

Compensation Report

1 Introduction

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

These principles and practices are designed to:

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

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

1.1 Reporting Standards

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

1.2 Management Structure

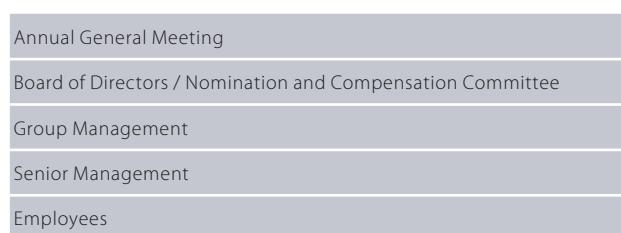


Fig. 1: Management Structure

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

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

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

1.3 Corporate Governance

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

Chairman: Matthew Robin

Members: Nick Huber, Roland Weiger

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

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

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

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

Recommendation and decision responsibilities with regard to compensation

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

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

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

2 Compensation Principles

2.1 Driving Values through Compensation

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

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

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

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

2.2 Comprehensive Benchmark

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

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

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

2.3 Ethical, Fair Standards

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

3 Total Compensation and Compensation Elements

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

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

Elements of the compensation

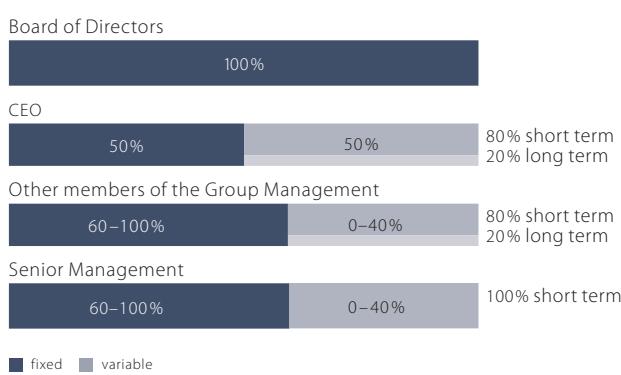


Fig. 2: Display of the compensation

3.1 Fixed Components

The fixed compensation elements include the following components:

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

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

Base salary

Each COLTENE employee receives a base salary based on:

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

Other benefits

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

3.2 Variable Components

Variable compensation components included one or more of the following:

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

Performance-related incentives

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

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

Performance indicators

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

Weighting of performance criteria

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

Scale of variable compensation elements

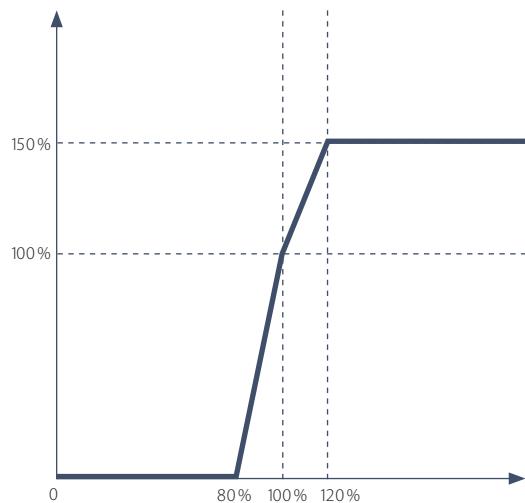


Fig. 3: Scale of variable compensation (financial targets)

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

Illustration target achievement

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

Long-term component

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

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

3.3 Contract Duration and Notice Period

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

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

Notice period for members of the Group Management:
No member of the Group Management has a notice period that exceeds 12 months.

3.4 Other Types of Payment

There are no severance payments, payments in advance, and no specific payments for change of control events. In the event of a change of control the Board of Directors decides whether there is full vesting under the long-term component of variable compensation or not.

4 Remuneration to Directors and Group Management

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

Remuneration to the Board of Directors

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

Remuneration to the Group Management

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

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

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

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

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

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

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

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

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

Approved remuneration to the Board of Directors for 2016

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

Compensation to the Board of Directors in 2016 in CHF

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

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

Approved remuneration to the Group Management for 2016

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

Compensation to the Group Management in 2016 in CHF

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

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

Loans

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

Number of shares held by the Board of Directors

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

Number of shares held by the Group Management

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

5 Approval of the Compensation Report

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

Report of the Statutory Auditor

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

Report of the Statutory Auditor on the Compensation Report



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

Board of Directors' Responsibility



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

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

Opinion



In our opinion, the compensation report for the year ended 31 December 2016 of COLTENE Holding AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

Rico Fehr
Licensed audit expert
(Auditor in charge)

Iwan Zimmermann
Licensed audit expert

St. Gallen, February 22, 2017

Auditor's Responsibility



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

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