

# Compensation report

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## FOREWORD

In 2016, the Compensation Committee met six times and covered the topics on p. 160. Our main focus was to review the aptness of our fundamental compensation elements.

## INCENTIVE SCHEMES RE-ESTABLISHED

Following strong results in 2015, the Group delivered an outstanding performance in 2016 both in absolute and relative terms. As a result, in 2016 the Board decided to pay unreduced bonuses for the prior business year on a discretionary basis to all employees in Switzerland with the exception of Senior Management, whose bonuses were partially compensated.

The discretionary award was necessary as the staff in Switzerland had contractually agreed to compensation reductions in 2015 as part of a package of measures to protect the business and jobs against the impact of the sharp appreciation of the Swiss franc. With the company's strong performance continuing in 2016, the Board decided to reinstate the incentive schemes used in Switzerland prior to the exchange-rate shock in 2015 even though the Euro is considerably short of a full recovery. We strongly feel that the loyalty and efforts of our staff and the continuous improvements achieved fully merit these initiatives and outweigh the related cost effects.

## ECONOMIC PROFIT REINSTATED AS MAIN PERFORMANCE INDICATOR

The overall stabilization and improvement in the exchange rates enabled the Board to revert from operating profit (EBIT) to economic profit (EP) as the major performance indicator for the short-term incentive in 2016 and beyond. Apart from these, there were no significant changes to the compensation system in 2016.

## ACHIEVEMENT OF OBJECTIVES

Despite the competitive market environment, the company succeeded in expanding its normalized EBIT-margin in 2016 by 150 base points to 24.8%, which was achieved thanks to double-digit organic revenue growth, high capacity utilization and efficiency gains. At the same time, the Group made good progress with all of its strategic priorities.

Based on the strong fundamentals over the past 3 years, the objective of total shareholder return of 10% p.a. was again overachieved. The 2013–16 long-term incentive

target for Senior Management was clearly exceeded, yielding the capped maximum payout of 200%.

## LOOKING AHEAD

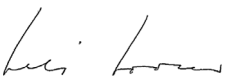
Our compensation system seeks to promote sustainable performance, entrepreneurship and loyalty—thus combining the interests of shareholders, management and employees. It effectively supports the company's efforts to build and foster a high-performance culture and to attract the best talent in our industry. To ensure that we remain competitive as an employer, we periodically conduct benchmark comparisons with peer companies and continued this practice in 2016, closely reviewing our total compensation approach.

Experience gained with our long-term incentive system over the past three years has prompted us to complement total shareholder return (TSR) with a second performance indicator, which will be a pre-defined EBIT-growth amount (EGA).

In 2017, the main focus of the Compensation Committee will be to ensure that our compensation system supports and facilitates the Group's efforts to create a high-performance culture in addition to enabling us to recruit and retain the best talent. In this context, we will extend the benchmark analysis across other Group functions in addition to addressing any significant deviations identified in previous years.

In view of the economic environment, the Board again foresees only basic compensation increases that are linked to structural adjustments. In high inflation countries, local management may grant general merit increases. This approach will be implemented carefully and with due regard to local developments as well as our aim to remain a competitive employer.

On behalf of the Board and our shareholders, I would like to thank our staff for their commitment and achievement. I would also like to thank the shareholders and the Board for their confidence in the Compensation Committee, and the management team for their constructive approach to the dialog in 2016.



ULRICH LOOSER

Chairman of the Compensation Committee

## INTRODUCTION

This report provides an overview of Straumann's compensation principles and practices and is in line with the Swiss Code of Best Practice for Corporate Governance and Swiss law.

It provides information on the compensation of the general staff, management, Executive Management Board (EMB) and the Board of Directors (BoD). It also explains the equity participation programs, including disclosure of the equity participation of the EMB and the Board of Directors. The compensation paid to these two groups is presented in the audited tables on p. 170 f.

Straumann's present compensation system has been in place since 2011, when the Compensation Committee conducted a comprehensive review of the company's overall approach to rewarding employees and compensating the Board. The system was published in our Compensation Reports, which were approved through consultative votes in 2011–13 and formally approved in 2014–16 by the respective Shareholder's Annual General Meetings (AGM).

The compensation system is built on principles 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 recruit and retain an engaged workforce
- Reward individuals according to clear targets
- Encourage entrepreneurship, above-market performance, accountability and value creation
- Bring out the best in each of our colleagues in line with our Cultural Journey objectives.

## RESPONSIBILITY FOR COMPENSATION

The Board of Directors nominates the members of the Compensation Committee for election by the AGM. The Committee is entrusted with the design of the compensation system, which applies to the Board of Directors and the EMB. It reviews the compensation principles and programs annually and evaluates remuneration against relevant benchmarks and other related criteria. The Committee reports to the Board of Directors on its views regarding compensation practices as well as on the compensation of the EMB at least once a year and proposes changes when necessary.

## COMPENSATION RECOMMENDATIONS & DECISIONS

Recipient	Compensation recommended by	Compensation decided by
Chairman of the Board	Compensation Committee / Board of Directors	AGM
<b>Board Members</b>		
CEO	Chairman of the Board / Compensation Committee / Board of Directors	
Executive Management	CEO	
Senior Management	EMB	CEO
Management and staff	Line Management	EMB

Further information on the duties of the Compensation Committee can be found on p. 142 f. in the section on Corporate Governance.

At the 2017 AGM, the shareholders will be asked to approve:

- The short-term incentive (STI) of the EMB for the 2016 business year
- The total fixed compensation of the EMB for the period 1 April 2017–31 March 2018
- The total long-term incentive (LTI) for the 2017 grant for the EMB
- The total compensation of the Board of Directors for the period between the 2017 and 2018 AGMs.

In 2016, the Compensation Committee met six times with all its members present. The Chairman of the Board and the CEO participated in all of the meetings except during discussions concerning the evaluation and determination of their own compensation. The calendar and general agenda of the Committee are presented in the table overleaf. In addition to participating in Board and Committee meetings all Board members regularly visit international customers with sales representatives, attend international congresses (e.g. IDS, EAO, etc.) and go on field trips to important markets, e.g. 2015 China and Brazil in 2016. In addition, the Board took part in a three-day strategic think-tank meeting together with the EMB, customers and experts from the dental and other industries. All the Board members are active mentors to the EMB and have regular one-to-one exchanges with their assigned mentees.

