Half-Year Report 2017

# Going Digital

COLTENE

# Key Figures

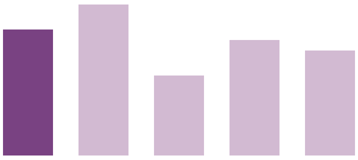
**5-Year Overview of First-Half Results 2013–2017**

(in CHF million)

**Net Sales**

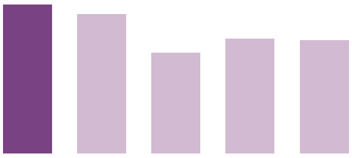
| 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| 78.0 | 75.6 | 73.3 | 76.0 | 75.0 |

**Net Profit**



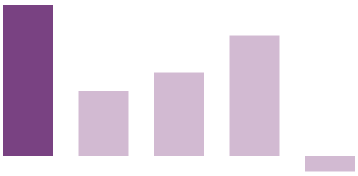
| 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| 6.0 | 7.2 | 3.8 | 5.5 | 5.0 |

**EBIT**



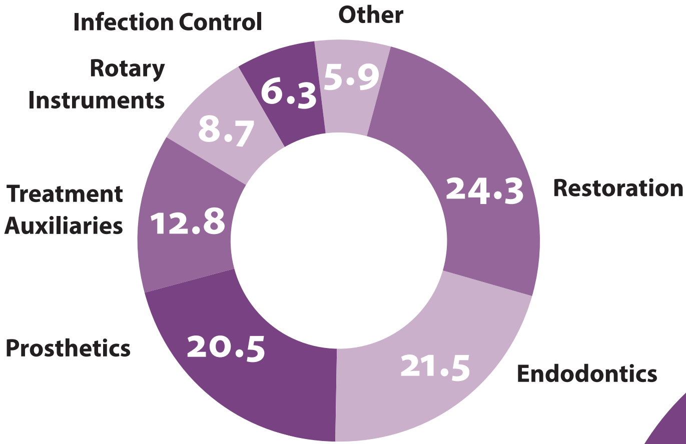
| 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| 9.6 | 9.0 | 6.5 | 7.4 | 7.3 |

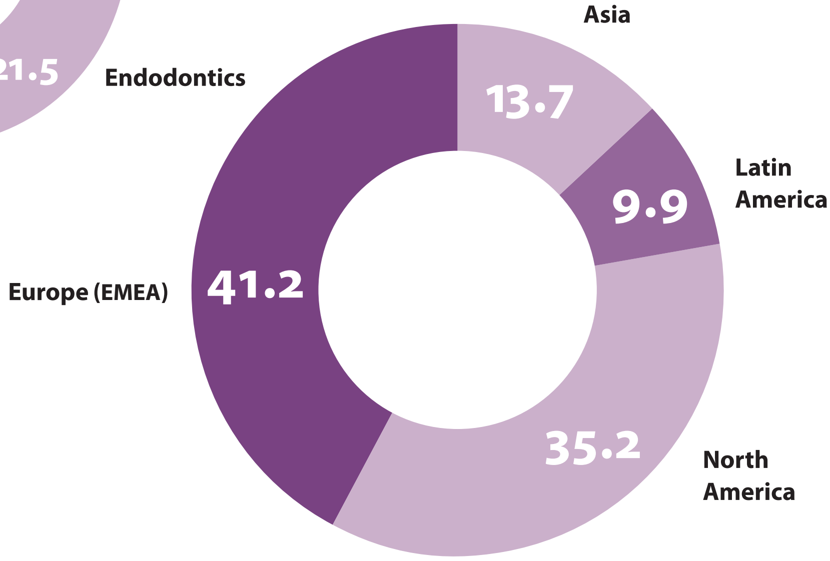
**Free Cash Flow**



| 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| 5.0 | 2.1 | 2.7 | 3.9 | –0.5 |

**Net Sales in H1 2017 in %**



# Highlights H1 2017

## 78.0 mn

### Pleasing sales in the face of stiff competition

**Sales growth amid a challenging market environment, thanks to intense sales and marketing efforts.**

## 12.3 %

### Solid operating results

**Higher sales fuel a further improvement in the EBIT margin.**

## 12.9 %

### BRIC countries on the rise

**Dynamic sales growth momentum, led by Brazil, India and China, where sales advanced 16.9%, 42.3% and 11.3% in local currency.**

## 120

### Speakers and specialists

**European Key Opinion Leader Seminar: Knowledge transfer, knowledge sharing and networking opportunities, accompanied by an extensive social media campaign.**

# Foreword

**Dear Shareholders,**

COLTENE Group encountered intense competitive pressure during the first half of 2017. In North America, this pressure was intensified by cost-cutting and ongoing inventory drawdowns in the wholesale channel. While regional market trends varied, consolidated sales showed positive growth of 3.2% in the CHF reporting currency and 1.8% after factoring out exchange-rate fluctuations and acquisitions. The full impact of strategic action taken to accelerate organic growth has not yet unfolded. COLTENE nevertheless widened its EBIT margin in the typically weaker first half of the year to 12.3% thanks to the top-line growth. This pleasing achievement underscores the Group's organizational efficiency and its agility in responding quickly to shifting market conditions and exchange rate fluctuations. Net profit declined by 16.0% due to an exchange-rate-induced deterioration in the net financial result and higher taxes. Free cash flow more than doubled from CHF 2.1 million to CHF 5.0 million in the reporting period.

