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Half-Year Report 2014

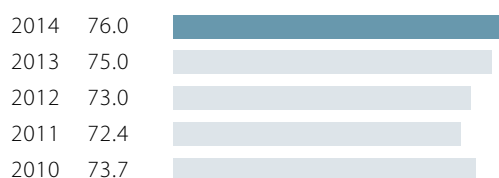
# Global Seal of Quality

# Achievements in the First Half of 2014

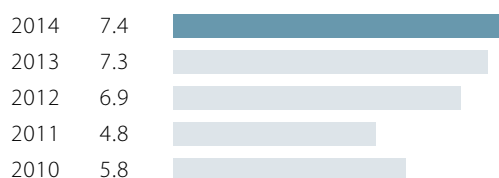
## 5-Year Overview

(1.1. to 30.6. in CHF million, continuing operations, restated)

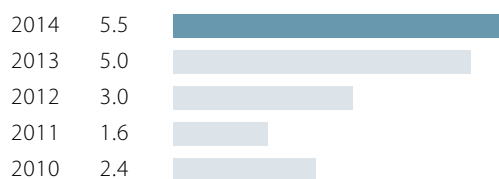
### Net Sales



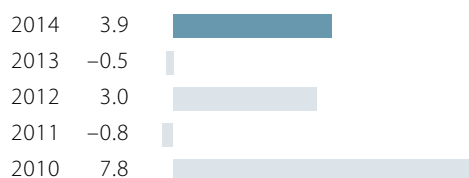
### EBIT



### Net Profit



### Free Cash Flow



**Sales of CHF 76.0 million, incremental growth of 1.3% and 4.7% at constant exchange rates**

**Asia and North America developing well, competitive pressure in Europe and Latin America**

**Operating profit (EBIT) up 2.4% to CHF 7.4 million; EBIT margin widened to 9.8%**

**Net profit of CHF 5.5 million, up 10.7%**

**Free cash flow of CHF 3.9 million, based on solid operating results**

# Foreword

## **Dear Shareholders,**

In the first half of 2014 COLTENE strengthened its market position and grew its sales in local currency faster than the overall market. The implementation of the key aspects of the current business strategy allowed the Company to streamline its product range and eliminate sales with insufficient margins, resulting in higher operating and net profits for the first half of 2014. Optimized internal processes and improved coordination across all manufacturing sites worldwide led to a reduction in net working capital and a significantly higher free cash flow. Having aligned its business strategy to the latest market trends and developments, COLTENE has laid a sound foundation for expansion going forward.

## **Implemented Strategy**

COLTENE's strategy targets profitable top-line growth and centers on the three pillars of product focus, marketing and sales offensives, and operating efficiency. COLTENE streamlined its product range during the period under review yet also added several innovations, especially in the priority product groups of Restoration, Endodontics, and Treatment Auxiliaries. Treatment Auxiliaries performed particularly well; it delivered sharply higher sales and again increased its share of total sales. On the marketing and sales front COLTENE recruited additional sales staff, signed new partnership agreements with renowned research institutes, and initiated its new umbrella brand strategy. The Group expanded its presence in emerging markets. Strengthening the sales force with additional specialists had a particularly positive effect in Asia. This region delivered further sales growth and bolstered its already strong market position. At the same time COLTENE realigned its marketing and sales organization to better address the specific needs of the regional markets and it began to set up a Company-wide Product Information Management System (PIM). It will support and simplify the Group's efforts to establish a uniform marketing identity and will allow for new efficiency gains and cost reductions. With regard to operating efficiency, COLTENE profited from the roll-out of SAP, which was completed in 2013 and improved product planning and management processes throughout the Group.