TOPICS AND SCHEDULE OF COMPENSATION COMMITTEE MEETINGS 2016

FEBRUARY	APRIL	JUNE	AUGUST	OCTOBER	DECEMBER
<p>Reviewed</p> <ul style="list-style-type: none"> <li>– Company, CEO &amp; EMB performance</li> </ul> <p>Updates on</p> <ul style="list-style-type: none"> <li>– global benchmarking</li> <li>– incentive compensation management projects</li> <li>– Cultural Journey progress &amp; KPI's</li> </ul> <p>Approved</p> <ul style="list-style-type: none"> <li>– 2015 compensation report</li> <li>– Compensation of new EMB members</li> </ul> <p>Determined</p> <ul style="list-style-type: none"> <li>– 2016 target framework</li> </ul>	<p>Reviewed</p> <ul style="list-style-type: none"> <li>– HR policies</li> <li>– Compensation Committee charter</li> <li>– Impact of new regulations</li> </ul> <p>Followed up</p> <ul style="list-style-type: none"> <li>– LTI concept for 2016</li> <li>– EMB target framework</li> <li>– AGM feedback on Corporate Governance, improvements, miscellaneous</li> </ul>	<p>(Meeting in Brazil)</p> <p>Reviewed</p> <ul style="list-style-type: none"> <li>– STI / LTI re-establishment in Switzerland</li> </ul> <p>Followed up</p> <ul style="list-style-type: none"> <li>– LTI concept for 2016</li> </ul>	<p>Reviewed</p> <ul style="list-style-type: none"> <li>– Global Perception Pulse survey results</li> <li>– Cultural Journey progress</li> </ul> <p>Followed up</p> <ul style="list-style-type: none"> <li>– 2016 Annual Salary Review</li> <li>– STI / LTI re-establishment in Switzerland</li> </ul>	<p>Reviewed</p> <ul style="list-style-type: none"> <li>– BoD composition &amp; compensation</li> <li>– Leadership development programs</li> <li>– Strategic Management development</li> <li>– 2016 Compensation Report topics</li> <li>– Total remuneration system (including 2016 /17 STI &amp; LTI)</li> </ul>	<p>Updates on</p> <ul style="list-style-type: none"> <li>– Pension funds</li> <li>– 2017 Annual Salary Review</li> <li>– Compensation benchmarks for CEO &amp; EMB</li> <li>– 2017 salary development plan</li> </ul> <p>Followed up</p> <ul style="list-style-type: none"> <li>– 2016 Compensation Report topics</li> </ul>

COMPENSATION PRINCIPLES

The compensation principles outlined below are valid for all employees, including the EMB, working for consolidated Straumann Group companies.

VALUE CREATION DRIVES COMPENSATION

We believe that a compensation system driven by 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 Board of Directors in a way that is competitive and rewards sustainable long-term performance as well as current success.

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

- Offers competitive compensation packages

- Fosters a high-performance culture that differentiates and rewards above-average 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 comparable companies in the industry
- Provides employees with benefits based on good practices and regulations in local markets
- Is periodically reviewed by the Compensation Committee.

COMPREHENSIVE BENCHMARKING

Straumann's policy is to pay employees, the EMB and the Board of Directors a base compensation that is close to the median of comparable medical-device companies and other comparable industries in the respective local market. In addition, the variable compensation elements are set to enable the overall compensation to be moved toward the upper quartile for outstanding performance.

Benchmark reviews for the EMB are conducted externally and include market analyses by industry specialists. Bespoke benchmarks include a peer group of comparable companies in various industries selected according to the following criteria:

- Comparable scope and business complexity
- Comparable geographic footprint
- Companies with whom we compete for talent.

In 2016, we commissioned benchmarks from well-known global providers for most of our employee base. The analysis and comparison revealed that our compensation was generally in line with or above the benchmark in most countries with few exceptions. Any significant deviations from the benchmarks will be addressed in the upcoming compensation reviews.

#### ETHICAL, FAIR STANDARDS

We are committed to fair and equal treatment of all our employees and seek to be in full compliance with international labor standards. Compensation is not influenced by gender. Local minimum wage regulations have no bearing on our compensation policy, as our compensation clearly surpasses them.

#### TOTAL COMPENSATION AND COMPENSATION ELEMENTS

Overall, Straumann spent CHF 357 million on compensation, benefits and social costs in 2016, corresponding to an average of CHF 94 000 per employee (2015: CHF 91 000).

As in the past, the compensation of employees and managers in 2016 comprised fixed as well as short- and long-term variable components, the mix of which was defined by role, profile, location and strategic impact. For the Executive and Senior Management, greater emphasis has generally been placed on the long-term variable component, in line with our strategic objective of promoting entrepreneurship. Their compensation mix has included a long-term variable compensation element, emphasizing long-term, sustainable decision-making and staff retention.

#### SUMMARY OF OVERALL COMPENSATION

##### FIXED COMPONENTS

In 2016, the fixed compensation elements included the following:

- Base salary
- Pension plans (depending on local practices and regulations)
- Other benefits (depending on local practices and regulations).

##### BASE SALARY

Straumann employees receive a fixed salary based on:

- Job profile
- Experience and skills
- External comparisons
- Place of work and local regulations
- Strategic importance of the position.

##### SALARY PROGRESSION 2016 – 2017

As mentioned previously, there were no general salary increases in 2016. Where necessary, structural adjustments were made to adapt salaries to benchmarks and for staff who took on new roles and /or increased responsibilities. For 2017, the Board of Directors continues to foresee only basic compensation increases that are linked to structural adjustments. In countries with high inflation, the local management teams may grant general merit increases. These approaches will be implemented carefully and with due regard to local developments as well as our ambition to remain a competitive employer.

##### PENSION PLANS

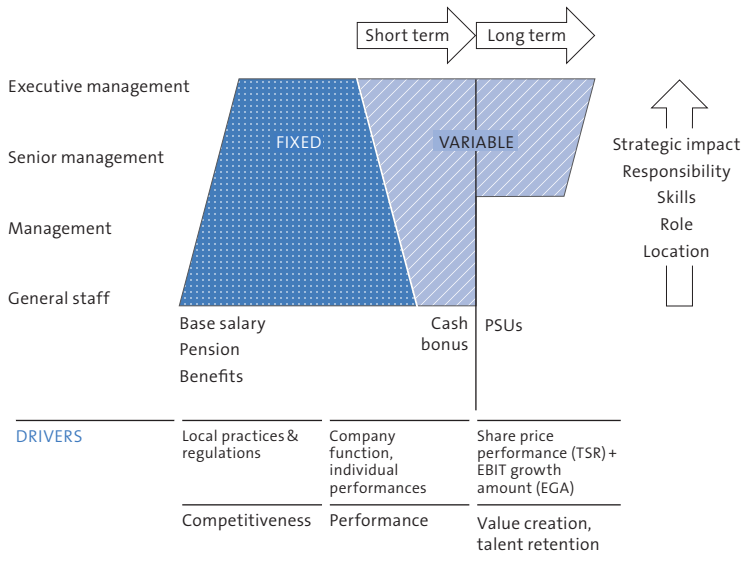
Internal analyses carried out in recent years showed that Straumann and its subsidiaries fulfill and in some respects exceed local legal requirements. In most cases, pension obligations are fully funded. Where this is not the case, liabilities are reported in the Annual Report following actuarial rules.

