Annual Report **2017**

Management Report
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HUBER+SUHNER
Excellence in Connectivity Solutions

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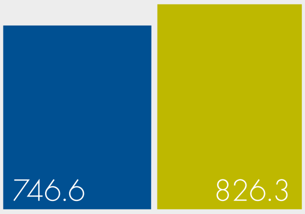
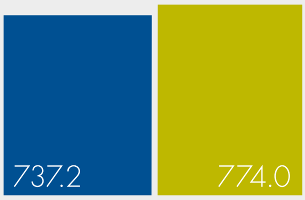
MANAGEMENT REPORT 2017

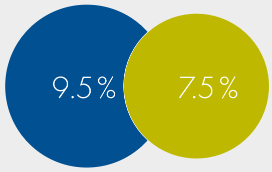
Significant increase in order intake of 10.7 %



Net sales increased by 5.0 %



EBIT margin slightly below medium-term target range



All three technology segments[1] recorded an increase in both order intake and net sales

Double-digit EBIT margin in Radio Frequency, EBIT in Fiber Optics more than halved and an impressive turnaround for Low Frequency

Minor acquisition specifically to strengthen expertise in the radio frequency systems business

■ 2016 ■ 2017 in CHF million

[1] As of 1 January 2017, the Fiber Optics division was subdivided into two divisions: "Mobile Communication & Industry" and "Fixed Networks & Data Center". However, reporting will continue on the basis of the three previous technology segments (formerly referred to as divisions): Radio Frequency, Fiber Optics and Low Frequency.

HUBER+SUHNER remains on a path of growth – diminished profitability in Fiber Optics

Urs Ryffel (CEO) and Urs Kaufmann (Chairman)

In the 2017 financial year, all technology segments reported growth in both order intake and net sales. Year-on-year, overall order intake saw double-digit growth, increasing by 10.7 % to CHF 826.3 million. Low Frequency experienced a veritable growth spurt (+29.9 %), driven by significant increase in demand from both the railway and automotive markets, while growth in the Radio Frequency and Fiber Optics technology segments was in the single-digit percentage range (+6.0 % and +2.1 % respectively).

Net sales across all of the technology segments grew by 5.0 % to CHF 774.0 million. Adjusted for currency, copper and portfolio effects, organic growth was 2.2 %. With net sales increasing by 7.0 %, Low Frequency also reported the strongest growth among all three technology segments. Radio Frequency showed a pleasing increase of 5.2 % and Fiber Optics continued on its growth path with net sales increasing by 3.4 %. By region, EMEA accounted for 45 % (previous year: 46 %) of net sales, APAC's share increased to 36 % (PY: 34 %), while that of the Americas fell to 19 % (PY: 20 %).

Year-on-year, the EBIT margin declined by 2.0 percentage points to 7.5 %. The decline in profitability was largely attributable to high price pressure in large-scale projects in the communication market, changes in the product mix, and higher investments in both sales and research and development. The latter rose by CHF 4 million to CHF 34 million. As a consequence, net income fell from CHF 53.2 million in the previous year to CHF 42.1 million, representing a return on sales of 5.4 %. Free operating cash flow amounted to CHF 20.0 million.

The number of permanent employees increased by 169 to 4200 (4140 full-time equivalents on an annual average), as a result of production capacity expansions in rapidly growing regions such as China. In Switzerland, the number of permanent employees fell slightly to 1237.

Communication market at previous year's level, strong growth in transportation and industrial markets
The communication market experienced an inconsistent year 2017. After significant growth in the first six months, the situation then reversed, resulting in net sales of CHF 375.7 million (+0.8 %) and order intake of CHF 391.1 million (+0.2 %) for the year as a whole, marginally above previous year levels. A waning of business with communication equipment manufacturers was offset by brisker business with mobile network operators and customers in the data center market segment.

Net sales in the transportation market grew by 8.9 % to CHF 216.1 million. This was surpassed by order intake, which increased by 30.3 % to CHF 244.3 million compared to the previous year. This growth was due to successes in both transportation submarkets: thanks to increasing momentum in the Asian railway market over the course of the year, the Group was able to win large customer orders for both cable and system solutions. The growth initiative in the automotive submarket is making good progress and was further bolstered by a generally favourable market environment.

Sales and order intake in the industrial high-tech niches also developed positively, with net sales increasing significantly to CHF 182.2 million (+9.7 %), while order intake even rose to CHF 190.9 million (+13.1 %). In the aerospace and defense submarket, new areas of application, such as RF-over-fiber, where radio frequency signals are transmitted over fiber optics, and turnkey radio frequency solutions, opened up further promising new avenues.

Radio Frequency technology segment: strong performance and acquisition for the targeted strengthening of expertise
In the Radio Frequency technology segment, both order intake, at CHF 239.9 million (+6.0 %), and net sales, at CHF 231.2 million (+5.2 %), were up on the previous year. With an EBIT margin of 13.6 %, this technology segment made a strong contribution to earnings. Although the pressure on the communication market was also felt here, Radio Frequency was able to achieve a good level of growth overall thanks to gains in market share in both the aerospace and defense and test and measurement segments. With the acquisition of Inwave Elektronik AG in Switzerland, a targeted investment was made in engineering and prototype construction of microwave and RF-over-fiber solutions and thus expertise in the radio frequency systems business was broadened.

Fiber Optics technology segment: marginal growth with lower profitability
The Fiber Optics technology segment as a whole experienced a decline in momentum over the course of the financial year, but nevertheless closed 3.4 % up on the previous year in net sales, at CHF 316.2 million, and 2.1 % up in order intake, at CHF 329.2 million. The EBIT margin was unusually low at 5.6 %, which was due to a number of reasons: the upgrading of mobile communication networks to the 4G/LTE standard gave rise to a gain in market share. However, since the expansions took place in price-sensitive emerging economies with

correspondingly high pressure on margins, this reduced average margin. In addition, the Fiber Optics technology segment experienced a significant drop in net sales of profitable wavelength-division multiplexer products (WDM) in the second half of the year. Business in the data center market segment developed positively. New customer projects in all regions underline the opportunities offered by this strategic growth initiative.

Low Frequency technology segment: successful turnaround and high order backlog
Driven by an impressive turnaround in the second half of the year, net sales in the Low Frequency technology segment increased substantially by 7.0 % to CHF 226.6 million. The development of order intake was even more impressive: at CHF 257.2 million, an increase of 29.9 % over the previous year was recorded. The EBIT margin also improved significantly, reaching 5.1 %. There are several reasons for this positive development: The strategic alignment – the build-to-print railway cable systems business operated from Poland was sold – considerably eased the burden on costs. As part of this adjustment, the Derby (UK) site was closed and certain activities were relocated to Bicester. Investments made in the electric vehicles growth initiative began to bear fruit in the form of orders for RADOX® HPC high-power charging systems and high-voltage distribution systems.

Risk management
At its meeting on 4 December 2017, the Board of Directors assessed the entrepreneurial risks as part of its ongoing risk management and approved the 2017 risk report including the defined measures.

Dividend
The Board of Directors proposes to the Annual General Meeting a payout of CHF 1.10 per share. That corresponds to a payout ratio of 51 %.

Outlook
Thanks to a solid order backlog and strong demand in the main markets, HUBER+SUHNER has started the 2018 financial year on a positive note. The target market Communication looks set to continue generating high volumes in the emerging economies albeit with sustained price pressure. At the same time, demand for fast Internet connections remains high, creating opportunities in the application Fiber-to-the-home. The worldwide increase in data volume is driving demand for new data centers. In the target market Transportation, the positive momentum in the Asian railway market is expected to continue while in the automotive market, all major manufacturers supplement their product lines by electric vehicles. In the target market Industrial, positive stimuli are expected from the aerospace and defense submarket in particular.

Against this backdrop, from today's perspective and provided that exchange rates remain comparable to 2017, HUBER+SUHNER expects the EBIT margin in the current year to return to the medium-term target range of 8–10 %.

Thank you
All of our employees throughout the entire world deserve our most sincere thanks. For many, increasing volumes in the traditional markets and the simultaneous pursuit of growth opportunities presented considerable challenges, which were met head-on with professionalism and much passion. The Board of Directors and Executive Group Management also extend their thanks to every shareholder, customer and supplier for their continued trust and good collaboration.

Urs Kaufmann
Chairman of the Board of Directors

Urs Ryffel
CEO

Milestones 2017

Industrial
Radio frequency technology

HUBER+SUHNER supplies cable assemblies, printed circuit boards and connectors for a global network of satellites

Communication
Mobile communications supplier

Huawei grants HUBER+SUHNER the "Excellent Core Partner Award 2017"

Transportation
Wireless device connections

HUBER+SUHNER equips 140 French TGVs with complete communication systems in record time

Transportation
Electric vehicles

HUBER+SUHNER awarded contract for the HV distribution system used in e-buses and hybrid trucks of a major European manufacturer

Healthy foundation for further growth

The business environment at HUBER+SUHNER continues to be shaped by three major developments. Firstly, people want to be connected to the Internet at all times and everywhere, both professionally and privately. The market demand is for bandwidth that supports high-resolution video clips and online gaming. Secondly, people want to be mobile, get from A to B quickly and conveniently, with as little impact on the environment as possible. Thirdly, the connectivity components and systems used in professional electronic devices have to become ever smaller, more powerful and more durable, even when exposed to adverse environmental conditions. The technical properties of these products are being pushed to the limits of what is physically possible.

The strong pillars today

Precision and reliability: the test and measurement business

Whether in the research laboratory, in production or at the mobile phone mast: where radio frequency signals are measured, solutions must transmit the signal with the greatest possible accuracy. Measuring cables and passive components from HUBER+SUHNER ensure maximum signal integrity. In addition, they are robust and boast a long service life. Technological development increasingly requires higher frequencies. The company's comprehensive know-how enables it to satisfy this development through the provision of new or improved products.

Business in the fast lane: mobile communication from 3G to 4G and 5G

Through its broad portfolio of components and systems for mobile communication, HUBER+SUHNER has taken a leading position in the market and also holds its own against competitors from Asia. The company has successfully supported the introduction of the fast 4G mobile communications standard in many parts of the world. The even faster 5G standard is currently being defined and the first commercial applications are expected in about two years' time. HUBER+SUHNER is already prepared to accompany customers on their way to 5G.

Data transport at the speed of light into the living room: the WAN/FTTH business

According to the European Commission, by 2025 all areas of particular socio-economic importance are to have a 1 gigabit per second Internet connection. Only fiber optic networks are able to offer such a high transfer speed. The products from HUBER+SUHNER are customised, modular, easy to use and fit for the future. The company plans to participate in future network expansions around the globe and serve as a key supplier to major fixed-line providers.

Railway market: a business characterised by market consolidation and product standardisation

The number of manufacturers of rolling stock has decreased as a result of mergers. The level of maturity reached by traditional cable technology has made further innovation expensive. HUBER+SUHNER is asserting itself in the market with a unique range of cables: lighter, flexible and requiring less space than standard cables. In the area of fast data connections on trains (Internet of Trains), the company is again ahead of the competition by providing complete solutions that combine all of the required technologies. This enables it to expand its leading position in the world market.

The strong pillars at HUBER+SUHNER reflect these developments. On the one hand, they enable solid sales and profits. On the other hand, they allow the company to invest in so-called growth initiatives that are suitable for becoming an important part of the business in the medium term.

The growth initiatives for tomorrow

High-tech and new market participants: new opportunities in aerospace and defense

Satellite programmes, real-time communication and remote-controlled operating devices are trends within this industry. Reliable and robust high-frequency connections are in demand. RF-over-fiber systems, which transmit high-frequency signals over longer distances and are protected against interception, open up new opportunities. Private satellite programmes reach new dimensions in terms of size and place extraordinary demands on flexibility and performance. Here too, HUBER+SUHNER proves that the company is up to date.

Small radio cells to ease mobile data congestion: small cells and DAS

Small cells (compact, short-range radio cells in outdoor municipal areas) and distributed antenna systems (DAS) in enclosed buildings are designed to improve both reception and capacity for mobile communications. HUBER+SUHNER has developed an extensive portfolio of connectivity solutions for these applications. The products are quick and easy to install. The company is engaged in an ongoing dialogue with all stakeholders and is also prepared for network consolidation using small cells and DAS in the run-up to 5G.

More data more quickly: in data centers, flexible, future-proof cabling is in demand

Cloud services and the operation of customer-specific applications in external data centers of Internet service providers (colocation) are booming. HUBER+SUHNER offers reliable, flexible and easy to install systems and cables. These are supplemented by purely optical switches that enable connections to be reconfigured remotely in milliseconds, providing a new dimension of flexibility in the hitherto static architecture of optical networks. The company sees great potential in the market for data center cabling.

Upheaval in the automotive sector: an industry electrified

The future of the automotive industry lies in electric drives. However, certain questions remain unanswered. Will there be a new generation of more efficient batteries? How can vehicle ranges be increased? When will the majority of motorists switch to electric vehicles, when will the transport industry change? HUBER+SUHNER benefits from its extensive expertise in the area of high-voltage technology. The company claims to become an important supplier to the manufacturers of electric vehicles and their sub-suppliers.

Radio Frequency technology segment

Net sales, order intake and EBIT margin increase again – focus of activities in aerospace and defense relocated from Switzerland to the USA

The Radio Frequency technology segment has developed very positively. The increased demand for radio frequency solutions had a broad base and originated from the aerospace and defense growth initiative, the test and measurement market segment and from industrial high-tech niches. Radar systems for distance measurement, such as those used for autonomous driving, aroused great interest.

