

Group Financial Review

CONSOLIDATED INCOME STATEMENT DATWYLER GROUP

In 2017, the Datwyler Group generated net revenue of CHF 1'291.4 million (previous year CHF 1'215.8 million), representing an increase of 6.2%. The effect of subsidiaries acquired amounted to CHF 25.0 million or 2.0%. The positive impact from foreign currency translation to Swiss francs on consolidation was 1.3%. Adjusted for these factors, organic growth was 2.9%.

Change in net revenue

<u>in CHF millions</u>	2017	%	2016	%
Acquisition/disposal of subsidiaries	25.0	2.0%	23.8	2.0%
Foreign currency translation to CHF	15.4	1.3%	10.3	0.9%
Organic change	35.2	2.9%	16.5	1.4%
Total change in net revenue	75.6	6.2%	50.6	4.3%

The gross profit margin decreased to 25.5% (previous year 26.3%). Gross profit was impacted by positive foreign currency translation effects of 1.0% and by raw material prices up 1.0%. Other organic change of gross profit amounted to 1.9%.

Change in gross profit

<u>in CHF millions</u>	2017	%	2016	%
Acquisition/disposal of subsidiaries	3.6	1.1%	4.2	1.5%
Foreign currency translation to CHF	3.3	1.0%	1.4	0.5%
Impact raw material purchases	-3.3	-1.0%	9.3	3.2%
Other organic change	5.9	1.9%	16.3	5.6%
Total change in gross profit	9.5	3.0%	31.2	10.8%

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

In 2017, the Group's operating result (EBIT) reached CHF 162.6 million (previous year CHF 146.1 million) and the EBIT margin was 12.6% (previous year 12.0%) with the following factors contributing to this change:

Change in EBIT

<u>in CHF millions</u>	2017	%	2016	%
Acquisition/disposal of subsidiaries	0.4	0.2%	2.1	1.7%
Foreign currency translation to CHF	2.9	2.0%	-0.1	-0.1%
Organic change	13.2	9.1%	18.0	14.3%
Total change in EBIT	16.5	11.3%	20.0	15.9%

EBIT includes a gain of CHF 0.1 million (previous year CHF 0.6 million) on sale of property, plant and equipment and in the previous year one-time costs related to the planned acquisition of Premier Farnell of CHF 3.9 million.

Net finance costs decreased to CHF 7.8 million (previous year CHF 50.4 million), with comparable interest expense of CHF 2.3 million (previous year CHF 2.4 million), net foreign exchange gains on financing activities of CHF 0.6 million (previous year losses of CHF 51.5 million). In the previous year 2016, net finance costs included one-time hedging and financings costs related to the planned acquisition of Premier Farnell of CHF 44.1 million. Income tax expense decreased to CHF 31.1 million (previous year CHF 38.1 million). Accordingly, the tax ratio decreased to 20.1% (previous year 39.8%). The Group's weighted average income tax rate for 2017 was 24.1% (previous year 33.8%).

With the lower income tax expenses and lower net finance costs, a net result of CHF 123.7 million (previous year CHF 57.6 million) or 9.6% (previous year 4.7%) of net revenue was achieved.

CONSOLIDATED BALANCE SHEET DATWYLER GROUP

Total assets increased by CHF 82.5 million during the year to CHF 1'299.6 million (previous year CHF 1'217.1 million). Trade accounts receivable increased to CHF 201.9 million (previous year CHF 191.0 million) and inventories increased to CHF 215.8 million (previous year CHF 178.7 million). With trade accounts payable of CHF 78.5 million (previous year CHF 63.7 million), net working capital increased by 10.8% to CHF 339.2 million (previous year CHF 306.0 million). Cash and cash equivalents decreased by CHF 35.7 million.

Compared to the previous year, equity increased by CHF 93.0 million to CHF 898.5 million (previous year CHF 805.5 million), maintaining a solid equity ratio of 69.1% (previous year 66.2%). The significant changes in equity include the net result of CHF 123.7 million (previous year CHF 57.6 million), the dividend payment of CHF -37.4 million (previous year CHF -36.2 million), the offset of goodwill from acquisitions of CHF -0.4 million (previous year CHF -11.2 million), in the previous year the proceeds from sales of treasury shares of CHF 68.0 million and positive currency translation differences of CHF 7.0 million (previous year CHF -2.1 million) arising on net investments in foreign subsidiaries.

Short-term and long-term bank debts increased slightly by CHF 0.1 million during the year to CHF 11.6 million (previous year CHF 11.5 million). The Group's liquidity situation remains good, with cash and cash equivalents amounting to CHF 281.8 million (previous year CHF 317.5 million) at the end of the year under review. Including the bond of CHF 150.0 million, the net cash position has changed to CHF 120.2 million (previous year CHF 156.1 million).

Current assets grew by 1.8% to CHF 733.7 million (previous year CHF 720.8 million). Non-current assets increased by 14.0% to CHF 565.9 million (previous year CHF 496.3 million).

CONSOLIDATED CASH FLOW STATEMENT DATWYLER GROUP

With the net result of CHF 123.7 million (previous year CHF 57.6 million), net cash from operating activities amounted to CHF 112.7 million (previous year CHF 90.7 million). These cash flows were used to pay for investments in property, plant and equipment totalling CHF 99.7 million (previous year CHF 71.5 million). This represents a capital expenditure ratio (capital expenditure as a percentage of net revenue) of 7.7% versus 5.9% a year earlier. In addition, in the previous year operating cash flow was used for the acquisition of subsidiaries in the amount of CHF 28.5 million. Repayments of bank debt amounted to CHF 0.5 million net (previous year net increase of CHF 0.1 million). In the previous year, proceeds from the sale of money market investments and treasury shares amounted to CHF 60.0 million and CHF 73.8 million, respectively. Overall cash outflows and inflows led to a net change in cash and cash equivalents of CHF -38.5 million (previous year CHF 76.8 million), resulting in a cash and cash equivalents balance of CHF 281.8 million (previous year CHF 317.5 million) at year-end.

ADDITIONAL INFORMATION

The commentary of the significant events during the year under review is presented on pages 1 to 18 of this annual report.

Full-time equivalents

The annual average of full-time equivalents was 7'357 (previous year 7'056).

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 12 October 2017, 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

<u>in CHF millions</u>	2017	2016
Cash and cash equivalents	281.8	317.5
Available credit lines	362.1	343.9
Total liquidity reserves	643.9	661.4

Net cash surplus

<u>in CHF millions</u>	2017	2016
Cash and cash equivalents	281.8	317.5
Less short-term bank debt and bond repayable in 2018	-154.3	-4.0
Net cash surplus	127.5	313.5

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 the previous year 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 4 to 18 of this annual report.