Further information on pension plans is provided in Note 20 to the audited consolidated financial statements on p. F 47 ff. Information on pension fund risks is also provided in the Risk Analysis on p. 93.

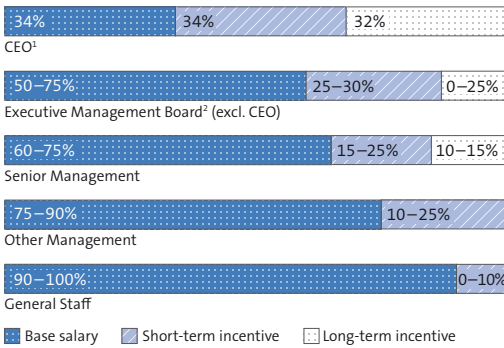
##### SWITZERLAND

There are two defined contribution pension plans in Switzerland, which together make up the occupational benefits at Straumann. The basic insurance plan offers

## COMPENSATION MIX



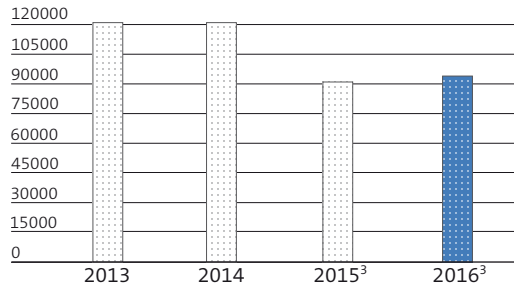
## PAY MIX CORRIDOR (AT-TARGET ACHIEVEMENT)



<sup>1</sup> At target, the variable compensation (incl. STI and LTI) for the CEO will amount to 192% of base salary.

<sup>2</sup> At target, the variable compensation (incl. STI and LTI) for the EMB members will in average amount to 85% of base salary. Matthias Schupp had no LTI component in 2016 but will have one for 2017 which will bring him into the desired range for EMB members.

## TOTAL COMPENSATION AVERAGE PER EMPLOYEE (in CHF)



<sup>3</sup> Including Neodent

## SUMMARY OF OVERALL COMPENSATION

### ELEMENTS OF TOTAL REMUNERATION

Element	Type	Description
Base salary	Fixed cash	<ul style="list-style-type: none"> <li>– Fixed compensation, determined by scope and complexity of the role</li> <li>– Generally within an 80–120% range of relevant market median</li> </ul>
Variable pay	Short-term incentives (STI—one year)	<ul style="list-style-type: none"> <li>– For EMB, Senior Management and a broad group of employees, paid annually</li> <li>– Payout range: 0–200% of target</li> <li>– Performance measured against business results and accomplishment of individual and financial targets</li> </ul>
	Long-term incentives (LTI—three years)	<ul style="list-style-type: none"> <li>– For the EMB and a defined Senior Management group</li> <li>– Payout range: 0–200% of target</li> <li>– The grants made prior to 31.12.2011 vest in three installments (after 1, 2 and 3 years) and are determined according to the Group's total shareholder return (TSR) and return on shareholders' equity (ROE) over three calendar years</li> <li>– Since 01.01.2012, PSUs with a 3-year vesting period have been granted and shares are allocated based on a TSR of 10% p.a. over a 3-year period; see p. 166 f. (for 2015 the LTI for eligible employees in Switzerland and the EMB was forfeited but reinstated and for the 2016 grant the TSR was adjusted to 7% p.a. and EGA was introduced as an additional performance indicator)</li> </ul>
Employee benefits	Fixed benefits	<ul style="list-style-type: none"> <li>– Employee benefits are provided in line with local market practices</li> <li>– Pension plans are de-risked in line with Group guidelines</li> <li>– Benefits are positioned towards relevant market medians</li> </ul>

protection against the financial consequences of old age, death and disability to all employees of Institut Straumann AG and Straumann Villeret SA. There is additional supplementary insurance for selected members of the management, whose proportion of variable compensation is high. Straumann employees in Switzerland and the Chairman of the Board of Directors are eligible for this pension scheme.

#### EUROPE

In other European countries, Straumann offers retirement insurance according to local practices. According to IFRS accounting standards, the majority of European pension plans are considered funded or unfunded defined contribution plans.

#### USA

A 401k retirement plan is provided to all Straumann employees in the USA over 21 years of age to enable them to save for retirement. The 401k plan is a defined contribution plan whereby (a) the employee has the option of making deferral elections from his/her pay on a pre-tax basis and (b) Straumann USA may make

matching contributions should the employee elect to make deferral elections. The plan is a tax-qualified plan under the Employee Retirement Income Security Act (ERISA).

In addition to the 401k plan, Straumann USA has a Supplemental Executive Retirement Plan (SERP) for a select management group. The purpose of this plan is to provide eligible employees with defined employer contributions and the opportunity to elect to defer receipt of certain compensation that would otherwise be payable to them in cash. The plan is intended to be a non-qualified, unfunded, deferred compensation arrangement for purposes of Title I of ERISA and is intended to comply with Section 409A of the Internal Revenue Code. According to IFRS, SERP is treated as a defined contribution plan.

#### OTHER BENEFITS

Straumann's benefit programs are an integral part of total compensation and are designed to enable the company to compete for and retain employees and managers. Benefits are structured to support our overall

business strategy and are aligned with local practices and legislation. Examples of benefits include public transportation passes, lunch vouchers, the use of company cars, mobile phones, and concessions on Straumann products.

EMPLOYEE SHARE PARTICIPATION PLAN

Employees in Switzerland have the opportunity to purchase Straumann shares for 75% of the average share price over a period of seven trading days beginning on the ex-dividend day (see table below). The shares are subject to a two-year blocking period and are dividend-bearing from the day of purchase.

