

Consolidated Financial Statements

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Group Financial Review

CONSOLIDATED INCOME STATEMENT DATWYLER GROUP

In 2016, the Datwyler Group generated net revenue of CHF 1'215.8 million (previous year CHF 1'165.2 million), representing an increase of 4.3%. The effect of subsidiaries acquired amounted to CHF 23.8 million or 2.0%. The positive impact from foreign currency translation to Swiss francs on consolidation was 0.9%. Adjusted for these factors, organic growth was 1.4%.

Change in net revenue

in CHF millions	2016	%	2015	%
Acquisition/disposal of subsidiaries	23.8	2.0%	-12.4	-1.0%
Foreign currency translation to CHF	10.3	0.9%	-95.4	-7.6%
Organic change	16.5	1.4%	21.1	1.7%
Total change in net revenue	50.6	4.3%	-86.7	-6.9%

The gross profit margin improved to 26.3% (previous year 24.8%). Gross profit was impacted by positive foreign currency translation effects of 0.5% and by raw material prices down 3.2%. Other organic change of gross profit amounted to 5.6%.

Change in gross profit

in CHF millions	2016	%	2015	%
Acquisition/disposal of subsidiaries	4.2	1.5%	-23.5	-7.3%
Foreign currency translation to CHF	1.4	0.5%	-6.9	-2.2%
Impact raw material purchases	9.3	3.2%	13.4	4.2%
Other organic change	16.3	5.6%	-14.6	-4.6%
Total change in gross profit	31.2	10.8%	-31.6	-9.9%

Personnel expenses and operating expenses were continually adjusted to the changed operating environment.

In 2016, the Group's operating result (EBIT) reached CHF 146.1 million (previous year CHF 126.1 million) and the EBIT margin was 12.0% (previous year 10.8%) with the following factors contributing to this change:

Change in EBIT

in CHF millions	2016	%	2015	%
Acquisition/disposal of subsidiaries	2.1	1.7%	3.9	2.9%
Foreign currency translation to CHF	-0.1	-0.1%	-11.5	-8.7%
Organic change	18.0	14.3%	1.4	1.1%
Total change in EBIT	20.0	15.9%	-6.2	-4.7%

EBIT includes a gain of CHF 0.6 million (previous year CHF 0.5 million) on sale of property, plant and equipment and one-time costs related to the planned acquisition of Premier Farnell of CHF 3.9 million.

Net finance costs increased to CHF 50.4 million (previous year CHF 10.9 million), with comparable interest expense of CHF 2.4 million (previous year CHF 2.3 million), but with higher net foreign exchange losses on financing activities of CHF 51.5 million (previous year of CHF 11.8 million). In 2016, net finance costs include one-time hedging and financings costs related to the planned acquisition of Premier Farnell of CHF 44.1 million. Income tax expense increased to CHF 38.1 million (previous year CHF 33.0 million). Accordingly, the tax ratio increased to 39.8% (previous year 28.6%). The Group's weighted average income tax rate for 2016 was 33.8% (previous year 25.7%).

With the higher income tax expenses and higher net finance costs, a net result of CHF 57.6 million (previous year CHF 82.2 million) or 4.7% (previous year 7.1%) of net revenue was achieved.

CONSOLIDATED BALANCE SHEET DATWYLER GROUP

Total assets increased by CHF 88.0 million during the year to CHF 1'217.1 million (previous year CHF 1'129.1 million). Trade accounts receivable increased to CHF 191.0 million (previous year CHF 178.5 million) and inventories increased to CHF 178.7 million (previous year CHF 169.4 million). With trade accounts payable of CHF 63.7 million (previous year CHF 62.6 million), net working capital increased by 7.3% to CHF 306.0 million (previous year CHF 285.3 million). Cash and cash equivalents including money market investments grew by CHF 15.5 million.

Compared to the previous year, equity increased by CHF 79.4 million to CHF 805.5 million (previous year CHF 726.1 million), maintaining a solid equity ratio of 66.2% (previous year 64.3%). The significant changes in equity include the net result of CHF 57.6 million (previous year CHF 82.2 million), the dividend payment of CHF -36.2 million (previous year CHF -78.5 million), the offset of goodwill from acquisitions of CHF -11.2 million (previous year CHF -22.0 million), the proceeds from sales of treasury shares of CHF 68.0 million (previous year none) and negative currency translation differences of CHF -2.1 million (previous year CHF -11.0 million) arising on net investments in foreign subsidiaries.

Short-term and long-term bank debts increased slightly by CHF 2.8 million during the year to CHF 11.5 million (previous year CHF 8.7 million). The Group's liquidity situation remains good, with cash, cash equivalents and money market investments amounting to CHF 317.5 million (previous year CHF 302.0 million) at the end of the year under review. Including the bond of CHF 149.9 million, the net cash position has changed to CHF 156.1 million (previous year CHF 143.5 million).

Current assets grew by 6.7% to CHF 720.8 million (previous year CHF 675.7 million). Non-current assets increased by 9.5% to CHF 496.3 million (previous year CHF 453.4 million).

CONSOLIDATED CASH FLOW STATEMENT DATWYLER GROUP

With the net result of CHF 57.6 million (previous year CHF 82.2 million), net cash from operating activities amounted to CHF 90.7 million (previous year CHF 172.5 million). These cash flows were used to pay for investments in property, plant and equipment totalling CHF 71.5 million (previous year CHF 59.5 million). This represents a capital expenditure ratio (capital expenditure as a percentage of net revenue) of 5.9% versus 5.1% a year earlier. In addition, operating cash flow was used for the acquisition of subsidiaries in the amount of CHF 28.5 million (previous year CHF 27.7 million) and influenced by the increase of bank debt of CHF 0.1 million net (previous year net repayment of CHF 21.4 million). Proceeds from the sale of money market investments and treasury shares amounted to CHF 60.0 million (previous year CHF 48.0 million) and CHF 73.8 million (previous year none), respectively. Overall cash outflows and inflows led to a net change in cash and cash equivalents of CHF 76.8 million (previous year CHF 32.5 million), resulting in a cash and cash equivalents balance of CHF 317.5 million (previous year CHF 242.0 million) at year-end.

ADDITIONAL INFORMATION

The commentary of the significant events during the year under review is presented on pages 3 to 15 of this annual report.

Full-time equivalents

The annual average of full-time equivalents was 7'056 (previous year 6'804).

Risk assessment

As part of its duties to oversee the management of the Group, the Board of Directors of Dätwyler Holding Inc. conducts a systematic risk assessment at least once a year. At its meeting held on 1 October 2016, the Board of Directors acknowledged management's report on group-wide risk management and approved the proposed actions included therein.

Financial risk management

The Datwyler Group's global operations expose it to a variety of financial risks, including currency risk, interest rate risk, credit risk, liquidity risk and market price risk. The nature of these risks has not changed significantly from the previous year. The Group's financial risk management measures, implemented without change from the previous year, seek to minimise potential adverse effects of the unpredictability of financial markets on the Group's financial performance. For this purpose, derivative financial instruments are used to hedge risks and exposures.

Liquidity reserves

in CHF millions	2016	2015
Cash and cash equivalents	317.5	242.0
Money market investments	–	60.0
Available credit lines	343.9	327.8
Total liquidity reserves	661.4	629.8

Net cash surplus

in CHF millions	2016	2015
Cash and cash equivalents	317.5	242.0
Money market investments	0.0	60.0
Less short-term bank debt	–4.0	–3.3
Net cash surplus	313.5	298.7

Order intake and backlog

For Datwyler Group overall no meaningful order intake or backlog data can be presented because the business in the Technical Components division is mostly executed on a daily basis with no significant order intake and backlog existing.

Research and development expenses

The research and development expenses are disclosed in the consolidated income statement. The research and development activities relate to various projects primarily for customers or products in the Sealing Solutions division.

Exceptional events

In 2016, one-time costs related to the planned acquisition of Premier Farnell of CHF 48.0 million in total are included in the income statement. Acquisition and sale of subsidiaries are disclosed in note 31, other business transactions are presented in note 2 of the notes to the consolidated financial statements.

Future outlook

The estimates relating to the future outlook are presented on pages 3 to 15 of this annual report.

Consolidated Income Statement

in CHF millions

	Note	2016	2015
Net revenue	3	1'215.8	1'165.2
Cost of goods sold		-895.6	-876.2
Gross profit		320.2	289.0
Research and development expenses		-23.6	-24.7
Marketing and selling expenses		-87.9	-90.0
General and administrative expenses		-76.8	-61.0
Other operating income	4	14.8	13.3
Other operating expenses		-0.6	-0.5
Operating result before interest and taxes (EBIT)	3	146.1	126.1
Net finance result	8	-50.4	-10.9
Earnings before tax (EBT)		95.7	115.2
Income tax expenses	9	-38.1	-33.0
Net result		57.6	82.2
Net result per bearer share entitled to dividend (in CHF)	24	3.47	5.04

For both years, there were no dilutive effects affecting the net result per share.

The accompanying notes on pages 58 to 85 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

Assets

in CHF millions	Note	31.12.2016	31.12.2015
Cash and cash equivalents	10	317.5	242.0
Money market investments	10	–	60.0
Trade accounts receivable	11	191.0	178.5
Inventories	12	178.7	169.4
Other receivables	13	25.3	18.5
Property, plant and equipment and intangible assets held for sale		–	0.7
Prepayments made and accrued income		8.3	6.6
Current assets		720.8	675.7
Property, plant and equipment	14	412.8	374.1
Intangible assets	15	19.5	16.3
Deferred income tax assets	22	60.8	60.3
Miscellaneous financial assets	16	3.2	2.7
Non-current assets		496.3	453.4
Total assets		1'217.1	1'129.1

Liabilities and equity

in CHF millions	Note	31.12.2016	31.12.2015
Trade accounts payable	19	63.7	62.6
Short-term bank debt	17	4.0	3.3
Current provisions	21	24.6	31.3
Other current liabilities	20	69.3	64.3
Accrued expenses and deferred income		46.9	34.8
Current liabilities		208.5	196.3
Long-term bank debt	17	7.5	5.4
1.125% bond 2012–2018	18	149.9	149.8
Long-term provisions	21	12.1	15.1
Deferred income tax liabilities	22	27.9	29.5
Pension liabilities	6	3.9	3.5
Other long-term liabilities	20	1.8	3.4
Long-term liabilities		203.1	206.7
Total liabilities		411.6	403.0
Share capital	23	0.9	0.9
Treasury shares	25	–	–0.0
Additional paid-in capital		205.0	134.0
Goodwill offset against equity		–655.8	–644.6
Retained earnings		1'354.4	1'333.0
Market valuation cash flow hedges		–	–0.3
Cumulative translation adjustments		–99.0	–96.9
Equity		805.5	726.1
Total liabilities and equity		1'217.1	1'129.1

The accompanying notes on pages 58 to 85 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

in CHF millions	Note	2016	2015
Net result		57.6	82.2
Income tax expenses	9	38.1	33.0
Depreciation and amortisation	7	58.2	53.3
Share award plan		3.2	2.5
Exchange differences		0.2	27.6
Loss on sale of property, plant and equipment, net		0.0	0.0
Change in long-term provisions and pension liabilities		-2.3	4.7
Interest income	8	-0.2	-0.5
Interest expense	8	2.4	2.3
Operating cash flow before changes in working capital		157.2	205.1
Change in trade accounts receivable		-11.2	-13.3
Change in other receivables, prepayments made and accrued income		-6.5	-0.6
Change in inventories		-6.1	-1.8
Change in trade accounts payable		-0.2	-1.2
Change in other current liabilities, accrued expenses and deferred income		6.1	13.8
Change in current provisions		-7.0	-5.7
Interest received		0.2	0.5
Interest paid		-2.2	-2.1
Income tax paid		-39.6	-22.2
Net cash from operating activities		90.7	172.5
Disbursements relating to purchases of / investments in:			
Property, plant and equipment		-71.5	-59.5
Intangible assets		-9.6	-5.0
Subsidiaries (net of cash and cash equivalents acquired)	31	-28.5	-27.7
Additional earn-out payments		-4.4	-2.9
Financial assets		-0.6	-1.6
Proceeds from sale of:			
Property, plant and equipment		3.2	2.9
Financial assets		0.1	0.2
Money market investments		60.0	48.0
Net cash used in by investing activities		-51.3	-45.6
Proceeds from short-term bank debt		5.4	22.5
Repayment of short-term bank debt		-5.3	-43.9
Increase / (decrease) in finance lease and other long-term liabilities		-0.3	0.1
Proceeds from sale of treasury shares		73.8	-
Dividend paid to shareholders		-36.2	-73.1
Net cash provided by / (used in) financing activities		37.4	-94.4
Net change in cash and cash equivalents		76.8	32.5
Cash and cash equivalents at 1 January	10	242.0	213.1
Effect of exchange rate changes on cash and cash equivalents		-1.3	-3.6
Cash and cash equivalents at 31 December	10	317.5	242.0

