Consolidated statement of financial position

Assets

(in CHF 1 000)	Notes	31 Dec 2017	31 Dec 2016
Property, plant and equipment	5	174 243	119 320
Intangible assets	6	629 178	314 027
Investments in associates	7	65 939	61 284
Financial assets	8	26 943	49 907
Other receivables		6 270	4 013
Deferred income tax assets	18	90 743	84 119
Total non-current assets		993 317	632 670
Inventories	9	152 146	101 957
Trade and other receivables	10	243 520	181 645
Financial assets	8	2 672	1 105
Income tax receivables		4 901	8 522
Cash and cash equivalents	11	281 816	164 024
Total current assets		685 055	457 253
TOTAL ASSETS		1 678 372	1 089 922

Equity and liabilities

(in CHF 1 000)	Notes	31 Dec 2017	31 Dec 2016
Share capital	12	1 588	1 588
Retained earnings and reserves		1 068 487	632 093
Total equity attributable to the shareholders of the parent company		1 070 075	633 681
Non-controlling interests		(150)	0
Total equity		1 069 924	633 681
Straight bond	13	199 746	199 632
Other liabilities	15	18 205	13 759
Financial liabilities	14	57 780	831
Provisions	16	40 321	24 511
Retirement benefit obligations	20	49 453	46 763
Deferred income tax liabilities	18	29 044	2 078
Total non-current liabilities		394 549	287 574
Trade and other payables	17	183 817	138 702
Financial liabilities	14	1 063	440
Income tax payable		28 692	12 739
Provisions	16	327	16 785
Total current liabilities		213 898	168 666
Total liabilities		608 447	456 241
TOTAL EQUITY AND LIABILITIES		1 678 372	1 089 922

The notes on pages 158–193 are an integral part of these consolidated financial statements.

Consolidated income statement

(in CHF 1 000)	Notes	2017	2016
Revenue	4	1 112 102	917 517
Cost of goods sold		(271 638)	(198 987)
Gross profit		840 464	718 530
Other income	21	3 353	2 376
Distribution costs		(249 607)	(211 004)
Administrative expenses		(310 578)	(282 726)
Operating profit		283 632	227 176
Finance income	24	58 701	35 260
Finance expense	24	(78 028)	(38 607)
Gain on consolidation of Medentika and Dental Wings	24	68 867	0
Share of results of associates	7	(9 739)	(1 603)
Profit before income tax		323 433	222 225
Income tax expense	18	(47 841)	7 375
NET PROFIT		275 592	229 600
Attributable to:			
Shareholders of the parent company		272 917	229 600
Non-controlling interests		2 675	0
Basic earnings per share attributable to ordinary shareholders of the parent company (in CHF)	25	17.61	14.68
Diluted earnings per share attributable to ordinary shareholders of the parent company (in CHF)	25	17.53	14.60

The notes on pages 158–193 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

(in CHF 1 000)	2017	2016
Net profit	275 592	229 600
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Net foreign exchange result on net investment loans	31 552	(2 046)
Share of other comprehensive income of associates accounted for using the equity method	(420)	(305)
Exchange differences on translation of foreign operations	(28 880)	58 196
Income tax effect	(2 535)	184
Other comprehensive income to be reclassified to profit or loss in subsequent periods	(283)	56 029
Items not to be reclassified to profit or loss in subsequent periods:		
Change in fair value of financial instruments designated through other comprehensive income	3 483	(2 634)
Remeasurements of retirement benefit obligations	(9 689)	(599)
Income tax effect	983	287
Items not to be reclassified to profit or loss in subsequent periods	(5 223)	(2 946)
Other comprehensive income, net of tax	(5 506)	53 083
TOTAL COMPREHENSIVE INCOME, NET OF TAX	270 086	282 683
Attributable to:		
Shareholders of the parent company	265 689	282 683
Non-controlling interests	4 397	0

The notes on pages 158–193 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

(in CHF 1 000)	Notes	2017	2016
Net profit		275 592	229 600
Adjustments for:			
Taxes charged	18	47 841	(7 375)
Interest and other financial result		3 841	2 574
Foreign exchange result		239	2 156
Fair value adjustments		(1 026)	(1 382)
Financial impairment result		16 273	0
Gain on consolidation of Medentika and Dental Wings		(68 867)	0
Share of results of associates	7	9 739	1 603
Depreciation and amortization of:			
Property, plant and equipment	5, 22	24 975	22 852
Intangible assets	6, 22	14 936	9 171
Change in provisions, retirement benefit obligations and other liabilities		(16 022)	(5 761)
Change in long-term assets		(1 639)	0
Share-based payments expense	19, 23	7 726	4 242
Result on disposal of property, plant and equipment		181	0
Working capital adjustments:			
Change in inventories		(34 027)	(19 856)
Change in trade and other receivables		(47 284)	(33 203)
Change in trade and other payables		16 201	11 623
Interest paid		(6 020)	(4 626)
Interest received		1 052	2 305
Income tax paid		(26 421)	(29 180)
Net cash from operating activities		217 290	184 743