In 2016, the plan was fully reinstated for all employees in Switzerland, enabling them to purchase shares from a minimum of 10 to a maximum of 1 000, depending on their level in the organization.

EMPLOYEE SHARE PLANS

	Employees participating	Shares issued	Discount share price at issue	End of lock-up period
2016	86	8 754	CHF 254	April 2018
2015 <sup>1</sup>	86	4 653	CHF 196	April 2017
2014	107	11 495	CHF 138	April 2016

<sup>1</sup> The maximum number of purchasable shares was reduced by 50% as part of the cost management program in 2015

The shares required for this plan were held by the Group as Treasury shares. The Board of Directors is not eligible for this program.

VARIABLE COMPONENTS

In 2016, the variable compensation components included one or more of the following:

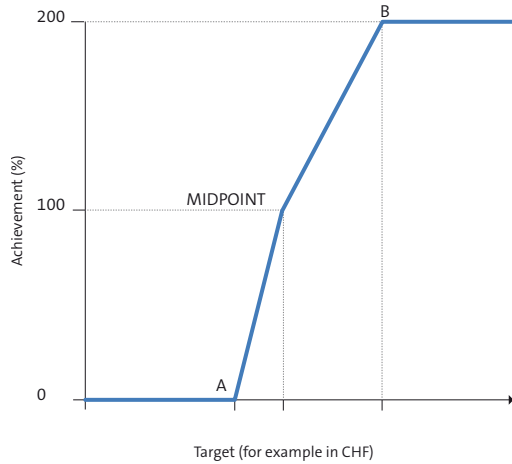
- Short-term incentive
- Long-term incentive (Performance Share Plan)

SHORT-TERM INCENTIVE (STI)

The STI scheme (see graph above) is tied directly to profit generated by the Group. For some areas, additional specific financial and/or individual performance criteria apply. Hence, the payout in 2016 was based on a combination of the following:

- Company performance
- Achievement of specific financial target
- Individual performance

SHORT-TERM INCENTIVE TARGET ACHIEVEMENT (STI)



In the short-term incentive model, the scale for financial target achievement extends from 0% to a maximum of 200% and is based on a line joining three points: 0% (point A), 100% (midpoint) and 200% (point B). The difference on the horizontal axis between the midpoint and point B must be equal to, or greater than, the difference between the midpoint and point A. The actual target achievement is measured by way of linear interpolation.

COMPANY PERFORMANCE

In general, economic profit (EP) is the key performance indicator in Straumann’s STI scheme. The Board of Directors sets the absolute target for EP generation in Swiss francs annually, prior to the respective performance cycle, based on medium-term business plans and the defined budget for the year of performance. The payout ranges from 0 to 200% of the target.

EP is calculated by deducting a capital charge from the net operating profit after tax (NOPAT). The Board of Directors may exclude extraordinary elements from the calculation of the EP. The capital charge represents the cost of capital calculated on the basis of an average equity return expected by investors. This scheme builds the basis for our general bonus calculation model.

The main advantage of EP as a performance objective is that it goes beyond revenue growth and profitability increase and takes into account the resources used to achieve these increases and the resulting additional capital costs (see chart opposite).



## COMPANY PERFORMANCE – 2016 ECONOMIC PROFIT (EP)

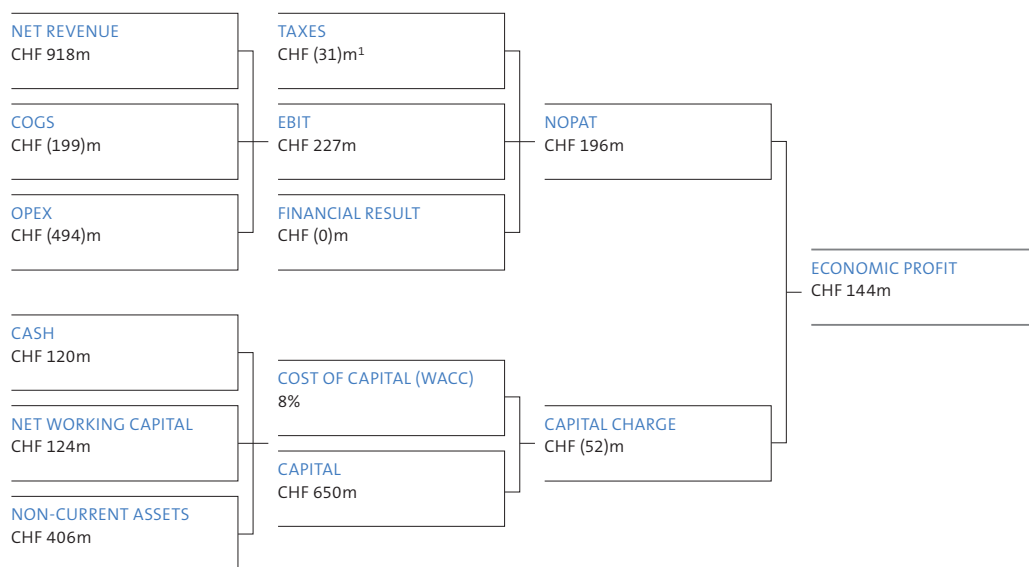


Chart showing the various components of economic profit. NOPAT = Net operating profit after taxes; COGS = Cost of goods sold; OPEX = Operating expenses; EBIT = Earnings before interest and taxes.  
<sup>1</sup> Excluding a capitalized one-time tax benefit which is not compensation relevant.

### SPECIFIC FINANCIAL TARGETS

Specific financial targets are used for the following organizational units: Sales Regions, Customer Solutions & Education, Intradent Management, and Research, Development & Operations. The targets are derived from annual budgets and are set by the CEO and CFO together with the member of the EMB responsible for the respective organizational unit. In 2016, for example, improvements to contribution margin and to strategic key sales initiatives were set as specific financial targets for the Sales Regions whilst improvement to cost of goods sold was defined as a specific financial target for Research, Development & Operations.

### INDIVIDUAL PERFORMANCE

In 2016, individual performance was measured by the achievement of targets established with the respective line manager at the beginning of the year in the performance management process. These could involve a combination of specific project targets, the development of competences or skills, and specific contributions to team or organizational unit targets. A global performance management system supervised by Human Resources

ensured that the objectives are defined in line with the company’s strategic goals and that their achievement was assessed continuously during the year.

### WEIGHTING OF PERFORMANCE CRITERIA

In 2016, the weighting of the performance criteria depended on the role and responsibilities of the individual (see table).