The accompanying notes on pages 58 to 85 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

in CHF millions	Share capital ¹	Treasury shares ¹	Additional paid-in capital	Goodwill offset against equity	Retained earnings	Market valuation cash flow hedges	Cumulative translation adjustments ²	Total equity ³
At 1 January 2015	0.9	-0.1	131.5	-622.6	1'329.4	-	-85.9	753.2
Net result	-	-	-	-	82.2	-	-	82.2
Share award plan (see note 26)	-	0.0	2.5	-	-	-	-	2.5
Dividends	-	0.1	-	-	-78.6	-	-	-78.5
Offset of goodwill from acquisitions (see note 15)	-	-	-	-22.0	-	-	-	-22.0
Changes in market valuation of cash flow hedges	-	-	-	-	-	-0.3	-	-0.3
Currency translation differences	-	-	-	-	-	-	-11.0	-11.0
At 31 December 2015	0.9	-0.0	134.0	-644.6	1'333.0	-0.3	-96.9	726.1
Net result	-	-	-	-	57.6	-	-	57.6
Share award plan (see note 26)	-	0.0	3.0	-	-	-	-	3.0
Dividends	-	-	-	-	-36.2	-	-	-36.2
Offset of goodwill from acquisitions (see note 15)	-	-	-	-11.2	-	-	-	-11.2
Proceeds from sale of treasury shares (see note 25)	-	0.0	68.0	-	-	-	-	68.0
Changes in market valuation of cash flow hedges	-	-	-	-	-	0.3	-	0.3
Currency translation differences	-	-	-	-	-	-	-2.1	-2.1
At 31 December 2016	0.9	-	205.0	-655.8	1'354.4	-	-99.0	805.5

¹ Holding company's share capital of CHF 850'000 (previous year CHF 850'000), less par value of treasury shares of CHF 0 (previous year CHF 27'502).

² Arising on translation of subsidiaries' equity and income statements denominated in foreign currencies.

³ At 31 December 2016 shareholders' equity includes legal reserves of CHF 180.0 million (previous year CHF 180.0 million), of which CHF 37.7 million (previous year CHF 37.7 million) are not distributable.

Net proceeds from sale of treasury shares of CHF 68.0 million equate gross proceeds of CHF 73.8 million, less income taxes of CHF 5.8 million, which at year-end 2016 were not paid yet, increasing the proceeds from sale of treasury shares reported in the cash flow statement accordingly.

In addition to the ordinary cash dividend of CHF 2.20 gross per bearer share or CHF 0.44 gross per registered share or CHF 35.1 million in total, respectively, the Annual General Meeting of 16 April 2015 declared in the previous year an anniversary stock dividend whereby treasury shares held by Dätwyler Holding Inc. were distributed. Shareholders received three additional bearer shares for every 100 bearer shares and every 500 registered shares held. A total of 477'264 treasury shares with a fair value of CHF 69.9 million were distributed at par value and fractions amounting to CHF 0.2 million were compensated in cash. The reported dividend of CHF 78.6 million also includes withholding and income taxes and stamp duty of CHF 43.3 million in total, of which an amount of CHF 5.5 million was not yet paid at year-end 2015, decreasing the dividend payment reported in the cash flow statement accordingly.

The accompanying notes on pages 58 to 85 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 / SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements give a true and fair view of the financial position, results of operations and cash flows of the Datwyler Group. They have been prepared in accordance with the complete set of Swiss GAAP Accounting and Reporting Recommendations (Swiss GAAP ARR) and are based on the subsidiaries' annual financial statements at 31 December which are prepared using uniform classification and accounting policies. The adoption of the revised Swiss GAAP standards for revenue recognition as of 1 January 2016 had no effect on the income statement and notes to the consolidated financial statements. The consolidated financial statements are prepared under the going concern assumption, based on the historical cost principle, and also comply with the Listing Rules of the SIX Swiss Exchange and the provisions of Swiss Corporation Law. The Board of Directors of Dätwyler Holding Inc. approved the consolidated financial statements at its meeting on 3 February 2017 for submission to the Annual General Meeting on 7 March 2017.

Use of estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Dätwyler Holding Inc. domiciled in Altdorf (Switzerland) and all subsidiaries that belonged to the Group during the year and over which Dätwyler Holding Inc. had the power to govern the financial and operating policies so as to obtain benefits from their activities. At Datwyler Group, this is achieved when more than 50% of a subsidiary's share capital or voting rights is unconditionally owned directly or indirectly by Dätwyler Holding Inc.

A list of the subsidiaries included in the consolidation is presented in note 34.

Consolidation method

The financial statements of subsidiaries are prepared using uniform classification and accounting policies. The reporting date for Dätwyler Holding Inc., all subsidiaries and the consolidated financial statements is 31 December.

The full consolidation method is applied to all subsidiaries included in the consolidation. Their assets, liabilities, income and expenses are incorporated in full. Minority interests are presented as a separate component of the Group's equity and net result. The purchase method of accounting is used to account for the acquisition of subsidiaries. Under this method, the carrying amount of the investment in a subsidiary is offset against the Group's share of the fair value of the subsidiary's net assets.

Intercompany transactions and balances are eliminated. Unrealised intercompany profits on goods and services supplied within the Group but not yet sold to third parties are eliminated on consolidation.

Companies over which the Group has the power to exercise significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights, are classified as associates and accounted for using the equity method. At year-end of the current reporting year, the Group had no investments classified as associates.

Companies acquired or established or those in which the Group increases its interest and thereby obtains control during the year are consolidated from the date of formation or date on which control commences. Companies are deconsolidated from the date that control effectively ceases upon disposal or a reduction in ownership interest.

Foreign currency translation

TRANSLATION FOR CONSOLIDATION PURPOSES

The financial statements of foreign subsidiaries are prepared in local currencies. For the purpose of consolidation, the local financial statements are translated into Swiss francs (CHF), which is the Group's presentation currency. The principal exchange rates used to translate foreign currencies in the Datwyler Group were as follows:

	2016		2015	
	Closing rate at 31.12.	Average rate for the year	Closing rate at 31.12.	Average rate for the year
100 CNY	14.66	14.85	15.26	15.40
1 EUR	1.07	1.09	1.08	1.07
1 USD	1.02	0.99	0.99	0.96

For the purpose of presenting consolidated financial statements, assets and liabilities for each balance sheet are translated at the closing rate at the balance sheet date, while income statements, cash flow statements and other movements are translated at average exchange rates for the year.

Exchange differences arising from the translation of balance sheets and income statements of foreign subsidiaries are taken directly to reserves (currency translation reserve in equity) and not recognised in the income statement.

TRANSLATION OF BALANCES AND TRANSACTIONS IN THE ACCOUNTS OF SUBSIDIARIES

In preparing the financial statements of the individual subsidiaries, assets and liabilities denominated in foreign currencies are translated at the closing rates used in the consolidation. Exchange differences resulting from the settlement of foreign currency transactions and from the translation of assets and liabilities denominated in foreign currencies are recognised as foreign exchange gains or losses in the income statement. Exchange differences from the valuation of equity-like loans denominated in foreign currencies or in CHF at foreign subsidiaries are directly charged to equity.

Income statement and balance sheet

REVENUE RECOGNITION

In the Sealing Solutions division revenues are mainly generated from the sale of products from own production and in the Technical Components division from distribution of goods for resale. Revenue arising from the sale of manufactured products and goods for resale is recognised when the significant risks and rewards of ownership have passed to the buyer, which generally coincides with their delivery. Revenue under long-term multiple supply contracts is recorded when each instalment is delivered, according to the quantity delivered. Revenue from services rendered is recognised by reference to the stage of completion in the period in which the services were rendered.

GROSS PROFIT

The income statement is presented using the functional format where gross profit represents net revenue less cost of goods sold.

RESEARCH AND DEVELOPMENT

Research expenditure is recognised as an expense in the period in which it is incurred. Development costs are capitalised only if it can be demonstrated that future economic benefits will be generated. Otherwise they are charged to the income statement.

INCOME TAX EXPENSE

Current income tax is calculated on taxable profits for the year and recognised on an accrual basis.

Deferred income tax is provided, using the liability method, on all temporary differences and recognised as tax liabilities or assets. Temporary differences arise between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The same method is also used to provide for differences arising on acquisitions between the fair value and tax base of the assets acquired. Deferred tax assets and liabilities are offset when the Group has a legally enforceable right and intends to settle its current tax assets and liabilities on a net basis. Deferred tax is calculated using local tax rates that have been enacted by the balance sheet date.

Tax losses carried forward and other temporary valuation differences are recognised as deferred tax assets to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Provision is made for tax that will arise on the distribution of profits retained by subsidiaries, mainly comprising non-refundable withholding tax and income tax in the parent company, if it is intended to remit such profits in the form of dividends.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, deposits in postal and bank accounts, and money market investments with original maturities of three months or less. They are stated at nominal value.

MONEY MARKET INVESTMENTS

Money market investments with a maturity of 91 to 360 days are stated at nominal value.

SECURITIES

Securities are initially recognised at cost including transaction costs. All purchases and sales are recognised on the trade date. Securities are subsequently remeasured to their current fair value at each balance sheet date with unrealised gains and losses recognised in the income statement and classified as current assets. Foreign exchange gains and losses on securities are also recognised in the income statement.

TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT RECEIVABLES

Trade accounts receivable and other current receivables are recognised at nominal value less provision for any impairment.

Doubtful debts are provided for by way of specific provisions and taking into account the actual losses expected based on past experience. Delinquency in payment by customers, or the probability that the debtor will enter bankruptcy or financial reorganisation are considered indicators of impairment. The provision for impairment of receivables is presented separately. The amount of the provision is the difference between the receivable's carrying amount and its current estimated recoverable amount. When receivables are no longer collectible, they are written off against the provision for impairment. Changes in the carrying amount of the provision for impairment and income from recoveries of receivables previously written off are recognised in operating expenses in the income statement.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Purchasing discounts received are offset against the production cost of inventories. Production cost comprises all direct material and manufacturing costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined using the weighted average method. Appropriate provisions are made for slow-moving inventories and obsolete inventories are fully written off. If the net realisable value of inventories is lower than their purchase price or production cost, then their carrying amount is written down as necessary.

PROPERTY, PLANT AND EQUIPMENT

Land is stated at cost. Buildings, plant and equipment are stated at cost less depreciation, calculated on a straight-line basis to write off the assets over their estimated useful lives, and less any impairment losses. Cost comprises the purchase price and any costs directly attributable to bringing the assets into working condition for their intended use.

The estimated useful lives and depreciation periods are as follows:

	Years
Buildings:	
Building structures	20–40
Interiors	20
Installations, storage equipment, tanks, silos, etc.	10–20
Production equipment	10–15
Production equipment: electrical/electronic equipment	5–8
Machinery	8–10
Moulds and tools	3

Land is generally not depreciated, but any impairment loss is recognised.