Key figures		2017	2016 [1]	%
Order intake	CHF million	239.9	226.4	+6.0
Net sales	CHF million	231.2	219.7	+5.2
Operating profit (EBIT)	CHF million	31.5	29.5	+7.0
EBIT margin	%	13.6	13.4	

[1] Swiss GAAP FER restated

Fiber Optics technology segment

Net sales and order intake above previous year – EBIT margin in mid single-digit range – increase in business with data centers

Development in the individual market segments for Communication varied significantly. Strong and profitable growth was achieved with solutions for data centers. Although business with mobile network operators increased slightly, it was characterised by strong pressure on margins. Developments in the market segment for communication equipment manufacturers were disappointing, with a genuine slump in the sale of WDM products. The small cells and data center growth initiatives offer good medium-term prospects for HUBER+SUHNER to grow profitably in these market segments.

Key figures		2017	2016 [1]	%
Order intake	CHF million	329.2	322.3	+2.1
Net sales	CHF million	316.2	305.7	+3.4
Operating profit (EBIT)	CHF million	17.7	40.9	-56.7
EBIT margin	%	5.6	13.4	

[1] Swiss GAAP FER restated

Low Frequency technology segment

Turnaround achieved – very strong increase in order intake – significantly improved EBIT margin

After several semesters of disappointing development, restructuring measures began to take effect in the second half of the year. The surge in demand from the Asian railway market, coupled with positive trends in the automotive submarket, contributed to a significant increase in this technology segment. Concrete customer projects with high-voltage distribution systems were increasingly translated into orders, thus supporting the electric vehicles growth initiative.

Key figures		2017	2016 [1]	%
Order intake	CHF million	257.2	198.0	+29.9
Net sales	CHF million	226.6	211.8	+7.0
Operating profit (EBIT)	CHF million	11.6	3.5	+231.8
EBIT margin	%	5.1	1.6	

[1] Swiss GAAP FER restated

Reto Bolt

COO Radio Frequency

“The acquisition of Inwave Elektronik AG in Switzerland represents a targeted investment in expertise in the area of microwave and RF-over-fiber solutions. It increases our competency in the radio frequency systems business.”

Fritz Landolt

COO Fiber Optics Mobile Communication & Industry

“Our ‘Road to 5G’ roadshow through 17 European countries showcased our solutions for the data transmission standard of the future to mobile network operators, communication equipment manufacturers and infrastructure providers. They know that we are well prepared, whatever form infrastructure development may take in the various countries involved.”

Martin Strasser

COO Fiber Optics Fixed Network & Data Center

“Through the investment in our sales structures, we have significantly improved our access to the market segment for data centers. The increased proximity to customers resulted in geographically broad growth, and an extensive project pipeline provides a strong basis for the desired expansion of this business in the future.”

Patrick Riederer

COO Low Frequency

“By streamlining our structures and portfolio, we set the course to focus on business areas with a higher degree of differentiation. This had a positive effect on the development of the Low Frequency division, as did the investments made in our automotive business over recent years.”

Key Figures and Financial Calendar

Group in CHF million	2017	2016	Change
Order intake	826.3	746.6	10.7 %
Order backlog as of 31.12.	230.5	177.2	30.1 %
Net sales	774.0	737.2	5.0 %
Gross margin	34.5 %	36.7 %	
EBITDA	90.5	100.8	(10.2 %)
as % of net sales	11.7 %	13.7 %	
EBIT	58.1	69.7	(16.6 %)
as % of net sales	7.5 %	9.5 %	
Financial result	(0.7)	3.0	n/a
Net income	42.1	53.2	(20.8 %)
as % of net sales	5.4 %	7.2 %	
Purchases of PP&E and intangible assets	37.8	32.2	17.3 %
Cash flow from operating activities	52.9	79.6	(33.5 %)
Free operating cash flow	20.0	22.1	(9.7 %)
Net liquidity as of 31.12.	152.6	157.5	(3.1 %)
Equity as of 31.12.	593.5	573.3	3.5 %
as % of balance sheet total	78.9 %	81.5 %	
Employees as of 31.12.	4 200	4 031	4.2 %
Market capitalisation as of 31.12.	989.5	1 099.0	(10.0 %)

Data per share in CHF	2017	2016	Change
Stock market price as of 31.12.	50.85	56.50	(10.0 %)
Net income	2.17	2.73	(20.8 %)
Dividend	1.10[1]	1.25	(12.0 %)

[1] proposed dividend

Since the beginning of 2017 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. Prior period figures have been restated to conform to the presentation for the reporting period to ensure comparability, see note 2.2.

Photos: HUBER+SUHNER, Thinkstock

Company information

Media
Patrick G. Köppe
Head Corporate Communications
Phone +41 (0)44 952 25 55
patrick.koeppe@hubersuhner.com

Investors
Ivo Wechsler
Chief Financial Officer
Phone +41 (0)44 952 22 43
ivo.wechsler@hubersuhner.com

Financial calendar

Annual General Meeting (Gossau SG)	11 April 2018
Half-year report	21 August 2018
Media and analysts' conference	21 August 2018
Sales and order intake (9 months)	25 October 2018

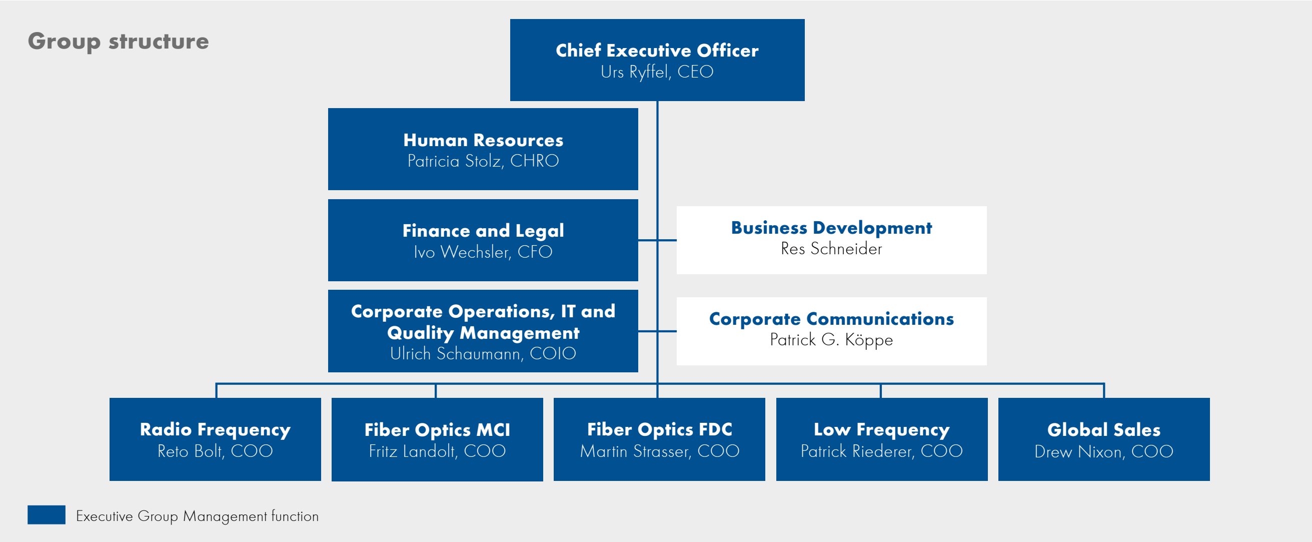
Detailed figures are available online at www.hubersuhner.com
This management report is also available in German. The German version is binding.

Corporate Governance 2017

CORPORATE GOVERNANCE

The term "Corporate Governance" refers to all of the principles and rules aimed at safeguarding shareholder interests. While maintaining decision-making capability and efficiency at the highest level of a company, these principles are intended to guarantee transparency and a healthy balance of management and control.
The following Corporate Governance report is structured in accordance with the Directive on Information relating to Corporate Governance (DCG) published by SIX Swiss Exchange. All information presented reflects the situation on 31 December 2017, unless otherwise stated.

1 Group structure and shareholders



1.1 Group structure

The HUBER+SUHNER Group operational management is structured as a matrix organisation. It is made up of the three technology segments, Radio Frequency, Fiber Optics (subdivided into Mobile Communication & Industry and Fixed Network & Data Center) and Low Frequency on the one side, and of Global Sales with seven regions on the other side. At Group level, the five service units Human Resources, Finance and Legal, Corporate Operations including IT and Quality Management, Business Development and Corporate Communications support the Chief Executive Officer (CEO).

Listed Group company

HUBER+SUHNER AG, domiciled in Herisau AR, Switzerland, is the parent company for the HUBER+SUHNER Group. It is incorporated under Swiss law and its shares are listed on the SIX Swiss Exchange in Zurich (Swiss Reporting standard, security number 3'038'073, ISIN: CH0030380734). The market capitalisation as per 31 December 2017 amounted to CHF 989 million. Further key share data is provided on page 67 of this annual report.

Non-listed Group companies

Information about the HUBER+SUHNER AG Group companies, of which none are listed, is presented in the Notes to the Group Financial Statements under Group companies on page 48.

1.2 Significant shareholders

Based on the information available to the company, the following shareholders are exceeding a threshold of 3 % of voting rights as of 31 December 2017:

Shareholder	Country	% of shares
Metrohm AG	CH	10.62 %
Abegg Holding AG	CH	10.04 %
S. Hoffmann-Suhner	CH	6.18 %
EGS Beteiligungen AG	CH	5.72 %
Huwa Finanz- und Beteiligungs AG	CH	3.19 %
Norges Bank (the Central Bank of Norway)	NO	3.07 %

The company holds 741 140 treasury shares (726 640 treasury stock and 14 500 other treasury shares).

HUBER+SUHNER AG has published two disclosures in connection with shareholder participation in the reporting year. Disclosures can be viewed in the database of the SIX Swiss Exchange for significant shareholders: Available at: https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

The HUBER+SUHNER Board of Directors is not aware of any shareholders' agreements or other agreements with significant shareholders with respect to the company's registered shares held by them or to the exertion of shareholder rights.

1.3 Cross-shareholdings

The HUBER+SUHNER Group has not agreed to any capital or voting cross-shareholdings with other companies.

2 Capital structure

2.1/2.2 Capital/Authorised and conditional capital in particular

The HUBER+SUHNER AG share capital is fully paid-in and, on the balance sheet date, amounts to CHF 5 050 000. HUBER+SUHNER AG has no authorised or conditional capital. More information about the share capital is disclosed in the Notes to the Group Financial Statements under Share capital on page 47.

2.3 Changes in capital

There were no changes in capital in the last three reporting years.

2.4/2.5 Shares and participation certificates/ Dividend-right certificates

The share capital is divided into 20 200 000 registered shares, each with voting rights and a nominal value of CHF 0.25. HUBER+SUHNER has issued neither participation nor dividend right certificates.

2.6 Limitations on transferability and nominee registrations

In line with the Articles of Association, only those people who are registered in the shareholders register are recognised in relation to the company as a shareholder with voting rights or as a beneficiary with voting rights. The Board of Directors can deny registration as a shareholder with voting rights for the following reasons:

a) if the purchaser, due to recognition as a shareholder, were to directly or indirectly acquire more than 5 % of the total number of registered shares entered in the Company Register,
b) to the extent that the purchaser's recognition as a shareholder could, according to the information available to them, hinder the company from providing the records required by federal law about the composition of its circle of shareholders,
c) if the purchaser, at the request of the company, does not expressly state that it has acquired the shares in its own name and for its own account and will hold them.

Private individuals, legal entities and business partnerships with mutual associations through capital, voting rights, management or in any other way, as well as individuals or legal entities and legal communities that are coordinated for the purpose of circumventing registration restrictions, shall be regarded as a single purchaser. The registration restrictions also apply when purchasing registered shares resulting from exertion of subscription, option and conversion rights.
The Shareholder Meeting has the power to make a decision about withdrawing registration restrictions to registered shares. At least two-thirds of the represented share votes and the absolute majority of nominal value of the shares issued must agree to this. Nominees are fundamentally not recognised for the position as a shareholder with voting rights.

In line with the regulations for registering HUBER+SUHNER AG shareholders in the share register, the Board of Directors is empowered to disregard the limit of 5 % in special cases, particularly to ease the tradability of registered shares and in connection with company mergers and to increase the stability of the shareholder base by way of new core shareholders.

In the reporting year, the Board of Directors made one exception regarding the 5 % registration restrictions in connection with EGS Beteiligungen AG in order to strengthen the core shareholder base.

2.7 Convertible bonds and options

HUBER+SUHNER AG does not have any outstanding convertible bonds or any shareholder or employee options.

3 Board of Directors

3.1/3.2 Members of the Board of Directors/ Other activities and vested interests

The HUBER+SUHNER AG Board of Directors must consist of at least five members. At the Annual General Meeting on 5 April 2017 all seven acting members of the Board of Directors were re-elected. In addition, Urs Kaufmann – the former CEO and delegate of the Board of Directors – was elected as the new Chairman of the Board.

All members of the Board of Directors are non-executive. They do not participate in the executive management of the Group. They also do not have any significant business relationships with HUBER+SUHNER AG or other Group companies. Other than the Chairman, no member of the Board of Directors has served as a member of the HUBER+SUHNER Executive Group Management or one of its Group companies in the three years before the reporting period.