### SHORT-TERM INCENTIVE PERFORMANCE CRITERIA WEIGHTING

Management Level	Company	Financial	Individual
Chief Executive Officer	80%		20%
Executive Vice President	40–80%	0–40%	20–50%
Senior Vice President	20–40%	0–60%	20–60%
Vice President	20–40%	0–60%	20–60%
Management (Director, Senior Manager, Manager)	20–30%	0–60%	20–70%
Staff	0–20%	0%	80–100%

This table shows the weighting of the different types of performance measures according to the level of the employee and depending on the organizational unit the employee is working in

#### MEASUREMENT OF ACHIEVEMENT

The measurement scale for the achievement of company performance and financial targets ranges from 0% to a maximum of 200% of target and is based on a line joining three points (see p. 164).

For individual target achievement, the assessment scale ranged from 0% to 150% of target. It was based on descriptors with corresponding percentage ranges:

- Outstanding (131–150%)
- Exceeds expectations (111–130%)
- Meets expectations (91–110%)
- Partially meets expectations (51–90%)
- Does not meet expectations (0–50%)

#### LONG-TERM INCENTIVES (LTI)

The LTI program is designed for the EMB, Senior Management and other key employees depending on role, responsibility, location, strategic impact, and market practice. Participation is determined by the Board of Directors, who themselves are not eligible.

As noted previously, the Executive and Senior Management team in Switzerland agreed contractually to forgo their long-term incentive plan for 2015 as part of the measures to mitigate the currency impact. This measure was reverted in 2016 and the LTI is once again part of the total compensation approach.

#### PERFORMANCE SHARE PLAN

This plan was introduced in 2012 and is designed to:

- Offer an attractive variable compensation element related to TSR and EBIT growth
- Increase shareholdings of key employees
- Align participants' interests with those of the shareholders.

Based on experience gained over the past three years, the Board has decided to introduce a second performance indicator to the existing plan which is a pre-defined EBIT Growth Amount (EGA). This will strengthen the objective outlined above and supports the aim of long-term value generation for our shareholders.

#### GRANT

Participants in the plan are granted Performance Share Units (PSUs) entitling them to receive shares after a three-year vesting period. PSUs are granted once a year after the AGM. No cash investment is required from the

participants. The number of PSUs granted is equal to the participant's LTI value divided by the fair value of one PSU at the grant date. The LTI target value is a percentage of the total target compensation, and is determined in accordance with the participant's role in the organization. In 2016 the total grant value amounted to CHF 4.455 million and 14 520 PSUs were granted.

#### ALLOCATION OF SHARES

The PSUs vest at the end of the performance periods and are converted into shares. They are forfeited if the individual leaves the company before the vesting date.

The number of shares allocated per PSU depends on the achievement of

- An absolute Total-Shareholder-Return target, which is determined by the Board of Directors and is currently set at 7% per annum for the 3-year performance period. Performance against the TSR target is calculated using the average of the closing share prices over the period of seven trading days starting on the ex-dividend date in the year of grant and in the year of vesting. The achievement factor is capped at 200%.
- A pre-defined EBIT Growth Amount, which is determined by the Board of Directors in advance for the three business years starting on January 1 of the year of the Grant. The achievement factor is capped as well at 200%. In line with the principle of fair disclosure, the EGA target is not published in advance.

Current participants are entitled to Performance Share Units that were awarded in 2014–2016 and vest in 2017–2019. The three-year TSR target for the PSUs that were awarded in 2013 and vested in April 2016 was clearly exceeded and resulted in a maximum achievement factor of 200%.

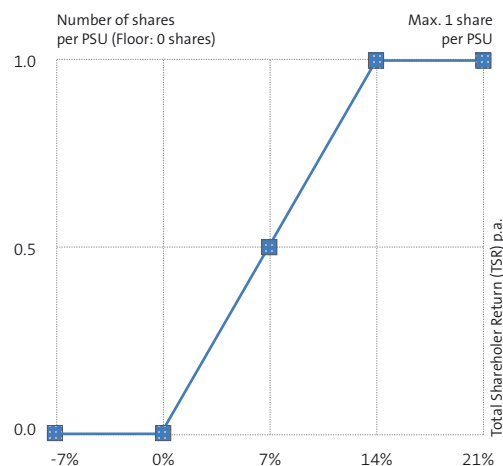
#### TOTAL SHAREHOLDER RETURN

TSR is the profit (or loss) realized by an investment at the end of a year or specific period. It includes capital gains or losses from changes in the share price as well as gross dividends.

#### EBIT GROWTH AMOUNT

EGA is a total target EBIT growth amount over the full EBIT performance period determined by the Board of Directors at the time of the grant. It is related to the three business years starting on January 1 of the year

## TOTAL SHAREHOLDER RETURN

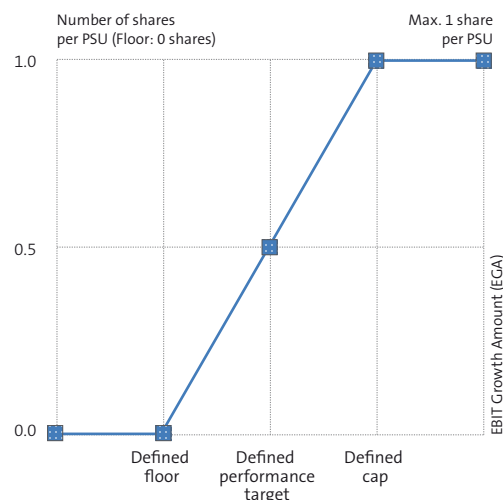


■ Performance Achievement capped at 14% TSR p.a.

The compensation model awards shares according to the number of PSUs allocated and the total shareholder return (TSR) and EBIT growth amount (EGA) achieved per annum over a three-year performance period. Both KPI's are weighted equally with 50%.

At the end of the performance period, no shares will be allocated for a TSR of 0% p.a. or less; half a share will be granted per vested PSU if the TSR is +7% p.a. and one share per vested PSU for a TSR of +14% p.a. or more (capped at 200%). For a TSR between 0% and 7% p.a. or between 7% and 14% p.a., the number of shares allocated per vested PSU is calculated on a linear basis.

## EBIT GROWTH AMOUNT (EGA)



■ Performance Achievement (defined cap)

The compensation model awards shares according to the number of PSUs allocated and the total shareholder return (TSR) and EBIT growth amount (EGA) achieved per annum over a three-year performance period. Both KPI's are weighted equally with 50%.