**Strategy implementation on track**

Working closely with the Board of Directors, management methodically pursued the strategic goals laid out for 2016 – 2018 with respect to sales & marketing, innovation and partnerships. These goals are intended to foster sustained, profitable growth. Much effort was placed on expanding and strengthening the sales teams. COLTENE selectively strengthened its presence in key European markets and in India to meet the needs of individual target customer groups even better than before. The deployment of modern Customer Relationship Management (CRM) tools and the recently launched new Product Information Management (PIM) system are creating efficiency gains in process workflows and have brought greater uniformity to the Group's branding strategy. Management also entered into new partnerships that will allow the Company to play a constructive role in research projects and in educational programs for dentists or that will give it access to new sales channels and business opportunities. Furthermore, COLTENE acquired Diatech LLC, a US company based in Mount Pleasant, South Carolina, as of April 2017 to streamline and strengthen its brand management strategy. Thanks to this acquisition, COLTENE is now selling its high-quality diamond and carbide burs under the Diatech brand name in North America.

In the first half of 2017, COLTENE invested in its future growth by expanding its sales teams, introducing innovative products and establishing new partnerships.

**Digitalization heralds a paradigm shift**

Digitalization is at an advanced stage in dentistry and this has created new business opportunities for COLTENE as a relatively small but agile supplier of top-quality products. These opportunities are a reflection of the vast potential that digitalization offers. They range from patient-specific and computer-aid treatment options to the joint use of infrastructure and production assets and the pooling of resources and know-how. Learn more about the digital transformation of dentistry on pages 4 and 5.

**Change in the Board of Directors**

Astrid Waser was elected as a new director at the Annual General Meeting on March 29, 2017. She succeeds Robert Heberlein, who did not stand for re-election for reasons of age. Astrid Waser has many years of experience as a corporate legal counsel and has specialized in competition law, procurement law and in compliance issues. Her expertise enhances the Board's capabilities and can clearly be of benefit to the Group's corporate development. The Board of Directors and the Executive Board thank Robert Heberlein for his many achievements on behalf of COLTENE Group. Robert has been a member of the Board of Directors ever since the Company was spun-off from the Gurit-Heberlein Group in 2005 and he held the office of Vice Chairman for many years. As a director and former Chairman of the Board of Directors of Heberlein Holding AG, Robert Heberlein had a hand in COLTENE's corporate development for a total of 36 years. With his extensive entrepreneurial and legal background, Robert Heberlein had a defining impact on COLTENE Holding AG and helped to draw the strategic roadmap that successfully guided the Company over the years.

The consolidation of the EBIT margin at a high level underscores COLTENE Group's substantial flexibility and agility.

**Outlook**

COLTENE Group made selective investments in new growth opportunities during the first half of 2017. It introduced innovative new products, improved existing, well-established products and set up new alliances. Steady progress towards the strategic goals for 2016 – 2018 should enable the Group to capture the market's future growth potential and sustainably raise the EBIT margin to 15%.

On behalf of the Board of Directors and the Executive Board, we thank all employees for their untiring efforts. We also thank our business partners and our shareholders for the trust they have placed in COLTENE Group.

Yours sincerely,

| | |
|---|---|
| Nick Huber | Martin Schaufelberger |
| Chairman of the Board of Directors | CEO |

# Digital Transformation

Digitalization has brought sweeping change to the world of business and society in general. Intelligently linked sensors and devices have given rise to the Internet of Things and are producing a hitherto untold amount of information and data. Technology platforms such as the blockchain and artificial intelligence are pushing the boundaries of what's possible in terms of communicative interaction, knowledge, speed and efficiency and changing the way man and machine communicate and collaborate and solve complex problems.

In dentistry and the market for dental consumables, the revolutionary potential of digitalization has opened up an array of new possibilities throughout the value chain. Digitalization creates value for dentists and enhances patient safety and satisfaction by making a holistic patient approach possible with an emphasis on prevention and intelligent, patient-specific treatment solutions.

COLTENE never loses sight of the health and well-being of the patient as it harnesses the power of digitalization. Numerous digitalization projects in the areas of product innovation, supply chain, business development, organizational optimization and the optimization of dental tools and equipment are under way to make process workflows and dental treatments simpler, safer and cheaper.

## Predictive

Intelligent sensors combined with analytical tools and vast pools of reference and diagnostic data are creating new pathways for prevention. This will help reduce the risk of tooth decay, root canal problems and dental disease as well as the need for invasive dental procedures.

## Individual

Data pools, data analytics and digital technologies enable dentists to offer custom treatments tailored to individual patient needs and conditions.

## Smart

Digital assistants and robots help dentists to continually improve the effectiveness, precision and quality of the treatment they provide – for their own and their patients' benefit.