(in CHF 1 000)	Notes	2017	2016
Purchase of financial assets		0	(348)
Proceeds from sale of financial assets		30 458	0
Purchase of property, plant and equipment		(66 554)	(39 170)
Purchase of intangible assets		(6 850)	(7 526)
Purchase of investments in associates		(43 287)	(15 706)
Acquisition of a business, net of cash acquired		(178 770)	(24 703)
Contingent consideration paid		0	(782)
Proceeds from loans		29	6 244
Disbursement of loans		(29 140)	(2 931)
Dividends received from associates		404	894
Net proceeds from sale of non-current assets		861	642
Net cash used in investing activities		(292 849)	(83 386)
Increase in non-current financial debts		1 467	0
Transaction costs paid		0	(426)
Dividends paid to the equity holders of the parent	26	(65 139)	(63 152)
Dividends paid to non-controlling interests		(1 127)	0
Repayment of finance lease		(412)	0
Proceeds from exercise of options		167	14 062
Sale of treasury shares		262 992	2 228
Purchase of treasury shares		(5 377)	(209 763)
Net cash used in financing activities		192 571	(257 051)
Exchange rate differences on cash held		780	1 421
Net change in cash and cash equivalents		117 792	(154 273)
Cash and cash equivalents at 1 January	11	164 024	318 297
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	11	281 816	164 024

The notes on pages 158–193 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

2017

(in CHF 1 000)		Attributable to the shareholders of the parent company							
	Notes	Share capital	Share premium	Treasury shares	Translation reserves	Retained earnings	Total	Non-controlling interests	Total equity
At 1 January 2017		1 588	31 412	(206 550)	(89 810)	897 041	633 681	0	633 681
Net profit						272 917	272 917	2 675	275 592
Other comprehensive income					2 672	(9 900)	(7 228)	1 722	(5 506)
Total comprehensive income		0	0	0	2 672	263 017	265 689	4 397	270 086
Dividends to equity holders of the parent	26					(65 139)	(65 139)		(65 139)
Dividends to non-controlling interests							0	(1 127)	(1 127)
Share-based payment transactions	19, 23					7 524	7 524		7 524
Purchase of treasury shares				(5 377)			(5 377)		(5 377)
Sale of treasury shares				186 043		77 116	263 159		263 159
Changes in consolidation group							0	21 852	21 852
Put options to non-controlling interests	3					(29 464)	(29 464)	(25 272)	(54 736)
AT 31 DECEMBER 2017		1 588	31 412	(25 884)	(87 138)	1 150 097	1 070 075	(150)	1 069 924

2016

(in CHF 1 000)		Attributable to the shareholders of the parent company							
	Notes	Share capital	Share premium	Treasury shares	Translation reserves	Retained earnings	Total	Non-controlling interests	Total equity
At 1 January 2016		1 572	18 280	(923)	(145 839)	731 880	604 970	0	604 970
Net profit						229 600	229 600		229 600
Other comprehensive income					56 029	(2 946)	53 083		53 083
Total comprehensive income		0	0	0	56 029	226 654	282 683	0	282 683
Issue of share capital	12	16	13 132				13 148		13 148
Dividends to equity holders of the parent	26					(63 152)	(63 152)		(63 152)
Share-based payment transactions	19, 23					3 058	3 058		3 058
Purchase of treasury shares				(209 746)		(426)	(210 172)		(210 172)
Sale of treasury shares				4 119		(973)	3 146		3 146
AT 31 DECEMBER 2016		1 588	31 412	(206 550)	(89 810)	897 041	633 681	0	633 681

The notes on pages 158–193 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 CORPORATE INFORMATION

Headquartered in Basel, Switzerland, the Straumann Group (SIX: STMN) is a global leader in implant and restorative dentistry and oral tissue regeneration. In collaboration with leading clinics, research institutes and universities, the Straumann Group researches, develops and manufactures dental implants, instruments, prosthetics and biomaterials for use in tooth replacement and restoration solutions or to prevent tooth loss. The Group employs approximately 4900 people worldwide, and its products and services are available in more than 100 countries through its broad network of distribution subsidiaries and partners.

The consolidated financial statements of the Straumann Group for the year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 7 February 2018 and are subject to approval by the Annual General Meeting on 4 April 2018.

2.1 BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

They have been prepared on a historical cost basis except financial assets and financial liabilities (including derivative financial instruments), which have been measured at fair value. The consolidated financial statements are presented in Swiss francs (CHF) and all values are rounded to the nearest thousand except where otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Straumann Holding AG and its subsidiaries as of 31 December 2017.