Costs of maintenance and renovations, other than improvements, are charged to the income statement. Borrowing costs of long-term projects actually incurred during construction in progress are capitalised, all other financing costs are expensed as incurred.

The residual values and useful lives of property, plant and equipment are reviewed annually and adjusted, if appropriate.

LEASES

The Datwyler Group leases certain assets. Finance leasing and operating leasing agreements are treated differently. In a finance lease, the lessor transfers substantially all the risks and rewards relating to ownership of the leased asset to the Datwyler Group. The fair value of such assets or, if lower, the net present value of the future minimum lease payments is therefore recognised as a non-current asset and as a finance lease liability in the balance sheet. Assets acquired under finance leases are depreciated over the shorter of their estimated useful lives or the lease term. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

INTANGIBLE ASSETS

Intangible assets mainly include software as well as licences, patents and other intangible assets which are capitalised at cost and amortised on a straight-line basis over their estimated useful lives. Useful lives of software are between 3 and 5 years.

GOODWILL

Goodwill arising on business combinations represents the excess of the cost of acquisition over the Group's interest in the fair value of the recognised assets and liabilities at the date of acquisition. Goodwill from acquisitions is fully offset against equity at the date of acquisition. The impact of the theoretical capitalisation and amortisation of goodwill is disclosed in the notes to the consolidated financial statements. On sale of an acquired subsidiary, goodwill from acquisitions formerly directly offset against equity is charged to income at original cost when calculating the gain or loss on sale. For the determination of goodwill from acquisitions, parts of the purchase price contingent on future performance are estimated best possible at the date of acquisition. Accordingly, goodwill offset against equity is modified for adjustments resulting later from the final purchase price determination. Goodwill may also arise upon investments in associates, being the excess of the cost of investment over the Group's share of the fair value of the net assets recognised.

IMPAIRMENT OF NON-CURRENT ASSETS AND GOODWILL

At every balance sheet date an assessment is made for non-current assets (in particular property, plant, equipment, intangible assets, financial assets as well as goodwill offset against equity) whether indicators for an impairment exist. If indicators for a continuous impairment exist, the recoverable amount of the asset is determined. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest cash-generating unit to which the asset belongs.

When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised separately in the income statement. As goodwill is fully offset against equity at the date of acquisition, an impairment of goodwill will not affect income, but only be disclosed in the notes to the consolidated financial statements.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments used for hedging balance sheet items are recognised at fair value on the date a derivative contract is entered into and are recorded as other receivables or other current liabilities. Derivatives are subsequently remeasured to their current fair value at each balance sheet date, with unrealised gains and losses recognised in the income statement. Fair values of derivative financial instruments are determined by reference to current market prices on the balance sheet date. Changes in the fair value of derivative financial instruments used to hedge future cash flows are directly recognised in equity until realised.

Derivatives used to hedge purchases of raw materials with physical settlement (delivery) are excluded from fair value measurement. The Group does not enter into any commodity contracts for speculative purposes.

The Group uses forward exchange contracts and currency options to hedge its exposure to foreign currency risk.

MISCELLANEOUS FINANCIAL ASSETS

Miscellaneous financial assets include loans to third parties and minority shareholdings. Loans receivable and minority shareholdings are stated at cost less appropriate impairment losses.

TRADE ACCOUNTS PAYABLE

Trade accounts payable are recognised at nominal value.

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. A provision for the expected costs associated with restructuring is recognised when a detailed restructuring plan has been developed and the measures have been approved before the balance sheet date. For long-term provisions material discounting effects are considered.

BANK DEBT

Bank debt is recognised at nominal value. Discounts are netted with bank debt and recognised on a straight-line basis in the financial result of the income statement over the period of the respective bank loan. Bank debt is classified as current liabilities unless the Group has the right to defer settlement of the liability for at least 12 months after the balance sheet date.

BONDS

Bonds are initially recorded at issue price net of issue costs. Issue costs and any discount or premium are recognised in the financial result of the income statement over the period of the respective bond.

DIVIDENDS

Dividend payments to shareholders are recognised as a liability in the balance sheet in the period in which the dividends are approved by shareholders.

PENSION BENEFITS

Pension benefit obligations of subsidiaries are recognised in the consolidated financial statements according to legal regulations and local rules of the respective countries. The actual economic impact of pension schemes for a Group company is calculated as at balance sheet date. An economic benefit is recorded, if it will be used for future pension contributions made by the company. An economic obligation is recognised if the requirements to record a provision are met. Unrestricted employer contribution reserves are capitalised as an asset.

The Swiss subsidiaries of the Group have their own legally independent pension schemes financed by employer and employee contributions. The economic impact of a funding surplus or deficit of pension schemes for the Group, the change in employer contribution reserves and the contributions accrued for the period are charged to income as personnel expenses. The calculation of a funding surplus or deficit is made based on the annual financial statements of the respective pension schemes prepared in accordance with Swiss GAAP ARR 26.

There are no significant pension schemes in foreign countries. Certain foreign subsidiaries have unfunded pension schemes and recognise the respective benefit obligation as a provision directly in the balance sheet. Such pension liabilities are calculated using methods accepted in the respective countries with changes charged to income as personnel expenses. In addition, in certain countries there are comprehensive coverages with insurance companies where the paid insurance premiums are recorded as an expense.

SHARE AWARD PLAN

A share award plan for Directors and senior executives has been in place since 2007, see note 26. Share-based payments to Directors and senior executives are measured at market value at the issue date and recognised as personnel expenses. The shares awarded may not be sold for a period of 5 years after issue date. Voting and dividend rights of shares awarded are transferred to beneficiaries at issue date.

CAPITAL MANAGEMENT

The Group has a solid equity base. It consequently focuses the management of its capital structure on the equity of the Group as a whole, the following objectives and policies being relevant:

- Where possible and economically viable, the Group finances its operations through equity, the objective being to maintain an equity ratio of approximately 60%.
- A portion of profits generated is paid out to owners as dividends, taking into account current financing needs and compliance with legal requirements. The current dividend policy is generally to maintain a payout ratio of about one-third of the Group's profit for the year.

2 / BUSINESS ACQUISITIONS AND DISPOSALS

Acquisitions and disposals during 2016 and 2015 are shown below, see also note 31. The percentages in brackets indicate the percentage voting rights held in each company.

Transactions 2016

ACQUISITIONS

Ott GmbH & Co. KG and Ott Geschäftsführungs GmbH, both domiciled in Cleeborn, Germany (100%)

MERGERS

At the beginning of August 2016 Elfa Distrelec AB (100%) and Nordic Power i Strömstad AB (100%) were merged with Distrelec Sweden AB, which thereafter was renamed Elfa Distrelec AB.

Transactions 2015

ACQUISITIONS

Origom S.p.A. domiciled in Viadanica, Italy (100%)

COMPANIES ESTABLISHED

TeCo Asia Technology (Shenzhen) Co. Ltd., Shenzhen, China (100%)

MERGERS

In January 2015 Dätwyler Pharma Pack Holding AG (100%) was merged with Dätwyler Schweiz AG.

In May 2015 Matrijzenmakerij Maro B.V. (100%) was merged with Datwyler Pharma Packaging Belgium NV.

In October 2015 Nedis Management SAS and B.R.I. Sarl (both 100%) were merged with Nedis SAS.

LIQUIDATIONS

Fameart Limited, Leicester, England (100%)

Nedis Logistic SAS, Cergy Saint Christophe, France (100%)

3 / SEGMENT INFORMATION

in CHF millions				
	Sealing Solutions	Technical Components	Elimi- nations	Total Group
2016				
Revenue from external customers	753.3	462.5	–	1'215.8
Inter-segment revenue	0.0	0.1	–0.1	–
Total net revenue	753.3	462.6	–0.1	1'215.8
EBIT	136.7	9.4	–	146.1
EBIT as % of net revenue	18.1%	2.0%	–	12.0%

in CHF millions				
	Sealing Solutions	Technical Components	Elimi- nations	Total Group
2015				
Revenue from external customers	705.9	459.3	–	1'165.2
Inter-segment revenue	0.0	0.0	–0.0	–
Total net revenue	705.9	459.3	–0.0	1'165.2
EBIT	125.8	0.3	–	126.1
EBIT as % of net revenue	17.8%	0.1%	–	10.8%

The Datwyler Group is a focused industrial supplier with leading positions in global and regional market segments. The Group is organised into two divisions.

The result of the Group management functions is allocated to the divisions using a revenue-based key. The divisions are managed independently and their business performance is measured separately.

The Sealing Solutions division offers customised sealing solutions in global market segments including automotive, civil engineering, consumer goods and health care. The significant manufacturing and distribution companies are located in Switzerland, Germany, Belgium, the Netherlands, Italy, the Czech Republic, Ukraine, China, South Korea, India, the USA, Brazil and Mexico.

The Technical Components division is a high-service distributor of electronic, automation and ICT components and accessories with about 30 distribution and service companies across Europe. Significant operations are located in Switzerland, Germany, the Netherlands as well as in Scandinavia.

Net revenue by geographical region

<u>in CHF millions</u>	2016	2015
Switzerland	213.1	209.4
European Union	642.8	608.4
Rest of Europe	29.7	26.0
North and South America	179.6	179.6
Far East	119.3	105.5
Other markets	31.3	36.3
Total Group	1'215.8	1'165.2

Net revenue by geographical region corresponds to revenue from external customers by destination.

4 / ADDITIONAL INCOME STATEMENT DISCLOSURES

Material expense of CHF 527.5 million (previous year CHF 528.5 million) is included in the income statement.

Other operating income includes gain on sale of property, plant and equipment of CHF 0.6 million (previous year CHF 0.5 million) as well as ancillary revenues and rental income.

5 / PERSONNEL EXPENSES

<u>in CHF millions</u>	2016	2015
Wages and salaries	242.7	229.8
Benefit costs	53.9	52.9
State social security contributions	34.1	33.1
Pension costs (see note 6)	10.1	10.3
Other benefit costs	9.7	9.5
Other employee costs	15.3	13.9
Total personnel expenses	311.9	296.6

A share award plan for Directors and senior executives has been in place since 2007, see note 26.

6 / EMPLOYEE BENEFIT SCHEMES

Economic benefit / obligation and pension costs

in CHF millions	Funding surplus/deficit according to Swiss GAAP ARR 26	Economic impact Group	Economic impact Group	Changes not affecting income ¹	Change to prior year or charge to income current year	Contributions for the period	Pension costs in personnel expenses	Pension costs in personnel expenses
	31.12.2016	31.12.2016	31.12.2015				2016	2015
Welfare funds Switzerland	0.4	–	–	–	–	–	–	–
Pension schemes without funding surplus/deficit Switzerland	–	–	–	–	–	6.5	6.5	–
Pension schemes with funding surplus Switzerland	–	–	–	–	–	–	–	6.6
Pension schemes without funding surplus/deficit abroad	–	–	–	–	–	2.6	2.6	2.5
Unfunded pension schemes abroad	–	–3.9	–3.5	0.0	0.4	0.6	1.0	1.2
Total	–	–3.9	–3.5	0.0	0.4	9.7	10.1	10.3

¹ Translation differences and acquisition/disposal of subsidiaries.

At year-end 2016, as at the end of the previous year, no employer contribution reserves (ECR) existed.