On 31 December 2017 the Board of Directors comprised of the following seven persons:

Urs Kaufmann
Chairman of the Board of Directors (since 6 April 2017)
1962, Swiss citizen, Member and Delegate of the Board of Directors since 2014

Education and professional background

Dipl. Ing. ETH (Swiss Federal Institute of Technology) Zurich. Senior Executive Program IMD, Lausanne. 1987 to 1993 Project Manager, Production Manager and Head of Sales at Zellweger Uster AG, Uster and USA. Joined HUBER+SUHNER in 1994: 1994 to 1997 Managing Director of Henry Berchtold AG, a former subsidiary of HUBER+SUHNER AG. 1997 to 2000 Division Head and member of the Management Board of HUBER+SUHNER AG. Since 2001 member of the Executive Group Management and Chief Executive Officer from 2002 to 31 March 2017.

Other activities and vested interests

Chairman of the Board of Directors at Schaffner Holding AG, Luterbach. Member of the Board of Directors at SFS Group AG, Heerbrugg; Gurit Holding AG, Wattwil; Vetropack Holding AG, Bülach as well as Müller Martini Holding AG, Hergiswil. Executive committee member of SWISSMEM.

Dr. Beat Kälin

Deputy Chairman of the Board of Directors
1957, Swiss citizen, Board of Directors since 2009
(between 2015 and 5 April 2017 Chairman of the Board of Directors)

Education and professional background
Dr. sc. techn., dipl. Ing. ETH Zurich. MBA INSEAD, Fontainebleau. 1987 to 1997 various management positions with Elektrowatt Group, Stäfa and Zug. 1998 to 2004 SIG Schweizerische Industrie-Gesellschaft Holding AG, Neuhausen a.Rhf., member of Executive Group Management as of 1999. 2004 to 2006 member of the divisional management board for packaging technology at Robert Bosch GmbH, Neuhausen a.Rhf. 2006 to 2007 COO, 2007 to 2015 CEO and since May 2015 Chairman of the Board of Directors of the Komax Group, Dierikon.

Other activities and vested interests
Member of the Investment Committee of the Investment Foundation VALYOU.

Prof. Dr. Monika Bütler

1961, Swiss citizen, Board of Directors since 2014

Education and professional background
PhD at the University in St. Gallen. Diploma in Mathematics/Physics at the University in Zurich. Director of the Swiss Institute for Empirical Economic Research (SEW) at the University of St. Gallen, since 2004 full Professor of Economics and Public Policy at the University of St. Gallen, 1999 to 2004 Professor at the University of Lausanne, 1997 to 2001 Assistant Professor at the University of Tilburg, Netherlands.

Other activities and vested interests
Member of the Board of Directors of Schindler Holding Ltd., Hergiswil and member of the Suva Board (Swiss National Accident Insurance Fund) Lucerne. Member of the Bank Council of the Swiss National Bank, Zurich. Vice President of the Foundation Board, Gebert Rüf Stiftung, Zurich.

Dr. Christoph Fässler

1952, Swiss citizen, Board of Directors since 2013

Education and professional background
Chemical Engineer ETH Zurich. 1980 to 1986 Holcim in the United States, Egypt, Brazil and Mexico. 1986 to 1998 Manager at Forma Vitrum AG, St. Gallen. 1998 to 2004 Division Manager at Schott, Germany. From 2005 to 2015 CEO and Delegate of the Board of Directors and since 2016 Chairman of the Board of Directors at Metrohm AG*, Herisau (since October 2017 additional CEO a.i.).

Other activities and vested interests
Member of the Board of Directors at the Alba Group, Appenzell; Elvy Weaving, Egypt and Cabana AG, Herisau.

George H. Müller

1951, Swiss citizen, Board of Directors since 2001

Education and professional background
Dipl. Ing. ETH Zurich. 1976 to 1980 General Manager for Cosa do Brasil Ltda., São Paulo, Brazil. 1980 to 1990 member of the Executive Group Management and of the Board of Directors at UHAG Übersee-Handel AG, Zurich. Since 1990 Chairman and Delegate of the Board of Directors at Cosa Travel Ltd., Zurich.

Other activities and vested interests
Chairman of the Board at 3D AG, Baar. Consul General of Japan in Zurich.

Rolf Seiffert

1958, Swiss citizen, Board of Directors since 2010

Education and professional background
Dipl. Ing. ETH Zurich. 1988 to 1998 positions in product development and product management with ABB Transportation / Adtranz, Zurich. 1999 to 2010 various line functions in product development and sales at Siemens Switzerland, Rail Automation, Wallisellen. 2011 to 2013 Vice President Sales at duagon AG, Dietikon. 2013 to 2015 Head of Sales at Ruf Telematik AG, Schlieren. 2015 to 2017 Managing Director and since 2018 Head of Railway Signaling at Kummler+Matter AG, Zurich.

Other activities and vested interests
None

Jörg Walther

1961, Swiss citizen, Board of Directors since 2016

Education and professional background
Lic. iur. University of Zurich. Admitted to the Aargau bar. MBA from the University of Chicago. Acquired several years of industry experience as a legal consultant to various multinational corporations. 1991 to 1995 Danzas Management, Basel, 1995 to 2001 ABB Asea Brown Boveri AG, Baden und Oerlikon, 2001 to 2009 Novartis International AG, Basel. Since 2010 partner at Schärer Attorneys at Law in Aarau.

Other activities and vested interests
Chairman of the Board of Directors at Proderma AG, Schötz. Member of the Board of Directors at SFS Group AG, Heerbrugg; Zehnder Group AG, Gränichen; AEW Energie AG, Aarau; Kraftwerk Augst AG, Augst as well as Immobilien AEW AG, Aarau. Chairman of the Special Expert Committee of Sika AG.

Honorary chairmen:
Marc C. Cappis, 1935
David W. Syz, 1944

* Significant shareholders at HUBER+SUHNER AG

3.3 Rules in the Articles of Association on the number of permitted activities pursuant to Art. 12(1) No. 1 OaEC (Ordinance against Excessive Compensation at Listed Joint-Stock Companies)

As per article 30 of the Articles of Association, a Member of the Board of Directors may hold up to 5 posts as a member of the management board or administrative body of other listed legal entities. In addition, a Member of the Board of Directors may hold up to 20 posts as a member of the management board or administrative body of non-listed legal entities and up to 10 posts as a member of the management board of foundations and associations.

3.4 Elections and terms of office

According to legal provisions, all Members of the Board of Directors, the Chairman and the members of the Nomination and Compensation Committee are elected annually and individually. The Articles of Association do not allow for any different election rules. The term of office of a Member of the Board lasts until the end of the next Annual General Meeting. Re-election is possible. Please refer to 3.1/3.2 for the first election per member. The Members of the Board resign at the Annual General Meeting in the year in which they turn 70 years of age. The Annual General Meeting also appoints the independent proxy representative each year. The term lasts until the end of the next Annual General Meeting. Re-election is possible.

3.5 Internal organisational structure

The Board of Directors exercises overall management, supervision and control over the management of the Group. Except for the election of the Chairman and the Members of the Nomination and Compensation Committee by the Annual General Meeting, the Board of Directors constitutes itself. The Board of Directors may appoint the Deputy Chairman from among its members, as well as a Secretary who does not need to be a Board Member.

Working practices of the Board of Directors

The Board of Directors meets as often as business requires, at least five times a year. The Chairman – or if he is unable to attend – the Deputy Chairman or another Member of the Board – chairs the Board of Directors. He sets the dates of meetings and the agenda. He also ensures that Members receive the agenda at least ten days and decision documents as a general rule one week before the meetings. In addition to the CEO, the CFO also attends meetings of the Board of Directors as a representative of Executive Group Management. Depending on the business being discussed, other members of Executive Group Management may take part.
Decisions are taken by the entire Board of Directors. The Board of Directors has a decision quorum if the majority of its members is present.
It takes decisions by a majority of the votes cast. In a tie, the Chairman has the casting vote. Delegation is not permissible. All decisions and negotiations are recorded in the minutes and approved by the Board of Directors.

In the reporting year, five regular half-day Board of Directors meetings, two telephone conferences as well as a one-day “strategy workshop” together with the entire Executive Group Management took place. The meetings were spread out regularly over the financial year.

The Chairman of the Board of Directors maintains on-going and close contact with the CEO and makes decisions regarding the disclosure of price sensitive facts or the adoption of posts outside the company by members of Executive Group Management. In addition, he is responsible for monitoring implementation of and compliance with decisions made by the Annual General Meeting and the Board of Directors, as well as for informing all other members of the Board of Directors in a regular and timely manner. In addition to his core duties the Chairman executes additional tasks for the HUBER+SUHNER Group, such as contact with key stakeholders as well as a representative in the foundation committee or other organisations.

The composition and working practices of the committees

The Board of Directors has established two permanent committees for support, the Nomination and Compensation Committee and the Audit Committee.
The tasks and competencies, as well as the working practices of the committees are defined in detail in the Annex to the HUBER+SUHNER AG Bylaws.
The committees support the Board of Directors in its supervisory and control tasks and are primarily responsible for advice, assessment and preparation; they are made up as follows:

	Nomination and Compensation Committee	Audit Committee
Urs Kaufmann	Committee Chairman [1]	
Beat Kälin	Member [2]	
Christoph Fässler	Member [3]	
Monika Bütler		Committee Chair
Jörg Walther		Member

[1] since 6 April 2017
[2] until 5 April 2017 Committee Chairman
[3] until 5 April 2017

The committees meet as often as business requires, albeit at least twice a year. Minutes are taken at each meeting and sent to all meeting participants and to all Members of the Board of Directors. The committee chairmen report at the next Board of Directors meeting about the business discussed and make any proposals to the Board of Directors.

The Nomination and Compensation Committee (NCC)

The committee consists of at least two non-executive Members of the Board of Directors elected by the Annual General Meeting. If the office of one of the members elected by the Annual General Meeting becomes vacant, the Board of Directors appoints the missing member of the committee from among its members for the remaining term.

The committee prepares all the relevant decisions relating to nominating and compensating members of the Board of Directors and the Executive Group Management and relating to the Group’s compensation policy.
The CEO attends the meetings, except if his own performance is being assessed or his own remuneration is being proposed, and if necessary the CHRO (Chief Human Resources Officer). The committee held two half-day meetings in the reporting year.

The Nomination and Compensation Committee has the following main tasks:

- Managing the selection process and applications relating to new Board Members and the CEO
- Accompanying the selection process and applications relating to other members of the Executive Group Management and the essential employment conditions
- Preparing the compensation report
- Preparing proposals to the Annual General Meeting for the compensation votes for the attention of the Board of Directors

- Reviewing and requesting the individual remuneration of the CEO and the other members of the Executive Group Management in the context of the maximum compensation amounts approved by the Annual General Meeting
- Deciding upon the annual salary adjustments within the Group proposed by the CEO
- Informing the Board of Directors about all NCC-related events which are not directly the responsibility of the Board of Directors

Audit Committee (AC)

The committee consists of at least two members. The Board of Directors appoints the members and designates the Chairman annually. The committee supports the Board of Directors with financial management, supervision of accounting, financial reporting, internal auditing and cooperation with the external auditors. It decides on urgent technical matters. The duties and responsibilities assigned to the Board of Directors as per the Bylaws and the law remain with the Board of Directors as a whole body.
The CFO, CEO, the Head of Corporate Controlling and the external auditors take part in the committee meetings. If necessary, the committee will address certain agenda items alone with the external auditors. The committee held two half-day meetings in the reporting year.

The Audit Committee has the following main tasks:
- Reviewing the design of the accounting system and compliance with regulations and standards and, if necessary, proposing amendments for the attention of the Board of Directors
- Reviewing the yearly and half-yearly financial statements and other financial information to be published
- Monitoring the handling of risk management and the effectiveness of the internal control system (ICS)
- Reviewing Controlling function
- Monitoring business activity with regard to compliance with internal regulations and policies, relevant legislation and compliance, in particular with regard to the requirements of the SIX Swiss Exchange
- Verification of performance, independence and payment of external auditors, and addressing audit reports and election recommendations for the attention of the Board of Directors
- Determining the audit plan for internal auditors and addressing their audit reports
- Informing the Board of Directors about all Audit Committee-related events which are not directly the responsibility of the Board of Directors

3.6 Definition of areas of responsibility

The areas of authority and responsibility of the various bodies are set out in the Bylaws (available under www.hubersuhner.com/en/company/investors/corporate-governance)

The Board of Directors issues guidelines for business policy and makes decisions about all matters that are not reserved for, or assigned to, the Annual General Meeting or another company body by law, by the Articles of Association or the Bylaws. The Board of Directors in particular approves the strategy and organisation requested by the Executive Group Management, the budget, medium-term plan and other business that is of strategic importance due to its nature or financial magnitude. Written requests are required if the Board of Directors has to make a decision about projects.
The Board of Directors completely delegates the Group's operational management to the Chief Executive Officer (CEO), unless statutory regulations or the Bylaws state otherwise. The Bylaws are periodically reviewed and adapted by the Board of Directors.

