

Compensation Report

1 Introduction

This report provides an overview of COLTENE's compensation principles and practices. It provides information on the compensation of the Board of Directors and Group Management in 2018 and in 2019. It explains the variable compensation systems and equity participation programs and discloses equity participations of Directors and Group 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 plan is balanced and in line with current best practices.

1.1 Reporting Standards

The compensation report is written in accordance with the Ordinance Against Excessive Compensation in Listed Companies (VegüV), the standard relating to information on Corporate Governance of the SIX Swiss Exchange, and the principles of the Swiss Code of Best Practice for Corporate Governance of economiesuisse. The compensation paid or granted to Directors and Group Management is presented in our audited Financial Report (see page 102).

1.2 Management Structure

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

Fig. 1: Management Structure

Information regarding the Board of Directors and the members of Group Management is available in the Corporate Governance report on pages 42 to 50.

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:

Chair: Matthew Robin
Members: Nick Huber and Roland Weiger

The Board of Directors determines the NCC's responsibilities, and passes all resolutions on the Company's compensation system (see pages 37 to 39). 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 Group 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 other duties, the NCC:

- Recommends the remuneration of the members of the Board of Directors
- Defines the principles for the remuneration and recommends the remuneration of the members of Group Management and submits these to the Board of Directors for approval
- Approves the remuneration to be paid to Senior Management
- Prepares the compensation report annually 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 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 of the Board of Directors, Group Management and Senior Management (including the split in fixed and variable components and the approval of the maximum payout). According to the Ordinance Against Excessive Compensation in Listed Companies, effective since 2014, and the Articles of Incorporation of COLTENE Holding AG of October 9, 2018, the compensation payable to the Board of Directors and to Group Management has to be approved by the Annual General Meeting (AGM). COLTENE has chosen that the AGM approves the compensation for the following financial year. While the NCC recommends the remuneration packages, the Board of Directors decides on the compensation packages that are submitted to the AGM for approval. Group Management sets and approves the compensation for Senior Management within the guidelines set by the NCC. For all other employees, Group Management is responsible for setting the guidelines for compensation; these are implemented by Senior Management.

2 Compensation Principles

2.1 Driving Values through Compensation

COLTENE believes 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
- 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 Determination Procedure for Compensation

Our policy is to pay employees, management, and Directors a compensation according to their expertise, formal qualifications, skills, experience, and area of responsibility.

Key employees and employees with management functions receive a variable compensation component in addition to their fixed compensation. The main target of the variable pay is to share the economic success of the COLTENE Group with them.

Benchmark reviews for the remuneration of the Board of Directors and Group Management are conducted regularly by COLTENE, by using independent specialists and/or external studies if appropriate. In the reporting year and the previous year, no benchmark reviews were conducted and NCC did not seek external advice.

2.3 Ethical, Fair Standards

COLTENE is committed to fair and equal treatment of all our employees and seeks 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 Group Management team members comprises fixed and variable components. The percentage of the variable component depends on the role of each member of Group Management and is proposed by the Nomination and Compensation Committee at its own discretion. For the CEO the maximum variable portion is 50 % of the total remuneration. For other Group Management members it varies from 15 % to 50 %. The Board of Directors approves the split. The variable compensation mix for Group Management includes a long-term variable remuneration element, 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. 100 % of Directors' compensation is fixed. Their pay includes no variable component. The Directors receive 80 % to 90 % of the fixed compensation in cash and the remaining 10 % to 20 % in shares valued at the volume weighted average share price of the preceding month of the pay date.

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

Compensation Elements

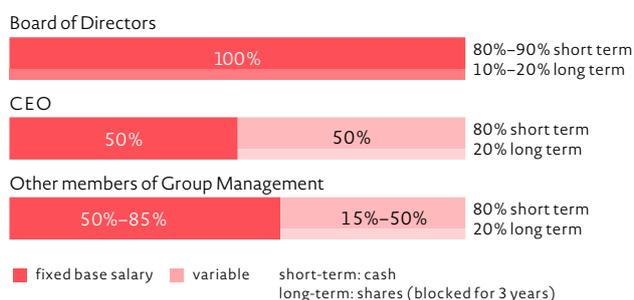


Fig. 2: Compensation elements

3.1 Fixed Compensation Elements

The fixed compensation elements of the remuneration of Group Management include the following components:

- Base salary
- Pension plan benefits¹ (subject to local practices and regulations)
- Other benefits (subject to local practices and regulations)

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

Base salary

Group Management members receive a base salary in accordance with their role.