SUBSIDIARIES

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as for the parent company, using consistent accounting policies. All intra-Group balances, income and expenses and unrealized gains and losses resulting from intra-Group transactions are eliminated in full.

Changes in equity interests in Group subsidiaries that reduce or increase the Group's percentage ownership without loss of control are accounted for as an equity transaction between owners.

ASSOCIATES

Associates are those entities over which the Group has significant influence, but neither control nor joint control. Significant influence is the power to participate in the financial and operating policy decisions. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of changes in equity of the investee after the date of acquisition. The Group's share of results of operations is recognized in profit or loss, while any change in other comprehensive income of the associates is presented as part of the Group's other comprehensive income.

For entities over which the Group has joint control together with one or more partners (joint arrangements), the Group assesses whether a joint operation or a joint venture exists. In a joint venture, the parties that have joint control of the arrangement have rights to the net assets of the arrangement. For joint ventures, the equity method is applied.

2.2 CHANGES IN ACCOUNTING POLICIES

NEW STANDARDS AND AMENDMENTS EFFECTIVE IN 2017

The Group has applied the following amendment for the first time for its annual reporting period commencing 1 January 2017:

- IAS 7 (Amendments) Disclosure Initiative (effective 1 January 2017)
  The Group has applied the amendments to IAS 7. As a result, movements in liabilities arising from financing activities are disclosed in Note 14.
- IAS 12 (Amendment) Recognition of Deferred Tax Assets for Unrealised Losses (effective 1 January 2017)
  This amendment has no impact on the Group's financial statements.

STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP

The following standards and amendments to existing standards, which are relevant to the Group, have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2018 or later periods, and the Group has not adopted them early:

- IFRS 9 (2014) Financial Instruments (effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
  In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 18 Revenue and related Interpretations. According to the new standard, which includes quantitative and qualitative disclosures, revenue is recognized to depict the transfer of promised goods or services to a customer in an amount

that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is recognized when, or as, the customer obtains control of the goods or services. The Group will adopt the standard for the fiscal year beginning as of 1 January 2018 adopting the modified approach. The impact of the adoption of IFRS 15 will be recorded in the opening equity as of 1 January 2018. Assessments of the implementation of IFRS 15 confirmed that there will be no significant impacts on the Group's consolidated financial statements.

– IFRS 2 (Amendment) Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018)
– IFRS 16 Leases (effective 1 January 2019)
  In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases and related interpretations. The new standard will require lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. The Group is in the process of evaluating the impact this new standard may have on its consolidated financial statements. The current undiscounted operating lease commitments as disclosed in Note 27 provide an indication on the maximum impact.
– IFRS 10 and IAS 28 (Amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be defined)
– IFRIC 22 Foreign currency transactions and advance consideration (effective 1 January 2018)
– IFRIC 23 Uncertainty over income tax treatments (effective 1 January 2019)

2.3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the Group's financial statements requires Management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that may require a material adjustment to the carrying amount of the asset or liability affected in the future. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are stated below.

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets, they are measured using valuation techniques like discounted cash flow or the binominal model. Data for the models are taken from observable markets when possible. If this is not available, management judgment is required for inputs such as interest and credit risk. The sensitivity of the fair values to those risks are disclosed in Note 30.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable or when an annual impairment test is required, which is applicable for goodwill and the brands with an indefinite useful life (Neodent, Medentika, Dental Wings).

When value-in-use calculations are undertaken, management has to estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

DEFERRED INCOME TAX ASSETS

In connection with the acquisition of the Brazilian company Neodent, the Group has capitalized deferred tax assets in the amount of CHF 61.5 million as of 31 December 2017 (2016: CHF 73.1 million). The deferred tax assets were generated through tax deductible goodwill and fair value step-ups stemming from mergers subsequent to Neodent's acquisition through fully owned subsidiaries of the Group. Different interpretation of the legal conditions by tax authorities or potential changes in Brazilian tax legislation cause a risk of limited future recoverability of such deferred taxes. There is a risk that tax authorities could challenge the current tax deductibility of the statutory goodwill and intangible assets in future.

INCOME TAXES

The Group is subject to income taxes in numerous jurisdictions. Management judgment is required in determining the worldwide liabilities for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. When the final tax outcome differs from the amounts that were initially recognized, the difference impacts current earnings. Details on tax-related provisions are disclosed in Note 16.