Summary of pension costs

in CHF millions	Switzerland	Abroad	Total
	2016	2016	2016
Contributions to pension schemes expensed at Group companies	6.5	3.2	9.7
Contributions to pension schemes made from employer contribution reserves (ECR)	–	–	–
Total contributions	6.5	3.2	9.7
+/- Changes in ECR due to asset performance, value adjustments, discounting, etc.	–	–	–
Contributions and changes in employer contribution reserves	6.5	3.2	9.7
Increase/reduction economic benefit Group from excess coverage	–	–	–
Reduction/increase economic obligation Group from insufficient coverage	–	0.4	0.4
Total change in economic impact from excess/insufficient coverage	–	0.4	0.4
= Pension costs included in personnel expenses for the period	6.5	3.6	10.1

in CHF millions	Switzerland	Abroad	Total
	2015	2015	2015
Contributions to pension schemes expensed at Group companies	6.6	2.9	9.5
Contributions to pension schemes made from employer contribution reserves (ECR)	–	–	–
Total contributions	6.6	2.9	9.5
+/- Changes in ECR due to asset performance, value adjustments, discounting, etc.	–	–	–
Contributions and changes in employer contribution reserves	6.6	2.9	9.5
Increase/reduction economic benefit Group from excess coverage	–	–	–
Reduction/increase economic obligation Group from insufficient coverage	–	0.8	0.8
Total change in economic impact from excess/insufficient coverage	–	0.8	0.8
= Pension costs included in personnel expenses for the period	6.6	3.7	10.3

7 / DEPRECIATION AND AMORTISATION

in CHF millions	2016	2015
Depreciation of property, plant and equipment	51.8	48.1
Depreciation of property, plant and equipment held for sale	–	0.0
Amortisation of intangible assets	6.4	5.2
Impairment charges	–	–
Total depreciation and amortisation	58.2	53.3

8 / NET FINANCE RESULT

in CHF millions	2016	2015
Interest expense on bond, bank and other loans	2.4	2.3
Interest expense on finance leases	0.0	0.0
Fair value loss on forward exchange contracts	0.0	5.9
Net foreign exchange loss on financing activities	51.5	11.8
Finance charges	5.6	1.3
Total interest and finance expenses	59.5	21.3
Interest income on bank deposits and loans receivable	–0.2	–0.5
Fair value gain on forward exchange contracts	–8.9	–9.9
Total interest and finance income	–9.1	–10.4
Net finance result (expenses, net)	50.4	10.9

Net finance result includes one-time hedging and financings costs related to the planned acquisition of Premier Farnell of CHF 44.1 million.

9 / INCOME TAX EXPENSES

in CHF millions	2016	2015
Current income tax expense	36.1	32.3
Deferred income tax expense	2.0	0.7
Total income tax expenses	38.1	33.0

The effective tax charge on earnings before tax, using the weighted average income tax rate of 33.8% (previous year 25.7%) of the Group, can be analysed as follows:

in Mio. CHF	2016	2015
Earnings before tax	95.7	115.2
Income tax expense calculated at the weighted average tax rate	32.3	29.6
Effect of current year tax losses not recognised and reassessment of tax loss carryforwards	5.2	3.6
Effect of previously unrecognised tax loss carryforwards used against taxable profits	-0.2	-1.8
Other new assessments of temporary differences	-	-2.4
Change in tax rates for deferred income taxes	-0.2	-
Expense and income items treated differently for tax purposes	-0.8	1.3
Non-refundable taxes on intra-group charges and dividends	1.1	2.1
Prior year tax adjustments	0.2	-0.1
Other effects	0.5	0.7
Total (current and deferred) income tax expenses	38.1	33.0

Taxable results differing by region are responsible for changes in the weighted average tax rate, which in 2016 was also influenced by the one-time costs related to the planned acquisition of Premier Farnell.

10 / CASH, CASH EQUIVALENTS AND MONEY MARKET INVESTMENTS

in CHF millions	2016	2015
Cash in hand and at bank	206.0	196.6
Money market investments (original maturities up to 90 days)	111.5	45.4
Total cash and cash equivalents	317.5	242.0
Money market investments (maturities 91 to 360 days)	-	60.0
Total cash, cash equivalents and money market investments	317.5	302.0

11 / TRADE ACCOUNTS RECEIVABLE

in CHF millions	2016	2015
Trade accounts receivable from third parties, gross	192.9	182.4
Provision for impairment of trade accounts receivable	-2.9	-4.4
Total trade accounts receivable from third parties, net	190.0	178.0
Trade accounts receivable from related parties	1.0	0.5
Total trade accounts receivable, net	191.0	178.5

Aging analysis of gross trade accounts receivable from third parties

in CHF millions	2016	2015
Not yet due	162.3	154.0
Past due 1–30 days	19.3	15.0
Past due 31–60 days	4.0	3.9
Past due 61–90 days	1.0	1.4
Past due 91–180 days	2.4	3.2
Past due more than 180 days	3.9	4.9
Total trade accounts receivable from third parties, gross	192.9	182.4

Movements in provision for impairment of trade accounts receivable

in CHF millions	2016	2015
At 1 January	4.4	4.3
Charge for the year	1.5	2.0
Unused amounts reversed	-1.6	-0.5
Receivables written off as uncollectible	-1.4	-1.0
Acquisition/disposal of subsidiaries	0.0	0.0
Exchange differences	-0.0	-0.4
At 31 December	2.9	4.4
Of which specific provisions for impairment	2.7	4.1

12 / INVENTORIES

in CHF millions	2016	2015
Raw material, gross	22.7	19.0
Consumables, gross	16.6	15.7
Work in progress, gross	11.5	11.3
Finished goods, gross	38.6	34.2
Goods for resale, gross	116.6	116.5
Provision for impairment of inventories	-27.3	-27.3
Total inventories	178.7	169.4

13 / OTHER RECEIVABLES

in CHF millions	2016	2015
Withholding, capital and value added tax receivable	9.5	10.3
Current income tax assets	3.9	1.2
Prepayments made, advances given and deposits made	3.1	2.7
Derivative assets: forward exchange contracts (see note 28)	3.9	0.8
Miscellaneous receivables	4.9	3.5
Total other receivables	25.3	18.5

14 / PROPERTY, PLANT AND EQUIPMENT

in CHF millions	Real estate	Machinery and production equipment	Office equipment, computer systems, vehicles	Assets under construction	Total property, plant and equipment
PROPERTY, PLANT AND EQUIPMENT 2016					
At cost					
At 1 January 2016	260.2	519.0	38.8	40.3	858.3
Additions	2.2	17.6	2.7	55.3	77.8
Disposals	-2.6	-7.6	-1.4	-0.0	-11.6
Transfers	14.9	22.7	1.1	-38.7	-
Reclassification from current assets	0.7	-	-	-	0.7
Acquisition/disposal of subsidiaries	10.7	6.0	1.1	-	17.8
Exchange differences	-0.7	-3.1	-0.3	-0.6	-4.7
At 31 December 2016	285.4	554.6	42.0	56.3	938.3
Accumulated depreciation					
At 1 January 2016	-106.5	-349.3	-28.4	-	-484.2
Depreciation expense	-8.4	-39.8	-3.6	-	-51.8
Disposals	0.3	7.0	1.2	-	8.5
Acquisition/disposal of subsidiaries	-	-	-	-	-
Exchange differences	0.1	1.6	0.3	-	2.0
At 31 December 2016	-114.5	-380.5	-30.5	-	-525.5
Net book values					
At 1 January 2016	153.7	169.7	10.4	40.3	374.1
At 31 December 2016	170.9	174.1	11.5	56.3	412.8

in CHF millions	Real estate	Machinery and production equipment	Office equipment, computer systems, vehicles	Assets under construction	Total property, plant and equipment
PROPERTY, PLANT AND EQUIPMENT 2015					
At cost					
At 1 January 2015	259.7	502.4	43.1	47.4	852.6
Additions	3.5	10.7	3.3	42.0	59.5
Disposals	-3.9	-9.0	-4.3	-	-17.2
Transfers	7.0	39.8	0.0	-46.8	-
Acquisition/disposal of subsidiaries	6.5	2.9	0.1	0.1	9.6
Exchange differences	-12.6	-27.8	-3.4	-2.4	-46.2
At 31 December 2015	260.2	519.0	38.8	40.3	858.3
Accumulated depreciation					
At 1 January 2015	-103.9	-339.2	-31.3	-	-474.4
Depreciation expense	-7.8	-36.8	-3.5	-	-48.1
Disposals	1.8	8.6	3.8	-	14.2
Acquisition/disposal of subsidiaries	-	-	-	-	-
Exchange differences	3.4	18.1	2.6	-	24.1
At 31 December 2015	-106.5	-349.3	-28.4	-	-484.2
Net book values					
At 1 January 2015	155.8	163.2	11.8	47.4	378.2
At 31 December 2015	153.7	169.7	10.4	40.3	374.1

Acquisition/disposal of subsidiaries include the additions from acquisitions and the disposals on sale of subsidiaries, see also notes 2 and 31. In 2016, no impairment charges (previous year none) were recognised.

Other details of property, plant and equipment

in CHF millions	2016	2015
Leased property, plant and equipment, at cost	3.8	2.5
Accumulated depreciation	-1.1	-0.8
Net book value of property, plant and equipment under finance leases	2.7	1.7

At year-end, property, plant and equipment in the amount of CHF 2.3 million (previous year none) were pledged or assigned to secure own liabilities. Assets under construction include prepayments made in the amount of CHF 12.2 million (previous year CHF 10.1 million). Additions to property, plant and equipment include no capitalised borrowing costs (previous year none). At balance sheet date, commitments for capital expenditure on property, plant and equipment amounted to CHF 24.3 million (previous year CHF 24.3 million).

15 / INTANGIBLE ASSETS

in CHF millions	Software	Other intangible assets	Total intangible assets
INTANGIBLE ASSETS 2016			
At cost			
At 1 January 2016	29.4	2.2	31.6
Additions	9.6	–	9.6
Disposals	–0.2	–	–0.2
Acquisition/disposal of subsidiaries	0.2	–	0.2
Exchange differences	–0.1	–0.0	–0.1
At 31 December 2016	38.9	2.2	41.1
Accumulated amortisation			
At 1 January 2016	–14.5	–0.8	–15.3
Amortisation expense	–6.2	–0.2	–6.4
Disposals	0.2	–	0.2
Exchange differences	0.0	–0.1	–0.1
At 31 December 2016	–20.5	–1.1	–21.6
Net book values			
At 1 January 2016	14.9	1.4	16.3
At 31 December 2016	18.4	1.1	19.5

in CHF millions	Software	Other intangible assets	Total intangible assets
INTANGIBLE ASSETS 2015			
At cost			
At 1 January 2015	25.1	2.5	27.6
Additions	5.0	–	5.0
Disposals	–0.6	–	–0.6
Acquisition/disposal of subsidiaries	0.0	–	0.0
Exchange differences	–0.1	–0.3	–0.4
At 31 December 2015	29.4	2.2	31.6
Accumulated amortisation			
At 1 January 2015	–10.2	–0.7	–10.9
Amortisation expense	–4.9	–0.3	–5.2
Disposals	0.6	–	0.6
Exchange differences	0.0	0.2	0.2
At 31 December 2015	–14.5	–0.8	–15.3
Net book values			
At 1 January 2015	14.9	1.8	16.7
At 31 December 2015	14.9	1.4	16.3

Intangible assets include no assets under finance leases (previous year none). Additions to software include capitalised cost in the amount of CHF 3.0 million (previous year none). In 2016, no impairment charges (previous year none) were recognised.

Goodwill from acquisitions

Goodwill from acquisitions is fully offset against equity at the date of acquisition. The impact of the theoretical capitalisation and amortisation of goodwill is disclosed below:

Theoretical movement schedule for goodwill

in CHF millions	2016	2015
At cost		
At 1 January	644.6	622.6
Additions from acquisition of subsidiaries	11.0	21.5
Adjustments from earn-out agreements	0.2	0.5
At 31 December	655.8	644.6
Accumulated amortisation		
At 1 January	-547.6	-503.9
Amortisation expense	-47.3	-43.7
Impairment charges	-	-
At 31 December	-594.9	-547.6
Theoretical net book values		
At 1 January	97.0	118.7
At 31 December	60.9	97.0

Retroactively since 1 January 2014, goodwill items are eliminated on sale from the movement schedule above and no longer already when fully amortised.