Other benefits

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

3.2 Variable Compensation Elements

The variable component of total compensation for each member of Group Management varies by function (role), seniority, and responsibility. Total variable compensation is based on one or several quantitative financial targets plus individual performance targets.

Quantitative targets

Quantitative targets are key performance indicators (KPIs) on which the individual member of Group Management has a direct impact. As a rule, each member of Group Management has two or three quantitative targets to meet. These quantitative targets are based on the budget approved by the Board of Directors for the financial year and are generally selected from the following key indicators:

- EBIT margin (operating margin before interest and tax) for the COLTENE Group
- Net sales for the COLTENE Group or for the region applicable to the member of Group Management
- Net sales for focus products
- Net sales for new products

Individual targets

Individual targets are agreed separately with each member of Group Management and approved by the Board of Directors. These targets measure the performance of each individual member of Group Management. As a rule, each member agrees to meet five individual targets of equal or different weighting. These targets are aligned with the role and responsibilities of each individual member of Group Management and with the Group strategic targets. For example, they may include delivery on specific individual projects, organizational restructurings or product launches or tool rollouts. Attainment of individual targets is reviewed by the Board of Directors at the end of the financial year and rated on a scale of 0–100%.

Weighting by variable compensation component

The variable compensation components are weighted as follows:

- Each quantitative target has a weighting of 25–50%
- The individual targets have a combined weighting of 20–35%

The exact weighting of individual targets is set annually within these ranges and remains unchanged for the performance measurement period.

Weighting of quantitative criteria

The measurement scale for the achievement of quantitative 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. Entitlement to a bonus based on financial targets starts at a minimum of 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

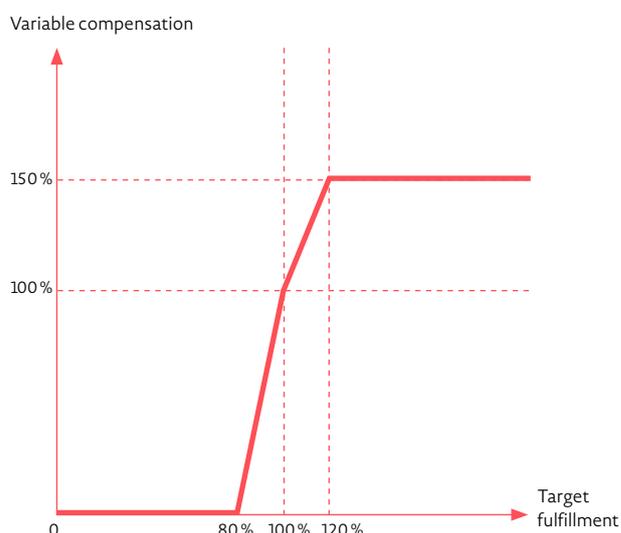


Fig. 4: Scale of variable compensation (financial targets)

Composition of Group Management Compensation

	Fixed and variable percentage of total compensation		Quantitative and personal targets and their weighting			Long-term versus short-term variable compensation	
	Fixed percentage	Variable percentage	Net Sales Focus products New products	EBIT-Margin	Personal targets	Long-term variable compensation in CLTN shares (blocked for 3 years)	Short-term variable compensation paid in cash
CEO	50%	50%	25%–35%	40%–50%	20%–30%	20%	80%
CFO and COO	60%–70%	30%–40%	25%–35%	40%–50%	20%–30%	20%	80%
VP Sales/Marketing	60%–80%	20%–40%	45%–55%	25%–35%	25%–30%	20%	80%
VP R&D/Innovation	70%–90%	10%–30%	10%–20%	25%–35%	25%–35%	20%	80%

Fig. 3: Composition of Group Management Compensation

Weighting of personal targets

The assessment scale for individual personal target achievement is linear and extends from 0% to 100%. 80% achievement of the personal targets means that 80% of the portion of the variable compensation related to the personal targets will be paid.