## Collaborative

Open, interoperable systems combined with artificial intelligence support and shared access to vast pools of data enable R&D specialists to develop new dental treatment technologies and methods that are safer, less painful and more aesthetic.

# Operational Review

**In the first half of fiscal year 2017, COLTENE Group's sales increased by 3.2% in Swiss francs to CHF 78.0 million (2016 H1: CHF 75.6 million). Organic growth in local currencies amounted to 1.8%. There was a positive currency effect of CHF 0.4 million and the full consolidation of Diatech as of April contributed CHF 0.6 million to reported sales. Sales were particularly pleasing in the BRIC countries, up 17.5% in Swiss francs and 12.9% in local currency. Much of that growth was generated in Brazil and India. Local currency sales in Asia rose by 8.2%. Sales trends in the EMEA region varied. Overall sales were up 2.8% in local currency. In North America, local sales excluding acquisitions declined by 2.2% due to the communicated inventory drawdowns at major distributors. Including the Diatech acquisition, sales in North America in USD were slightly higher than in the prior-year period. Additional cost-optimization efforts at some dealers, for example the layoff of field staff, put a damper on COLTENE's sales in this market. Sales in Latin America rose by 3.6%, led by pleasing growth at Vigodent.**

Exchange-rate fluctuations had a slightly positive effect of plus 0.5%. Average exchange rates to the US dollar and Brazilian real rose during the period under review, while the euro weakened. Operating profit (EBIT) for the first half of 2017 amounted to CHF 9.6 million, an increase of 6.2% versus the comparable year-ago figure (2016 H1: CHF 9.0 million) thanks to the top-line growth. COLTENE thus managed to widen its EBIT margin slightly in the traditionally weaker first half of the year. It amounted to 12.3% (2016 H1: 11.9%). A further improvement in the product mix and the deployment of modern production equipment and marketing instruments contributed to the margin expansion. Net profit for the period decreased 16.0% to CHF 6.0 million (2016 H1: CHF 7.2 million). This is attributed to losses on Vigodent's debt denominated in foreign currency as of the balance sheet date, in contrast to the prior-year period when COLTENE reported exchange-rate gains. Furthermore, the tax rate increased significantly because of the strong growth in profit from the Group's subsidiaries based in the US, where tax rates are higher than average.

**Presence in core markets strengthened**

COLTENE Group expanded its sales teams in major core markets and emerging markets during the first six months of 2017. More specialists had already been hired for these regions in the preceding half-year period. These additional sales representatives increase COLTENE's presence on the ground and enable the Company to address the specific needs of the various target groups more effectively. They also bolster its Key Account Management activities. Communications with customers improved during the period under review thanks to the modern Customer Relationship Management (CRM) instruments deployed in the previous year and the use of COLTENE's comprehensive Product Information Management system (PIM). These tools facilitate the optimal deployment of sales staff in the field and the seamless documentation of all sales-related processes. They ultimately contributed to efficient, cost-effective branding operations on the market front and created a more uniform profile for the vast range of products that each product group offers under the overarching COLTENE brand.

COLTENE showcased its products and services at a large stand at the IDS, the world's premier trade fair for the dental sector that was held in Cologne, Germany from March 21 to 25, 2017. Major themes were the presentation of BRILLIANT Crios reinforced composite blocks to the interested international public, the market launch of the pioneering BioSonic UC 150 ultrasonic cleaner, and the presentation of various new restorative and endodontic products.

A special highlight of the period under review was the European conference for Key Opinion Leaders (KOL). It took place in Glattfelden, Switzerland from June 15–17, 2017. Keynote speeches and presentations on the latest developments in dentistry and COLTENE's newest innovations and recent product launches were the highlights of this major company event. The conference's diverse agenda was also ideal for networking with both new and familiar faces and for exchanging ideas and opinions. It attracted considerable interest. Approximately 120 Key Opinion Leaders, professors, and dental specialists attended, many of whom have backgrounds in restoration and endodontics. As in the previous year on the occasion of the Latin America KOL conference, COLTENE launched online and social media campaigns for the European conference. These included an event website, YouTube videos, and postings on Twitter and Facebook.

COLTENE strengthened its presence in the emerging markets, especially in the two key markets of tomorrow – India and China.

**Simplification of DIATECH brand management**
Effective April 1, 2017, COLTENE acquired the business operations and assets of Diatech LLC, a US company based in Mount Pleasant, South Carolina. This transaction simplifies and unifies DIATECH brand management. In 2001, COLTENE Group acquired Diatech AG, a Swiss manufacturer of high-quality diamond burs for the dental industry, and all rights to the DIATECH brand worldwide. Diatech LLC, a company managed by the former US business partner, was not part of this transaction. However, the two companies have maintained close collaboration in the areas of development, production and sales of diamond and carbide burs ever since. Given today's market environment, management recognized that bringing Diatech US into the COLTENE Group family would create additional new business opportunities.