PENSION AND OTHER EMPLOYMENT BENEFITS

The cost of defined benefit pension plans and other post-employment medical benefits is determined using actuarial valuations, which involve making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The net employee retirement benefit obligation at 31 December 2017 was CHF 49.5 million (2016: CHF 46.8 million). Further details are given in Note 20.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in Swiss francs (CHF), which is Straumann Holding AG's functional and presentation currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using this functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate at the balance sheet date. All differences are taken to profit or loss with the exception of differences arising on monetary items that in substance form part of an entity's net investment in a foreign operation. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rates on the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The assets and liabilities of foreign operations are translated into Swiss francs at the exchange rate on the balance sheet date, and their income statements are translated at the average exchange rates for the year. The exchange differences arising from the translation are taken directly to a separate component of other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognized in other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such costs include the cost of replacing part of the plant and equipment when that cost is incurred. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

A straight-line method of depreciation is applied over the estimated useful life. Estimated useful lives of major classes of depreciable assets are:

– Buildings: 20 – 30 years
– Plant, machinery and other equipment: 3 – 10 years

Land is not depreciated as it is deemed to have an indefinite life. Leasehold improvements are depreciated over the lease term including optional extension of the lease period but not exceeding its economic life.

An item of property, plant and equipment is derecognized when it is abandoned, removed or classified as 'held for sale'. For assets that are abandoned or removed, any remaining net carrying value is charged to profit or loss. The residual values, useful lives and methods of depreciation of assets are reviewed, and adjusted if appropriate, at the end of each financial year.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the acquisition date, irrespective of any non-controlling interests. The excess of the costs of the acquisition above the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill is initially measured at cost. If the costs of the acquisition are less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

INTANGIBLE ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. Acquired software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into use. Intangible assets acquired in a business combination are identified separately and recognized at fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost, less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding development costs, are not capitalized and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

The amortization methods applied to the Group's intangible assets are summarized as follows:

	Customer relationships	Technology	Brands & trademarks	Development costs	Software
Useful life	Finite	Finite	Finite / infinite	Finite	Finite
Amortization method	Straight-line basis	Straight-line basis	Straight-line basis / none	Straight-line basis	Straight-line basis
Time period	Usually 7 – 10 years	Over estimated useful life but not exceeding 10 years	Usually 20 years / not applicable	Over period of expected sales from the related project but not exceeding 3 years	Over estimated useful life but not exceeding 5 years
Internally generated or acquired	Acquired	Acquired	Acquired	Internally generated / acquired	Acquired

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

RESEARCH AND DEVELOPMENT COSTS

Development expenditure on an individual project is recognized as an intangible asset if the Group can demonstrate:

– the technical feasibility of completing the intangible asset so that it will be available for use or sale
– its intention to complete the asset
– its ability to use or sell the asset
– how the asset will generate future economic profit
– the availability of resources to complete the asset
– the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost, less any accumulated amortization and accumulated impairment losses. The asset is amortized on a straight-line basis over the period of its expected benefit, starting from the date of full commercial use of the product in key markets. During the period of development, the asset is tested for impairment annually.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries, or other available fair value indicators.

Impairment losses of continuing operations are recognized in profit or loss in the expense categories consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If there is such an indication, the Group makes an estimate of the recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

Goodwill is tested annually for impairment or whenever there are impairment indicators. Impairment for goodwill is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill on 30 November.

FINANCIAL ASSETS

For the classification of financial assets the Group applies IFRS 9 (2010).

The Group recognizes financial assets on the trade date at which it becomes a party to the contractual obligations of the instrument. Financial assets are initially measured at fair value. Acquisition-related costs are to be included, unless the financial asset is measured at fair value in subsequent periods. The Group subsequently measures financial assets at either amortized cost or fair value.

FINANCIAL ASSETS MEASURED AT AMORTIZED COST

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

– the asset is held within a business model with an objective to hold assets in order to collect contractual cash flows; and
– the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

FINANCIAL ASSETS MEASURED AT FAIR VALUE

Financial assets other than those classified as measured at amortized cost are subsequently measured at fair value with all changes in fair value recognized in profit or loss.

However, for investments in equity instruments that are not held for trading, the Group may elect at initial recognition to present gains and losses in other comprehensive income. For such investments measured at fair value through other comprehensive income, gains and losses are never reclassified to profit or loss and no impairments are recognized in profit or loss. Dividends earned from such investments are recognized in profit or loss unless the dividend clearly represents a repayment of part of the cost of the investment.

FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. In the case of financial instruments for which there is no active market, fair value is determined using valuation techniques such as recent arm's length market transactions, the current market value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are measured at amortised cost using the effective interest method less any impairment losses. Non-interest receivables are discounted by applying rates that match their maturity upon first-time recognition.

IMPAIRMENT OF FINANCIAL ASSETS

At each balance sheet date, the Group assesses whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on assets measured at amortized cost has been incurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (taking the future expected credit losses into consideration) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired receivables are derecognized when they are assessed as uncollectible.

INVENTORIES

Inventories are valued at the lower of cost or net realizable value. Raw material costs are determined by using the weighted average cost method. The cost of finished goods and work in progress comprises direct materials and labor and a proportion of manufacturing overhead, valued at standard cost. Standard costs are regularly reviewed and, if necessary, revised to reflect current conditions.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Work in progress and finished goods are valued at manufacturing cost, including the cost of materials, labor and production overheads. Inventory write-downs are recorded in the case of slow-moving or obsolete stock.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statement of financial position comprise cash at banks, cash on hand, and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of short-term bank overdrafts.