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**The COLTENE Group's local sales growth exceeded average market growth rate in the first half of 2014.**

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**The positive sales and operating profit trends confirm the current strategic priorities.**

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**The aim of the new brand strategy is to strengthen COLTENE as an umbrella brand by building on the excellent market presence and high recognition rates of its products.**

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**After implementing the major aspects of the corporate strategy, the Company is well prepared for further growth going forward.**

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### **Parent Brand as Global Seal of Quality**

The Group launched its new umbrella brand strategy with the objective of strengthening the COLTENE parent brand and raising market awareness of its broad range of products. The stated objective is to couple the excellent market presence and high recognition rates of the many products and brands that the Group has established over decades with the COLTENE umbrella brand. The umbrella brand will also serve as a global seal of quality that will help to convey the positive experiences of dentists with individual products across the entire COLTENE portfolio. Moreover, this should raise the market profile of lesser known products and brands, vitalizing their sales volumes. Management is confident that the globally uniform market appearance under the COLTENE umbrella brand will help to highlight the breadth and the quality of the product range and support future sales growth.

### **Well-Filled Product Pipeline**

The first of a number of new products that will be introduced to the markets in the second half of 2014 is called Fill-Up!. This innovative composite filling material will be launched in Europe in September 2014. As a flowable, dual-curing bulk composite, Fill-Up! is an ideal material for corrective procedures and treatments of posterior teeth, for filling cavities, and for core build-ups. Other innovative products in the pipeline include novel consumables for digital dentistry technology and for endodontic procedures.

### **Outlook: Recognizing Customer Needs as They Emerge**

COLTENE is continually monitoring and evaluating general market trends. Management expects online sales to continue growing and the number of group dental practices that employ professionally trained procurement specialists to increase. Against this background COLTENE is tracking and evaluating product order and delivery data to gain a better understanding of customer activity and preferences and address specific needs. In view of its current business strategy and the improvements in its operational competencies, the Group reiterates its mid-term targets of achieving better-than-market sales growth and gradually increasing the EBIT margin to 15% of net sales.

**A Word of Thanks**

On behalf of the Board of Directors and the Executive Board, we thank all employees for their untiring efforts. Their vast knowledge and experience are crucial for the success of our products and services. We are particularly pleased that employees at all levels and in all areas of the Company are willing to constantly strive to achieve new goals. We also thank all the dentists, dental labs, and research institutes who work with us and contribute to the continual improvement of our products. Finally, we thank our shareholders for their continued confidence and support.

Yours sincerely,  
Nick Huber  
Chairman of the Board

Martin Schaufelberger  
CEO





To ensure a uniform global appearance under the umbrella brand COLTENE, all marketing tools will feature the new logo going forward. Some examples of the revised corporate design are given below.



Product advertisements for COMPONEER and Fill-Up!



Product packaging for SimplePREP and Fill-Up!



Color-coded sales catalogs

# Operational Review

**COLTENE achieved higher sales in local currency across all four market regions EMEA, South and North America as well as Asia in the first half of 2014. Asian sales grew the fastest and emerging markets generally increased their share of total sales. While Asia sustained a double-digit growth rate in local currency, mainly thanks to China and Japan, political turmoil in the Ukraine and Russia had a negative impact on their local sales. COLTENE reported above-average growth in North America. EMEA and Latin America showed divergent sales trends at the national level. EMEA grew by 2.2% and Latin America showed a sales increase of 1.4%. Sales and gross margins in various traditional European markets remained under pressure due to persisting intense price pressure and structural change. The weak economy in southern Europe left its mark on sales as well. There many patients are opting for only temporary dental treatment and forgoing esthetic dental care.**

In contrast to the year-ago period, the Swiss franc appreciated against the major foreign currencies of importance for COLTENE in the first half of 2014. Therefore translation of local currency sales into the reporting currency had a negative impact on sales in Swiss francs. As the Group also incurs costs in all major currencies, currency movements had an only marginal impact on reported operating profit and net profit.

COLTENE achieved net sales of CHF 76.0 million during the first six months of the 2014 financial year (H1 2013: CHF 75.0 million). This represents an increase of 1.3% in the reporting currency of Swiss francs and 4.7% at constant exchange rates. Operating profit (EBIT) rose 2.4% to CHF 7.4 million (H1 2013: CHF 7.3 million). The EBIT margin increased to 9.8% versus 9.7% in the first half of 2013. The Group's US subsidiary reported a sharp improvement in its operating result as the previous year's period was marred by delivery problems arising from the introduction of a new ERP system. In Brazil the weaker Brazilian real and slightly lower than expected sales volumes put a damper on operating profits. After strengthening its organizational structure and operating procedures last year, management in Brazil is now focused on reviving sales growth.