**Growing thanks to innovation and quality**

COLTENE again displayed its strong innovation skills with the launch of a number of new products, including the novel BioSonic UC 150 ultrasonic cleaning system. Stricter hygiene requirements to ensure safer, efficient and hygienic dental treatments are also creating new growth opportunities in the Treatment Auxiliaries product segment. COLTENE's BRILLIANT Crios reinforced composite block for the CAD/CAM system developed by Sirona was a market sensation. The block is used for making and placing permanent inlays, onlays, fully anatomical crowns and veneers at the chairside in a single session without a separated heating process. BRILLIANT Crios showed a pleasing upward sales trend in the first half of 2017 on the heels of its successful launch in fiscal 2016. Scores of end-users have praised the high quality and the advantages the composite block from COLTENE offers during the preparation processes. Finally, the Company is building a promising pipeline of products for root canal preparation, irrigation, disinfection and sealing in the still nascent business of modern endodontics.

COLTENE's new BioSonic UC 150 ultrasonic cleaner, its reinforced composite block BRILLIANT Crios and other innovations made waves in the marketplace.

**Partnership-driven synergies**

Management is also relying on partnerships with other dental companies, universities and research organizations to secure future growth opportunities. COLTENE's wide range of top-quality products makes it a materials partner of choice for smaller and specialized players. COLTENE is concurrently intensifying its collaboration with universities and opinion leaders. Dentists tend to be very loyal to the products and brands they use. Consequently, introducing COLTENE products to academic training programs for dentists is crucial for establishing and cementing lasting customer relationships. Close collaboration with universities, research institutes and labs also gives COLTENE interesting insights into innovative technologies and the latest research results, which then allow its internal R&D specialists to manage pipeline priorities better and shorten time to market for new products.

**Business performance by region: Growth in all regions**

COLTENE Group sales in the first half of 2017 rose in all four major regions, both in Swiss francs and in local currency. Sales trends in the various regional markets did vary, however. COLTENE's sales in Asia increased by 8.2% in Swiss francs and in local currency compared to the prior-year period. Sales were strong in India and China, the key markets of tomorrow, where local sales grew by 42.3% and 11.3%, respectively. Additional sales came from the subsidiary established in Japan in the previous year, which successfully established the Group's presence in the country. In Europe, the Middle East and Africa (EMEA), sales increased by 1.2% in Swiss francs and 2.8% in local currency.

Results varied within this region. Positive trends were seen in Southern Europe, France, the Benelux countries and Switzerland. Sales were down in Germany, where the competitive field is still very challenging, and in the Middle East due to the volatile tender business. In North America, sales increased only slightly by 1.5% in Swiss francs and 0.2% in local currency due to the planned drawdown of wholesaler inventories. Sales of COLTENE products through distributors covering the North American market (sell-out) grew by 1.1% despite the reduction of field staff at various wholesalers. Sales in Latin America rose 11.8% in Swiss francs and 3.6% in local currency, led by strong growth at the Group's Brazilian subsidiary. Positive effects from the simplification of the management structure and process workflows were again noticeable in Brazil. The Brazilian subsidiary confirmed its sales turnaround first reported in 2016 and has clearly established a successful market position in the face of the ongoing consolidation among dental distributors and the ensuing inventory shrinkage. Vigodent increased its sales by 27.6% in local currency and by 50.3% in Swiss francs.

The regional breakdown of Group sales for the first half of 2017 is as follows: COLTENE achieved 41.2% of its total sales in EMEA, which represents Europe, the Middle East and Africa (2016 H1: 42.0%), 35.2% in North America (2016 H1: 35.7%), 13.7% in Asia (2016 H1: 13.1%) and 9.9% in Latin America (2016 H1: 9.2%). Sales in emerging markets were up by 7.8% in Swiss francs and by 4.7% in local currency, driven in particular by India, China and Brazil, and accounted for 28.2% of total Group sales (2016 H1: 27.0%).

**Business performance by product group: Endodontics strong**
All of COLTENE's product groups reported higher sales in the first half of 2017 except for Restoration. The fastest growth was achieved by the Rotary Instruments product group (+8.8%), driven by the acquisition of Diatech LLC. Endodontics followed in second place with 6.3% sales growth to CHF 16.7 million (2016 H1: CHF 15.8 million). Both product groups benefited from the launch of new products that rounded out the established products. Sales of the Prosthetics product group increased by 2.5% to CHF 16.0 million (2016 H1: CHF 15.6 million). Sales of the Restoration product group decreased slightly by 1.2% to CHF 18.8 million (2016 H1: CHF 19.2 million). The Infection Control and Treatment Auxiliaries product groups reported growth of 2.0% and 4.5%, while sales of laboratory products rose by 4.0%.

# Financial Commentary

COLTENE Group recorded sales of CHF 78.0 million in the first six months of the 2017 fiscal year (2016 H1: CHF 75.6 million). This corresponds to an increase of 3.2% in the CHF reporting currency. There was a positive currency effect of CHF 0.4 million and the full consolidation of Diatech as of April contributed CHF 0.6 million to reported sales. Sales growth was particularly pleasing in the BRIC countries, where sales rose by 17.5% in Swiss francs and by 12.9% in local currency. Much of that growth came from Brazil and India. Sales in Asia rose by 8.2% in local currency. Sales trends in the EMEA region varied. Overall sales in the region were up 2.8% in local currency. In North America, local sales excluding acquisitions declined by 2.2% due to communicated inventory drawdowns at major distributors.