Total variable compensation and over-achievement of quantitative targets

A quantitative financial target might be over 100% fulfilled and in this case, the portion of the variable compensation related to this target will be paid up to 150%, the maximum being achieved when the target fulfillment reached 120%. However, the total variable compensation which results from the sum of the result of all quantitative and personal targets is capped at the maximum variable compensation agreed with each member of the management and may in no case exceed the total fixed compensation as defined in section 3 on page 60 and illustrated in fig.2.

Long-term component versus short-term component

Currently 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. 80% of the variable component is paid in cash (short-term portion). The split between long-term (20%) and short-term (80%) percentage of the total variable compensation of Group Management is decided periodically by the Board of Directors upon proposal of the Compensation and Nomination Committee at its own discretion.

The amount of the long-term portion of the variable bonus of each Group Management team member is divided by the grant price of the COLTENE shares. This results in the total number of shares that are granted for each Group Management team member for the reporting period. The calculation of the grant price is based on the Swiss Performance Index (SPI) of the SIX Swiss stock exchange. This calculation is defined so that if COLTENE shares outperform the SPI, Group Management members are rewarded with a larger number of shares in proportion with the outperformance and in the case of underperformance are penalized in a similar way. The shares are granted at the SPI index price based on COLTENE's share price. The grant price for the reporting period is calculated based on the year-

end share price of the reporting year. Starting 2012, the reference price for COLTENE shares and for the SPI index are reset to the year-end share price of the prior year every four years forming the bases for the following four-year period. Based on the index price, the relative performance of the SPI is applied to calculate the grant price for COLTENE shares awarded to Group Management team members.

The following formula is applied annually to calculate the grant price and the number of shares awarded:

$$\text{Grant price} = (\text{CLTN reference share price}) \times (\text{SPI at 31 December of year of the reporting period}) / (\text{SPI reference})$$

For the reporting year 2019, the following values apply:

- CLTN reference share price is the year-end share price at December 31, 2015 (CHF 60.90)
- SPI at December 31 of the reporting period is the SPI of December 2019 (12 838)
- SPI reference is the SPI at December 31, 2015 (9094)

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 Group Management: no member of 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 of Directors and Group Management

The tables below show the compensation paid to the members of the Board of Directors and of Group Management for the years 2018 and 2019.

Remuneration of the Board of Directors

In CHF

	Base remuneration		Other remuneration	Total
	in cash	in shares ¹	Social security ²	
2018				
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 ³	15 000	2 500	2 131	19 631
Total	415 000	72 500	55 261	542 761
2019				
Nick Huber	72 000	20 000	14 366	106 366
Erwin Locher	63 000	10 000	7 444	80 444
Jürgen Rauch	54 000	10 000	0	64 000
Matthew Robin	63 000	10 000	11 445	84 445
Astrid Waser	54 000	10 000	10 024	74 024
Roland Weiger	54 000	10 000	10 024	74 024
Allison Zwingenberger	54 000	10 000	8 893	72 893
Total	414 000	80 000	62 196	556 196

¹ The number of shares granted in 2018 is calculated based on the weighted average share price of the month of May (2019: March) of the subsequent year.

² Company paid social security contribution incl. AHV, IV, and ALV.

³ On the Extraordinary General Meeting, September 14, 2018, Allison Zwingenberger was elected as a new Board member.

Remuneration of Group Management

In CHF

	Base remuneration	Variable remuneration ¹		Other remuneration		Total
	in cash	in cash	in shares ²	Social security ³	Other benefits	
2018						
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
Total	1 407 467	629 568	236 511	420 333	67 632	2 761 511
2019						
Martin Schaufelberger	410 007	189 373	49 315	166 921	20 692	836 308
Other members	1 313 413	282 368	73 749	361 748	65 831	2 097 109
Total⁴	1 723 420	471 741	123 064	528 669	86 523	2 933 417

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

² The value of shares granted is calculated based on the share price at closing of the grant date. For 2018, it was March 19, 2019, and the share price was CHF 99.00. For 2019, it was February 26, 2020, and the share price was CHF 89.50.

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

⁴ In 2019, the total compensation increased due to an additional Group Management team member.