3.7 Information and control instruments vis-à-vis the Executive Group Management

The Board's main information and control instrument is a management information system based on financial accounting according to Swiss GAAP FER. Group Financial Statements (income statement, balance sheet, cash flow statement) in comparison with the budget and the previous year and consolidated income statements and key figures for the divisions and regions are created on a monthly basis and distributed to all members of the Board of Directors.
Regular reporting by Executive Group Management to the Board of Directors also consists of a monthly written commentary from the CEO about the progress of business and the Group's result which is sent to all Board Members along with the monthly financial statements, and also of minutes from the monthly Executive Group Management meetings which are submitted to the Chairman.
The attendance of Executive Group Management members (especially by the CEO and CFO) at the Board of Directors' meetings and its committees is described in section 3.5 Internal organisational structure. During the Board of Directors' meetings, the CEO provides information about the current development of the business and about major business transactions; the CFO explains the yearly and half-yearly statements. Each Member of the Board can also ask for information about any HUBER+SUHNER Group matters.
The Board of Directors is also closely involved in the company's planning cycle. It receives the results of the strategic mid-term plan, which covers a period of 5 years, for approval in the third quarter. A detailed budget for the coming year is approved in the fourth quarter. In addition, the Board of Directors receives a forecast for the expected annual results twice a year.
Internal auditing at HUBER+SUHNER is the responsibility of Corporate Controlling. The Head is subordinate to the CFO, but reports directly to the Audit Committee regarding this activity. This solution tailored to the specific situation and size of HUBER+SUHNER is cost effective and ensures that the expertise gained in the internal audits can be used by the employees in Controlling without any loss of information. A plan is prepared annually with the Group companies to be audited based on a financial risk assessment and in consultation with the external auditors. This is then submitted to the Audit Committee for approval. The audit priorities are, in particular, compliance with internal policies, processes and reviews and implementing the internal control system. The results of each audit are discussed in detail by the internal auditors with the relevant Group companies, and concrete improvement measures are agreed. The internal audit reports for the audits carried out are submitted, together with the suggestions for improvements, to the Audit Committee, the Chairman of the Board, the CEO, the CFO, the COO Global Sales, the management of the audited Group company and the external auditors. Audit reports with key findings are presented and discussed with the Audit Committee. The Audit Committee checks annually that the main complaints and suggestions are processed.
The internal control system (ICS) is assessed annually by the external auditors in a comprehensive report to the Audit Committee and the Board of Directors and its existence confirmed.
Risk management of the HUBER+SUHNER Group and all Group companies is laid down in the Board of Directors risk policy and in the Executive Group Management regulations relating to risk management. In the reporting year, the Executive Group Manage-

ment checked the progress and effectiveness of the measures implemented and made a selection and reassessment of the significant financial, operational and strategic risks. This was based on its own top-down estimates and on bottom-up data from divisions and corporate functions. The risks were categorised according to probability of occurrence and financial impact. In addition, mitigating measures were defined for every listed risk, and operational responsibility was regulated. The evaluated risks as well as the on-going and planned measures and activities to adhere to Compliance-principles were presented in the 2017 Risk Report to the Board of Directors for review and approval. After discussions, the Board of Directors approved the risk report on 4 December 2017.

4 Executive Group Management

4.1/4.2 Members of Executive Group Management/ Other activities and vested interests

Executive Group Management is the highest management level; it assists the CEO with his operational management tasks. It deals with all business and decisions that are important for the company. On 31 December 2017, Executive Group Management consisted of the following nine persons:

Urs Ryffel
1967, Swiss citizen, CEO
(Chief Executive Officer)

Education and professional background
Dipl. Ing. ETH Zurich. 1992 to 1999 Head of the Business Development unit at ABB Schweiz, Zurich and Head of the Hydro Power Plant Service global business unit as Project Manager at ABB Kraftwerke AG, Baden. 1999 to 2002 General Manager for the Hydro Power segment at ALSTOM, Lisbon and for Hydro Power Plants and Systems in Paris. Joined HUBER+SUHNER in 2002 as Head of Rollers business unit. 2004 to 2007 Head of the Cable System Technology business unit. 2007 to 2016, Head of Fiber Optics Division; since 2008 member of the Executive Group Management and since 1 April 2017 Chief Executive Officer.

Other activities and vested interests
None

Reto Bolt
1966, Swiss citizen, Radio Frequency
(Chief Operating Officer Radio Frequency)

Education and professional background
Dipl. Ing. ETH Zurich. Joined HUBER+SUHNER in 1993 as Operations Engineer for coaxial connectors, then held several managing positions in the operations department of the Radio Frequency Division. 2004 to 2007 Head of Global Management Systems, from 2007 to 2012 Head of the Cable Systems business unit within the Low Frequency Division. Since 2012 Head of Radio Frequency Division and member of the Executive Group Management.

Other activities and vested interests
None

Fritz Landolt
1967, Swiss citizen, Fiber Optics – Mobile Communication & Industry
(Chief Operating Officer Fiber Optics MCI)

Education and professional background
Dipl. El.-Ing. HTL/STV, FH NDS Telecom Mgt, MBA University of Zurich. 1991 to 1996 R&D Engineer for pager at swissphone, Samstagern. 1996 to 2000 Product Manager for GSM-base stations at Philips Communication Systems, Zurich. 2000 to 2012 Director Network and Technology at Sunrise, Zurich. 2012 to 2013 Director Solutions&Engineering at Huawei, Zurich. Joined HUBER+SUHNER in 2014 as Product Unit Manager in the Fiber Optics Division. Since October 2016 Head of Fiber Optics Mobile Communication & Industry Division and since 2017 member of the Executive Group Management.

Other activities and vested interests
None

Drew Nixon
1965, American citizen, Global Sales
(Chief Operating Officer Global Sales)

Education and professional background
Bachelor in Business Administration, Babson College, Wellesley Massachusetts, USA. 1988 to 2000 working in various management functions for the American companies Charleswater Products INC, Boston Metal Products Corp, Cerplex Mass INC and Decibel Instruments INC. 2000 to 2004 as Director of Finance and Administration at Zettacom INC, Santa Clara, US. Joined HUBER+SUHNER in 2004 as Finance Director North America, 2008 to 2012 Managing Director North America, Vermont, 2012 to 2015 Managing Director of the Region North Asia, Shanghai. Since 2015, Chief Operating Officer Global Sales and member of the Executive Group Management.

Other activities and vested interests
None

Patrick Riederer
1965, Swiss citizen, Low Frequency
(Chief Operating Officer Low Frequency)

Education and professional background
Chemical Engineer, Polytechnic School of Engineering, Winterthur. Joined HUBER+SUHNER in 1991 as Material Development Engineer, 1994 to 1998 Product Manager, 1998 to 2002 Head of Cable Technology Product Management, from 2002 to 2007 Head of Cable Technology. Since 2008, Head of Low Frequency Division and member of the Executive Group Management.

Other activities and vested interests
Member of the Board of Directors at Wolfensberger Beteiligungen AG, Bauma.

Dr. Ulrich Schaumann
1957, Swiss citizen, Corporate Operations, IT and Quality Management
(Chief Operations + IT Officer)

Education and professional background
Dipl. Masch-Ing. ETH Zurich, postdoctoral degree to Dr. sc. techn. ETH Zurich. 1986 to 1992 different functions in production and logistics as well as Head of Logistics at Zellweger Uster AG, Uster. 1992 to 2005 different functions in supply management, engineering and responsibility for the head office in Switzerland, as well as member of the board at H.A. Schlatter AG, Schlieren. Joined HUBER+SUHNER in 2005 as a Manager Global Operations, 2013 to 2015 Manager Corporate Operations. Since 2015 Chief Corporate Operations + IT Officer and member of the Executive Group Management.

Other activities and vested interests
Member of Board of Directors at Romay AG, Oberkulm.

Patricia Stolz
1969, Swiss citizen, Human Resources
(Chief Human Resources Officer)

Education and professional background
Human Resources Specialist with certificate of competence and EMBA University of Applied Sciences St. Gallen. 1990 to 2003 assistant in Human Resources at NAW Nutzfahrzeuge AG, Arbon. 2003 to 2007 Head of HR Management at Flawa AG, Flawil. Joined HUBER+SUHNER in 2008 as Human Resources Manager of the Fiber Optics Division. Since 2015 Chief Human Resources Officer and member of the Executive Group Management.

Other activities and vested interests
None

Dr. Martin Strasser
1974, Austrian citizen, Fiber Optics – Fixed Network & Data Center
(Chief Operating Officer Fiber Optics FDC)

Education and professional background
Dipl. Ing. Dr. techn. TU Vienna, EMBA Zurich University of Applied Sciences in Business Administration. Joined HUBER+SUHNER in 2002 as Project Leader Research+Advanced Development. 2004 to 2008 Product Manager in the Fiber Optics Division and since 2008 member of the division management. 2008 to 2016 Product Unit Manager for Fiber Management Systems. Since October 2016 Head of Fiber Optics – Fixed Network & Data Center Division and since 2017 member of the Executive Group Management.

Other activities and vested interests
None

Ivo Wechsler
1969, Swiss citizen, Finance and Legal
(Chief Financial Officer)

Education and professional background
Lic. oec. HSG (University of St. Gallen). 1995 to 1997 at Schweizerische Bankgesellschaft (UBS) in Corporate Finance in Zurich/London. 1998 to 2000 Controller and from 1999, Head of Controlling & Treasury at Sunrise Communications, Rümlang. 2001 to 2007 Head Corporate Controlling and from 2005 in addition Head Corporate Treasury, Ascom Group, Bern. Joined HUBER+SUHNER in 2008 as Head Corporate Controlling. Since 2010 Chief Financial Officer and member of the Executive Group Management.

Other activities and vested interests
None

4.3 Rules in the Articles of Association on the number of permitted activities pursuant to Art. 12(1) No. 1 OaEC
As per article 30 of the Articles of Association, a member of the Executive Group Management may hold up to 3 posts as a member of the management board or administrative body of other listed legal entities. In addition, a member of the Executive Group Management may hold up to 5 posts as a member of the management board or administrative body of non-listed legal entities and up to 5 posts as a member of the management board of foundations and associations.

4.4 Management contracts
There are no management contracts with companies or individuals outside of the HUBER+SUHNER Group.

5 Compensation, shareholdings and loans

Information about the compensation and loans of the Board of Directors and Executive Group Management are summarised in the Compensation Report on pages 21 to 25. Information about shareholdings of the Board of Directors and Executive Group Management are shown in the Financial Statements HUBER+SUHNER AG on page 60.

6 Shareholders' participation rights

6.1 Voting rights restrictions and representation
Each share entitles to one vote. Each shareholder may be represented either by the independent proxy, a representative authorized by written or electronic power of attorney or by another individual or legal entity by a power of attorney in writing. Proxy holders do not need to be shareholders.
When exercising voting rights, no shareholder representing another shareholder may, with his own shares and the shares he represents, together account for more than 10 % of the entire share capital. Proxy holders, who are not shareholders, may not represent more than 10 % of the entire share capital. Individuals, legal entities and groups with joint legal status which are bound by capital or voting rights, by consolidated management or in another manner, or individuals, legal entities and legal communities which coordinate their action to circumvent the above restrictions are to be considered as one sole shareholder. The limitation does not apply to the independent proxy representative.
The Board of Directors may decide on exceptions to restrictions on voting rights and representation. The Board of Directors did not grant any exceptions in the reporting year.

Powers of representation and voting instructions to the independent proxy representative are granted in accordance with legal provisions.

6.2 Quorums required by the Articles of Association

The Annual General Meeting makes its decisions and carries out its elections with a relative majority of votes unless the law determines otherwise. A decision by the Annual General Meeting which assembles at least 2/3 of the represented share votes and the absolute majority of the nominal value of the shares issued, is required for:

1. Relaxation or cancellation of the limitations on the transferability of registered shares
2. Conversion of registered shares into bearer shares
3. Dissolution of the company.

6.3/6.4 Convocation of the Annual General Meeting Inclusion of items on the agenda

Convening the Annual General Meeting and placing items on the agenda are done in compliance with articles 699 and 700 OR. In addition, Article 9 of the Articles of Association stipulates that the represented minimum nominal value for shareholders placing an item on the agenda must be CHF 50000. The Board of Directors must be notified of the request to place an item on the agenda and be given the proposals in writing no later than 60 days prior to the Annual General Meeting.

6.5 Entries in the share register

As a general rule, no entries of registered shareholders are made in the share register in the five working days before the Annual General Meeting takes place. The Board of Directors announces the deadline for making entries in the share register in the invitations to the Annual General Meeting. The Board of Directors did not grant any exceptions in this respect in the reporting year.

7 Changes of control and defence measures

7.1 Duty to make an offer

No statutory rules governing opting-up respectively opting-out exist according to the Financial Market Infrastructure Act (FMIA).

7.2 Clauses on changes of control

There are no provisions in the employment contracts with Executive Group Management or board members that refer to a change of control.
The share blocking periods are not repealed when members of the Board of Directors or Executive Group Management resign. According to the HUBER+SUHNER AG Compensation Policy, the Board of Directors can prematurely repeal existing blocking periods in special circumstances such as a change of control on request by the Nomination and Compensation Committee.

8 Auditors

8.1 Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers AG, Zurich, or its legal predecessor Schweizerische Treuhandgesellschaft, has acted as auditor for HUBER+SUHNER AG and various Group companies since 1969. The current lead auditor, Mr. Beat Inauen, has been in charge since 7 April 2016. His tenure as lead auditor is restricted to a maximum of seven years as per article 730a(2) Swiss Code of Obligations. The auditors are elected by the Annual General Meeting for a term of one year.

8.2/8.3 Auditing fees/Additional fees

PricewaterhouseCoopers (PwC) charged TCHF 432 for auditing the Group Financial Statements and the individual financial statements of different Group companies during the reporting year and TCHF 203 for various additional services from PwC (of which TCHF 162 for tax advice and TCHF 41 for other consulting advice).