The gross profit margin for the period under review rose to 73.5% (2016 H1: 72.3%). This improvement reflects better sourcing terms and conditions as well as the optimization of production processes. Operating profit (EBIT) rose by 6.2% to CHF 9.6 million (2016 H1: CHF 9.0 million). The EBIT margin increased to 12.3% from 11.9% in the first half of 2016.

The net financial result was a negative CHF 1.1 million compared to a positive CHF 0.1 million in the prior-year period. This swing is mainly due to non-realized currency translation losses on Vigodent's debt denominated in foreign currency at the reporting date, which contrasts with the prior-year period when COLTENE reported exchange-rate gains.

The tax rate increased to 29.2% from 21.4% in the prior-year period. This increase is attributed primarily to sharply higher profits from countries with high corporate tax rates. Net profit for the first half of 2017 amounted to CHF 6.0 million, which is 16.0% less than the figure from the year-ago period (2016 H1: CHF 7.2 million) The net return on sales therefore declined from 9.5% to 7.7%.

Cash flow from operating activities increased by CHF 3.1 million to CHF 8.0 million (2016 H1: CHF 4.9 million). A year-on-year reduction in inventory and in taxes paid are the main reasons for the improvement. Cash flow from investment activities amounted to CHF 3.0 million. Spending on plant and equipment did decline by CHF 0.9 million compared to the year-ago period, but investment in intangible assets rose by CHF 0.6 million, largely because of the Diatech LLC acquisition. Nevertheless, free cash flow increased CHF 2.9 million to CHF 5.0 million (2016 H1: CHF 2.1 million).

With gross bank borrowings of CHF 8.0 million and current assets of CHF 10.4 million, COLTENE Group is essentially debt-free and its net cash position stands at CHF 2.4 million. A net debt position of CHF 6.2 million was reported at the end of June 2016. The equity ratio of COLTENE Group remained a high 70.8% at the end of the reporting period (June 30, 2016: 66.0%).

A profit of CHF 3.7 million was reported in the comprehensive income statement (2016 H1: CHF 6.0 million). This is attributed to exchange-rate losses of CHF 2.4 million on the translation of the foreign subsidiaries' balance sheets into the reporting currency of Swiss francs. Most of these losses stemmed from the subsidiaries whose reference currency is USD, given the reduction in the value of the USD to the CHF during the period under review.

# Interim Group Income Statement

| In CHF 1000 | Ref. | 1 HY 2017 | 1 HY 2016 |
|---|---|---|---|
| **Net sales** | **3** | **78 013** | **75 599** |
| Changes in inventories of finished goods and work in progress | | 2 282 | 2 864 |
| Work performed and capitalized | | 10 | 19 |
| Raw material and consumables used | | – 22 969 | – 23 782 |
| Personnel expenses | | – 29 192 | – 28 612 |
| Other operating expenses | | – 15 763 | – 14 305 |
| Depreciation and amortization | | – 2 796 | – 2 758 |
| **Operating profit (EBIT)** | | **9 585** | **9 025** |
| Financial income | | 15 | 408 |
| Financial expenses | | – 1 086 | – 295 |
| **Net profit before tax expenses** | | **8 514** | **9 138** |
| Tax expenses | 4 | – 2 485 | – 1 959 |
| **Net profit for the period** | | **6 029** | **7 179** |
| Earnings per share | | CHF 1.43 | CHF 1.70 |
| Diluted earnings per share | | CHF 1.43 | CHF 1.70 |

The notes are part of COLTENE Group interim financial statements.

# Interim Group Statement of Comprehensive Income

| In CHF 1000 | 1 HY 2017 | 1 HY 2016 |
|---|---|---|
| **Net profit for the period** | **6 029** | **7 179** |
| **Other comprehensive income (OCI)** | | |
| OCI to be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translating foreign operations | – 2 366 | 513 |
| **Net OCI to be reclassified to profit or loss in subsequent periods** | **– 2 366** | **513** |
| Items not to be reclassified to profit or loss in subsequent periods: | | |
| Actuarial gains / (losses) on defined benefit plans | 0 | – 2 063 |
| Income tax effect | 0 | 359 |
| **Net OCI not to be reclassified to profit or loss in subsequent periods** | **0** | **– 1 704** |
| **OCI, net of tax** | **– 2 366** | **– 1 191** |
| **Total comprehensive income, net of tax** | **3 663** | **5 988** |
| Profit for the period attributable to the owner of the parent | 6 029 | 7 179 |
| Comprehensive income for the period attributable to the owner of the parent | 3 663 | 5 988 |

The notes are part of COLTENE Group interim financial statements.