SHARE CAPITAL

The share capital of Straumann Holding AG consists of one class of registered shares with a par value of CHF 0.10 per share.

TREASURY SHARES

Equity instruments which are re-acquired by the Group (treasury shares) are deducted from equity and disclosed separately. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

PUT OPTIONS TO NON-CONTROLLING INTERESTS

It is common practice for the Group to write put options and acquire call options in connection with the remaining shares held by the non-controlling shareholders mainly as part of a business combination. If the Group has acquired a present ownership interest as part of a business combination, the present value of the redemption amount of the put option is recognized as a financial liability with any excess over the carrying amount of the non-controlling interest recognized as goodwill. In such a case, the non-controlling interest is deemed to have been acquired at the acquisition date and therefore any excess arising should follow the accounting treatment as in a business combination. All subsequent changes in the redemption value of the financial liability are recognized in the income statement and no earnings are attributed to the non-controlling interest.

However, where the Group has not acquired a present ownership interest as part of a business combination, the non-controlling interest continues to receive an allocation of profit or loss and is reclassified as a financial liability at each reporting date as if the acquisition took place at that date. Any excess over the reclassified carrying amount of the non-controlling interest and all subsequent changes in the redemption value of the financial liability are recognized directly in retained earnings.

TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

FINANCIAL LIABILITIES

For the classification of financial liabilities the Group applies IFRS 9 (2010).

INTEREST-BEARING LOANS AND BORROWINGS

All loans and borrowings are initially recognized at fair value less directly attributable transaction costs, and have not been designated as 'at fair value through profit or loss'. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

PROVISIONS

Provisions are recognized when the Group has a present obligation (legal or constructive) resulting from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time-value of money is material, provisions are discounted. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

EMPLOYEE BENEFITS

PENSION OBLIGATIONS

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognized immediately in the income statement.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expenses when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

SHORT-TERM EMPLOYEE BENEFITS – BONUSES

As part of the annual compensation, most employees receive a bonus which depends on the course of business. The individual bonus is calculated by multiplying an individual base amount with a mix of financial, functional and individual target achievements which varies by hierarchical level and function. The bonus is usually settled in cash during the first quarter of the subsequent year.

The Group recognizes a liability and an expense for these bonuses based on calculations which adequately consider all these parameters.

SHARE-BASED COMPENSATION

The Board of Directors, Executive and Senior Management receive part of their remuneration in the form of share-based payment transactions, whereby these individuals render services as consideration for equity instruments ('equity-settled transactions').

The cost of equity-settled transactions is measured with reference to the fair value at the date on which they are granted. The fair value is determined either based on observable market prices or by external valuation experts using an appropriate pricing model, further details of which are given in Note 19.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the Board of Directors, Executive and Senior Management become fully entitled to the award ('the vesting date').

The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest. Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date of grant, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding performance share units (PSUs) and options is reflected as additional share dilution in the computation of earnings per share (Note 25).

Selected employees have the right to buy Straumann shares. The employees are offered a discount of 25% based on the average share price over the seven trading day period following the ex-dividend day. The difference between the fair value at grant and the cash consideration paid by the employees is immediately recognized as personnel expense. The shares are subject to a two-year blocking period.

Conditional share capital was approved by the shareholders for an unlimited period for share-based compensation in 1998 and 2016. Non-employee shareholders are excluded from subscribing for these shares.

REVENUE RECOGNITION

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the remuneration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

SALE OF GOODS

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

REVENUE FROM CUSTOMER TRAINING AND EDUCATION

Revenue from customer training and education is recognized once the related services are performed.

INTEREST INCOME

Income is recognized as interest accrued (using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

DIVIDENDS

Income is recognized when the Group's right to receive the payment is established.

RENTAL INCOME

Income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

RELATED PARTIES

A party is related to an entity if: the party directly or indirectly controls, is controlled by or is under common control with the entity; or if it has an interest in the entity that gives it significant influence over the entity; or if it has joint control over the entity or is an associate or a joint venture of the entity. In addition, members and dependents of the Key Management Personnel of the entity (Board of Directors and Executive Management Board) are also considered related parties.

TAXES

CURRENT INCOME TAX

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

DEFERRED INCOME TAX

Deferred income tax is determined using the liability method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

– where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
– in respect to taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences and carry forwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forwards of unused tax credits and unused tax losses can be utilized, except:

– where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
– in respect to deductible temporary differences associated with investments in subsidiaries and associates. Deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the deferred income tax assets can be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply for the year in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set current income tax assets off against current income tax liabilities, and the deferred income taxes relate to the same taxable entity and the same taxation authority.