8.4 Information instruments pertaining to the external audit

The Audit Committee informs the Board of Directors of the external auditors' work and collaboration. Each year, the external auditors create an audit plan, a confirmation of "analytical review" of the half-yearly financial statements and a comprehensive report on the annual financial statements with findings about accounting, the internal control system, the Compensation report (chapter 5) and the audit results for the attention of the Board of Directors and the Audit Committee. The Audit Committee assesses the annual scope of the audit and the audit plans and discusses the audit findings with the external auditors. The external auditors took part in both Audit Committee meetings in the reporting year.
The Audit Committee annually assesses the external auditors' performance, independence and fees and submits a recommendation to the Board of Directors suggesting which external audit company should be proposed for election by the Annual General Meeting.
The reports and presentations composed by the auditors, the discussions in the meetings, the factual and objective perspectives and the technical and operational expertise form the basis for assessment.
The Audit Committee reviews the appropriateness and the scope of the various additional services provided by the external auditors. If the planned additional services exceed the maximum amount set by the Audit Committee, the Audit Committee must be informed in advance.

9 Information policy

As a listed company, HUBER+SUHNER informs its internal and external stakeholders actively, completely and in good time in order to be a credible and sustainable business partner. The SIX Swiss Exchange regulations, legal provisions and internal guidelines are important bases.
The results of operations in accordance with Swiss GAAP FER are published in the yearly report and the half-yearly report and presented at the media and analyst conference and at the Annual General Meeting. Further regular press releases show the development of net sales and orders: At the end of January regarding the past financial year and at the end of October regarding the first three quarters of the current year. The current dates and contact information can be found in the section "Management Report 2017" on page 9 of this Annual Report.

Additional information which could affect the share price is published in accordance with SIX Swiss Exchange ad hoc publication requirements. Official announcements and company notices are published in the Swiss Commercial Gazette (SHAB).

The CEO is responsible for corporate communications. He is supported by the CFO in investor relations.

Website: www.hubersuhner.com

Important dates and all the latest news are listed on the website under Investors, as are the Bylaws and the Articles of Association. Press releases are available on subscription under Company/Investors/Publications.

Corporate news and ad-hoc announcements

www.hubersuhner.com/en/company/media/news

Investor information

www.hubersuhner.com/en/company/investors

Articles of Association

www.hubersuhner.com/en/company/investors/corporate-governance

Bylaws

www.hubersuhner.com/en/company/investors/corporate-governance

Compensation Report 2017

COMPENSATION REPORT

The Compensation Report contains information about the compensation principles, establishment procedures and compensation components for the Members of the Board of Directors and Executive Group Management. Furthermore the Compensation Report discloses the details of the compensations of the last two years.
The Compensation Report fulfills the requirements of the Ordinance against Excessive Compensation in Listed Companies (OaEC), which is in effect since January 2014. Furthermore the Compensation Report also fulfills the requirements of the Swiss Code of Obligations and the provisions set forth in the Directive on Information relating to Corporate Governance issued by SIX Swiss Exchange.

1 Guidelines and responsibilities

Guidelines
The HUBER+SUHNER Group's success depends heavily on the quality and commitment of its employees. The compensation policy aims to attract skilled managers and employees and to gear their activities towards the company's goals and a long-term career with HUBER+SUHNER.
Payments are made according to the following principles:

- Performance-based with market-competitive fixed and variable components
- Variable part is based on predefined targets and maximum thresholds
- Contribution towards the sustainable success of the company
- Transparency and clarity

The principles for the compensation of Members of the Board of Directors and Executive Group Management are laid down in Articles 23 (Compensation approval), 24 (Compensation of the Board of Directors), 25 (Compensation of the Executive Group Management), 26 (Principles of success and performance-related compensation), 27 (Principles for allocating shares), 28 (Additional amount) and 29 (Activities for Group companies) of the Articles of Association (for details see http://www.hubersuhner.com/en/company/investors/corporate-governance).

The granting of credit and loans, as well as benefits outside of the occupational pension scheme is only allowed after adopting a relevant provision of the Articles of Association, in accordance with Article 12(2) No. 1 OaEC. No such Articles of Association-based provision were established in the last review of the Articles of Association, in compliance with the company's previous practice.

Responsibilities
The Board of Directors is responsible for regulating general questions regarding compensation. The compensation models relevant for the Board of Directors and Executive Group Management are outlined in a compensation policy approved by the Board of Directors. The Board of Directors is supported in its work by the Nomination and Compensation Committee. The committee reviews the principles and prepares all relevant decisions concerning compensation of the members of the Board of Directors and Executive Group Management. The composition, main tasks and working practices of the Nomination and Compensation Committee are laid down in the Corporate Governance Report on page 14.

2 Compensation system for the Board of Directors

2.1 Chairman of the Board of Directors

The compensation of the Chairman has changed since April 2017 (since last Annual General Meeting) and consists of the following three components:

a) Remuneration
b) Long-term incentive (in the form of shares)
c) Pension and other social security benefits

a) Remuneration
The Chairman receives a fixed fee of TCHF 240 per annum.

b) Long-term incentive (in the form of shares)
In addition, the Chairman receives a long-term incentive annually in the form of a fixed number of company shares (3000 shares) with a blocking period of at least three years. The share blocking periods are not revoked on retirement from the Board of Directors.

c) Pension and other social security benefits
The obligatory contributions to social security and accident insurance schemes, and regulatory contributions to pensions from the compensations paid to the Chairman are borne by the company.

Payment of remuneration or the assignment of shares requires the approval of the Annual General Meeting as part of the total approved compensation for the Board of Directors. The basic remuneration is paid out on a monthly basis, but the shares are assigned only at the end of the year in office. The amount of the market value of the shares are accrued in accordance with the accrual principle in the financial statements of the corresponding financial year.

For the principles of the Chairman compensation during the period January 2016 to March 2017, please see the compensation report 2016, available at www.hubersuhner.com/en/documents-repository/company/pdf/investors/financial-reports/annual-report-2016.aspx

2.2 Other Board of Directors

Compensation for the other members of the Board of Directors consists of the following three components:

a) Remuneration
b) Long-term incentive (in the form of shares)

c) Social security benefits

a) Remuneration
Each other member of the Board of Directors receives an equal fixed basic fee of TCHF 40 per annum. Additionally, members also receive an extra allowance for taking on a post as Deputy Chairman (TCHF 20) or for serving on the Nomination and Compensation Committee or Audit Committee (TCHF 10). The responsibility and the increased workload of the various functions are therefore accounted for individually. In addition, each other member of the Board of Directors receive a lump sum expense allowance of TCHF 10 regardless of their function.

b) Long-term incentive (in the form of shares)
In addition, the other members of the Board of Directors receive a long-term incentive annually in the form of a fixed number of company shares (Deputy Chairman 2000 shares, other members 1200 shares) with a blocking period of at least three years. The share blocking periods are not revoked on retirement from the Board of Directors.

c) Social security benefits
The obligatory contributions towards social security out of the remuneration paid to the other members of the Board of Directors are also covered by the company. No contributions are made to the pension fund for the other members of the Board of Directors.

Payment of remuneration or the assignment of shares requires the approval of the Annual General Meeting as part of the total approved compensation for the Board of Directors. The basic remuneration including the post-related allowance and lump sum expense allowance as well as the shares are paid out or assigned at the end of the year in office. In case of early termination of the annual post the Board member concerned receives pro rata compensation. The amount of the fee and market value of the shares are accrued in accordance with the accrual principle in the financial statements of the corresponding financial year.

If company management is delegated to a Board member, this member is only compensated for his work as CEO.

3 Compensation system for the Executive Group Management

The total compensation for a member of Executive Group Management (EGM) essentially reflects the responsibility assigned, qualifications, complexity of the task, achievement of goals and local market conditions in the machinery, electrical and metal industry.
International compensation analyses for selected management positions are conducted, as required, by a consulting company specialising in international salary benchmarks. These comparisons help to determine Executive Group Management salaries. The elements assessed are short-term incentives (basic salary and bonus), long-term incentives (shares) and complementary benefits (pension fund, other compensation). Switzerland-based, internationally operating industrial companies are used as the basis for determining the comparator groups. The criteria are annual net sales, size of workforce, industry (manufacturing related companies) and structures with similar complexity (divisional structure, diversified product portfolio, international activity, etc.).
This consulting firm does not have any other roles at HUBER+SUHNER.

Remuneration for the members of the Executive Group Management consists of the following components:
a) Fixed basic salary
b) Variable performance components
 b1) Cash bonus
 b2) Long-term incentive (in the form of shares)
c) Pension and other social security benefits

a) Fixed basic salary
Executive Group Management members receive a fixed basic salary which is paid monthly. This is determined individually and takes into account the individual member of the Executive Group Management's role and responsibility. It also includes allowances such as child or education allowances, work anniversary compensation and other compensation for relocation to carry out business activities outside the country of residence.

b) Variable performance components

b1) Cash bonus
The Executive Group Management variable compensation system is based on the MbO (Management by Objective) process that applies to the entire Group. Performance-related compensation is defined based on a set target bonus (this corresponds to a 100 % target achievement). The target bonus for the Executive Group Management members, which is defined on an individual basis based on the ratio to the fixed basic salary, is between 40 % and 60 % for the CEO, and between 20 % and 50 % for the remaining Executive Group Management members.
The weighting of the variable compensation is set as follows:

Target category	Group financial targets	Individual targets	Leadership factor
CEO	60 %	20 %	20 %
Other EGM members	40 % - 50 %	30 % - 40 %	20 %

Three weighted Group financial targets are set in advance for a one-year period annually by the Board of Directors. For the year 2017 and 2016 the Group financial targets have been: net sales, EBIT-margin and inventory turn.
The individual targets are 3 to 5 divisional or function specific measurable management targets. These individual targets are set and weighted annually in a structured target-setting process by the Chairman of the Board of Directors with the CEO and the CEO with the members of Executive Group Management.
Leadership, cooperation and conduct are also evaluated when determining the cash bonus as part of the leadership factor. Performance in this respect will be evaluated through the discretion of the direct line manager.

Failure to reach targets means that no bonus is paid. Outperforming all targets may increase the bonus to a maximum of 150 % of the agreed target bonus.
Payment is made following approval by the Annual General Meeting. The amount of the bonus is accrued in accordance with the accrual principle in the financial statements of the corresponding financial year.

b2) Long-term incentive (in the form of shares)
The members of Executive Group Management receive a variable number of HUBER+SUHNER shares each year as long-term compensation. The annual number of target shares for the CEO is 4000 shares, and between 800 and 2000 shares for other members of Executive Group Management. The number of shares effectively allotted annually (number of target shares multiplied by a factor between 0.5 and 1.5) is determined by the Board of Directors and is driven by the long-term business success, which is assessed based on the factors "market environment", "strategy implementation" and "financial situation". A lock-in period of at least 3 years applies for the allotted shares. The share blocking periods are not repealed on resignation.

The shares are also only effectively assigned following approval by the Annual General Meeting. The market value of the shares is accrued in accordance with the accrual principle in the financial statements of the corresponding financial year.

c) Pension and other social security benefits
The obligatory contributions to social security and accident insurance schemes, and regulatory contributions to pensions from the compensations paid to the members of Executive Group Management are borne by the company.

Additional information
The Executive Group Management members' employment agreements envisage a notice period of 6 months, which can be extended to a maximum of 12 months by the employer under special circumstances. If the employment relationship is terminated by notice, the person entitled to compensation loses his eligibility for allotment of shares for the current financial year, except if otherwise allotted by the Board of Directors. All other entitlements remain in force on a pro rata basis.

Executive Group Management members receive an expense allowance for actual minor expenses – these are therefore not part of the compensation – as per the expenses policy approved by the appropriate tax authorities.

The Board of Directors can approve additional fixed compensation for Executive Group Management members who are appointed after approval of fixed compensation by the Annual General Meeting. In this case, the total amount of approved fixed compensation for Executive Group Management members may be increased by a maximum of 20 % per new Executive Group Management member, or by 40 % if a new CEO is elected.

4 Determining method

At the request of the Nomination and Compensation Committee, the Board of Directors determines in February the compensation for the Board of Directors and the Executive Group Management members. The compensation is subject to approval by the Annual General Meeting.

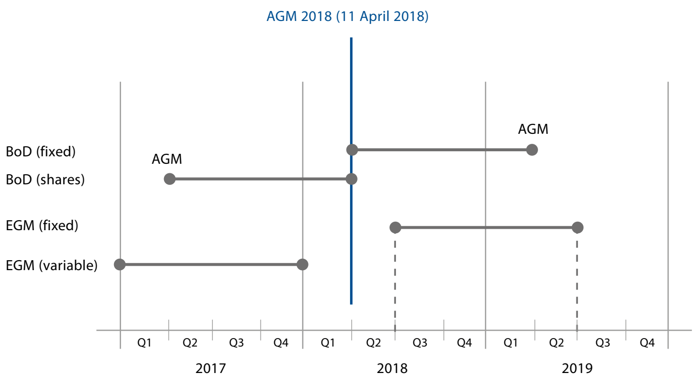
This relates to the amount of the fixed fee, post-related allowances and lump sum expense allowances for the members of the Board of Directors for the coming term of office, and the fixed number of shares for the current term of office. For the Executive Group Management members, this is the amount of the basic salary for the period from 1 July to 30 June the following year, the target bonus amount and the number of target shares for the current financial year. In addition, the previous financial year's target attainment (Group financial targets, individual targets, leadership factor as well as the share allocation factor) for the Executive Group Management members is assessed and set by the Board of Directors, requested by the Nomination and Compensation Committee.

All members are present when the Board of Directors determines compensation for Board members; there are no special rules of abstention. The CEO is present when determining the compensation for the Executive Group Management members, unless his own target attainment is being assessed or compensation set.

