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LETTER TO THE SHAREHOLDERS

Significant improvement in operating profit figures

The Datwyler Group saw its operating profit figures improve significantly in 2016, with both divisions continuing to make progress in terms of implementing the growth strategy. For example, by acquiring the German firm Ott and starting construction on the new Health Care plant in the USA, the Sealing Solutions division is launching two important investment projects with a view to benefiting more than most from market trends in future. In the Technical Components division, the advent of the shared infrastructure platform has increased product availability and reduced delivery times thanks to more stable structures and processes. This has reversed the negative revenue trend for high-service distribution of electronic components.

EBIT margin at record level

The Datwyler Group increased revenue, compared with the previous year, by 4.3% to CHF 1'215.8 million in 2016 (previous year: CHF 1'165.2 million). Adjusted for positive currency and acquisition effects, organic growth of 1.4% was achieved in the year under review. Various one-off situations across both divisions restricted organic growth to this level. For example, the Sealing Solutions division had to contend with capacity bottlenecks in the Health Care market segment and delays to some of its Civil Engineering projects. In the Technical Components division, the reduction of low margin products and standardisation of discounts had the expected negative impact on revenue.

Thanks to effective cost control, the adjusted operating result (EBIT) increased to CHF 157.6 million, giving a record-high adjusted EBIT margin of 13.0%. Including one-off costs from the Technical Components Division and costs relating to the attempted acquisition of Premier Farnell, the reported EBIT figure was CHF 146.1 million (previous year: CHF 126.1 million), which equates to a reported EBIT margin of 12.0%. With an adjusted value of CHF 116.9 million, Datwyler also managed to improve the net result significantly compared with the previous year (CHF 82.2 million). Additional one-off costs relating to currency hedging and exchange rate losses from the attempted acquisition of Premier Farnell had a negative impact on the financial result during the year under review and reduced the reported net result to CHF 57.6 million.

In view of the fact that operating profitability has remained strong for several years and the highly promising potential for growth, the Board of Directors is asking the Annual General Meeting to pay an unchanged cash dividend of CHF 2.20 per bearer share and CHF 0.44 per registered share. This equates to a distribution ratio of 64.9% of the reported or 32.0% of the adjusted net result.

Both divisions well positioned strategically

Strategically speaking, both divisions at Datwyler are well positioned in attractive market segments. With the intended acquisition of Premier Farnell, Datwyler attempted in 2016 to become the worldwide market leader in high-service distribution for electronic components through one single transaction. When Avnet offered a significantly higher price for Premier Farnell, Datwyler was forced to reassess the strategic options and associated risks and opportunities for both divisions. In making a much higher bid, we would have cast doubt on the further expansion of the sealing business. Given the change in circumstances, it made most sense for Datwyler to walk away from this major acquisition opportunity and revert to the strategy of organic growth in terms of the distribution business – backed up by acquisitions of smaller and medium-sized distributors. One argument for this approach is the fragmented nature of the market, with many providers yet to achieve any kind of critical mass and needing to come up with succession plans. Another is the new shared infrastructure platform, which will enable Datwyler to accelerate organic growth, making it easier to integrate any companies it acquires.

Time-critical electronic components within the Technical Components division

The price paid by Avnet for Premier Farnell has shown that high-service distribution for electronic components represents an attractive business model. This can largely be explained by the fact that professional business-to-business customers are ready to pay providers to stock an up-to-date and comprehensive electronics range, provide competent technical advice and arrange fast delivery of small volumes subject to a surcharge. By mastering these core competencies, the Datwyler distribution companies offer their customers from the maintenance, repair and operation (MRO) and electronic design engineering (EDE) sectors an element of added value in terms of meeting spontaneous requirements for time-critical electronic components. This is reinforced by the trend for producer companies to reduce their inventories of replacement parts and the number of suppliers they use. A parallel development is the "Internet of things", which is constantly seeing new sales sectors emerge – such as kitchen manufacturers, who never used to be customers for electronic components.