SALES TAXES

Revenues, expenses and assets are recognized net of the amount of sales tax, except:

– where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item
– in the case of receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its risks associated with fluctuations in interest rates and foreign currencies. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges – when hedging the exposure to changes in the fair value of a recognized asset, or liability, or an unrecognized firm commitment (except for foreign currency risk)
- cash flow hedges – when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

DIVIDEND DISTRIBUTION

Dividend distribution to the company's shareholders is recognized in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 BUSINESS COMBINATION

TRANSACTIONS IN 2017

MEDENTIKA

The Group signed a new shareholder agreement with the founding shareholders of Medentika GmbH to obtain control over the company as of 1 January 2017. Medentika GmbH, based in Germany, is a provider of prosthetics for leading implant and CADCAM systems. The company also supplies a range of titanium implants and instruments. The agreement enables the Group to direct all relevant activities of Medentika GmbH with an unchanged participation of 51%.

Based on a spin-off agreement in 2015, Medentika GmbH transferred its German distribution business into Instradent Deutschland GmbH, in which the Group held a 51% non-controlling stake. When the Group obtained control over Medentika GmbH, it acquired the remaining 49% stake in Instradent Deutschland GmbH for a cash consideration of CHF 1.8 million.

To reflect the underlying economic and commercial circumstances, the Group considered the simultaneous transactions jointly as a single business combination (hereafter referred to as 'Medentika'). As a result of obtaining control, the Group has consolidated Medentika in its 2017 financial statements, based on the current ownership interests in the respective Medentika entities.

The Group recognized an overall gain of CHF 25.0 million as a result of derecognizing its 51% equity interest in Medentika held before the business combination. The fair value of the 51% stake in Medentika was CHF 63.5 million and the associate carrying amount was CHF 33.7 million on 1 January 2017. The gain resulting from the revaluation to fair value of the 51% equity instrument in Medentika immediately before the deemed acquisition amounted to CHF 29.8 million. The related portion of translation losses of CHF 4.8 million has been reclassified from comprehensive income to the income statement. Both effects are shown in a separate line in the income statement under 'Gain on consolidation of Medentika and Dental Wings'.

The fair value of the identifiable assets and liabilities on 1 January 2017 were:

(in CHF 1 000)	Fair Value
Assets	
Property, plant and equipment	5 432
Intangible assets:	
Brand	18 947
Customer relationships	16 242
Technology	537
Other intangible assets	97
Investments in associates	4 673
Financial Assets	33
Inventories	12 798
Trade and other receivables	2 380
Financial assets	94
Income tax receivables	1 951
Cash and cash equivalents	1 722
Total assets	64 906
Liabilities	
Financial liabilities	3 419
Deferred income tax liabilities	12 247
Trade and other payables	2 006
Other current liabilities	2 041
Total liabilities	19 713
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	45 193
Deemed consideration: Fair value 51 % stake after revaluation	63 450
Purchase price Instradent Deutschland GmbH	1 763
Non-controlling interests	21 867
Total consideration	87 080
GOODWILL	41 887
Cash flow	
Net cash acquired	1 722
Cash paid	(1 763)
NET CASH OUTFLOW	(41)

The 49% non-controlling interest of CHF 21.9 million was measured on the basis of the proportionate fair value of the identifiable net assets.

At the date of the business combination the fair value of the trade receivables was CHF 2.0 million. The gross contractual amount for trade receivables is CHF 2.3 million, of which CHF 0.3 million is expected to be uncollectable.

In connection with the modification of the shareholder agreement, the Group has written put options granting the holders of the 49% non-controlling interests the right to sell their remaining shares to the Group. The options are exercisable in certain windows from 2020 to 2022 and may be exercised either in respect to the founding shareholder's entire interests or in instalments. As the Group has not acquired a present ownership interest at reporting date, the non-controlling interests of CHF 25.3 million have been reclassified to financial liabilities, representing the present value of the estimated redemption value by the Group in the event of full exercise of the rights held by the founding shareholders, with the excess amount of CHF 29.5 million allocated to retained earnings.

Goodwill, which is not deductible for tax purposes, comprises intangible assets that are not separable such as expected synergy effects and employee know-how.

From the acquisition date, Medentika contributed revenues of CHF 21.8 million and a net profit of CHF 5.8 million to the Group.

CLEARCORRECT

On 19 September 2017, the Group has acquired ClearCorrect Holdings Inc. (hereafter referred to as 'ClearCorrect'), a well-established provider of clear-aligner tooth-correction solutions based in Round Rock, USA. The net assets recognized as part of this acquisition, except of cash and cash equivalents, are provisional, as the purchase price allocation has not been completed by the date of approval of these financial statements by the Board of Directors.