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

On March 28, 2018, the AGM had to approve the remuneration for the Board of Directors and Group Management for the financial year 2019 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 of the Board of Directors for 2019

The AGM approved an aggregate remuneration of the members of the Board of Directors of CHF 560 000 for the financial year 2019. The division into cash and shares was not part of the approval. In total, the Board of Directors received as compensation CHF 476 196 in cash and CHF 80 000 in shares.

Compensation paid to the Board of Directors in 2019 in CHF

	Approved compensation	Actual compensation
Total compensation in cash	n/a	476 196
Total compensation in shares	n/a	80 000
Overall compensation	560 000	556 196

The remuneration of the Board of Directors for 2019 was within the overall approved amount.

Approved remuneration of Group Management for 2019

The AGM approved an aggregate remuneration to Group Management of CHF 3 100 000 for the financial year 2019. In total, Group Management received as compensation CHF 2 933 417. Although the overall compensation was within the approved amount, the fixed compensation in cash of CHF 2 338 612 exceeded the amount authorized of CHF 2 100 000 for this purpose. The reason is the appointment of Stefan Helsing as member of Group Management on November 1, 2018, when the total remuneration for 2019 was already approved by the AGM on March 28, 2018. The Articles of Incorporation of COLTENE Holding AG provide for such a case in Paragraph 23 an additional amount of 150% of the average remuneration of the existing members of Group Management. Based on this rule, the maximal approved fixed remuneration for six members is CHF 2 683 000 (= CHF 2 100 000 + CHF 583 000).

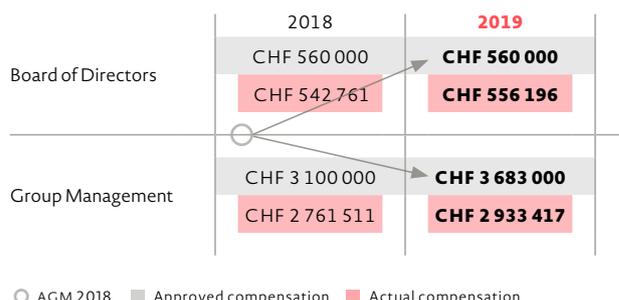
Compensation of Group Management in 2019 in CHF

	Approved compensation	Actual compensation
Total fixed compensation in cash	2 100 000	2 338 612
Additional approval of fixed compensation in cash ¹	583 000	0
Total fixed compensation incl. additional approval ¹	2 683 000	2 338 612
Total variable compensation in cash and shares	1 000 000	594 805
Overall compensation	3 683 000	2 933 417

¹ Additionally approved amount according to Paragraph 23 of Articles of Incorporation: 150% of the average compensation of the existing members of Group Management

The remuneration of Group Management for 2019 was within the approved amounts.

Compensation of the Board of Directors and Group Management



Loans

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

Number of shares held by the Board of Directors

	31.12.2019	31.12.2018
Nick Huber	14 557	14 297
Erwin Locher	5 492	6 162
Jürgen Rauch	407	277
Matthew Robin	5 365	5 235
Astrid Waser, since AGM 2017	227	97
Roland Weiger	1 328	1 198
Allison Zwingenberger ¹	32	n/a
Total Board of Directors	27 408	27 266

¹ Allison Zwingenberger was elected at the extraordinary meeting of the shareholders on September 14, 2018

Number of shares held by Group Management

	31.12.2019	31.12.2018
Martin Schaufelberger	11 799	10 675
Gerhard Mahrle	3 071	2 509
Werner Barth	1 540	1 307
Stefan Helsing, since November 1, 2018	54 170	54 079
Werner Mannschedel	2 413	2 262
Christophe Loretan	624	396
Total Group Management	73 617	71 228

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 Group Management and the Board of Directors. The Board of Directors took notice of the compensation report 2019 on the Board of Directors' meeting of February 26, 2020. It will be presented to the shareholders for consultative approval at the Annual General Meeting on April 2, 2020.

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 Remuneration Report



We have audited the remuneration report of COLTENE Holding AG for the year ended December 31, 2019. 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 63 to 65 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, 2019, of COLTENE Holding AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

Iwan Zimmermann
Licensed audit expert
(Auditor in charge)

Pirmin Hutter
Licensed audit expert

St. Gallen, March 5, 2020