The Annual General Meeting gives final approval of the maximum compensation for the Board of Directors (BoD) and Executive Group Management (EGM), as shown in the table below, as follows:

- Total amount of fixed compensation to the Board of Directors for the one-year term from the current Annual General Meeting until the conclusion of the next Annual General Meeting (prospective).
- Share-based compensation for the Board of Directors for the one-year term of office expiring at the Annual General Meeting (retrospective).
- Total amount of fixed compensation to Executive Group Management for the period from 1 July to 30 June of the following year from the current Annual General Meeting onwards (prospective).
- Total amount of variable compensation for Executive Group Management for the completed financial year (retrospective).

Compensation vote at the 2018 AGM



5 Compensation for the members of the Board of Directors and Executive Group Management for fiscal year 2017

Board of Directors' compensation 2017

The members of the Board of Directors received TCHF 619 fixed compensation for the reporting year (previous year TCHF 449). Subject to approval by the Annual General Meeting, share-based compensation amounting to TCHF 640 (previous year TCHF 597) was also awarded. This amount is based on the market value of a total of 10 750 shares (previous year 10 000 shares), divided into 2 500 shares (previous year 2 500 shares) at the share price of CHF 65.00 from 5 April 2017 (previous year CHF 48.55) for the period from 1 January to 31 March 2017 and 8 250 shares (previous year 7 500 shares) at the share price of CHF 50.85 from 29 December 2017 (previous year CHF 56.50) for the period from 1 April 2017 to 31 December 2017. No compensation was paid to former members of the Board of Directors.

The total compensation for the Board of Directors for the reporting year was therefore TCHF 1 258 (previous year TCHF 1 046). This is up 20 % on the previous year, which is mainly due to the changed compensation structure of the Chairman of the Board and the reoccupation of the Deputy Chairman post. For the serving period 2015/2016 the Board of Directors waived 10 % of the fixed compensation.

Compensation for the Board of Directors (BoD)		Fixed compensation [1]		Share-based compensation [2]		Total compensation		Number of allotted shares	
		2017	2016	2017	2016	2017	2016	2017	2016
U. Kaufmann [a]	Chairman	221	–	127	–	348	–	2 250	–
B. Kälin [b]	Deputy Chairman	106	153	157	242	263	395	2 500	4 000
P. Altorfer [c]	Member	–	18	–	16	–	34	–	300
M. Bütler [d]	Member	67	65	73	73	139	138	1 200	1 200
C. Fässler [e]	Member	55	61	73	71	128	132	1 200	1 200
G. Müller	Member	53	54	73	73	125	127	1 200	1 200
R. Seiffert	Member	50	49	65	65	115	114	1 200	1 200
J. Walther [f]	Member	67	50	73	57	139	106	1 200	900
Total		619	449	640	597	1 258	1 046	10 750	10 000

[1] The Chairman receives a fixed contractual amount including social security/accident insurance scheme/pension fund contribution. All other members receive a basic remuneration, extra post allowance (if applicable) including social security contributions and a lump sum expense allowance.

[2] Share-based compensation is calculated at a share price of CHF 65.00 (for the part of the actual allocation from 5 April 2017) (previous year 48.55) and at CHF 50.85 (as of year-end 2017) (previous year 56.50) for the outstanding amount including social security. Outstanding shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

[a] Chairman and NCC Chairman (from 6 April 2017), before Delegate of the Board and CEO. The compensation for the period as CEO is part of the Executive Group Managment compensation.

[b] Deputy Chairman and NCC member (from 6 April 2017), before Chairman and NCC Chairman

[c] Board member, AC Chairman and NCC member (each until 6 April 2016)

[d] AC Chair (from 7 April 2016), before AC member

[e] NCC member (from 7 April 2016 to 5 April 2017)

[f] Board member and AC member (from 7 April 2016)

No loans are granted to current or former Board members. In addition, no compensation, loans or credit are granted to related parties of the Board of Directors.

An overview of the shareholdings of the members of the Board of Directors at HUBER+SUHNER AG can be found on page 60 of the 2017 Financial Report.

Executive Group Management compensation 2017

The Executive Group Management members received fixed compensation of TCHF 3 407 for the reporting year (previous year TCHF 3 237). Executive Group Management was – subject to approval by the Annual General Meeting – also awarded variable compensation of TCHF 1 790 (previous year TCHF 2 202). This includes share-based compensation based on the market value totalling 18 825 shares (previous year 17 450 shares) at a share price of CHF 50.85 on 29 December 2017 (previous year CHF 56.50). No compensation was paid to former Executive Group Management members.

The total compensation for the Executive Group Management for the reporting year was TCHF 5 197 (previous year TCHF 5 439). Compared to the previous year, this is equivalent to a decrease of 4 %, due to a lower variable compensation.

Compensation for Executive Group Management	Highest individual compensation		Total Executive Group Management	
	2017 [1]	2016 [2]	2017	2016
Basic salary [3]	449	595	2 785	2 637
Contributions to social security and pension funds on fixed compensation	127	177	622	600
Total fixed compensation	576	772	3 407	3 237
Variable compensation	128	400	698	1 067
Share-based compensation [4]	254	283	957	986
Contributions to social security on variable compensation	33	41	135	149
Total variable compensation	415	724	1 790	2 202
Total compensation [5]	991	1 496	5 197	5 439
Number of allotted shares	5 000	5 000	18 825	17 450

[1] U. Ryffel (CEO since 1 April 2017, former COO FO)

[2] U. Kaufmann (CEO and Delegate of the Board of Directors until 31 March 2017; since 6 April 2017 Chairman of the Board). In 2017 the compensation for the period as CEO is part of the total Executive Group Management compensation. The compensation for the period as Chairman of the Board in the same year is disclosed in the Board of Directors compensation.

[3] Including allowances

[4] Based on year-end share price of CHF 50.85 (previous year CHF 56.50). Shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

[5] The total Executive Group Management consists of 9 members in 2017, respectively 8 members in 2016.

No loans or credit are granted to current or former Executive Group Management members. In addition, no compensation or loans are granted to related parties of Executive Group Management.

An overview of the shareholdings of Executive Group Management members at HUBER+SUHNER AG can be found on page 60 in the 2017 Financial Report.

All amounts are in CHF 1000

Report of the statutory auditor
to the General Meeting of HUBER + SUHNER AG
Herisau

We have audited the compensation report of HUBER + SUHNER AG for the year ended 31 December 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables on pages 24 to 25 of the compensation report.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's responsibility
Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the compensation report of HUBER + SUHNER AG for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Beat Inauen	Oliver Illa
Audit expert Auditor in charge	Audit expert

St. Gallen, 8 March 2018

PricewaterhouseCoopers AG, Vadianstrasse 25a/Neumarkt 5, Postfach, CH-9001 St. Gallen, Switzerland
Telefon: +41 58 792 72 00, Telefax: +41 58 792 72 10, www.pwc.ch

Financial Report 2017

HUBER+SUHNER
Group Financial Statements

Key Figures

Group in CHF million	2017	2016	Change
Order intake	826.3	746.6	10.7%
Order backlog as of 31.12.	230.5	177.2	30.1%
Net sales	774.0	737.2	5.0%
Gross margin	34.5%	36.7%	
EBITDA	90.5	100.8	(10.2%)
as % of net sales	11.7%	13.7%	
EBIT	58.1	69.7	(16.6%)
as % of net sales	7.5%	9.5%	
Financial result	(0.7)	3.0	n/a
Net income	42.1	53.2	(20.8%)
as % of net sales	5.4%	7.2%	
Purchases of PP&E and intangible assets	37.8	32.2	17.3%
Cash flow from operating activities	52.9	79.6	(33.5%)
Free operating cash flow	20.0	22.1	(9.7%)
Net liquidity as of 31.12.	152.6	157.5	(3.1%)
Equity as of 31.12.	593.5	573.3	3.5%
as % of balance sheet total	78.9%	81.5%	
Employees as of 31.12.	4 200	4 031	4.2%
Market capitalisation as of 31.12.	989.5	1 099.0	(10.0%)

Data per share in CHF	2017	2016	Change
Stock market price as of 31.12.	50.85	56.50	(10.0%)
Net income	2.17	2.73	(20.8%)
Dividend	1.10[1]	1.25	(12.0%)

[1] proposed dividend

Segment information in CHF million		2017	2016	Change
Radio Frequency	Order intake	239.9	226.4	6.0%
	Net sales	231.2	219.7	5.2%
	EBIT	31.5	29.5	7.0%
	as % of net sales	13.6%	13.4%	
Fiber Optics	Order intake	329.2	322.3	2.1%
	Net sales	316.2	305.7	3.4%
	EBIT	17.7	40.9	(56.7%)
	as % of net sales	5.6%	13.4%	
Low Frequency	Order intake	257.2	198.0	29.9%
	Net sales	226.6	211.8	7.0%
	EBIT	11.6	3.5	231.8%
	as % of net sales	5.1%	1.6%	

Since the beginning of 2017 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. Prior period figures have been restated to conform to the presentation for the reporting period to ensure comparability, see note 2.2.

Consolidated Income Statement

in CHF 1000	Notes	2017	%	2016	%
Net sales	5	774 037	100.0	737 162	100.0
Cost of goods sold		(507 352)		(466 946)	
Gross profit		266 685	34.5	270 216	36.7
Selling expense		(126 199)		(121 918)	
Administrative expense		(53 309)		(50 901)	
Research and development expense		(34 212)		(30 294)	
Other operating expense		(1 654)		(1 085)	
Other operating income		6 812		3 705	
Operating profit (EBIT)	5	58 123	7.5	69 723	9.5
Financial result	6	(689)		2 959	
Income before taxes		57 434	7.4	72 682	9.9
Income taxes	7	(15 288)		(19 488)	
Net income		42 146	5.4	53 194	7.2

Data per share in CHF	Notes	2017		2016	
Earnings per share	27	2.17		2.73	
Diluted earnings per share	27	2.17		2.73	
Dividend		1.10[1]		1.25	

[1] proposed dividend

Since the beginning of 2017 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. Prior period figures have been restated to conform to the presentation for the reporting period to ensure comparability, see note 2.2.

The notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

in CHF 1000	Notes	31.12.2017	%	31.12.2016	%
Assets					
Cash and cash equivalents	14	152 605		157 512	
Trade receivables	15	146 942		132 631	
Other short-term receivables	16	33 485		24 084	
Inventories	17	164 966		142 465	
Accrued income		1 701		1 091	
Current assets		499 699	66.4	457 783	65.1
Property, plant and equipment	19	196 576		189 435	
Intangible assets	20	23 352		23 580	
Financial assets	21	19 933		19 126	
Deferred tax assets	25	12 542		13 390	
Non-current assets		252 403	33.6	245 531	34.9
Assets		752 102	100.0	703 314	100.0
Liabilities and equity					
Trade payables		46 202		31 585	
Other short-term liabilities	23	53 842		41 368	
Short-term provisions	24	10 495		10 694	
Accrued liabilities		11 395		11 100	
Current liabilities		121 934	16.2	94 747	13.5
Other long-term liabilities		1 388		96	
Long-term provisions	24	9 904		9 215	
Deferred tax liabilities	25	25 417		25 929	
Non-current liabilities		36 709	4.9	35 240	5.0
Liabilities		158 643	21.1	129 987	18.5
Share capital	26	5 050		5 050	
Capital reserves		32 695		32 744	
Treasury shares		(937)		(1 259)	
Retained earnings		556 651		536 792	
Equity		593 459	78.9	573 327	81.5
Liabilities and equity		752 102	100.0	703 314	100.0

Since the beginning of 2017 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. Prior period figures have been restated to conform to the presentation for the reporting period to ensure comparability, see note 2.2.

The notes are an integral part of the consolidated financial statements.

Consolidated Cash Flow Statement

in CHF 1000	Notes	2017	2016
Net income		42 146	53 194
Income taxes		15 288	19 488
Depreciation of property, plant and equipment and intangible assets	19, 20	32 378	31 079
Other non-cash items		1 335	(3 810)
Loss/profit from the disposal of property, plant and equipment		(3 734)	(43)
Change in trade receivables		(11 221)	(9 380)
Change in inventories		(21 048)	(6 595)
Change in other receivables and accrued income		(5 416)	4 735
Change in trade payables		13 877	2 233
Change in other liabilities and accrued liabilities		5 157	2 978
Change in provisions		394	(1 663)
Income tax paid		(16 145)	(12 400)
Interest paid		(72)	(258)
Cash flow from operating activities		52 939	79 558
Purchases of property, plant and equipment	19	(32 833)	(29 020)
Proceeds from sale of property, plant and equipment	19	5 352	171
Purchases of intangible assets	20	(4 207)	(4 744)
Purchases of financial assets		(110)	(169)
Interest received		573	842
Purchase of subsidiaries less purchased net cash	3	(1 748)	(24 865)
Proceeds from sale of business unit	3	–	330
Cash flow from investing activities		(32 973)	(57 455)
Payment of dividend		(24 342)	(19 473)
Purchase of treasury shares		(1 313)	(1 420)
Decrease of short-term financial liabilities	3	–	(3 488)
Cash flow from financing activities		(25 655)	(24 381)
Effect of exchange rate changes on cash		782	(199)
Net change in cash and cash equivalents		(4 907)	(2 477)
Cash and cash equivalents at beginning of year		157 512	159 989
Cash and cash equivalents at end of year	14	152 605	157 512
Net change in cash and cash equivalents		(4 907)	(2 477)

Since the beginning of 2017 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. Prior period figures have been restated to conform to the presentation for the reporting period to ensure comparability, see note 2.2.

The notes are an integral part of the consolidated financial statements.