Goodwill is theoretically amortised on a straight-line basis usually over 5 years. The carrying amounts of goodwill existing on conversion from IFRS to Swiss GAAP ARR at 1 January 2009 have been included in the theoretical movement schedule above using the closing rates prevailing at 1 January 2009. Goodwill from new acquisitions is converted once to Swiss francs using the closing rate as at acquisition date. With this procedure no exchange differences result in the movement schedule.

Impact on income statement

in CHF millions	2016	2015
Operating result (EBIT) according to income statement	146.1	126.1
Amortisation of goodwill	-47.3	-43.7
Theoretical operating result (EBIT) incl. amortisation of goodwill	98.8	82.4
Net result according to income statement	57.6	82.2
Amortisation of goodwill	-47.3	-43.7
Theoretical net result incl. amortisation of goodwill	10.3	38.5

Impact on balance sheet

in CHF millions	2016	2015
Equity according to balance sheet	805.5	726.1
Theoretical capitalisation of goodwill (net book value)	60.9	97.0
Theoretical equity incl. net book value of goodwill	866.4	823.1
Equity according to balance sheet	805.5	726.1
Equity as % of total assets	66.2%	64.3%
Theoretical equity incl. net book value of goodwill	866.4	823.1
Theoretical equity incl. net book value of goodwill as % of total assets	67.8%	67.1%

16/ MISCELLANEOUS FINANCIAL ASSETS

in CHF millions	2016	2015
Long-term loans to third parties	0.3	0.3
Other financial investments	2.9	2.4
Total miscellaneous financial assets	3.2	2.7

17/ BANK DEBT

in CHF millions	2016	2015
Bank overdrafts	3.9	3.3
Current portion of long-term bank loans	0.1	–
Total short-term bank debt	4.0	3.3
Long-term bank loans	7.5	5.4
Total bank debt	11.5	8.7
Secured portion of short-term and long-term bank debt	2.3	–

The average interest rate was 8.0 percent for the bank overdrafts in Indian rupees, US dollars and Euros and 2.9 percent for the long-term bank loans in euros.

Maturity of long-term bank debt

in CHF millions	2016	2015
Within 2 years	2.5	–
Within 3 years	2.6	1.8
Within 4 years	1.8	1.8
Within 5 years	0.0	1.8
Beyond 5 years	0.6	–
Total long-term bank debt	7.5	5.4

18 / BOND

On 7 December 2012 a 1.125% CHF 150.0 million bond was placed at an issue price of 100.5%. Interest payments are due annually on 7 June and the bond is repayable on 7 June 2018.

19 / TRADE ACCOUNTS PAYABLE

Trade accounts payable include accounts payable to related parties of CHF 0.1 million (previous year CHF 0.1 million).

20 / OTHER LIABILITIES

Other current liabilities

in CHF millions	2016	2015
Customer advances received	5.1	3.6
Social security liabilities	3.3	3.2
Current income tax liabilities	31.8	27.1
Capital and value added tax liabilities	7.2	6.7
Current finance lease liabilities (see notes 14 and 15)	0.8	0.5
Other short-term loans payable and financial liabilities	17.5	12.6
Deferred earn-out obligations	2.1	4.1
Derivative liabilities: forward exchange contracts (see note 28)	0.7	6.5
Miscellaneous current liabilities	0.8	–
Total other current liabilities	69.3	64.3

Other long-term liabilities

Other long-term liabilities include long-term finance lease liabilities of CHF 1.5 million (previous year CHF 1.2 million) and no deferred earn-out obligations (previous year CHF 2.2 million), see also note 31.

21 / PROVISIONS

in CHF millions	Employees and social security	Restruc- turing	Warranty and liability claims	Other	Total
PROVISIONS 2016					
At 1 January 2016	35.0	5.0	3.9	2.5	46.4
Charges	32.5	–	0.9	9.7	43.1
Uses	–40.0	–3.9	–0.7	–1.6	–46.2
Unused amounts reversed	–2.3	–0.5	–3.8	–	–6.6
Acquisition/disposal of subsidiaries	0.6	–	0.1	–	0.7
Exchange differences	–0.4	–0.2	–0.1	–0.0	–0.7
At 31 December 2016	25.4	0.4	0.3	10.6	36.7
Thereof current provisions	15.2	0.4	0.3	8.7	24.6
Thereof long-term provisions	10.2	–	–	1.9	12.1

in CHF millions	Employees and social security	Restruc- turing	Warranty and liability claims	Other	Total
PROVISIONS 2015					
At 1 January 2015	33.6	10.4	3.6	2.3	49.9
Charges	45.8	–	1.3	1.0	48.1
Uses	–42.7	–3.6	–0.4	–0.7	–47.4
Unused amounts reversed	–0.7	–1.1	–0.4	–0.1	–2.3
Acquisition/disposal of subsidiaries	1.5	–	–	–	1.5
Exchange differences	–2.5	–0.7	–0.2	–0.0	–3.4
At 31 December 2015	35.0	5.0	3.9	2.5	46.4
Thereof current provisions	23.5	5.0	0.5	2.3	31.3
Thereof long-term provisions	11.5	–	3.4	0.2	15.1

Discounting

Long-term provisions amounting to CHF 0.5 million were discounted using discount rates between 1.6% and 2.0%.

Employees and social security

This provision covers holiday pay, overtime, employee retention plans, incentive pay and similar liabilities. The provisions are calculated based on actual data.

Restructuring

The restructuring provisions of CHF 0.4 million at the end of 2016 concern the Technical Components division and include obligations relating to headcount reductions.

Warranty and liability claims

The Datwyler Group gives warranties in connection with the products and services it provides. These are based on local legislation or contractual arrangements as well as on past experience. The provision for liability claims is based on actual claims reported, which are generally settled within one year.

Other provisions

Other provisions among others include provisions for litigation as well as for rental contracts of redundant facilities.

22 / DEFERRED INCOME TAX ASSETS/LIABILITIES

in CHF millions	2016	2015
At 1 January		
Deferred income tax assets	60.3	63.3
Deferred income tax liabilities	29.5	27.9
Deferred income tax (assets)/liabilities, net	-30.8	-35.4
Deferred income tax expense	2.0	0.7
Changes directly affecting equity	–	–
Acquisition/disposal of subsidiaries (see note 31)	-4.5	1.2
Exchange differences	0.4	2.7
At 31 December		
Deferred income tax assets	60.8	60.3
Deferred income tax liabilities	27.9	29.5
Deferred income tax (assets)/liabilities, net	-32.9	-30.8

Deferred income taxes are calculated at every subsidiary using the local effective income tax rates (weighted average around 19%, previous year around 19%) applicable.

Tax loss carryforwards

Total available tax loss carryforwards result in deferred income tax assets, gross, of CHF 62.9 million (previous year CHF 63.3 million), of which a net amount of CHF 29.9 million (previous year CHF 30.8 million) was capitalised. Deferred income tax assets were impacted by valuation allowances for and non-capitalisation of tax loss carryforwards in the amount of CHF 33.0 million (previous year CHF 32.5 million).

23 / SHARE CAPITAL

Composition

in CHF	2016	2015
22 million registered shares of CHF 0.01 each	220'000	220'000
12.6 million bearer shares of CHF 0.05 each	630'000	630'000
Total share capital	850'000	850'000

Per share data

	2016	2015
Bearer shares		
Par value (CHF)	0.05	0.05
Number issued	12'600'000	12'600'000
Number with voting rights and ranking for dividend	12'600'000	12'049'958
Proposed/approved dividend per bearer share (CHF)	2.20 ¹	2.20
Registered shares		
Par value (CHF)	0.01	0.01
Number issued	22'000'000	22'000'000
Number ranking for dividend	22'000'000	22'000'000
Proposed/approved dividend per registered share (CHF)	0.44 ¹	0.44
Total par value of shares ranking for dividend (CHF)	850'000	822'498
Authorised additional share capital (until 9 August 2018)	84'999.94	none
Authorised contingent share capital	none	none
Registration/voting restrictions	none	none
Opting-out and opting-up provisions	none	none

¹ See Board of Directors' proposed appropriation of retained earnings.

24 / NET RESULT PER SHARE

Net result per share is calculated by dividing net result by the weighted average number of shares in issue and ranking for dividend, excluding the weighted average number of treasury shares, see notes 25 and 26. The weighted value of the 22'000'000 registered shares represents 4'400'000 bearer shares.

	2016	2015
Net result reported in the income statement (CHF millions)	57.6	82.2
Weighted average number of shares	16'621'167	16'293'410
Net result per bearer share ranking for dividend (in CHF)	3.47	5.04

There were no dilutive effects in either year.

25 / TREASURY SHARES

At the end of 2016, the Group held no (previous year 550'042) treasury shares with a par value of CHF 0.05 each (previous year CHF 0.05). In 2016, 307'092 treasury shares were sold to Pema Holding AG at current stock exchange prices averaging CHF 139.99 and the remaining 221'250 treasury shares were sold on the stock exchange at an average price of CHF 139.42. In the previous year, no treasury shares had been sold. As declared by the Annual General Meeting of 16 April 2015, 477'264 treasury shares were distributed in the previous year as anniversary stock dividend at par value.

26'000 bearer shares of then CHF 500 each were created by a resolution passed by the General Meeting on 18 November 1989, disapplying the pre-emption rights of shareholders and participation certificate holders, to provide for the exercise of options, warrants or conversion rights and for other purposes in the company's interest. These shares are not entitled to vote and do not rank for dividend until they are used. Following the resolution passed by the Annual General Meeting on 24 April 2007 to cancel 10'000 unissued bearer shares of CHF 500 each, the 100-for-1 share split on 6 July 2007, the par value reduction from CHF 5.00 to CHF 0.05 on 14 July 2008, the annual award of treasury shares to those eligible under the share award plan since 2008, the sale of treasury shares starting in 2012 and the anniversary stock dividend in 2015 the Group held no unissued bearer shares anymore at the end of 2016. In the previous year, the par value of these shares totalling CHF 27'502 had been deducted from the CHF 850'000 share capital of Dätwyler Holding Inc.

26 / SHARE AWARD PLAN

Since 2007, Directors and senior executives have received a portion of their remuneration in the form of bearer shares of Dätwyler Holding Inc. Share-based payments to Directors and senior executives are measured at market value and recognised as personnel expenses at issue date. The shares awarded may not be sold for a period of 5 years after issue date. Voting and dividend rights of shares awarded are transferred to beneficiaries at issue date. In June 2016, Directors were awarded a total of 11'800 (previous year 10'700) bearer shares and senior executives were awarded a total of 9'900 (previous year 9'667) bearer shares of Dätwyler Holding Inc. Personnel expenses relating to the share award plan amount to CHF 3.2 million (previous year CHF 2.7 million), and the increase of additional paid-in capital, net of applicable income taxes, was CHF 3.0 million (previous year CHF 2.5 million).

27 / SHAREHOLDERS

At year-end 2016, Pema Holding AG holds as in the previous year all 22'000'000 registered shares, plus 5'125'592 (previous year 4'818'500) of the total of 12'600'000 bearer shares of Dätwyler Holding Inc. This represents 78.40% (previous year 78.76%) of the voting rights and 56.03% (previous year 54.23%) of the share capital. The entire share capital of Pema Holding AG is held by Dätwyler Führungs AG, thereby indirectly possessing the majority of the voting rights in Dätwyler Holding Inc.

The Board of Dätwyler Holding Inc. is not aware of any other shareholders, or groups of shareholders subject to voting agreements, who hold 3% or more of the total voting rights.

28 / DERIVATIVE FINANCIAL INSTRUMENTS

The Group economically hedges part of its exposure to foreign currency risk on trade accounts receivable and payable as well as intercompany loans. Forward exchange contracts and currency options, which generally have maturities of less than 12 months, are used as hedging instruments.