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Sales in local currency grew in all four market regions and overall growth was better than the average market growth rate.

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COLTENE increased its operating profit (EBIT) by 2.4% to CHF 7.4 million. Net profit grew disproportionately by 10.7% to CHF 5.5 million, and free cash flow improved by CHF 4.4 million to CHF 3.9 million.

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Sales in China and North America were particularly strong with local currency growth reaching 21.5% and 6.6%, respectively. Double-digit growth rates were also achieved by:

- The Benelux countries with an increase of 24.1%
- The Middle East and Africa (excl. South Africa) with an increase of 48%.

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The Treatment Auxiliaries product group achieved the fastest growth at 41%. The greatest contribution to sales came from the Restoration product group. Its sales declined 4.8% due to intense competitive pressure.



Exchange rate differences, interest paid and other financial expenses decreased from CHF 1.1 million in the first half of 2013 to CHF 0.1 million in the reporting period. This improvement in the financial result is largely attributable to currency translation gains on loans denominated in foreign currency, in contrast to the currency translation losses incurred in the first half of 2013. Interest expense on bank loans declined to CHF 0.3 million (H1 2013: CHF 0.4 million) thanks to a CHF 12.3 million reduction in the Company's net debt position versus June 30, 2013. The tax rate increased to 24.5% from 19.1% in the prior-year period. Net profit for the first half of 2014 amounted to CHF 5.5 million, an increase of 10.7% (H1 2013: CHF 5.0 million).

Cash flow from operating activities increased to CHF 5.6 million (H1 2013: CHF 1.6 million, plus 250%) mainly because of the reduction in net working capital. Cash flow from investment activities amounted to CHF -1.7 million, most of which was expended on replacements. Net capital expenditure on plant and equipment amounted to CHF 1.5 million. Expenditure on intangibles in the amount of CHF 0.2 million was mainly for software. Free cash flow rose to CHF 3.9 million (H1 2013: CHF -0.5 million, plus CHF 4.4 million) thanks to the increase in cash flow from operating activities.

With bank loans of CHF 22.0 million, COLTENE's equity ratio remains high at 64.5% (H1 2013: 58.6%). Net debt stood at CHF 15.8 million. The solid balance sheet gives the Company stability and entrepreneurial freedom going forward.

### **Business Performance by Region: Asia and North America Gaining Momentum**

In the first half of 2014 COLTENE's sales in the four regional markets of EMEA, North and Latin America, and Asia rose by 2.2%, 6.6%, 1.4% and 13.1% in local currency. Sales in Asia were particularly pleasing thanks to above-average growth in Japan, China, and India, although currency translation losses erased the local sales growth in India. COLTENE expects the free trade agreement between China and Switzerland that went into effect on July 1, 2014, to fuel further gains in this major market. North America, where COLTENE also achieved above-average growth, is the Group's second-most important market after EMEA. However, its reported growth in Swiss francs was likewise reduced by currency losses due to the weaker US dollar. Economic headwinds in several countries across Latin America had a negative impact on COLTENE's growth. The weaker Brazilian real was an additional drag on the already low sales growth in Brazil. EMEA countries displayed divergent growth rates.

A Group subsidiary for the Iberian Peninsula is being established in Spain. This will allow COLTENE to better target individual local markets. Large distributors will be in direct contact with the Company and the previous importer will provide logistics support for COLTENE's entire product range.

Group sales by region in the first half of 2014 were as follows: COLTENE achieved 43.6% of Group sales in EMEA, which represents Europe, the Middle East, and Africa (H1 2013: 43.3%), 34.8% in North America (H1 2013: 34.7%), 10.6% in South America (H1 2013: 11.7%), and 11.0% in Asia (H1 2013: 10.3%). Sales in emerging markets increased 3.1% (8.6% at constant exchange rates) from the level reported in the first half of 2013 and now account for 27.1% of total sales (H1 2013: 26.6%).