Consolidated Statement of Equity

in CHF 1000	Share capital[1]	Capital reserves	Treasury shares	Other retained earnings	Goodwill offset	Translation differences	Retained earnings	Equity
Balance at 31.12.2015 IFRS	4 864	31 832	–	636 599	–	(23 663)	612 936	649 632
Adjustments Swiss GAAP FER (see accounting policies)	186	868	(1 054)	(37 791)	(70 515)	23 663	(84 643)	(84 643)
Balance at 1.1.2016 Swiss GAAP FER	5 050	32 700	(1 054)	598 808	(70 515)	–	528 293	564 989
Net income	–	–	–	53 194	–	–	53 194	53 194
Dividend paid	–	–	–	(19 473)	–	–	(19 473)	(19 473)
Purchase of treasury shares	–	–	(1 464)	–	–	–	–	(1 464)
Disposal of treasury shares (incl. for share-based payment)	–	44	1 259	143	–	–	143	1 446
Share-based payment	–	–	–	376	–	–	376	376
Goodwill offset	–	–	–	–	(23 769)	–	(23 769)	(23 769)
Currency translation differences	–	–	–	–	–	(1 972)	(1 972)	(1 972)
Balance at 31.12.2016	5 050	32 744	(1 259)	633 048	(94 284)	(1 972)	536 792	573 327
Net income	–	–	–	42 146	–	–	42 146	42 146
Dividend paid	–	–	–	(24 342)	–	–	(24 342)	(24 342)
Purchase of treasury shares	–	–	(1 264)	–	–	–	–	(1 264)
Disposal of treasury shares (incl. for share-based payment)	–	(49)	1 586	348	–	–	348	1 885
Share-based payment	–	–	–	(22)	–	–	(22)	(22)
Goodwill offset	–	–	–	–	(3 228)	–	(3 228)	(3 228)
Currency translation differences	–	–	–	–	–	4 957	4 957	4 957
Balance at 31.12.2017	5 050	32 695	(937)	651 178	(97 512)	2 985	556 651	593 459

[1] see Notes to Group Financial Statements, note 26

Since the beginning of 2017 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. Prior period figures have been restated to conform to the presentation for the reporting period to ensure comparability, see note 2.2.

The notes are an integral part of the consolidated financial statements.

Notes to Group Financial Statements

1 General

These consolidated financial statements were approved by the Board of Directors on 8 March 2018 and released for publication on 13 March 2018. They are subject to the approval of the shareholders at the Annual General Meeting on 11 April 2018.

2 Accounting policies

2.1 Basis of preparation

The consolidated financial statements of the HUBER+SUHNER Group are based on the individual financial statements of the Group companies and were prepared in accordance with the existing guidelines of Swiss GAAP FER. The consolidated financial statements have been prepared under the historical cost convention unless otherwise stated in the following consolidation and accounting policies.
The financial year-end date for HUBER+SUHNER AG, all subsidiaries and the Group financial statements is 31 December.

2.2 Adjustments due to the first-time application of Swiss GAAP FER

As disclosed in the Annual Report 2016, the Board of Directors decided to change the accounting framework from IFRS to Swiss GAAP FER as of 1 January 2017. The consolidated financial statements 2017 were prepared for the first time in accordance with the guidelines of Swiss GAAP FER. The accounting and valuation principles applied for the preparation and presentation of the Annual Report 2017 differ from the Annual Report 2016, prepared in accordance with IFRS, as detailed below:

- Goodwill from acquisitions is directly offset, as at the acquisition date, with retained earnings in equity in accordance with the allowed treatment under Swiss GAAP FER 30. Under IFRS, goodwill was capitalised and not amortised; goodwill was tested for impairment annually. In addition under IFRS, all identifiable intangible assets have been valued and capitalised at the acquisition date. Under Swiss GAAP FER any unrecognised intangible assets as per acquisition are not separated and identified and therefore allocated to goodwill. Under Swiss GAAP FER, transaction costs incurred in connection with acquisitions are treated as part of acquisition costs. Under IFRS transaction costs were booked to the income statement.
- For Swiss pension plans an economic obligation or a benefit is determined in accordance with Swiss GAAP FER 16 from the financial statements of the pension plan made on the basis of Swiss GAAP FER 26. Employer contribution reserves and comparable items are capitalised in accordance with Swiss GAAP FER 16. The economic impact from pension plans of foreign subsidiaries is determined in accordance with the valuation methods applied in the respective country. Under IFRS, defined benefit plans were calculated in accordance with the projected-unit credit-method and recognised in accordance with IAS 19.
- The stated valuation and balance sheet adjustments have consequences for deferred income taxes in the balance sheet and income statement.
- Accumulated translation differences recognised in equity are offset with retained earnings at the time of conversion.

The presentation and structure of balance sheet, income statement, statement of equity and cash flow statement have been adjusted to meet the requirements of Swiss GAAP FER.

Prior period figures have been restated to conform to the presentation for the reporting period to ensure comparability.

The effects of the above stated adjustments on equity and net income are shown in the following tables:

Adjustments to equity	1.1.2016	31.12.2016
Equity according to IFRS	649 632	658 384
Offset goodwill from acquisitions	(50 107)	(66 243)
Offset acquired intangible assets for trademarks, technology and customer relations	(24 769)	(32 333)
Adjustment pension assets and liabilities	(17 027)	8 148
Deferred tax assets and liabilities [1]	7 260	5 371
Equity according to Swiss GAAP FER	564 989	573 327

[1] Deferred tax assets and liabilities include deferred taxes on goodwill from acquisitions, acquired intangible assets for trademarks, technology and customer relations and pension assets and liabilities.

Adjustments to net income	2016
Net income according to IFRS	49 098
Adjustment amortisation acquired intangible assets for trademarks, technology and customer relations	4 953
Adjustment personnel expense and income	(525)
Adjustment transaction costs from acquisitions	505
Deferred income taxes	(837)
Net income according to Swiss GAAP FER	53 194

2.3 Scope and principles of consolidation

The investments in subsidiaries are included in the Group financial statements as follows:

- All subsidiaries which HUBER+SUHNER controls are fully consolidated. Control is usually presumed where the Group directly or indirectly owns 50 % or more of the voting rights of the subsidiaries. All of the assets and liabilities as well as the income and expenses of these companies are fully included. Minority interests in the consolidated equity and net income are shown separately. All intercompany transactions and balances as well as intercompany profits in inventory and other assets are eliminated on consolidation.
- Those companies purchased during the reporting year are included in the consolidation as at the date on which control was effectively transferred. From the date of transfer of control all previously recognised assets and liabilities as well as contingent liabilities of the company are valued initially at fair value. Companies which have been divested during the reporting year are included in the consolidated financial statements untill the date on which control ceased.
- Joint ventures and investments with voting rights of between 20 % and 50 % are recognised using the equity method. They are recognised with the proportionate equity as per balance sheet date and reported under financial assets in the balance sheet and as equity investments in the notes. The proportionate share of net income is shown as income (expense), using the equity method, in the consolidated income statement.
- Capital consolidation is based on the purchase method (acquisition method). The net assets acquired are revalued at the acquisition date and compared with the purchase price, only previously recognised assets are revalued. Any resulting goodwill is directly offset against equity. This approach is used for both positive and negative goodwill.

2.4 Foreign currency translation

Functional and presentation currency

The consolidated financial statements are prepared in Swiss francs (CHF). CHF corresponds to the Group's presentation currency. Unless stated otherwise the information is given in CHF 1000 (TCHF).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities, which are denominated in foreign currencies, are recognised in the income statement.

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities, for each balance sheet, are translated at the closing rate on the balance sheet date;
- income and expenses, for each income statement, are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of borrowings and other currency instruments, designated as hedges of such investments, are recognised not affecting profit and loss. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on disposal.

2.5 Cash and cash equivalents

Cash and cash equivalents includes; cash on hand, postal and bank accounts, cheques and fixed-term deposits with an original maturity of less than 3 months. Cash and cash equivalents are stated at nominal value.

2.6 Marketable securities

Marketable securities, included as part of current assets, are valued at current values. If there is no current value at hand, they are valued at acquisition cost less impairment, if any.

2.7 Trade receivables and other short-term receivables

Trade receivables and other short-term receivables are valued at nominal value less impairment, if any. Indications for impairment are; substantial financial problems of the customer, a declaration of bankruptcy or a material delay in payment.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of goods comprises direct material and production costs and related production overheads. It excludes borrowing costs. Early payment discounts are treated as a deduction of the purchase price. The valuation of inventory is based on standard costs that are verified annually. Slow-moving and obsolete stock that have insufficient inventory turnover are systematically partially or fully value-adjusted.

2.9 Property, plant and equipment

Property, plant and equipment are stated on the balance sheet at the purchased or manufactured cost less accumulated depreciation. Depreciation is charged using the straight-line method over the estimated useful lives of the related assets. Investmet properties (including undeveloped property) are held to earn rental income and capital gains. They are valued at purchase cost less accumulated depreciation and impairment and are depreciated using the straight-line method over their estimated useful life (20 to 40 years). Land is not depreciated.

Land	Indefinite useful life
Buildings	20–40 years
Technical equipment and machinery	5–15 years
Leasehold improvements	5–10 years
Office furniture and fixtures	3–5 years
IT hardware	3–5 years
Other equipment	3–7 years

2.10 Intangible assets

Software

Acquired computer software and other intangible assets are capitalised on the basis of the costs incurred to acquire and bring the asset to use. These costs are amortised over their estimated useful life (3 to 10 years). Software is only capitalised if and in as far as the capitalised amount can be covered through corresponding future cash flows.
Development costs for software are capitalised on the basis that the asset generates future economic benefits such as revenues or owner-utilisation and that the costs of the asset can be identified reliably. Self-developed intangible assets are not capitalised (including internal costs associated with developing or maintaining computer software).

Other intangible assets

Acquired rights of land use are capitalised on the basis of the acquisition costs incurred. They are amortised over the granted duration of the rights using the straight-line method.

2.11 Impairment of assets

Property, plant and equipment and other long-term assets including intangible assets are reviewed for impairment if events or changes in circumstances have occurred that indicate that the book value can no longer be realised. Assets with book values above the recoverable amount are impaired to the recoverable amount. The recoverable amount is the higher of an asset's fair value, less cost to sell, and value in use. In order to determine the reduction in value, assets are allocated to specific cash-generating units for which separate cash flows are determined. If there is an indication that the impairment in prior period is no longer valid or has decreased, the carrying amount is, with the exception of goodwill, increased to its recoverable amount and is recognised immediately in the income statement.

2.12 Financial assets

Financial assets include securities with a long-term investment horizon where the share in equity is less than 20 %, investments in associates and joint ventures as well as loans, assets from employer contribution reserves, long-term rental deposits and re-insurance of retirement plan obligations. Marketable securities are valued at the current value otherwise, the valuation is acquisition cost. Investments in associates and joint ventures are accounted for using the equity method. Loans are valued at nominal values less any value adjustments. Assets from employer contribution reserves are valued at current value and long-term rental deposits are valued at nominal value, (only discounted, if material). Re-insurance of retirement plan obligations are accounted for using an actuarial valuation.

2.13 Trade payables and other short-term liabilities

Trade payables and other short-term liabilities are recognised at nominal value.

2.14 Provisions

Provisions are made for warranties, personnel expenses, restructuring costs, legal and other miscellaneous operational risks that meet the recognition criteria. They are recognised when the Group has a current legal or constructive obligation as a result of past events and if it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.
Warranty provisions are generally measured and recognised based on prior experience. The amount of the provision is determined as the current value of the expected cash outflows as far as the cash outflow substantially underlies interest effects.

2.15 Off-balance-sheet transactions

Contingent liabilities and other non-recognisable commitments are valued and disclosed on each balance sheet date. If contingent liabilities and other non-recognisable commitments lead to an outflow of funds without a simultaneous usable inflow of funds and the outflow of funds is probable and reliably estimable, a corresponding provision is made.

2.16 Employee benefits

Within HUBER+SUHNER Group, pension plans for employees exist in accordance with the applicable country regulations.
The economic impact of these pension plans on HUBER+SUHNER Group is determined annually. For Swiss pension plans, economic benefits and / or economic obligations are determined on the basis of the annual financial statement prepared in accordance with Swiss GAAP FER 26. For foreign plans, the economic impact is determined according to country-specific methods.
An economic benefit is capitalised if it is permissible and it is intended to use the coverage of the pension fund for the company's future pension expense. An obligation from a pension plan is impaired when the conditions for the recognition of a provision are met. Existing employer contribution reserves are recognised as a financial asset. Changes in the economic benefit or the economic obligation are recognised in the income statement as personnel expenses incurred for the period.

2.17 Share-based payment

Part of the compensation for members of the Board of Directors and Executive Group Management is paid in HUBER+SUHNER AG shares with a blocking period of at least 3 years. The allocation of shares is subject to the approval by the annual general meeting, the date of the approval is considered as the grant date of the shares, which is relevant for the valuation of the share-based payment. Share-based payment transactions which have not yet been approved by the annual general meeting are valued at the year-end share price.
The market value of the shares is fully recognised in equity in accordance with the accruals principle and the yearlong vesting period in the accounts of the respective year under review. Any subsequent variances between the year-end share price and the share price at the date of the retroactive approval by the annual general meeting are recorded in the income statement in the following year.

2.18 Revenue recognition

HUBER+SUHNER generates revenues mainly from sales of products and systems. Revenues from sales of products and systems are recognised upon delivery to the customer. Delivery is made if risks and rewards of the sold products are transferred to the customer or, when the service has been performed, depending on the terms of the sales contract. Sales are shown as a net amount in the income statement. They represent the total value of invoices to third parties reduced by sales taxes, credits for returns and reductions of revenue (primarily rebates and discounts).