At the end of the performance period, no shares will be allocated for a EGA which is below the defined floor; half a share will be granted per vested PSU if the EGA is exactly the defined performance target and one share per vested PSU for a EGA which is the defined cap or more (capped at 200%). For a EGA between the defined floor and the defined performance target or between the defined performance target and the defined cap, the number of shares allocated per vested PSU is calculated on a linear basis.

of the grant (for example from 1 January 2016 until 31 December 2018).

The EBIT growth amount over the 3-years EBIT Performance Period ('Actual EBIT GA') will be calculated as follows:

- Straumann Group EBIT growth over the EBIT Performance Period,
- Less EBIT of all businesses and participations acquired after the Grant Date during the EBIT Performance Period,
- Excluding all currency exchange effects,
- Considering all other specific calculation effects specified by the board at the time of the grant,
- Considering other adjustments decided by the board at the time of calculating the Actual EBIT GA in order to compensate for unforeseen major effects which would impair the purpose of the plan.

## PSU FAIR VALUE

The fair value of the PSUs granted has been determined using a Monte Carlo simulation algorithm. The valuation was performed by independent specialists applying the following significant inputs into the model: grant date, vesting date, average reference price, performance target including 'cap' and 'floor', EGA target including 'cap' and 'floor', share price at issue, risk-free interest rate, expected volatility, expected EGA and expected dividend rate.

## OPTION PLAN (UP TO AND INCLUDING 2011)

Up to the end of 2011, tradable options (non-tradable for participants outside Switzerland) with a term of six years and a two-year vesting period were allocated. The exercise price was equal to the share price on 31 December / 1 January. The value of the options was determined at grant date and is expensed as a personnel expense from service commencement to the end of the vesting

## PERFORMANCE SHARE UNIT FAIR VALUE

	2016	2015	2014	2013
Grant date	20.04.2016	22.04.2015	25.04.2014	17.04.2013
Vesting date <sup>1</sup>	20.04.2019	22.04.2018	25.04.2017	15.04.2016
Share price at grant	336.00	262.50	184.00	117.60
Risk-free interest rate	-0.72% p.a.	-0.63% p.a.	0.14% p.a.	0.15%
Expected volatility	28.50% p.a.	31.75% p.a.	31.81% p.a.	31.28%
Expected dividend yield <sup>2</sup>	0%	0%	0%	0%
Estimated fair value	CHF 306.84	CHF 208.06	CHF 152.33	CHF 88.24

<sup>1</sup> Seven trading days after the ex-dividend date.

<sup>2</sup> Assuming immediate reinvestment of dividend payment.

## OUTSTANDING PERFORMANCE SHARE UNITS

In April 2016, the 2013 Grant vested and the cap of 20% TSR p.a. was clearly exceeded for the performance period. Consequently, 44,105 PSUs were converted into 88,210 freely available Straumann shares for the eligible plan participants, representing a value of CHF 29,727m at that time (share price at vesting: CHF 337). The corresponding shareholder value created during the performance period amounted to CHF 3.7bn.

	2016	2015	2014	2013
As of 1 January	76 799	99 810	79 138	32 894
Granted PSUs	14 520	7 586	30 063	64 977
Exercised	(44 105)	(23 559)	0	0
Forfeited PSUs <sup>1</sup>	(1 608)	(7 038)	(9 391)	(18 733)
Expired PSUs	0	0	0	0
<b>AS OF 31 DECEMBER</b>	<b>45 606</b>	<b>76 799</b>	<b>99 810</b>	<b>79 138</b>

<sup>1</sup> Eligible participants who left Straumann voluntarily or as part of the 2013 reorganization forfeited their PSU allocations for 2012 and 2013

## NUMBER OF OPTIONS OUTSTANDING UNDER THE STOCK OPTION PLAN

	2016	2015	2014	2013
As of 1 January	77 200	131 702	199 470	260 676
Granted options	0	0	0	0
Exercised options	(73 305)	47 447	(62 796)	0
Forfeited options	0	0	0	(12 497)
Expired options	(2 862)	(7 055)	(4 972)	(48 709)
As of 31 December	1 033	77 200	131 702	199 470
Options available for exercise	1 033	84 255	136 647	156 057

	Options expiring at year-end	Options available for exercise
2016	2 862	1 033
2017	1 033	1 033
<b>TOTAL</b>	<b>3 895</b>	

## SUMMARY OF ALL VALID WARRANTS ISSUED IN THE STRAUMANN STOCK OPTION PLAN

Name/symbol	Year	Security ID number	Market maker	Type/ratio	Number	Strike price	Expiry
STRAUM17 OPT1 ESOP (USA)	2011	4000212	Not traded	American 1:1	1 033	162.10	12.2017
TOTAL VALID WARRANTS ISSUED					1 033		

period. The fair value of the options granted was determined using the Black-Scholes valuation model. The calculation of the option value was performed by independent specialists. No further option allocations have been made since 2012.

### REGULATIONS RELATING TO COMPENSATION

The Swiss Ordinance against Excessive Compensation (OaEC) is fully reflected in Straumann's compensation schemes for the EMB and Board of Directors and in the Articles of Association (AoA), which are available on our website: [www.straumann.com/articles](http://www.straumann.com/articles).

### AGREEMENTS WITH THE BOARD OF DIRECTORS AND EMB

Agreements with members of the Board of Directors regarding their compensation, and with members of the EMB regarding their employment may be temporary or permanent. Temporary agreements have a maximum term of one year, with the possibility of renewal, while permanent agreements have a notice period of no more than 12 months. Non-compete clauses are permissible. Compensation may be paid as indemnity for non-compete clauses. In such cases, the compensation must not exceed the last annual total compensation paid to the individual and may not be paid for more than one year (see Art. 4.5 AoA).

In 2016 no compensation was paid to related parties of members of the EMB and members of the Board of Directors.

### COMPENSATION OF THE EMB

The principles for the compensation of the EMB specify both a fixed cash component, which includes base salary and other fixed compensation items, and a variable component (see Art. 4.2 AoA). The latter includes:

- An STI based on the achievement of corporate performance targets, and/or financial targets, and/or individual targets, and
- A variable share-based LTI based on the achievement of performance targets over a period of three years.

The compensation of each member of the EMB is determined according to role and responsibilities and is based on external benchmarks. Each member receives a base salary and is included in the STI plan, as described earlier. The compensation packages of the existing members of the EMB remained more or less unchanged in 2016 with regard to the fixed cash component and STI. 'Other compensation', which includes non-cash benefits, allowances, contributions to insurances and pensions, etc., increased in 2016 reflecting the 2013 LTI grant, which vested, and related social security costs, some of which are borne by the company.