# Interim Group Statement of Financial Position

| In CHF 1000 | Ref. | 6/30/2017 | 12/31/2016 |
|---|---|---|---|
| Cash and cash equivalents | | 10 387 | 21 570 |
| Trade accounts receivable | | 31 439 | 33 426 |
| Tax receivables | | 181 | 136 |
| Other receivables and prepaid expenses | | 3 891 | 2 445 |
| Inventories | | 31 853 | 30 822 |
| **Current assets** | | **77 751** | **88 399** |
| Property, plant, and equipment | | 27 293 | 29 958 |
| Financial assets | | 402 | 4 |
| Intangible assets | 7 | 42 076 | 41 551 |
| Deferred tax assets | | 471 | 480 |
| **Non-current assets** | | **70 242** | **71 993** |
| **Total assets** | | **147 993** | **160 392** |
| Financial liabilities | | 8 030 | 12 921 |
| Trade accounts payable | | 5 081 | 4 698 |
| Other accounts payable and accruals | | 11 080 | 11 076 |
| Tax liabilities | | 2 420 | 2 514 |
| Provisions | | 307 | 264 |
| **Current liabilities** | | **26 918** | **31 473** |
| Deferred tax liabilities | | 7 818 | 8 212 |
| Provisions | | 8 464 | 8 456 |
| **Non-current liabilities** | | **16 282** | **16 668** |
| **Total liabilities** | | **43 200** | **48 141** |
| Share capital | | 422 | 422 |
| Treasury shares | | – 54 | – 258 |
| Currency translation adjustments | | – 33 864 | – 31 498 |
| Retained earnings | | 138 289 | 143 585 |
| **Total equity** | **5** | **104 793** | **112 251** |
| **Total liabilities and equity** | | **147 993** | **160 392** |

The notes are part of COLTENE Group interim financial statements.

# Interim Group Cash Flow Statement

| In CHF 1000 | Ref. | 1 HY 2017 | 1 HY 2016 |
|---|---|---|---|
| Net profit for the period | | 6 029 | 7 179 |
| Depreciation and amortization | | 2 796 | 2 758 |
| Other non-cash items | | 3 962 | 3 512 |
| Change in accounts receivable from deliveries and sales | | 996 | 965 |
| Change in inventories | | – 2 262 | – 3 985 |
| Change in other currrent assets | | – 1 514 | – 1 196 |
| Change in current liabilities | | 868 | – 793 |
| Interest paid | | – 147 | – 201 |
| Interest received | | 14 | 19 |
| Income tax paid | | – 2 809 | – 3 361 |
| **Cash flow from operating activities** | | **7 933** | **4 897** |
| Purchase of property, plant, and equipment | | – 1 634 | – 2 524 |
| Proceeds from sale of property, plant, and equipment | | 85 | 91 |
| Purchase of intangible assets | | – 1 025 | – 326 |
| Proceeds of financial assets net | | – 399 | – 17 |
| **Cash flow from investing activities** | | **– 2 973** | **– 2 776** |
| Proceeds from loans and financial liabilities | | 0 | 6 933 |
| Repayments of loans and financial liabilities | | – 4 889 | – 5 771 |
| Dividends to shareholders | 5 | – 11 381 | – 9 277 |
| Proceeds / Purchase of treasury shares (net) | | 267 | 130 |
| **Cash flow from financing activities** | | **– 16 003** | **– 7 985** |
| Exchange rate differences | | – 140 | – 51 |
| **Change in cash and cash equivalents** | | **– 11 183** | **– 5 915** |
| Cash and cash equivalents at beginning of year | | 21 570 | 14 644 |
| Cash and cash equivalents at end of half-year | | 10 387 | 8 729 |

The notes are part of COLTENE Group interim financial statements.

# Interim Group Statement of Changes in Equity

| In CHF 1000 | Ref. | Share capital | Treasury shares | Translation of foreign operations | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **1.1.2016** | | **422** | **–307** | **–33 201** | **134 664** | **101 578** |
| Comprehensive income for the half-year | | | | 513 | 5 475 | 5 988 |
| Share-based payment transactions | | | 192 | | | 192 |
| Dividends | 5 | | | | –9 277 | –9 277 |
| Change in treasury shares | | | –62 | | | –62 |
| **30.6.2016** | | **422** | **–177** | **–32 688** | **130 862** | **98 419** |
| | | | | | | |
| **1.1.2017** | | **422** | **–258** | **–31 498** | **143 585** | **112 251** |
| Comprehensive income for the half-year | | | | –2 366 | 6 029 | 3 663 |
| Share-based payment transactions | | | 284 | | | 284 |
| Dividends | 5 | | | | –11 381 | –11 381 |
| Change in treasury shares | | | –24 | | | –24 |
| Remeasurement treasury shares | | | –56 | | 56 | 0 |
| **30.6.2017** | | **422** | **–54** | **–33 864** | **138 289** | **104 793** |

The notes are part of COLTENE Group interim financial statements.

# Selected Notes

COLTENE Holding AG (former Medisize Holding AG) – the holding company of the COLTENE Group ("the Group") – is a stock corporation persuant to the Swiss Code of Obligations. The Company's legal domicile is in Altstätten, Switzerland. COLTENE Holding AG was founded in accordance with Swiss Company law on December 15, 2005.

Under its umbrella brand COLTENE, the Group develops, manufactures, and sells via distribution channels a broad and comprehensive range of consumables and tools for dentists and dental laboratories. The Group operates one segment defined in line with the management structure, the organizational set-up, the reporting and allocation of resources by the chief operating decision maker of the Group.