Unsettled forward exchange contracts

in CHF millions	31.12.2016	31.12.2015
Positive fair value	3.9	0.8
Notional amounts	274.8	109.8
Negative fair value	0.7	6.5
Notional amounts	93.7	257.6

These forward exchange contracts have maturities until September 2017. Positive fair values are recorded as other receivables (note 13), while negative fair values have been recognised in other current liabilities (note 20).

29 / CONTINGENT LIABILITIES

In the ordinary course of business, the Group is exposed to a number of risks among others in connection with litigation cases and outstanding or disputed tax assessments which can lead to possible obligations (contingent liabilities). For most actual cases the amounts involved are insignificant. The most significant case amounts to around CHF 10 million. No provisions have been made where the outcome of such matters is uncertain or the risk is not quantifiable or an outflow of resources is not probable. Provisions have been recognised to the extent that the outcome can be reliably estimated and an outflow of resources is probable.

At year-end 2016, no guarantees (previous year none) in favour of third parties existed. The Datwyler Group has not given any other guarantees in respect of its business relationships with third parties. Performance bonds and guarantees within the Group have been eliminated on consolidation. There are no subordination agreements with third parties.

When the Precision Tubes division was sold at the end of 2007, the Group granted usual contractual guarantees to the purchasers in respect of environmental contamination, etc. This guarantee is limited to a maximum of CHF 6.1 million and applies to certain cases on a degressive basis for a maximum period of 10 years or until statute-barred. At present, no claims by the purchaser are known.

30 / COMMITMENTS

Maturities of commitments under operating leases, long-term rental and outsourcing agreements

in CHF millions	2016	2015
Less than 1 year	15.4	14.8
Between 2 and 5 years	28.6	41.1
Over 5 years	0.0	0.5
Total commitments	44.0	56.4

Total commitments include CHF 31.2 million (previous year CHF 35.8 million) relating to IT outsourcing contracts for the years 2017 to 2019. Operating lease payments recognised as an expense in the income statement amounted to CHF 4.6 million (previous year CHF 8.4 million). There are no individually significant operating leases.

31 / ACQUISITION AND SALE OF SUBSIDIARIES

Acquisitions of subsidiaries had the following effect on the Group's assets and liabilities:

Acquisitions in 2016

At the end of September 2016, Ott GmbH & Co. KG together with Ott Geschäftsführungs GmbH, both domiciled in Cleebronn, Germany, were fully acquired by the Sealing Solutions division. Since October 2016, the acquired business employing an average of 217 people generated net revenue of CHF 7.6 million. The following table shows the fair value of assets and liabilities acquired at acquisition date and the goodwill arising from this transaction.

in CHF millions	Carrying amount	Fair value adjustments	Fair value on acquisition
Cash and cash equivalents	–	–	–
Trade accounts receivable	3.9	–	3.9
Inventories	4.0	0.1	4.1
Other current assets	0.2	–	0.2
Property, plant and equipment	16.5	1.3	17.8
Intangible assets	0.2	–	0.2
Deferred income tax assets	–	4.5	4.5
Current liabilities	–5.5	–0.4	–5.9
Long-term liabilities	–6.4	–0.9	–7.3
Net assets acquired at fair value			17.5
Goodwill including directly attributable transaction costs			11.0
Total			28.5
Less cash and cash equivalents acquired			–
Net cash outflow on acquisition			28.5

Acquisitions in 2015

In September 2015, Origom S.p.A., domiciled in Viadanica, Italy, was fully acquired by the Sealing Solutions division. Since September 2015, the acquired business employing an average of 119 people generated net revenue of CHF 7.6 million. The following table shows the fair value of assets and liabilities acquired at acquisition date and the goodwill arising from this transaction.

in CHF millions	Carrying amount	Fair value adjustments	Fair value on acquisition
Cash and cash equivalents	8.7	–	8.7
Trade accounts receivable	3.8	0.1	3.9
Inventories	5.4	–0.9	4.5
Other current assets	0.3	0.8	1.1
Property, plant and equipment	5.6	4.0	9.6
Intangible assets	0.0	–0.0	0.0
Current liabilities	–4.5	–0.5	–5.0
Long-term liabilities	–1.6	–2.0	–3.6
Net assets acquired at fair value			19.2
Goodwill including directly attributable transaction costs			21.5
Total			40.7
Less cash and cash equivalents acquired			–8.7
Less deferred earn-out obligations			–4.3
Net cash outflow on acquisition			27.7

32 / RELATED PARTY TRANSACTIONS

Pema Holding AG

Transactions between the companies include the dividend payments to Pema Holding AG of CHF 20.3 million and administrative costs of CHF 20'000 charged in 2016 (previous year CHF 20'000) for administration and accounting services provided by Alvest AG. In addition, the following transactions with Pema Holding AG and its subsidiaries occurred in 2016: Net revenue of CHF 0.0 million (previous year CHF 0.0 million), material expense of CHF 0.9 million (previous year CHF 1.1 million), IT and trademark service revenues and other service revenue of CHF 6.9 million in total (previous year CHF 5.9 million) and service expenses of CHF 0.6 million (previous year CHF 0.8 million). In addition, Pema Holding AG acquired treasury shares of Dätwyler Holding AG in 2016, see note 25. Accounts receivable and payable with Pema Holding AG and its subsidiaries are disclosed as items with related parties in notes 11 and 19.

Pension schemes

Alvest AG charged administrative costs of CHF 0.2 million (previous year CHF 0.2 million) to the pension schemes.

Remuneration of Directors and Executive Board members

Except for the remuneration as disclosed in the remuneration report on pages 36 to 48 of this annual report, no further relations or transactions existed in 2016 and 2015 with the members of the Board of Directors and the Executive Board.

33 / EVENTS AFTER BALANCE SHEET DATE

The Board of Directors and the Executive Board are not aware of any other significant events occurring up to the date of approval of the consolidated financial statements on 3 February 2017 that would cause an adjustment of the carrying amounts of the Group's assets and liabilities.

34 / SUBSIDIARIES

Dätwyler Holding Inc. directly or indirectly owned the following subsidiaries at 31 December 2016

		Registered office	Original currency	Capital in original currency (in millions)	Capital and voting interest in %	Footnote	Technical Components	Sealing Solutions	Service and financial companies
SWITZERLAND	Alvest AG	Altdorf	CHF	15.000	100	K*			●
	Dätwyler AG	Altdorf	CHF	0.100	100	K*			●
	Dätwyler IT Services AG	Altdorf	CHF	0.100	100	K*			●
	Dätwyler Schweiz AG	Schattdorf	CHF	32.000	100	K*		○	
	Dätwyler Sealing Solutions International AG	Schattdorf	CHF	0.100	100	K		●	
	Dätwyler Teco Holding AG	Altdorf	CHF	9.900	100	K*	●		
	Datwyler Technical Components AG	Wallisellen	CHF	0.100	100	K	●		
	Distrelec AG	Altdorf	CHF	0.090	100	K*			●
	Distrelec Group AG	Nänikon	CHF	0.050	100	K	●		
	Pohl Immobilien AG	Schattdorf	CHF	1.600	100	K		●	
	Proditec AG	Nänikon	CHF	0.300	100	K	□		
	Teco Immobilien AG	Altdorf	CHF	0.500	100	K	●		
BELGIUM	Datwyler Pharma Packaging Belgium NV	Alken	EUR	17.693	100	K		○	
	Datwyler Pharma Packaging International NV	Alken	EUR	107.330	100	K		●	
	Nedis NV	Geel	EUR	0.062	100	K	□		
BRAZIL	Datwyler Sealing Solutions do Brasil Ltda	São Paulo	BRL	0.250	100	K		□	
CHINA	Datwyler Sealing Technologies (Anhui) Co., Ltd.	Ningguo	USD	5.000	100	K		○	
	Datwyler Sealing Technologies (Wuxi) Co., Ltd.	Wuxi	USD	5.000	100	K		○	
	TeCo Asia Technology (Shenzhen) Co. Ltd	Shenzhen	CNY	0.500	100	K	●		
DENMARK	Elfa Distrelec A/S	Glostrup	DKK	1.000	100	K	□		
GERMANY	Dätwyler Pharma Packaging Deutschland GmbH	Karlsbad	EUR	2.600	100	K		○	
	Dätwyler Sealing Technologies Deutschland GmbH	Waltershausen	EUR	0.256	100	K		○	
	Dätwyler Teco Holding (Deutschland) GmbH	Sande	EUR	3.100	100	K	●		
	Distrelec GmbH	Bremen	EUR	0.800	100	K	□		
	Nedis GmbH	Willich	EUR	0.026	100	K	□		
	Ott GmbH & Co. KG	Cleebronn	EUR	1.000	100	K		○	
	Reichelt Elektronik GmbH & Co. KG	Sande	EUR	3.000	100	K	□		
UK	Nedis (UK) Limited	Leicester	GBP	0.009	100	K	□		
ESTONIA	Elfa Distrelec AS	Tallinn	EUR	0.079	100	K	□		
FINLAND	Elfa Distrelec Oy	Helsinki	EUR	0.020	100	K	□		
	Nedis Oy	Savonlinna	EUR	0.017	100	K	□		
FRANCE	Nedis SAS	Nantes	EUR	0.100	100	K	□		
HONG KONG	Teco Asia Limited	Hongkong	HKD	0.010	100	K	●		

		Registered office	Original currency	Capital in original currency (in millions)	Capital and voting interest in %	Footnote	Technical Components	Sealing Solutions	Service and financial companies
INDIA	Datwyler Pharma Packaging India Private Limited	Kesurdi, Satara	INR	656.233	100	K		○	
ITALY	Datwyler Pharma Packaging Italy srl	Milano	EUR	2.000	100	K		○	
	Distrelec Italia srl	Milano	EUR	1.275	100	K	□		
	Nedis Italia srl	Milano	EUR	0.100	100	K	□		
	Datwyler Sealing Solutions Italy S.p.A.	Viadonica	EUR	1.300	100	K		○	
LATVIA	Elfa Distrelec SIA	Riga	EUR	0.008	100	K	□		
LITHUANIA	Elfa Distrelec UAB	Vilnius	EUR	0.003	100	K	□		
MEXICO	Datwyler Sealing Technologies Mexico S DE RL DE CV	Silao	MXN	82.000	100	K		○	
NETHERLANDS	Datwyler TeCo Holding B.V.	Amsterdam	EUR	0.018	100	K	●		
	Distrelec B.V.	Utrecht	EUR	0.064	100	K	□		
	Nedis B.V.	's-Hertogenbosch	EUR	0.045	100	K	□		
	Nedis Group B.V.	's-Hertogenbosch	EUR	0.018	100	K	●		
	TeCo CDC B.V.	Amsterdam	EUR	0.018	100	K	●		
NORWAY	Elfa Distrelec AS	Trollåsen	NOK	0.200	100	K	□		
AUSTRIA	Distrelec Gesellschaft m.b.H.	Wien	EUR	0.145	100	K	□		
	Nedis Elfogro GmbH	Brunn am Gebirge	EUR	0.035	100	K	□		
POLAND	Elfa Distrelec Spz oo	Warschau	PLN	0.100	100	K	□		
SWEDEN	Elfa Distrelec AB	Stockholm	SEK	0.100	100	K	□		
	Nedis AB	Jönköping	SEK	3.575	100	K	□		
SLOVAKIA	Nedis Slovakia a.s.	Bratislava	EUR	0.325	100	K	□		
SPAIN	Nedis Iberia SL	Mataró	EUR	0.153	100	K	□		
SOUTH KOREA	Datwyler Korea Inc.	Daegu	KRW	1'131.000	100	K		○	
CZECH REPUBLIC	Datwyler Sealing Technologies CZ s.r.o.	Novy Bydzov	CZK	20.000	100	K		○	
	Nedis Kerr s.r.o.	Trutnov	CZK	0.100	100	K	□		
UKRAINE	Datwyler Sealing Technologies Ukraine JSC	Malyn	UAH	12.500	100	K		○	
HUNGARY	Nedis Kft.	Budapest	HUF	13.040	100	K	□		
USA	Datwyler Sealing Solutions USA Inc.	Dayton	USD	0.287	100	K		□	
	Datwyler Pharma Packaging USA Inc.	Pennsauken	USD	9.130	100	K		○	

- Manufacturing and sales
- Distribution
- Services/finance/real estate

K = Consolidated at 31 December
* = Held directly by Dätwyler Holding Inc.