If there are changes in the EMB subsequent to the AGM, the following apply:

- The total compensation (at target) of a new CEO shall not exceed 140% of the compensation paid to the departing CEO.
- The compensation of any other incoming member of the EMB shall not exceed 140% of the average compensation paid to EMB members (excluding the CEO).
- In addition, and as defined in the AoA, incoming EMB members may receive compensation to offset any losses of valuable rights associated with giving up their prior activities. The amount of this compensa-

## 2016 (AUDITED TABLE)

(in CHF 1 000)	Fixed cash compensation	Fixed share compensation		Other compensation	Total compensation	
<b>BOARD OF DIRECTORS</b>						
Gilbert Achermann (Chairman)	400	200		164	764	
Dr h.c. Thomas Straumann (Vice Chairman)	200	100		20	320	
Dr Sebastian Burckhardt	100	100		13	213	
Roland Hess (Chairman Audit Committee)	150	100		16	266	
Ulrich Looser (from 1 June 2016, Chairman Compensation Committee)	129	100		16	245	
Dr Beat Lüthi	100	100		13	213	
Stefan Meister (until 31 May 2016, Chairman Compensation Committee) <sup>1</sup>	63	38		5	106	
<b>Total</b>	<b>1 142</b>	<b>738</b>		<b>247</b>	<b>2 127</b>	
<b>EXECUTIVE MANAGEMENT BOARD</b>						
(in CHF 1 000)	Fixed cash compensation		Performance bonus	Performance share units	Other compensation	Total compensation
Marco Gadola (CEO)	825		1 520	780	779	3 904
Other members	3 390		3 027	1 282	2 436	10 135
Former members	49		27	0	486	562
<b>Total</b>	<b>4 264</b>		<b>4 574</b>	<b>2 062</b>	<b>3 701</b>	<b>14 601</b>
<b>TOTAL</b>	<b>5 406</b>	<b>738</b>	<b>4 574</b>	<b>2 062</b>	<b>3 948</b>	<b>16 728</b>

<sup>1</sup> Resigned from the Board of Directors as of 31 May 2016

tion may not exceed CHF 1 000 000 for a CEO or CHF 500 000 for other members (see Art. 4.3 AoA).

At the 2016 AGM, the shareholders prospectively approved a fixed compensation of CHF 5.8 million for the collective EMB (as composed in April 2016) for the period between 1 April 2016 and 31 March 2017. The variable STI for the business year ending 31 December 2016 will be submitted for approval by the shareholders at the AGM in 2017. The table on page above shows the compensation paid to the EMB in 2016 in accordance with the OaEC.

#### COMPENSATION PAID TO FORMER MEMBERS OF THE EMB

In 2016, Andrew Molnar, the former Executive Vice President Sales North America, received compensation based on his employment contract. In addition, Straumann paid social security costs as an employer for Andrew Molnar, Sandro Matter and Thomas Dressendörfer, in relation to the vesting of PSUs from the 2013 LTI grant.

#### LOANS TO EMB MEMBERS

The AoA do not allow for loans, advances or credits to any member of the EMB or related parties.

#### SHAREHOLDINGS OF THE EMB

The shareholdings in Straumann shares and stock options of the members of the EMB who held office at the end of 2016 are shown in the table on p. F 79.

#### COMPENSATION OF THE BOARD OF DIRECTORS

According to the AoA, the compensation of the Board of Directors must be approved by the AGM and consists of a fixed compensation component only, which is paid in cash and shares (Art. 4.1 AoA). The Board of Directors establishes the compensation payable to its members within the limits approved by the AGM.

The 2016 AGM approved a maximum total compensation for the Board of Directors for the term of office ending at the 2017 AGM of CHF 2.30 million. It consists of

## 2015 (AUDITED TABLE)

(in CHF 1 000)	Fixed cash compensation	Fixed share compensation			Other compensation	Total compensation
<b>BOARD OF DIRECTORS</b>						
Gilbert Achermann (Chairman)	400	224			119	743
Dr h.c. Thomas Straumann (Vice Chairman)	200	112			17	329
Dr Sebastian Burckhardt	100	112			11	223
Roland Hess (Chairman Audit Committee)	150	112			14	276
Ulrich Looser	100	112			11	223
Dr Beat Lüthi	100	112			11	223
Stefan Meister (Chairman Compensation Committee)	150	112			14	276
<b>Total</b>	<b>1 200</b>	<b>896</b>			<b>197</b>	<b>2 293</b>
(in CHF 1 000)	Fixed cash compensation		Performance bonus	Performance share units	Other compensation	Total compensation
<b>EXECUTIVE MANAGEMENT BOARD</b>						
Marco Gadola (CEO)	750		1 535	0	306	2 591
Other members (7 members until 31 March 2015, thereafter 8 members) <sup>1</sup>	2 831		2 910	0	2 113	7 854
Former members	484		367	0	449	1 300
<b>Total</b>	<b>4 065</b>		<b>4 812</b>	<b>0</b>	<b>2 868</b>	<b>11 745</b>
<b>TOTAL</b>	<b>5 265</b>	<b>896</b>	<b>4 812</b>	<b>0</b>	<b>3 065</b>	<b>14 038</b>

<sup>1</sup> Includes compensation of remuneration components forfeited by Petra Rumpf due to resignation from previous employment.

a fixed compensation paid in cash and shares. The proposed total amount includes social security charges and the fringe benefits disclosed in the Compensation Report.

Between 33 and 50% of the compensation is paid in shares which are blocked for two years. In addition to shares allocated as part of their compensation, each member of the Board of Directors is required to hold at least a further 2000 Straumann shares, demonstrating engagement with the company. New Board Members are expected to build up that required shareholding within two years.

Irrespective of role, all members of the Board of Directors are entitled to reimbursement from the company for their reasonable expenses for travel to and from Board meetings, or on behalf of the Board, and other related incidental expenses, in accordance with the expense regulations for Members of the Board of Directors of Straumann Holding AG.

The compensation of the Board of Directors is laid out in the tables (above) in accordance with Swiss law and is in line with current market practices.

None of the Board members received any compensation from the Straumann Group other than that disclosed in this report.

#### COMPENSATION PAID TO FORMER MEMBERS OF THE BOARD OF DIRECTORS

In 2016, no payments to former members of the Board or related parties were made.

#### LOANS TO MEMBERS OF THE BOARD OF DIRECTORS

The AoA do not allow for loans, advances or credits to any member of the Board of Directors or related parties. Thus, no such payments were made in 2016.