## 1 Applied Accounting Standard

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

The ordinary business activities of the COLTENE Group are underlying a cyclicality in most of its important markets. The business development is not evenly balanced month by month. The experiences from the past show that the business in the first half of the calendar year is slightly weaker than that in the second half as far as sales are concerned. This is mainly driven by our customers and to a great extend impossible to control by the group management. Also the cost are not evened out in the first and second semester. There are various elements like marketing activities, international fairs or regulatory affairs, causing effects that can lead to lower or higher operational expenses in the first or in the second half of a calendar year. This information is provided to allow for a better understanding of the results, however, management has concluded that this is not 'highly seasonal' in accordance with IAS 34.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The following amended IFRS standards were applied with effect from January 1, 2017:
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognized Losses
- Annual Improvements Cycle – 2014–2016

Although these new standards and amendments apply for the first time in 2017, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

## 2 Currency Exchange Rates

**The most important exchange rates**

| | 31.12.2016 | 30.6.2017 | 1 HY 2017 | 31.12.2015 | 30.6.2016 | 1 HY 2016 |
|---|---|---|---|---|---|---|
| 1 USD | 1.0188 | 0.9578 | 0.9947 | 0.9927 | 0.9784 | 0.9819 |
| 1 EUR | 1.0739 | 1.0930 | 1.0764 | 1.0826 | 1.0865 | 1.0961 |

## 3 Entity-Wide Information

The net sales by geographic areas (determined by site of customer) and by products and services are as follows:

**Net sales by geographic areas**

| In CHF 1000 | 1 HY 2017 | 1 HY 2016 |
|---|---|---|
| Switzerland | 953 | 890 |
| Germany, Austria | 6 430 | 7 013 |
| Great Britain, Ireland | 3 202 | 3 079 |
| France | 3 537 | 3 214 |
| Other Europe | 11 929 | 11 199 |
| Russia and CIS | 2 698 | 2 832 |
| Middle East and Africa | 3 372 | 3 502 |
| North America | 27 460 | 27 068 |
| Brazil | 3 375 | 2 459 |
| Other South America | 4 375 | 4 470 |
| China | 3 190 | 2 976 |
| India | 2 190 | 1 477 |
| Other Far East, Oceania | 5 302 | 5 420 |
| **Net sales** | **78 013** | **75 599** |

**Net sales by products and services**

| In CHF 1000 | 1 HY 2017 | 1 HY 2016 |
|---|---|---|
| Endodontics | 16 755 | 15 767 |
| Prosthetics | 15 968 | 15 572 |
| Rotary | 6 765 | 6 218 |
| Restoration | 18 989 | 19 222 |
| Laboratory | 3 301 | 3 175 |
| Infection Control | 4 898 | 4 799 |
| Treatment Auxiliaries | 9 984 | 9 554 |
| Miscellaneous | 1 353 | 1 292 |
| **Net sales** | **78 013** | **75 599** |

## 4 Tax Expenses

Tax expenses of TCHF 2'485 represent a tax rate of 29.2% (prior year 21.4%) of the profit before tax expenses. The increase is caused by higher profits in entities with higher tax rates.

## 5 Equity

Based on the General Meeting decision on March 29, 2017 the Company distributed a dividend of CHF 2.70 (previous year CHF 2.20) per share to its shareholders on April 4 2017. The total amount paid was TCHF 11'381 (previous year TCHF 9'277).

## 6 Business combinations

On March 31, 2017 the Group acquired the business and the assets of Diatech LLC, domiciled in Mount Pleasant (South Carolina, USA). COLTENE will integrate the business into the newly established Diatech INC, a 100% subsidiary of Coltene/Whaledent INC, Cuyahoga Falls (Ohio, USA). Diatech LLC is a tele sales and online vendor in the United States and Canada market, specialized in diamond and carbide burs as well as orthodontic products. The new business will increase consolidated annual net sales of the COLTENE Group by approximately CHF 1.5 million. Since 2012, Diatech LLC has been a subsidiary of Team Technologies, Inc., Morrtown (Tennessee, USA).

The fair values of the identifiable assets of Diatech LLC as at the date of acquisition were:

| In CHF 1000 | Fair value recognized on acquisition |
|---|---|
| **Assets** | |
| Property, plant and equipment | 15 |
| Prepayments | 32 |
| Inventory | 275 |
| **Total identifiable net assets at fair value** | **322** |
| Goodwill arising on acquisition | 953 |
| **Purchase consideration transferred** | **1 275** |

The assets were individually evaluated by the purchase price allocation and the staff has been taken over completely. With this acquisition COLTENE ensures the distribution of high quality diamond and carbide burs under the brand Diatech in the North American market and streamlines the Diatech trademark situation. For the acquisition, a purchase price of TCHF 1'275 was paid by cash. The goodwill of TCHF 953 will not be amortized.

From the date of acquisition, Diatech INC contributed TCHF 636.3 of net sales and TCHF 96.4 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 1'259.7 and the net profit before tax from continuing operations for the period would have been TCHF 164.2.