Scandinavia, the Benelux, France, and the Baltics reported pleasing growth. Sales were lower in the DACH sub-region and in the UK, where stiff competition and parallel imports led to year-on-year declines of 7.7% and 10.0%, respectively. The markets in southern Europe reported 2.3% lower sales, primarily because of government-imposed reimbursement cuts and the generally weak economy. The North America sales region gained momentum as expected following the delivery problems encountered in the prior-year period and reported a 1.5% increase in sales (6.6% in local currency). COLTENE's growth rates in China and India were particularly pleasing at 21.5% and 8.3%, respectively. Currency translation in the reporting currency of Swiss francs lowered the reported growth rate in India to -6.3%, however. Brazil fell short of expectations with sales volumes down 19.0% (-4.4% in local currency). Management intends to raise sales in the second half of the year with promotional campaigns and additional training activities. Political turmoil in the Ukraine led to a 1.6% decline in sales in the Russia/CIS region but COLTENE was able to ramp up its growth in the Middle East and Africa regions, where sales rose by more than 48% thanks to successful tendering activities. Sales in the Other Far East/Oceania region grew 4.9%.

## **Business Performance by Product Group: Treatment**

### **Auxiliaries Strong**

In the first six months of 2014 the best performing key product group was Treatment Auxiliaries, which reported 41.4% sales growth.

Prosthetics sales were 3.8% higher compared to the first half of 2013, while Restoration, the largest product group, reported a 4.8% decline in sales due to intense competition. Measured as a percent of total sales, Restoration product group sales of CHF 19.6 million accounted for 25.8% of total sales, Prosthetics sales of CHF 16.7 million accounted for 22.0%, Endodontics sales of CHF 14.4 million accounted for 19.0%, and Treatment Auxiliaries sales of CHF 9.7 million for 12.8%.

# Interim Group Income Statement

In CHF 1000	Ref.	1 HY 2014	1 HY 2013
<b>Net sales</b>	3	<b>76 020</b>	<b>75 037</b>
Changes in inventories of finished goods and work in progress		-1 271	3 945
Work performed and capitalized		40	19
Raw material and consumables used		-22 548	-25 118
Personnel expenses		-27 627	-28 687
Other operating expenses		-14 626	-15 316
Depreciation and amortization		-2 545	-2 611
<b>Operating profit (EBIT)</b>		<b>7 442</b>	<b>7 269</b>
Financial income		66	58
Financial expenses		-207	-1 165
<b>Net profit before tax expenses</b>		<b>7 302</b>	<b>6 162</b>
Tax expenses	4	-1 788	-1 180
<b>Net profit for the period</b>		<b>5 514</b>	<b>4 982</b>
Earnings per share		CHF 1.31	CHF 1.18
Diluted earnings per share		CHF 1.31	CHF 1.18

The notes are part of COLTENE Group financial statements.

# Interim Group Statement of Comprehensive Income

In CHF 1000	1 HY 2014	1 HY 2013
<b>Net profit for the period</b>	<b>5 514</b>	<b>4 982</b>
<b>Other comprehensive income (OCI)</b>		
OCI to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	338	1 159
<b>Net OCI to be reclassified to profit or loss in subsequent periods</b>	<b>338</b>	<b>1 159</b>
Items not to be reclassified to profit or loss in subsequent periods:		
Actuarial gains / (losses) on defined benefit plans	16	514
Income tax effect	-3	-89
<b>Net OCI not to be reclassified to profit or loss in subsequent periods</b>	<b>13</b>	<b>425</b>
<b>OCI, net of tax</b>	<b>351</b>	<b>1 584</b>
<b>Total comprehensive income, net of tax</b>	<b>5 865</b>	<b>6 566</b>
Profit for the period attributable to the owner of the parent	5 514	4 982
Comprehensive income for the period attributable to the owner of the parent	5 865	6 566

The notes are part of COLTENE Group financial statements.