## APPROVAL OF COMPENSATION

The AGM prospectively approves the maximum compensation payable to the Board of Directors for the term of office ending at the next AGM. Likewise, the AGM approves the maximum fixed compensation of the EMB prospectively for the period commencing on 1 April and ending on 31 March of the next calendar year. The variable short-term components of the EMB's compensation are approved retroactively for the business year preceding the AGM (see art. 3.1.9 AoA and table opposite).

The compensation of the individual members of the Board and the EMB is decided by the Board of Directors on recommendation of the Compensation Committee and within the limits set by the AGM. The relevant criteria are explained on p. 169 ff., and the compensation awarded to the Board of Directors and the EMB is disclosed in the tables on pp. 170 and 171.

For 2017, a maximum collective STI of CHF 6.20 million (including social costs and other compensation) is budgeted for the EMB if all relevant targets are achieved to the defined maximum (subject to approval at the 2018 AGM). In addition, the Board of Directors will submit a maximum fixed compensation for the EMB of CHF 5.80 million to the AGM. In each case, these figures apply to the EMB as composed on 1 January 2017.

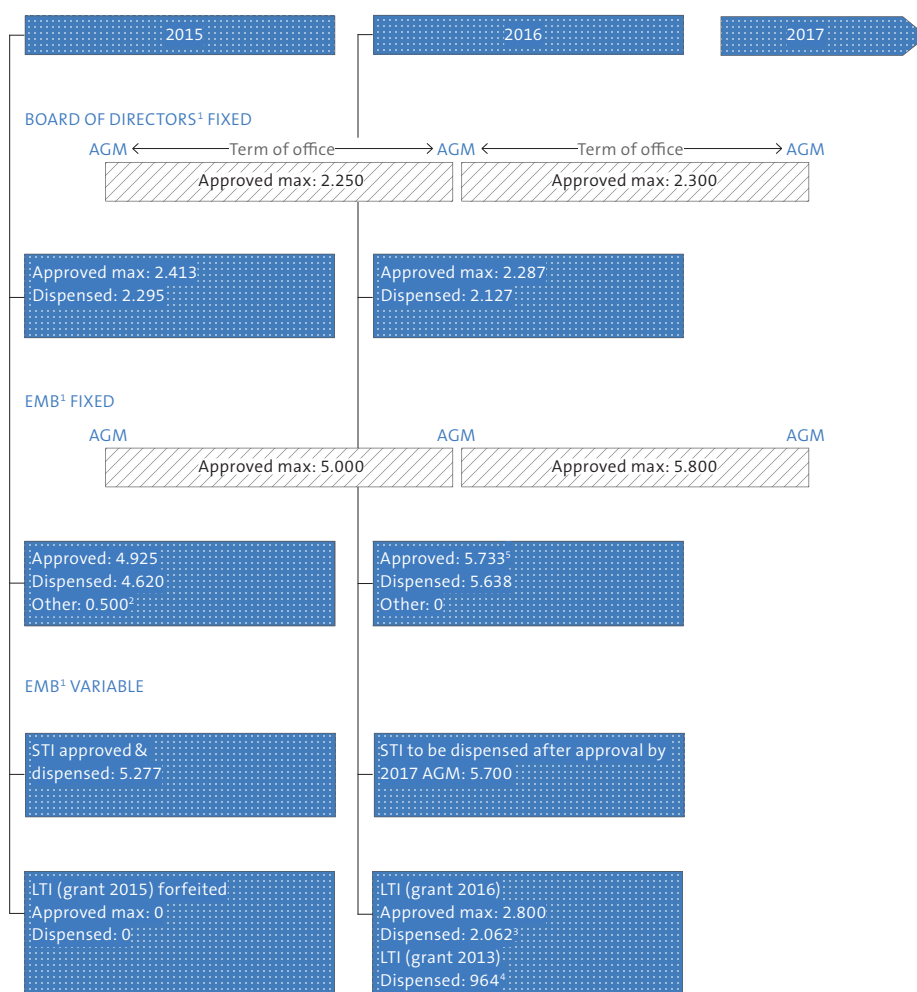
For 2016, a maximum collective LTI of 2.8 million (including social costs) has been approved by the 2016 AGM. Based on the 2016 performance and results the LTI has been granted to the members of the EMB as shown in the 2016 compensation table above.

None of the EMB received any compensation from the Straumann Group other than that disclosed in this report.



## COMPENSATION APPROVED<sup>1</sup> AND DISPENSED

(in CHF million)



<sup>1</sup> As composed at time of respective AGM (2015: 9; 2016: 10 EMB members) and including social costs (active EMB members only). The approved amount for the business year is calculated from one quarter of the previous years' approval and three quarters of the actual approved year.

<sup>2</sup> 'Other compensation' according to Art. 4.3 of the Articles of Association includes compensation of Petra Rumpf in 2015 for remuneration forfeited due to resignation from previous employment.

<sup>3</sup> Excluding social security costs.

<sup>4</sup> Social security costs for vesting grant 2013 only, no approval for that position (before Ordinance against Excessive Compensation).

<sup>5</sup> Includes kCHF 133 for additional EMB member for first quarter of 2016.

In April, the AGM approves the maximum fixed compensation of the Board of Directors for their new term of office, which runs between AGMs. At the same time, the AGM approves the fixed compensation of the Executive Management Board for the period starting on 1 April and ending on 31 March, as well as their short-term incentive for the completed business year, and their long-term incentive grant for the current year.

In each case the approvals relate to the Board and EMB configurations at the time of the respective AGM. This chart shows the amounts approved by the AGM, the respective portions thereof calculated for the calendar year, and the amounts dispensed in the calendar year to the active members of the Board and EMB.

# Report of the statutory auditor on the remuneration report of Straumann Holding AG, Basel

## TO THE GENERAL MEETING OF STRAUMANN HOLDING AG, BASEL

Basel, 9 February 2017

### REPORT OF THE STATUTORY AUDITOR ON THE REMUNERATION REPORT

We have audited the accompanying remuneration report of Straumann Holding AG for the year ended 31 December 2016. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled ‘audited’ on page 170 and 171 of the remuneration report.

### BOARD OF DIRECTORS’ RESPONSIBILITY

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

### AUDITOR’S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to

fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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

### OPINION

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

Ernst & Young Ltd



Daniel Zaugg  
Licensed audit expert  
(Auditor in charge)



Ina Braun  
Licensed audit expert