The goodwill recognized is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Diatech LLC with those of the Group.

Transaction costs of TCHF 17.1, have been expensed and are included in administrative expenses in the statement of profit or loss and are part of operating cash flows in the statement of cash flows.

## 7 Intangible Assets

**Gross values**

| In CHF 1000 | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| **Value 01.01.2016** | **37 089** | **12 428** | **49 517** |
| Additions | 0 | 349 | 349 |
| Currency effects | 550 | 307 | 857 |
| **Value 30.06.2016** | **37 639** | **13 084** | **50 723** |
| **Value 01.01.2017** | **38 078** | **12 194** | **50 272** |
| Additions | 948 | 1 109 | 2 057 |
| Currency effects | −784 | −329 | −1 113 |
| **Value 30.06.2017** | **38 242** | **12 974** | **51 216** |

**Accumulated amortization**

| In CHF 1000 | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| **Value 01.01.2016** | **0** | **8 702** | **8 702** |
| Amortization | 0 | 619 | 619 |
| Currency effects | 0 | 101 | 101 |
| **Value 30.06.2016** | **0** | **9 422** | **9 422** |
| **Value 01.01.2017** | **0** | **8 721** | **8 721** |
| Amortization | 0 | 575 | 575 |
| Currency effects | 0 | −156 | −156 |
| **Value 30.06.2017** | **0** | **9 140** | **9 140** |

**Net values**

| In CHF 1000 | Goodwill | Other intangible assets | Total |
|---|---|---|---|
| Value 01.01.2016 | 37 089 | 3 725 | 40 814 |
| Value 30.06.2016 | 37 639 | 3 662 | 41 301 |
| Value 01.01.2017 | 38 078 | 3 473 | 41 551 |
| **Value 30.06.2017** | **38 242** | **3 834** | **42 076** |

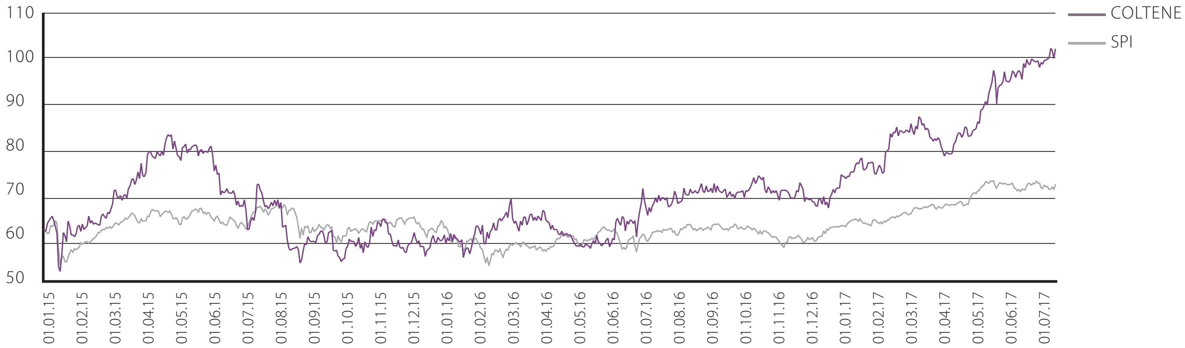
Coltène/ Whaledent INC has started the amortization of research and development costs of the new UC150 Ultrasonic Cleaner. Therefore the amount of TCHF 1'100 was reclassified from assets under construction to intangible assets.

## 8 Subsequent Events

The Board of Directors authorized the Group's interim financial statements on July 31, 2017, for issue. As per this date, the Board of Directors and Executive Management were unaware of any important events subsequent to the reporting date.

# Investor Relations

## Share Price Performance




COLTENE's share price increased by 33.5% during the first half of 2017, from CHF 74.05 to CHF 98.85. COLTENE paid a dividend of CHF 2.70 per share in April 2017.

## Shareholder Structure

As of June 30, 2017, there were 1 650 shareholders entered in the share register (1 684 on December 31, 2016). The following shareholders held 3% or more of the share capital of COLTENE Holding AG as of June 30, 2017:

| | 6/30/2017 | 12/31/2016 |
|---|---|---|
| Huwa Finanz- und Beteiligungs AG | 25.68% | 25.68% |
| Rätikon Privatstiftung | 11.45% | 11.28% |
| Tweedy, Browne Company LLC | 6.88% | 6.88% |
| Credit Suisse Funds AG | 6.16% | 6.28% |
| Robert Heberlein | 3.97% | 3.97% |
| UBS Fund Management (Switzerland) AG | 3.89% | 3.80% |

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## Corporate Calendar

| | |
|---|---|
| Media and Analyst's Conference 2017, Annual Report 2017 | March 6, 2018 |
| Annual General Meeting 2018 | March 28, 2018 |

**Imprint**

**Concept**
IRF Communications AG, Zurich

**Design**
TGG Hafen Senn Stieger, St. Gallen

**Typesetting**
Neidhart + Schön Group, Zurich

**Printing**
Eberl Print GmbH, Immenstadt

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