# Interim Group Statement of Financial Position

In CHF 1000	Ref.	6/30/2014	12/31/2013
Cash and cash equivalents		6 156	6 509
Accounts receivable		30 147	30 001
Tax receivables		237	73
Other receivables and prepaid expenses		3 830	2 764
Inventories		28 390	29 692
<b>Current assets</b>		<b>68 760</b>	<b>69 039</b>
Property, plant, and equipment		29 133	29 648
Financial assets		18	11
Intangible assets		45 806	45 874
Deferred tax assets		2 368	2 287
<b>Non-current assets</b>		<b>77 325</b>	<b>77 820</b>
<b>Total assets</b>		<b>146 085</b>	<b>146 859</b>
Current bank loans		21 969	16 828
Accounts payable		4 078	4 668
Other accounts payable and accruals		9 405	10 828
Tax liabilities		1 419	2 382
Other short-term provisions		331	131
<b>Current liabilities</b>		<b>37 202</b>	<b>34 837</b>
Deferred tax liabilities		8 885	8 648
Other long-term provisions		5 728	5 724
<b>Non-current liabilities</b>		<b>14 613</b>	<b>14 372</b>
<b>Total liabilities</b>		<b>51 815</b>	<b>49 209</b>
Share capital		422	422
Currency translation adjustments		-31 358	-31 697
Retained earnings		125 206	128 925
<b>Total equity</b>	5	<b>94 270</b>	<b>97 650</b>
<b>Total liabilities and equity</b>		<b>146 085</b>	<b>146 859</b>

The notes are part of COLTENE Group financial statements.

# Interim Group Cash Flow Statement

In CHF 1000	Ref.	1 HY 2014	1 HY 2013
Net profit for the period		5 514	4 982
Depreciation and amortization		2 545	2 611
Other non-cash items		2 496	1 209
Change in accounts receivable		84	1 318
Change in inventories		731	-4 593
Change in other current assets		-944	-177
Change in current liabilities		-1 857	-928
Interest paid		-342	-353
Interest received		56	54
Income tax paid		-2 636	-2 528
<b>Cash flow from operating activities</b>		<b>5 647</b>	<b>1 595</b>
Purchase of property, plant, and equipment		-1 532	-1 714
Proceeds from sale of property, plant, and equipment		13	16
Proceeds of financial assets		4	4
Purchase of intangible assets		-209	-373
<b>Cash flow from investing activities</b>		<b>-1 724</b>	<b>-2 067</b>
Proceeds from loans and financial liabilities		13 060	15 132
Repayments of loans and financial liabilities		-8 124	-6 852
Distribution to shareholders	5	-9 281	-7 592
Purchase of treasury stock		-742	-767
Proceeds of treasury stock		779	784
<b>Cash flow from financing activities</b>		<b>-4 308</b>	<b>705</b>
Exchange rate differences		32	288
<b>Change in cash and cash equivalents</b>		<b>-353</b>	<b>521</b>
Cash and cash equivalents at beginning of year		6 509	4 000
Cash and cash equivalents at end of half-year		6 156	4 521

The notes are part of COLTENE Group financial statements.

# Interim Group Statement of Changes in Equity

In CHF 1000	Ref.	Share capital	Translation of foreign operations	Retained earnings	Total
<b>31.12.2012 reported</b>		<b>421</b>	<b>-29 785</b>	<b>126 224</b>	<b>96 860</b>
Adjustments		0	0	-3 669	-3 669
<b>1.1.2013 restated</b>		<b>421</b>	<b>-29 785</b>	<b>122 555</b>	<b>93 191</b>
Comprehensive income for the half-year		0	1 159	5 407	6 566
Share-based payment transactions with management		0	0	268	268
Distribution out of capital contribution reserves	5	0	0	-7 592	-7 592
Change in treasury stock		0	0	-251	-251
<b>30.6.2013</b>		<b>421</b>	<b>-28 626</b>	<b>120 387</b>	<b>92 182</b>
<b>1.1.2014</b>		<b>422</b>	<b>-31 697</b>	<b>128 925</b>	<b>97 650</b>
Comprehensive income for the half-year		0	338	5 527	5 865
Share-based payment transactions with management		0	0	306	306
Distribution out of capital contribution reserves	5	0	0	-1 182	-1 182
Distribution of dividends	5	0	0	-8 100	-8 100
Change in treasury stock		0	0	-269	-269
<b>30.6.2014</b>		<b>422</b>	<b>-31 358</b>	<b>125 206</b>	<b>94 270</b>

The notes are part of COLTENE Group financial statements.

# Selected Notes

COLTENE Holding AG (former Medisize Holding AG) – the holding company of the COLTENE Group (“the Group”) – is a stock corporation pursuant 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.