The identifiable assets and liabilities acquired – as preliminarily determined – were:

(in CHF 1 000)	Fair Value
Assets	
Property, plant and equipment	6 623
Intangible assets	4 015
Deferred tax assets	15 341
Inventories	588
Trade and other receivables	30 740
Cash and cash equivalents	5 875
Total assets	63 182
Liabilities	
Financial liabilities	2 306
Provisions	4 853
Trade and other payables	39 988
Total liabilities	47 147
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	16 035
Consideration satisfied in cash	146 077
Total consideration	146 077
GOODWILL (PRELIMINARY)	130 042
Cash flow	
Net cash acquired	5 875
Cash paid	(146 077)
NET CASH OUTFLOW	(140 202)

From the acquisition date, ClearCorrect contributed revenues of CHF 8.3 million and a net loss of CHF 6.6 million. The net loss is mainly related to the revaluation of tax loss carryforwards caused by the US tax reform. If ClearCorrect had been included as of 1 January 2017, management estimates the impact on revenues for the 12 months ended 31 December 2017 would have been CHF 28.6 million with no material impact on net profit (except of the tax loss carryforward revaluation disclosed above).

DENTAL WINGS

On 1 October 2017, the Group has increased its stake in Dental Wings Inc. from 55% to 100%. As a result, the Group obtained control and started to consolidate Dental Wings in its financial statements from that date. Until 30 September 2017, Dental Wings was accounted for using the 'equity method' and therefore the Group's share of its results was reported as 'share of results of associates' in the Group's income statement.

Dental Wings (based in Montreal, Canada) is a leading provider of digital dentistry technologies. Its solutions cover the full digital workflow – from treatment-planning to final restoration including dental scanning, implant planning, prosthesis design, manufacturing, and communication among dental professionals. Dental Wings Inc. owns subsidiaries in Germany, Hong Kong and China and a branch office in France.

The fair values of the identifiable assets and liabilities acquired were:

(in CHF 1 000)	Fair Value
Assets	
Property, plant and equipment	973
Intangible assets:	
Technology	40 404
Brand	4 670
Customer relationships	3 225
Other intangible assets	90
Inventories	2 757
Trade and other receivables	4 184
Other assets	30
Cash and cash equivalents	1 326
Total assets	57 659
Liabilities	
Financial liabilities	3 123
Provisions	3 008
Deferred tax liabilities	12 828
Other liabilities	367
Trade and other payables	10 136
Total liabilities	29 462
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	28 197
Fair value of previously held interest	47 792
Consideration satisfied in cash	39 102
Non-controlling interests	(14)
Total consideration	86 880
GOODWILL	58 683
Cash flow	
Net cash acquired	1 326
Cash paid	(39 102)
NET CASH OUTFLOW	(37 776)

At the date of the business combination the fair value of the trade receivables was CHF 3.2 million. The gross contractual amount for trade receivables is CHF 3.3 million, of which CHF 0.1 million is expected to be uncollectable.

Goodwill, which is not deductible for tax purposes, comprises intangible assets that are not separable such as expected synergy effects and employee know-how.

The Group recognized an overall gain of CHF 43.9 million as a result of derecognizing its 55% equity interest in Dental Wings held before the business combination. The fair value of the 55% stake was CHF 47.8 million and the associate carrying amount was CHF 2.8 million on 1 October 2017. The gain resulting from the revaluation to fair value of the 55% equity instrument in Dental Wings immediately before the business combination amounted to CHF 45.0 million. The related portion of translation losses of CHF 1.1 million has been reclassified from comprehensive income to the income statement. Both effects are shown in a separate line in the income statement under 'Gain on consolidation of Medentika and Dental Wings'.

From the acquisition date, Dental Wings contributed revenues of CHF 5.2 million, with no material impact on net profit. If Dental Wings had been included as of 1 January 2017, management estimates the impact on revenues for the 12 months ended 31 December 2017 would have been CHF 16.6 million, with no material impact on net profit.

LOOP

On 3 November 2017, the Group has acquired Loop Digital Solutions LLC. Loop (based in Lincoln, USA) develops a software that facilitates the referral management process by connecting surgeons, general practitioners and dental laboratories. As part of the business combination, the Group recognized an intangible asset of CHF 0.5 million representing the software development and a workforce related goodwill of CHF 3.2 million. The goodwill is deductible for tax purposes. The total consideration amounted to CHF 3.7 million, whereof CHF 0.7 million were immediately satisfied in cash. The second consideration component depends on the course of business and is recognized as contingent consideration liability until settlement.

The business combination had no material impact on the Group's revenues or net profit, neither for the period from 3 November 2017 to 31 December 2017, nor when considering an inclusion of Loop as of 1 January 2017.

TRANSACTIONS IN 2016

BOTISS GERMANY

On 1 September 2016, the Group acquired the German distribution business from botiss biomaterials GmbH. The transaction comprises the take over of the botiss biomaterials sales team and an exclusive distribution right in the German market. As part of the business combination, the Group recognized an intangible asset of CHF 2.4 million representing the exclusive distribution rights and a workforce related goodwill of CHF 7.0 million. The goodwill is deductible for tax purposes.