Report of the Statutory Auditor on the Consolidated Financial Statements



Report of the statutory auditor to the Board of Directors of Dätwyler Holding AG Altdorf

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Dätwyler Holding AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 54 to 85) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

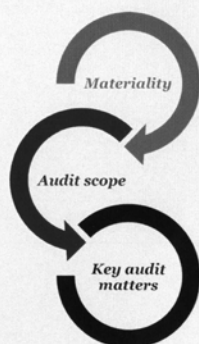
Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 7,000,000

We concluded full scope audit work at 25 reporting units. Our audit scope addressed 86% of the Group's net revenue, 88% of the Group's total assets and 96% of the Group's net result. Additionally, we concluded reviews at a further 9 reporting units, which addressed an additional 5% of the Group's net revenue, 3% of the Group's total assets and 1% of the Group's net result.

As key audit matters, the following areas of focus were identified:

- Valuation of deferred tax assets
- Valuation of inventories in the Technical Components Division

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Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

<i>Overall Group materiality</i>	CHF 7,000,000
<i>How we determined it</i>	5% of the earnings before tax and before one-off costs relating to the intended acquisition of Premier Farnell
<i>Rationale for the materiality benchmark applied</i>	We chose earnings before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 500,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Valuation of deferred tax assets

Key audit matter	How our audit addressed the key audit matter
<p><i>Please refer to note 1, page 60 (Accounting policies: Income tax expense) and note 22 (Deferred income tax assets/liabilities) in the notes to the consolidated financial statements.</i></p> <p>As of 31 December 2016, deferred tax assets amount to CHF 60.8 million, of which CHF 29.9 million stem from tax losses carried forward and CHF 30.9 million from other temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. According to Swiss GAAP FER 11, tax losses carried forward may be recognised as deferred tax assets only to the extent that it is probable that future taxable profits will be available against which they can be utilised.</p> <p>We consider the recognition of deferred tax assets and their valuation as a key audit matter because their utilisation depends on the future economic and financial development of individual Group companies. This assessment involves significant scope for judgement.</p>	<p>For all of the reporting units that disclosed material deferred tax assets, we performed the following procedures:</p> <ul style="list-style-type: none"> • We discussed with Management the recognition and valuation of specific deferred tax assets in relation to the Swiss GAAP FER recommendations and the requirements of tax law. • Based on the current and the expected future taxable profits, we assessed whether the recognition of the deferred tax assets is justified and whether the amount recognised is recoverable. In doing so, we reviewed whether the expected future results are consistent with the current budget for the following year as approved by the Board of Directors and the strategic plan for the subsequent years. • We checked the plausibility of the budget figures using empirical values based on our experience, taking into account the planned measures and their impact. In order to assess the appropriateness of the prior year assumptions, we compared the forecasts made in the prior year with the actual results realised in the year under review. • In addition, we tested whether the deferred tax assets had been calculated correctly, taking into account the applicable tax rates and any time limits on the utilisation of tax losses carried forward. <p>The information provided during our audit and the assumptions used by Management are consistent with the accounting treatment of deferred tax assets as of the balance sheet date.</p>



Valuation of inventories in the Technical Components Division

Key audit matter	How our audit addressed the key audit matter
<p>Please refer to note 1, page 60 (Accounting policies: Inventories) and note 12 (Inventories) in the notes to the consolidated financial statements.</p> <p>We consider the assessment of the valuation of inventories in the Technical Components Division as a key audit matter for two reasons:</p> <p>Inventories amount to CHF 178.7 million in total and represent a significant share of the assets of the Dätwyler Group. Of these, the inventories in the Technical Components Division amount to CHF 94.4 million.</p> <p>Inventories are stated at the lower of cost and net realisable value. Write-downs of inventory are principally due to the application of this principle. They are also required in the case of obsolete and surplus inventory.</p> <p>The business model of the Technical Components Division aims to offer customers a ready supply of a broad range of products. This model can lead to the risk of surplus or technically obsolete stocks. The need for and extent of a write-down of inventories in order to cover such risks is therefore of particular importance. The write-down is determined based on inventory levels, expected sales volumes and an estimate of the technical currency of individual products. The calculation of the write-downs leaves significant scope for judgement.</p>	<p>We assessed the method used to calculate Technical Components Division inventory write-downs in accordance with the accounting policies described in note 1 to the consolidated financial statements, and the consistency of their application.</p> <p>With regard to determining the write-downs, we also examined the following:</p> <ul style="list-style-type: none"> the design of the internal controls relating to inventory management, inventory valuation and the calculation of the amount of the write-down, the appropriateness of the assumptions used by Management in calculating the write-downs, on a sample basis, whether the basis for the calculation of the write-down, especially the inventory level, inventory value, age and the sales information per product, which form the basis for the write-down, were correctly extracted from the ERP system, and for selected products, the computational accuracy of the write-down. <p>The audit evidence we obtained regarding the inventories in the Technical Components Division corroborates the decisions taken by the Dätwyler Group and the calculations performed to determine the inventory write-downs.</p>

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a



material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to read 'René Rausenberger'.

René Rausenberger
Audit expert
Auditor in charge

A handwritten signature in black ink, appearing to read 'Josef Stadelmann'.

Josef Stadelmann
Audit expert

Zurich, 3 February 2017

Dätwyler Holding Inc.

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Income Statement

in CHF	Notes	2016	2015
Dividend income from subsidiaries	2.1	124'670'127	70'328'000
Gain on sale of treasury shares	2.2	73'810'929	–
Trademark income	2.3	6'104'000	–
Other income		28'210	50'000
Personnel expenses		–2'681'146	–2'292'506
Other operating expenses	2.4	–6'749'217	–2'536'807
Income before interest and taxes		195'182'903	65'548'687
Financial income	2.5	9'339'557	9'332'058
Financial expenses	2.6	–55'481'490	–1'896'859
Income before taxes		149'040'970	72'983'886
Direct taxes		–2'677'742	–206'810
Annual profit		146'363'228	72'777'076

The accompanying notes are an integral part of these financial statements.

Balance Sheet

Assets

in CHF	Notes	31.12.2016	31.12.2015
Cash and cash equivalents		102'139	105'588
Other current receivables		651'367	800'628
Due from third parties		131'367	219'628
Due from subsidiaries		520'000	581'000
Total current assets		753'506	906'216
Financial assets: Long-term receivables from subsidiaries	2.7	1'008'505'026	895'821'639
Investments in subsidiaries	2.8	145'965'148	145'963'752
Intangible assets: Trademarks	2.3	1	–
Total non-current assets		1'154'470'175	1'041'785'391
Total assets		1'155'223'681	1'042'691'607

Liabilities and shareholders' equity

in CHF	Notes	31.12.2016	31.12.2015
Other current liabilities third parties		35'681	83'139
Accrued expenses and deferred income		3'568'770	1'162'558
Total current liabilities		3'604'451	1'245'697
Long-term interest-bearing liabilities: Bonds	2.9	150'000'000	150'000'000
Total long-term liabilities		150'000'000	150'000'000
Total liabilities		153'604'451	151'245'697
Share capital	2.10	850'000	850'000
Statutory capital reserves		83'000'000	83'000'000
Statutory retained earnings		4'000'000	4'000'000
Reserve for treasury shares	2.12	–	27'502
Voluntary retained earnings	2.12	305'263'318	305'235'816
Retained earnings available for distribution		608'505'912	498'332'592
Profit carried forward		462'142'684	425'555'516
Annual profit		146'363'228	72'777'076
Total shareholders' equity		1'001'619'230	891'445'910
Total liabilities and shareholders' equity		1'155'223'681	1'042'691'607

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

1 / VALUATION PRINCIPLES

These Financial Statements were prepared in accordance with the provisions of the Swiss Code of Obligations concerning commercial accounting and financial reporting standards (SCO 957 ff.). Significant balance sheet items are reported as follows.

Financial assets and investments in subsidiaries

Financial assets are measured at nominal value less necessary impairment charges. Investments in subsidiaries are measured individually at purchase price less necessary impairment charges.

Measurement of liabilities/bonds

Liabilities including bonds are carried at nominal value.

2 / EXPLANATIONS CONCERNING THE FINANCIAL STATEMENTS

Dätwyler Holding Inc. is domiciled in Altdorf.

The average number of full-time equivalents in the course of a year does not exceed ten employees.

2.1 / DIVIDEND INCOME FROM SUBSIDIARIES

Dividend income from subsidiaries comprises profit distributions from subsidiaries.

2.2 / GAIN ON SALE OF TREASURY SHARES

In 2016, 528'342 treasury shares were acquired from Alvest AG, which subsequently were sold to Pema Holding AG at current stock exchange prices and on the stock exchange respectively, see also note 2.11.

2.3 / TRADEMARK INCOME

The right to use the trademark Dätwyler is invoiced to subsidiaries and related companies. Until mid 2016, these revenues were transferred to Alvest AG, which was responsible for trademark management.

2.4 / OTHER OPERATING EXPENSES

This item comprises Dätwyler Holding Inc.'s general costs of doing business. Dätwyler Holding Inc. has no operating costs, as these are charged in full to Alvest AG and then in turn to the subsidiaries. "Stewardship costs" (Dätwyler Holding Inc. administrative expenses) are charged to Dätwyler Holding Inc. In 2016, other operating expenses include one-time costs related to the planned acquisition of Premier Farnell of CHF 3.9 million.

2.5 / FINANCIAL INCOME

Financial income is derived primarily from interest-bearing assets of subsidiaries.

2.6 / FINANCIAL EXPENSES

Financial expenses comprise interest expenses for bond coupon payments together with commissions and bank fees. In 2016, financial expenses include one-time hedging and financings costs related to the planned acquisition of Premier Farnell of CHF 44.1 million and a waiver of debt of CHF 9.5 million.

2.7 / LONG-TERM RECEIVABLES FROM SUBSIDIARIES

These are Swiss franc-denominated long-term loans receivable from subsidiaries. Most of the change from the previous year is due to dividend and interest payments by subsidiaries.

2.8 / INVESTMENTS IN SUBSIDIARIES

Dätwyler Holding Inc.'s direct and indirect subsidiaries are disclosed in note 34 to the consolidated financial statements.

2.9 / BONDS

Fixed-interest bonds were issued for CHF 150 million with a pay-in date of 7 December 2012 and an issue price of 100.50%. The bonds pay an interest rate of 1.125% and mature in five and a half years (on 7 June 2018).

2.10 / SHARE CAPITAL

in CHF	31 Dec. 2016	31 Dec. 2015
22'000'000 registered shares at CHF 0.01 par	220'000	220'000
12'600'000 bearer shares at CHF 0.05 par	630'000	630'000
Share capital	850'000	850'000

Shares in Dätwyler Holding Inc. are listed on the SIX Swiss Exchange. Each registered share and each bearer share, regardless of nominal value, carries one vote at the General Meeting of Shareholders, with the exception of bearer treasury shares. According to a resolution passed by the Extraordinary General Meeting on 10 August 2016 to authorize additional share capital, the Board of Directors is allowed to increase the share capital of the company at any time until 9 August 2018 in the maximum amount of CHF 84'999.94 by issuing a maximum of 2'199'999 fully paid-in registered shares (voting right shares) with a par value of CHF 0.01 and a maximum of 1'259'999 fully paid-in bearer shares with a par value of CHF 0.05. No new shares were issued in the year 2016.

All 22'000'000 registered shares along with 5'125'592 of the total 12'600'000 bearer shares are held by Pema Holding AG, Altdorf; thus its percentage of capital is 56.03% and its percentage of voting shares is 78.40%.