These unaudited interim financial statements were prepared in accordance with IAS 34, using the same principles of consolidation and accounting policies as in the Group’s 2013 Annual Report.

## 1 Applied Accounting Standard

The accounting policies applied in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s consolidated financial statements for the year ended December 31, 2013, except for new standards and interpretations effective as of January 1, 2014.

The applications of the new standards which are in force since January 2014 have no material impact on the annual report and the interim financial statement 2014.

## 2 Currency Exchange Rates

### The most important exchange rates

	31.12.2013	30.6.2014	1 HY 2014	31.12.2012	30.6.2013	1 HY 2013
1 USD	0.8902	0.8924	0.8909	0.9133	0.9442	0.9362
1 EUR	1.2256	1.2166	1.2214	1.2073	1.2284	1.2292

## 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 2014	1 HY 2013
Switzerland	1 170	1 211
Germany, Austria	7 406	8 080
Great Britain, Ireland	3 006	3 339
France	3 315	3 255
Other Europe	11 422	10 775
Russia and CIS	3 726	3 785
Middle East and Africa	3 040	2 055
North America	26 451	26 053
Brazil	3 682	4 544
Other South America	4 412	4 193
China	2 125	1 807
India	1 238	1 321
Other Far East, Oceania	5 027	4 619
<b>Net sales</b>	<b>76 020</b>	<b>75 037</b>

### Net sales by products and services

In CHF 1000	1 HY 2014	1 HY 2013
Endodontics	14 422	14 976
Prosthetics	16 739	16 130
Rotary	5 713	5 207
Restoration	19 644	20 624
Laboratory	3 817	3 537
Infection Control	4 681	5 448
Treatment Auxiliaries	9 697	6 857
Miscellaneous	1 306	2 258
<b>Net sales</b>	<b>76 020</b>	<b>75 037</b>

## 4 Tax Expenses

Tax expenses of TCHF 1 788 represent a tax rate of 24,5% (prior year 19,1%) of the net profit before tax expenses. The increase of tax is due to significantly higher income before tax of Coltène/ Whaledent Inc. and a tax credit of Coltène/ Whaledent AG in the first half of 2013 based on a tax ruling with local tax authorities.



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## 5 Equity

Based on the AGM decision of April 15, 2013, the Company distributed CHF 1.80 per share out of reserves from previous capital contributions. Subsequently, the Company paid to its shareholders on April 22, 2013, a total amount of TCHF 7 592.

Based on the AGM decision of April 15, 2014, the Company distributed CHF 1.92 per share as dividend and distributed out of reserves from previous capital contributions CHF 0.28 per share. Subsequently, the Company paid to its shareholders on April 24, 2014, a total amount of TCHF 9 281.

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## 6 Subsequent Events

The Board of Directors authorized the Group's interim financial statements on August 4, 2014, for issue. As per this date, the Board of Directors and Executive Management were unaware of any important events subsequent to the closing of books.

# Investor Relations

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## Company Capital

The registered shares of COLTENE Holding AG were listed on SIX Swiss Exchange as at June 23, 2006. After the par value reduction on July 14, 2008, and after the share repurchase on December 9, 2008, the share capital of COLTENE Holding AG consists of 4 219 000 registered shares at CHF 0.10 par value.

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## Stock Market Trading

The registered shares of COLTENE Holding AG are listed on SIX Swiss Exchange. Prices are published in the Swiss daily and financial press as well as in electronic price information systems under the following symbols or numbers:

Telekurs: CLTN

Valor: 2.534.325

ISIN: CH0025343259

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## Important Dates

Important dates for publications this year and the following year are:

### **February 27, 2015**

Presentation of annual results 2014  
Financial analysts' and media conference  
Publication of Annual Report 2014

### **March 25, 2015**

General Meeting of the Shareholders, Altstätten/SG

### **August 7, 2015**

Presentation of half-year results 2015  
Conference call  
Publication of Half-Year Report 2015

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## Internet/E-Mail Bulletins

Further information about COLTENE can be found at [www.coltene.com](http://www.coltene.com). To obtain a subscription to the Group's news service, please register in the Investors & Media section at [www.coltene.com/news](http://www.coltene.com/news).

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