System-critical sealing components within the Sealing Solutions division

Within the Sealing Solutions division, Datwyler has succeeded over the years in positioning itself as a partner for the development and production of customer-specific sealing components for attractive global market segments. Our system-critical components make a decisive contribution towards helping our customers' systems to function, but only account for a very small percentage of system costs. The classic example is the rolling diaphragm used in the brake boosters found in cars. And in medicine bottles or pre-filled syringes, Datwyler components also help ensure safe administration of injectable medicines worldwide. The strong market positions we enjoy are based on the core competencies we have developed over many years in the fields of material development, engineering and high-volume production processes. Market growth is being driven by the rapid development in living standards in emerging countries, as well as by technological developments in the Automotive, Health Care, Civil Engineering and Consumer Goods market segments in which we operate. Through acquisitions of suitable companies and by both developing and expanding production plants, we are investing now with a view to benefiting more than most from market trends in future. In the year under review, we acquired new manufacturing technologies through the acquisition of the German company Ott and started to build up future production capacity for high-quality health care components in the USA.

Succession planning ensures continuity

On 1 January 2017, Dirk Lambrecht took over the management of the Datwyler Group as CEO. As Head of Sealing Solutions, he did much to influence the development and growth of that division from 2005 onwards. Since 1 October 2016, the Sealing Solutions Division has been led by Torsten Maschke, who had previously worked at Freudenberg in various management roles at an international level. The Annual General Meeting to be held on 7 March 2017 will see Ulrich Graf step down as Chairman and both Hans R. Rüegg and Ernst Lienhard resign as directors for age-related reasons. Paul Hälgi, who resigned as CEO at the end of 2016, is to be recommended for election as Chairman. After the Annual General Meeting for 2017, the Datwyler Board of Directors will have seven members. Internal succession planning within the Board of Directors and Executive Management helps to ensure continuity and determine the long-term direction of the Datwyler Group.

Reasons to be optimistic – target range for EBIT margin to be increased to between 11% and 14%

We are optimistic that the Datwyler Group can accelerate the profitable growth trajectory. The Sealing Solutions division is benefiting from its strong positions in growing global market segments. In the medium term, the recently acquired new technologies will open up additional potential for development. Within the Technical Components division, we are confident the measures implemented and introduced will make it possible to improve competitiveness and thereby also increase revenue and margins. At a Group level, we are expecting to achieve revenue of between CHF 1'250 million and CHF 1'350 million. And based on the fact that operating profitability remains strong, we are increasing the target range for the EBIT margin to between 11% and 14%. Looking ahead to 2020, the Datwyler Group is still targeting revenue of CHF 2 billion and an EBIT margin of 12% to 15% by this time. Datwyler intends to secure more than half of the shortfall in revenue (based on this target) via acquisitions. With liquidity reserves (cash and cash equivalents plus unused credit limits) worth CHF 600 million, the Group has the potential to finance the acquisitions it aims to make.

The financial strength we enjoy as a company makes us a reliable partner for all stakeholders. We would like to take this opportunity to thank our customers in particular for the confidence they have shown in us and the relationship we enjoy with them – over many years in some cases. We thank our employees for their tremendous commitment and willingness to keep taking on new challenges. And we thank you – the shareholders we value so much – for your continued solidarity with the Datwyler Group.

On behalf of the Board of Directors



Ulrich Graf, Chairman

On behalf of the Executive Management



Dirk Lambrecht, CEO

TRIBUTE TO ULRICH GRAF AND PAUL HÄLG

Greater profitability thanks to successful portfolio management

In their respective roles of Chairman and CEO, Ulrich Graf and Paul Hälg have had a significant influence on how the Datwyler Group has developed over the past 12 years. Both joined Datwyler from elsewhere in 2004 and have since worked with the Board of Directors and Executive Management to realign the business and drive it forwards.

This included designating sealing technology and high-service distribution of electronic components as core business areas. Thanks to successful portfolio management involving both divestments and acquisitions, the number of divisions has reduced from the original five to two, while the two core business areas have been duly expanded. These strategic measures have been complemented by a continuous drive for operational improvements. All this has enabled Datwyler, under the stewardship of Ulrich Graf and Paul Hälg, to become more competitive and achieve a sustained increase in the operating profit margin from nearly 4% in 2004 to comfortably over 10%.

Ulrich Graf and Paul Hälg have shown analytical aptitude, a pragmatic approach and the courage to implement decisions with consistency. Their proactive approach to dealing with the reality of a strong Swiss franc has also seen them attract a degree of criticism. But with the benefit of hindsight, the unpopular decisions to relocate certain operations have made competence centres in Switzerland stronger too.

The Datwyler Group is tremendously grateful to Ulrich Graf and Paul Hälg for the commitment they have shown. As they embark on the next phase of their life, the Board of Directors, Executive Management and employees wish them every happiness and good health.



Hans R. Rüegg
Vice-chairman of the Board of Directors



Ulrich Graf, Chairman



Paul J. Hälg, CEO