information made available in this annual report may include forward-looking statements that reflect intentions, beliefs or current expectations and projections of the COLTENE Group about future results of operations, financial conditions, liquidity, performance and similar circumstances. Such statements are made on the basis of assumptions and expectations which may prove to be erroneous, although the COLTENE Group believes them to be reasonable at this time.

The extract of the reporting section of the Annual Report 2018 in German is the governing text.