The Board of Directors is unaware of any further shareholders or of shareholder voting pools whose interest amounts to 3% of all votes.

2.11 / EMPLOYEE SHARE OWNERSHIP PLAN / TREASURY SHARES

In the current year, a total of 21'700 bearer treasury shares were used for Group employees under the Employee Share Ownership Plan. 11'800 bearer shares with a total value of CHF 1'747'580 were allocated to members of the Board of Directors and a total of 7'800 bearer shares with a total value of CHF 1'155'180 to the Executive Management (see Remuneration Report). 2'100 bearer shares with a total value of CHF 311'010 (previous year: 1'867 bearer shares with a total value of CHF 248'684) were allocated to other employees.

All remaining 528'342 treasury shares were acquired at nominal value from Alvest AG in 2016. Subsequently, 307'092 treasury shares were sold to Pema Holding AG at current stock exchange prices averaging CHF 139.99 and the remaining 221'250 treasury shares were sold on the stock exchange at an average price of CHF 139.42.

2.12 / VOLUNTARY RETAINED EARNINGS / RESERVE FOR TREASURY SHARES

The voluntary retained earnings represent a free reserve at the disposal of the General Meeting of Shareholders. Pursuant to Art. 659a para. 2 and Art. 671a of the Swiss Code of Obligations, the Company is required to maintain a separate reserve for treasury shares held by a subsidiary in an amount equal to their purchase cost. The Board of Directors forms this reserve by transfers to and from the voluntary retained earnings. At the end of 2016, the reserve for treasury shares of CHF 27'502 was transferred to voluntary retained earnings, because no treasury shares were held anymore. The ending balance of voluntary retained earnings therefore amounts to CHF 305'263'318.

2.13 / SURETIES, GUARANTEES AND PLEDGE COMMITMENTS IN FAVOUR OF THIRD PARTIES

On a basis of joint and several liability, lines of credit were extended to various subsidiaries in the amount of CHF 150.2 million (previous year: CHF 148.7 million), of which CHF 32.1 million (previous year: CHF 48.3 million) was used to secure bank debt and unsettled forward exchange contracts.

Upon selling the Precision Tubes division at the end of 2007, the Group tendered the customary contractual guarantees, such as those concerning environmental contamination, in favour of the buyer. These guarantees are limited to a maximum of CHF 6'100'000 (previous year: CHF 8'200'000) and apply in certain cases for no longer than 10 years or to expiration of the respective statute of limitations. No claims on the part of the buyer are known at this time.

2.14 / JOINT AND SEVERAL LIABILITY

Since 1 January 2009 the Company has been a member of the value-added tax group under the number CHE-116.346.605 MWST. The principal member of the group is Alvest AG, Altdorf. For the term of its membership in this group, the Company bears joint and several liability pursuant to Art. 15 para. 1 lit c of the VAT Act.

2.15 / CONTINGENT LIABILITIES

In the normal course of business, risks arise in connection with such matters as legal disputes and pending or disputed tax assessments that could potentially lead to liabilities (contingent liabilities). The amount involved in most current cases is immaterial. The amount involved in the most significant case is roughly CHF 10 million. Where the outcome of such cases is unclear or the risk is unquantifiable or the likelihood of an outflow of funds is unlikely, no provisions are being made. Provisions are being made where the outcome can be estimated or an outflow of funds is probable.

2.16 / LOANS AND CREDITS

No loans and/or credits were granted to individual current or former members of the Board of Directors or Executive Management (including persons connected with them) in the year under review. Likewise, no non-arm's length loans and/or credits were granted to current or former members of the aforementioned bodies or persons connected with them in the year under review.

2.17 / BOARD OF DIRECTORS AND EXECUTIVE BOARD SHAREHOLDINGS

As at 31 December 2016, the individual members of the Board of Directors and Executive Management and their related parties held the following quantities of the Company's equity securities:

Board of Directors shareholdings 2016

Surname, first name	Position	Number of shares	% of voting rights	Of which blocked until				
				2017	2018	2019	2020	2021
Graf, Ulrich	Chairman	25'134	0.072642	2'400	2'400	2'400	2'400	2'400
Rüegg, Hans R.	Vice-Chairman	14'706	0.042503	1'700	1'700	1'700	1'700	1'700
Fässler, Hanspeter	Member	11'264	0.032555	1'100	1'100	1'100	1'100	1'100
Fedier, Jürg	Member	2'200	0.006358	0	0	0	1'100	1'100
Huber, Gabi	Member	4'569	0.013205	0	1'100	1'100	1'100	1'100
Lienhard, Ernst	Member	11'264	0.032555	1'100	1'100	1'100	1'100	1'100
Odermatt, Ernst	Member	11'264	0.032555	1'100	1'100	1'100	1'100	1'100
Ulmer, Hanno	Member	2'200	0.006358	0	0	0	1'100	1'100
Zhang, Zhiqiang	Member	1'100	0.003179	0	0	0	0	1'100

Share type: Bearer share, nom. CHF 0.05

Voting rights per bearer share: 0.00000289%

Executive Management shareholdings 2016

Last name, first name	Position	Number of shares	% of voting rights	Of which blocked until				
				2017	2018	2019	2020	2021
Hälg, Paul J.	CEO	32'453	0.093795	3'300	3'300	3'300	3'300	3'300
Welte, Reto	CFO	6'700	0.019364	1'100	1'100	1'500	1'500	1'500
Lambrecht, Dirk	COO	6'753	0.019517	700	1'500	1'500	1'500	1'500
Harrison, Neil	Division CEO	3'000	0.008671	0	0	0	1'500	1'500
Maschke, Torsten	Division CEO	–	–	0	0	0	0	0

Share type: Bearer share, nom. CHF 0.05

Voting rights per bearer share: 0.00000289%

Board of Directors shareholdings 2015

Last name, first name	Position	Number of shares	% of voting rights	Of which blocked until				
				2016	2017	2018	2019	2020
Graf, Ulrich	Chairman	20'734	0.060893	2'400	2'400	2'400	2'400	2'400
Rüegg, Hans R.	Vice-Chairman	13'006	0.038197	1'700	1'700	1'700	1'700	1'700
Fässler, Hanspeter	Member	10'164	0.029850	1'100	1'100	1'100	1'100	1'100
Fedier, Jürg	Member	1'100	0.003231	0	0	0	0	1'100
Huber, Gabi	Member	3'466	0.019889	0	0	1'100	1'100	1'100
Lienhard, Ernst	Member	10'164	0.029850	1'100	1'100	1'100	1'100	1'100
Odermatt, Ernst	Member	10'164	0.029850	1'100	1'100	1'100	1'100	1'100
Ulmer, Hanno	Member	1'100	0.003231	0	0	0	0	1'100

Share type: Bearer share, nom. CHF 0.05
Voting rights per bearer share: 0.000002937%

Executive Management shareholdings 2015

Last name, first name	Position	Number of shares	% of voting rights	Of which blocked until				
				2016	2017	2018	2019	2020
Hälg, Paul J.	CEO	29'153	0.085618	3'300	3'300	3'300	3'300	3'300
Welte, Reto	CFO	6'300	0.018502	1'100	1'100	1'100	1'500	1'500
Lambrecht, Dirk	Division CEO	6'753	0.019833	700	700	1'500	1'500	1'500
Harrison, Neil	Division CEO	1'500	0.004405	0	0	0	0	1'500

Share type: Bearer share, nom. CHF 0.05
Voting rights per bearer share: 0.000002937%

2.18 / SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

Proposed Appropriation of Retained Earnings

Retained earnings carried forward

in CHF	2016	2015
Retained earnings at the beginning of the business year	462'142'684	425'555'516
Annual profit	146'363'228	72'777'076
Retained earnings at disposal of General Meeting of Shareholders	608'505'912	498'332'592

Proposal of the Board of Directors on the appropriation of retained earnings

in CHF	2016 Proposal of the Board of Directors	2015 Resolution of the General Meeting of Shareholders
Retained earnings at disposal of General Meeting of Shareholders	608'505'912	498'332'592
Distribution of cash dividend	-37'400'000	-36'189'908
Registered shares: CHF 0.44 (previous year: CHF 0.44)	-9'680'000	-9'680'000
Bearer shares: CHF 2.20 (previous year: CHF 2.20)	-27'720'000	-26'509'908
To be carried forward	571'105'912	462'142'684

Report of the Statutory Auditor on the Financial Statements



Report of the statutory auditor to the Board of Directors of Dätwyler Holding AG Altdorf

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Dätwyler Holding AG, which comprise the balance sheet as at 31 December 2016, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 92 to 98) as at 31 December 2016 comply with Swiss law and the articles of incorporation.

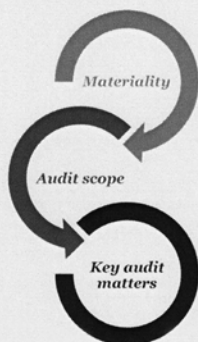
Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 5,700,000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As a key audit matter, the following area of focus was identified:

Recoverability of investments in subsidiaries and long-term receivables from subsidiaries in the Technical Components Division

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future

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events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<i>Overall materiality</i>	CHF 5,700,000
<i>How we determined it</i>	0.5% of the total assets
<i>Rationale for the materiality benchmark applied</i>	We chose total assets as the benchmark because the Company primarily holds equity investments in and grants loans to subsidiaries.

We agreed with the Audit Committee that we would report to them misstatements above CHF 500,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Recoverability of investments in subsidiaries and long-term receivables from subsidiaries in the Technical Components Division

Key audit matter	How our audit addressed the key audit matter
<p>Please refer to page 94 (Valuation principles) in the notes to the financial statements.</p> <p>The investments in subsidiaries (CHF 30.0 million) and long-term loans receivable from subsidiaries (CHF 528.8 million) in the Technical Components Division are significant items on the company's balance sheet.</p> <p>The recoverability of these items depends on the economic substance and the future results or cash flows of the direct and indirect investments relating to this division of the Group. There is a degree of uncertainty involved in determining the assumptions with regard to future results, and the Board of Directors and Management have scope for judgement.</p> <p>The assessment of the recoverability of the investments in subsidiaries and long-term loans receivable from subsidiaries in the Technical Components Division is based on a comparison of the carrying amounts with the value of the pro rata share of equity. The economic value of equity is based on the intrinsic values of the Group companies and on their expected future results or cash flows. The assessments are made separately for the Nedis, Distrelec Elfa and Reichelt sub-groups. The Group companies generate their forecasts of future results based on a budgeting process defined by the Board of Directors.</p>	<p>We focussed our audit of the recoverability of investments in subsidiaries and long-term loans receivable from subsidiaries in the Technical Components Division on three areas:</p> <ol style="list-style-type: none"> Valuation process Business plans Capitalisation rates <p>The approach we used with regard to these three audit areas was as follows:</p> <ol style="list-style-type: none"> The results or cash flows underlying the valuations were based on the budget approved by the Board of Directors for the following year and the strategic planning for the subsequent years. Management and the Board of Directors monitored this process and challenged the assumptions that were used. We performed a plausibility check using our empirical values, taking into account the planned measures and their impacts. In order to assess the appropriateness of the prior year assumptions, we compared the forecasts made in the prior year with the effective results realised in the year under review. We compared the capitalisation rates used with the weighted average cost of capital rates of the Nedis, Distrelec Elfa and Reichelt sub-groups. <p>We consider the valuation process to be an appropriate and adequate basis for the testing of the recoverability of investments in subsidiaries and long-term loans receivable from subsidiaries in the Technical Components Division. The results of our audit support the reasonableness of the assumptions applied by the Board of Directors and Management.</p>

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to read 'René' followed by a stylized flourish.

René Rausenberger
Audit expert
Auditor in charge

A handwritten signature in black ink, appearing to read 'Josef' followed by a long, horizontal flourish.

Josef Stadelmann
Audit expert

Zurich, 3 February 2017