LETTER TO THE SHAREHOLDERS

Course set for future profitable growth

- **The Datwyler Group stayed on track for profitable growth during 2018. Net revenue increased by 5.4% to CHF 1'361.6 million.**
- **Operating result (EBIT) continued to improve to CHF 170.0 million, and the EBIT margin remained almost unchanged at 12.5% despite significant start-up costs for growth-related projects.**
- **The Annual General Meeting will be asked to pay an unchanged cash dividend of CHF 3.00 per bearer share.**
- **During the 2018 reporting year, Datwyler used its position of strength to set a course for future profitable growth, which included expanding production capacity for high-quality components for the health care market and acquiring two attractive businesses.**

The Datwyler Group continued to enjoy profitable growth in 2018, although some markets did show signs of weakness, particularly during the third quarter. Thanks to strong demand for high-quality health care components, the Sealing Solutions division made a significant contribution to growth. In the Technical Components division, revenue was boosted by the core business-to-business online distribution activities.

Further improvement in operating result

In total, the Datwyler Group increased net revenue in 2018, compared with the previous year, by 5.4% to CHF 1'361.6 million (previous year: CHF 1'291.4 million). Adjusted for positive currency and acquisition effects, the resulting organic growth was 2.0%. Operating result (EBIT) continued to improve to CHF 170.0 million (previous year: CHF 162.6 million). The EBIT margin remained almost unchanged at 12.5% (previous year: 12.6%), so was within the recently increased target range. This was despite significant start-up costs for various growth-related projects, in particular for the new Health Care capacity in the USA and India and the one-off costs for the one-brand strategy pursued by Nedis. In the second half of the year, the increasingly strong Swiss franc and higher raw material prices also had a negative impact on margins. It should be possible, however, to absorb higher raw material prices as early as the first quarter of 2019.

The net result amounted to CHF 121.0 million (previous year: CHF 123.7 million). During the previous year, one-off effects kept tax expenses unusually low. In view of the steady profitability levels and given that prospects look promising, the Board of Directors is asking the Annual General Meeting to pay an unchanged cash dividend of CHF 3.00 per bearer share (previous year: CHF 3.00) and CHF 0.60 per registered share (previous year: 0.60). This equates to a payout ratio of 42.1% of the net result. The Annual General Meeting is also being asked to appoint Jens Breu, CEO of the listed SFS Group, to the Board of Directors and as another representative of bearer shareholders.

Stepping up activity in the growing health care market

As a manufacturer of high-quality components for injectable drug delivery systems, Datwyler is a world-leading provider in an attractive and growing market. Depending on the region, the market is growing between 5% and 10% a year, barriers to entry are high and margins appear attractive. For segments of this market, such as prefilled syringes or innovative drug delivery systems, independent market observers are predicting worldwide growth of 10% to 15% a year between now and 2025. Datwyler has been quick to recognise the potential for growth offered by the health care market and has invested over recent years in expanding its product range, building up production capacity and continuing to develop its production standard.

With the First Line standard, Datwyler has an industry-leading production concept. The First Line standard covers ultra-modern clean room technology, automated production cells, fully automated camera inspection and a high-quality cleaning process. The innovative production concept meets the highest customer requirements. At the end of September 2018, Datwyler started operations at a new First Line plant in Middletown, USA, after just two years of construction work. Together with the existing First Line capacity in Belgium and the First Line capacity in India (which was expanded in 2017), this will enable Datwyler to provide customers in the three key business regions of the USA, Europe and Asia with locally produced First Line components in future. Thanks to the new production capacity, Datwyler will be able to increase its global First Line volumes by 50% between now and 2020 and accelerate profitable growth. The Health Care segment is already generating the biggest share of revenue for the Datwyler Group.

Geographical expansion and new technologies in the automotive market

Our growth strategy also includes accessing new geographical markets, either by building our own new plants or acquiring businesses. During the reporting year, Datwyler secured improved access to the South American automotive industry by acquiring the Brazilian company known as Bins, which enjoys annual revenue of CHF 20 million. Thanks to Bins, Datwyler now has its own production plants in all relevant automotive markets. We will utilise Bins's distribution network to offer carmakers in Brazil and existing Datwyler customers in South America our full range of products.

And access to new technologies and skills will also help ensure the company's long-term growth. With this in mind, and where it makes sense to do so, we are working with research institutions or small specialist companies to develop new products and applications. The acquisition of German company Ott in the middle of 2016 marked a step along this growth trajectory. Ott's injection moulding technology, which uses thermoplastics and liquid silicone, complements Datwyler's existing technologies very nicely. Injection moulding technology opens up new possibilities, particularly in the ongoing electrification of vehicles. During 2018, Datwyler won projects relating to seals for sensors, high-voltage connectors and housing for power distribution equipment. We also introduced the "Lean and Clean" production concept to the Swiss site in the reporting year. This gives us a unique selling proposition for high-quality automotive components – such as those used for the treatment of exhaust gases from diesel vehicles – which recorded significant growth in the reporting year.

