

# 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.

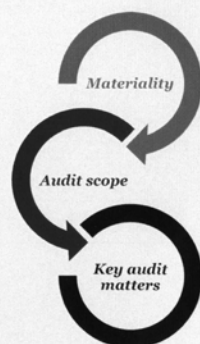
#### *Basis for opinion*

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"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul> <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"> <li>the design of the internal controls relating to inventory management, inventory valuation and the calculation of the amount of the write-down,</li> <li>the appropriateness of the assumptions used by Management in calculating the write-downs,</li> <li>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</li> <li>for selected products, the computational accuracy of the write-down.</li> </ul> <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 'Rausenberger'.

René Rausenberger  
Audit expert  
Auditor in charge

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

Josef Stadelmann  
Audit expert

Zurich, 3 February 2017