In the period from 1 September 2016 to 31 December 2016, the exclusive distribution business contributed revenues of CHF 1.1 million, with no material impact on net profit. If the exclusive distribution business had been included as of 1 January 2016, management estimates the impact on consolidated revenues for the 12 months ended 31 December 2016 would have been CHF 3.2 million, with no material impact on net profit.

EQUINOX INDIA

On 30 November 2016, the Group entered into a business transfer agreement with the Indian dental implant manufacturer Equinox. The Group has acquired the Equinox manufacturing and distribution business based in Mumbai, India. The total consideration amounted to CHF 21.7 million, whereof CHF 15.3 million were immediately satisfied in cash. The second consideration component depends on the course of business of Equinox and is recognized as contingent consideration liability until settlement.

In 2017, the purchase price allocation (PPA) was completed. The PPA had no material effect on the Group's financial statements compared to the values which were provisionally recognized in 2016.

From the acquisition date, the Equinox business had no material impact on Group revenues and net profit. If the Equinox India business had been included as of 1 January 2016, management estimates the impact on consolidated revenues for the 12 months ended 31 December 2016 would have been CHF 3.0 million, with no material impact on net profit.

4 OPERATING SEGMENTS

Operating segments requiring to be reported are determined on the basis of the management approach. Accordingly, external segment reporting reflects the internal organizational and management structure used within the Group as well as the internal financial reporting to the Chief Operating Decision Maker (CODM), which has been identified as the Executive Management Board (EMB). The EMB is responsible for the operational management of the Group, in line with the instructions issued by the Board of Directors. It is also responsible for global strategy and stakeholder management.

The reporting segments are presented in a manner consistent with the internal reporting to the CODM. The centralized headquarters support functions (e.g. finance, information technology, human resources) as well as the functions 'Customer Solutions & Education' and 'Research & Development' are not operating segments, as they do not earn separate revenues. These functions are grouped in the column 'Not allocated items'.

As of 1 January 2017, the Group has combined its former separate segments 'Sales CE' and 'Sales WE' into a single European region 'Sales Europe'. To strengthen the emerging and distributor markets, the Group's premium and Instradent distribution business and the business with external distributors in the EMEA region were allocated into a new operating segment 'Distributor & Emerging Markets EMEA'.

Comparative information was adapted to the structure prevailing at the balance sheet date.

SALES EUROPE

'Sales Europe' comprises the Group's premium and Instradent distribution businesses in Europe. It also acts as the principal (excluding the premium distribution businesses performed by 'Operations') towards all Instradent businesses of the Group. It also includes Medentika's distribution business and its manufacturing plant in Germany (which produces implants and prosthetic components) as well as Dental Wing's distribution business in Europe. It includes segment-related management functions located inside and outside Switzerland.

SALES DISTRIBUTOR & EMERGING MARKETS EMEA

'Sales Distributor & Emerging Markets EMEA' comprises the Group's premium and Instradent distribution businesses mainly in Russia, as well as the premium business with European, African and Middle Eastern distributors. It further incorporates the value distribution business of Anthogyr implants and prosthetic components in Russia. It includes segment-related management functions located inside and outside Switzerland.

SALES NAM

'Sales NAM' comprises the Group's premium and Instradent distribution businesses in the United States and Canada. It also includes ClearCorrect's clear-aligner business and its associated development and production activities in the United States. The segment also incorporates Dental Wing's distribution business in the United States and Canada, as well as its associated development and production activities in Canada. It includes segment-related management functions located inside and outside Switzerland.

SALES APAC

'Sales APAC' comprises the Group's premium distribution businesses in the Asia pacific region, as well as the business with Asian distributors. It further incorporates the value distribution business of Anthogyr implants and prosthetic components in China and the Equinox implants in India. It further contains Equinox's manufacturing plant in India (which produces implants and prosthetic components). It includes segment-related management functions located inside and outside Switzerland.

SALES LATAM

'Sales LATAM' comprises the Group's premium distribution and Instradent businesses in Middle and South America as well as the business with Latin American distributors. It also includes Neodent's distribution business in Brazil, as well as Neodent's business with Latin American distributors. It contains Neodent's manufacturing plant in Brazil (which produces implants, biomaterials and CADCAM products). It includes segment related management functions located inside and outside Switzerland.

OPERATIONS

'Operations' acts as the principal towards all premium distribution businesses of the Group; it does not include the Instradent distribution activities of fully-controlled Group companies. It includes the global manufacturing network i.e. the manufacturing plants, production of implants, biomaterials and CADCAM products as well as all corporate logistics functions. It does not include the manufacturing sites of Neodent, Equinox, Medentika, ClearCorrect and Dental Wings.