Accessing new industries within the general industries market

Another driver of growth is the policy of accessing new markets via acquisitions. And Datwyler duly took advantage of the opportunity to acquire the US company Parco in the reporting year. Thanks to strong market positions, the company enjoys profitable growth and annual revenue of around CHF 60 million. Parco will give the Sealing Solutions division access to several new industries of strategic interest – particularly the oil and gas industry, aerospace, water filtration or pumps and valves. At the same time, Datwyler is significantly expanding its existing O-ring business (which it acquired with the takeover of Origom in 2015) through the acquisition of Parco and strengthening its presence in the important US market. O-rings assume system-critical functions within many systems and installations, while the demands placed on elastomer compounds and functionality continue to grow. The market remains highly fragmented and therefore offers further opportunities for acquisition-based growth.

Successfull refining of customer segmentation in the distribution business

In the Technical Components division, we are continuing to sharpen our focus in terms of both market and customer segmentation. We are introducing state-of-the-art digital technologies to improve predictive analysis in relation to online distribution. This enables Distrelec and Reichelt to address their target customers with increasingly personalised offers. For example, Distrelec is now focusing on the so-called Custom Production of Electromechanical Goods (CPE), an attractive segment of small and medium-sized enterprises which produce relatively small runs of high-tech products and are not catered for by mass-market providers. The central Distrelec enterprise hub in Manchester is continuously improving operating performance, and this is reflected in improvements in key performance indicators relating to service, customer satisfaction and the online shop. Reichelt's successful international expansion is based on local online shops and is generating a significant increase in demand. The plan for 2019 is to launch three new online shops in Italy, Belgium and Spain. As well as pursuing international expansion, Reichelt is sharpening its focus on the high-margin business-to-business market with new products and marketing activities both domestically and abroad. Nedis repositioned itself during the reporting year by reducing itself to a strong product brand and is working towards accessing new customer groups such as large online dealers or the promotional products sector. At the same time, the company improved product quality, fine-tuned product management and made sales more efficient. All three companies are constantly expanding their range with new products designed to meet customers' needs, an approach which is helping to drive growth. In particular, the growing range of own-brand RND and Nedis products is being marketed by all three distribution companies.

Digitalisation and agility are key

To help us succeed in exploiting the various opportunities for growth, we have made it a strategic priority to accelerate digitalisation and increase agility levels. We want to be proactive in exploiting the new possibilities and opportunities associated with digitalisation and turn these into a competitive advantage. This means investing in state-of-the-art systems and solutions. Examples include the modernisation and expansion of the ERP software package for around CHF 50 million, robotic process automation (RPA), automated guided vehicles (AGV), RFID technology to control and track the flow of materials, use of big data for predictive analytics of customers or digitalisation of all human resource processes. As well as improving competitiveness, all these measures facilitate collaboration and increase the agility of both individual employees and the company as a whole. To help us exploit the full potential involved, we have initiated a culture change. With targeted training, we are helping our managers to reinvent their management style and encourage their employees (i.e. to act more like coaches). In doing so, we are creating an environment where employees can be agile and give free rein to their talents, skills and creativity, as we move towards our vision of a self-learning organisation. And with the latest Datwyler Group employee survey returning the highest-ever satisfaction levels, this provides solid foundations for the kind of culture change we are working towards.

Well positioned to tackle future challenges

It is possible that some of the markets we serve may become more challenging for a time during 2019. Global trade disputes have led to increased uncertainty in the automotive market in particular. But with the measures implemented in 2018 and before and thanks to the strategy it is pursuing, Datwyler is well prepared for the challenges ahead. Through our leading market positions, we are well placed in the long term to take advantage of opportunities for growth in the markets we serve. With the Health Care business, we have a strong and stable presence in a market which continues to grow with the help of structural drivers, largely independently of any fluctuations within the wider economy. We are currently expecting revenue of between CHF 1'450 million and CHF 1'500 million for 2019 and an EBIT margin within the target range of 12% to 15%, which has recently been increased twice, even though the start-up costs for the new Health Care plant in the USA and for further growth-related projects remain significant.

We are convinced that we did the right things in 2018 to remain on track for future profitable growth. Our employees show great dedication, on a daily basis, to capitalising on our opportunities for growth. And for this we are truly grateful. We would also like to take this opportunity to thank our customers and shareholders for their confidence and the solidarity they show towards our business.

On behalf of the Board of Directors

Dr. Paul J. Hälg, Chairman

On behalf of the Executive Management

Dirk Lambrecht, CEO