2.19 Gross profit

The income statement is presented by function, whereby gross profit represents net sales less cost of goods sold.

2.20 Income taxes

Income taxes are accounted for on the basis of the income of the reporting year, less the utilisation of tax losses carried forward, using expected actual (local) tax rates. Income tax receivables and payables outstanding at the balance sheet date are disclosed under other short-term receivables or other short-term liabilities. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts according to Swiss GAAP FER. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.
Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3 Changes in the scope of consolidation and other changes

On 10 November 2017 HUBER+SUHNER acquired Inwave Elektronik AG in Reute (Switzerland) with a merger into HUBER+SUHNER AG as at 1 November 2017. Inwave Elektronik AG has been a supplier to HUBER+SUHNER for high frequency prototypes. At the time of acquisition the values of net assets according to Swiss GAAP FER were as follows:

Effect of acquisition	Fair Value
Cash and cash equivalents	100
Inventories	181
Non-current assets	73
Other short-term liabilities	(25)
Short-term provisions	(12)
Acquired net assets	317

The goodwill from the acquisition of Inwave which was offset with equity is CHF 3.2 million. The total purchase price (including acquisition costs) is CHF 3.5 million. After the deduction for purchased net cash (CHF 0.1 million) and the remaining payment of CHF 1.7 million, the net cash outflow is CHF 1.7 million.

Since 21 December 2017 HUBER+SUHNER Cube Optics AG owns HUBER&SUHNER Spain. HUBER&SUHNER Spain is fully consolidated.

On 8 June 2016 HUBER+SUHNER acquired the American/British company Polatis with headquarters in Bedford, MA (USA) and Cambridge (UK). Polatis is the most technologically advanced provider of purely optical switches which, in contrast to conventional electrical/optical switches, do not convert the signals but control them purely optically and therefore offer much higher performance. At the time of acquisition the values of net assets according to Swiss GAAP FER are as follows:

Effect of acquisition	Fair Value
Cash and cash equivalents	810
Trade receivables	2 223
Other short-term receivables	1 659
Inventories	2 025
Non-current assets	1 001
Deferred tax assets	2 092
Short-term financial liabilities	(3 488)
Other short-term liabilities	(1 743)
Short-term provisions	(108)
Accrued liabilities	(2 279)
Acquired net assets	2 192

On 30 December 2016 the Swedish subsidiary, HUBER+SUHNER AB, was liquidated. The company was wholly owned by HUBER+SUHNER AG and was deconsolidated. The financial impact of the liquidation was immaterial.

A complete list of all Group companies can be found on page 48.

4 Exchange rates for currency translation

The following exchange rates were used for the most important currencies of the Group:

	Spot rates for the consolidated balance sheet		Average rates for the consolidated income and cash flow statement	
	31.12.2017	31.12.2016	2017	2016
1 EUR	1.18	1.07	1.12	1.09
1 USD	0.99	1.03	0.98	0.99
100 CNY	15.10	14.80	14.55	14.89
1 GBP	1.33	1.26	1.27	1.33
100 INR	1.54	1.51	1.51	1.47

5 Segment information

The segment reporting of HUBER+SUHNER consists of three technology segments and Corporate.

Radio Frequency
HUBER+SUHNER develops and manufactures radio frequency and microwave products for the most diverse set of customer and market requirements. The wide product range encompasses all passive components like cables, connectors, cable assemblies, antennas, lightning protection and resistive components as well as active RF-over-Fiber systems, which allow for the transportion of radio frequency, microwave or LAN signals across wider distances. HUBER+SUHNER is constantly applying its distinctive knowledge, of radio frequency and microwave technologies, sophisticated simulation processes and the most modern test methods, to make components even smaller, to expand their operating frequencies continuously and to minimise losses in signal quality. Thanks to their own state-of-the-art electroplating processes HUBER+SUHNER has a sound and expert knowledge of surface-coating that is vital when developing modern radio frequency components.

Fiber Optics
Fiber optics products manufactured by HUBER+SUHNER are suitable for complex applications with very high data rates. Our comprehensive portfolio includes cables, connectors, cable assemblies, cable and distribution systems, as well as highly miniaturised wavelength multiplexers and all-optical switches. The products are used, for instance, in especially harsh environmental conditions. Even when installation has to be fast and safe, the pre-assembled, customer-specific systems, including the smallest components and the highest packing density, are the ideal solution. An optimised polishing process developed in-house for fiber optic connectors represents an important basis for the high quality of the company's optical connectivity technology as does the distinctive know-how in the processing of high-performance materials and high-temperature polyamides to precision parts.

Low Frequency
HUBER+SUHNER develops and manufactures low frequency products for challenging applications. The wide portfolio here includes single cores, cables, cable assemblies, hybrid cables and cable systems. Thanks to the high vertical manufacturing integration, high levels of automation and market-specific know-how, HUBER+SUHNER is able to meet the various demands of the customers. HUBER+SUHNER specialises in polymer compounds for high-quality cable insulation that is produced using self-developed formulations. Another HUBER+SUHNER core competency is electron beam cross-linking, which allows production of space-saving, lighter and longer-life cables that function reliably, even under extreme conditions.

Corporate
Includes corporate functions and all activities that cannot be allocated to one of the three technology segments.

Net sales by segment	2017	2016
Radio Frequency	231 203	219 738
Fiber Optics	316 187	305 673
Low Frequency	226 647	211 751
Total net sales	774 037	737 162

Net sales by region (sales area)	2017	2016
Switzerland	55 331	59 148
EMEA (Europe, Middle East and Africa [excl. CH])	295 634	280 795
APAC (Asia-Pacific)	279 975	249 092
Americas (North and South America)	143 097	148 127
Total net sales	774 037	737 162

Operating profit (EBIT)	2017	2016
Radio Frequency	31 541	29 468
Fiber Optics	17 693	40 893
Low Frequency	11 571	3 487
Corporate	(2 682)	(4 125)
Total operating profit (EBIT)	58 123	69 723

The net profit from the sale of an industrial property in Switzerland amounting to CHF 3.7 million is reported as part of Corporate in the reporting year 2017 (in the consolidated income statement shown as ‚Other operating income').

All amounts are in CHF 1000

6 Financial result

	2017	2016
Interest income	1 071	1 045
Foreign exchange gains incl. derivative financial instruments	3 733	3 784
Other financial income	61	325
Total financial income	4 865	5 154
Interest expense	(74)	(248)
Foreign exchange losses incl. derivative financial instruments	(4 497)	(961)
Other financial expense	(983)	(986)
Total financial expense	(5 554)	(2 195)
Total financial result	(689)	2 959

Other financial expense includes amongst others bank charges and non-refundable withholding tax on dividend and interest income.

7 Income taxes

	2017	2016
Current income taxes	(14 801)	(15 971)
Deferred income taxes	(487)	(3 517)
Total income taxes	(15 288)	(19 488)

The differences between the expected and the effective income tax expense were as follows:

	2017	2016
Net income before taxes	57 434	72 682
Expected income tax rate	23.5%	27.4%
Expected income tax expense	(13 515)	(19 894)
Effect of utilisation of non-recognised tax loss carry-forward	1 176	1 109
Effect of non-tax-deductible expenses and non-taxable income	(461)	(254)
Effect of recognised tax-loss carry forwards expired	–	–
Effect of non-recognition of current tax losses	(472)	(43)
Effect of increased/reduced allowance on deferred tax balances	116	(148)
Effect of changes in tax rates on deferred tax balances	(1 348)	14
Effect of tax credits/debits from prior years and other effects	(784)	(272)
Effective income taxes	(15 288)	(19 488)
Effective income tax rate	26.6%	26.8%

The expected Group tax rate corresponds to the weighted average tax rate based on the net income before taxes and the tax rate of each individual Group company. The net income before tax complies with the ordinary result according to Swiss GAAP FER. The decrease of the expected income tax rate in the reporting year compared to the previous year is attributable to a more favourabe composition of the earnings before taxes. The impact on the changes in tax rates on deferred tax balances is a result of the US tax reform.

Capitalised loss carry-forward amounts to CHF 3.1 million (previous year, CHF 4.9 million). The unrecognised tax loss carry-forward was CHF 35.1 million (previous year, CHF 35.5 million). This corresponds to a potential tax asset of CHF 8.8 million (previous year, CHF 9.9 million). In 2017 tax losses carry-forward of CHF 1.1 million expired (previous year, CHF 0.7 million).

The related tax assets on losses carried forward are valued based on business plans. The capitalisation of usable tax losses carried forward is assessed on a yearly basis. Tax losses carried forward are recognised by considering country-specific fiscal regulations and the likelihood that the subsidiary carrying the losses or other group subsidiaries, if applicable, will be profitable during the next one to two year period. In countries and for subsidiaries where the usage of tax losses carried forward is not foreseeable no tax loss is capitalised.

For the calculation of deferred income taxes in the consolidated balance sheet, the expected tax rate per tax subject is applied.

8 Personnel expenses

Personnel expenses included in the income statement amount to:

	2017	2016
Total personnel expenses	257 144	239 143

9 Post-employment benefits

From a legal point of view autonomous pension funds carry the risks relating to the defined benefits. An obligation beyond the payment of it's contributions exists for the employer in the event of restructuring measures.
HUBER+SUHNER AG provides pension benefits for its employees for retirement, invalidity and death to the pension fund of HUBER+SUHNER AG. The leading body administering the fund is the Board of Foundation, which consists of the same number of employees' and employers' representatives. The Board of Foundation determines an Investment Committee, which is responsible for the investments of the funds based on the investment regulations defined by the Board of Foundation. Each insured person can obtain the pension or part of the pension in the form of either capital or retirement pension payments. In addition two paternal foundations exist.
Most HUBER+SUHNER subsidiaries operate defined contribution pension arrangements. Under these, as a rule, the employees and employer pay into pension funds administered by third parties. The HUBER+SUHNER Group has no payment obligations beyond making these defined contributions. The contributions are recognised as staff costs in the profit and loss.
The economic obligation recognised in the balance sheet for pension plans without own assets (mainly for a few retired executives) are related to the pension plans in Germany and the USA.

Employer contribution reserves (ECR)

	Nominal value	Waiver of use	Accumulation	Balance sheet		Income statement impact from ECR	
	31.12.2017	2017	2017	31.12.2017	31.12.2016	2017	2016
Paternal fund [1]	15 591	–	464	15 591	15 127	464	280
Total	15 591	–	464	15 591	15 127	464	280

Economic benefit / economic obligation and pension benefit expenses

	Funding surplus	Economic part of the organisation		Change from prior year with income statement impact	Change from prior year with no income statement impact	Contributions for the period	Pension costs within personnel expenses	
	31.12.2017	31.12.2017	31.12.2016	2017	2017	2017	2017	2016
Paternal funds [1]	13 488	–	–	–	–	–	–	–
Pension plans with surplus [1]	1 136	–	–	–	–	(7 172)	(7 172)	(6 911)
Pension plans without own assets	–	2 980	3 027	117	(164)	–	(117)	(181)
Total	14 624	2 980	3 027	117	(164)	(7 172)	(7 289)	(7 092)

[1] The employer contribution reserves and the funding surplus/deficit of HUBER+SUHNER AG are based on annual reports of the corresponding institutions of the prior year. The assessment of economic benefits / economic obligations is performed at each balance sheet date. Interest on the paternal fund of the employer contribution reserve (ECR) is recognised as financial income.

10 Share-based payment

Compensation and remuneration for non-executive members of the Board of Directors and for members of the Executive Group Management includes, amongst others, long-term incentives in the form of shares (see Compensation Report note 2 and 3).

The members of the Board of Directors receive a long-term incentive annually in the form of a fixed number of HUBER+SUHNER AG shares with a blocking period after assignment of at least 3 years.

The members of Executive Group Management receive a variable number of HUBER+SUHNER AG shares each year as long-term compensation. The number of shares effectively granted is determined by the Board of Directors and is driven by the long-term business success, which is assessed based on the factors “market environment”, “strategy implementation” and “financial situation”. A blocking period of at least 3 years applies for the assigned shares.

Share-based compensation is calculated based on the year-end share price of CHF 50.85 (previous year CHF 56.50). In the year under review, 32 500 shares (prior year: 30 775 shares) were allotted. Expenses including social security in the amout of CHF 1.9 million (prior year: CHF 2.0 million) are recognised accordingly in the income statement. Shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

11 Related party transactions

In 2017, services (for air travel) totalling CHF 1.6 million (previous year CHF 2.1 million) were purchased from companies which are controlled by members of the Board of Directors and, corresponding trade payables per end of December 2017 are CHF 0.03 million (previous year: CHF 0.01 million).

Pension contributions to the HUBER+SUHNER pension plan are disclosed in note 9, on the line item pension plan with surplus.

12 Depreciation and amortisation

Depreciation and amortisation expenses included in the income statement amount to:

	2017	2016
Depreciation of property, plant and equipment	27 880	26 112
Amortisation of intangible assets	4 498	4 967
Total depreciation and amortisation	32 378	31 079

13 Liabilities from operating lease

Some Group companies lease a number of offices, warehouses and cars under operating lease contracts which cannot be cancelled at short notice.

Liabilities from operating lease	31.12.2017	31.12.2016
Less than 1 year	4 528	5 030
Between 1 and 5 years	7 916	9 243
After 5 years	2 990	3 278
Total liabilities from operating lease	15 434	17 551

14 Cash and cash equivalents

	31.12.2017	31.12.2016
Cash at bank and on hand	87 441	95 509
Term deposits < 3 months term in CHF	54 999	54 999
Term deposits < 3 months term in other currency	10 165	7 004
Total cash and cash equivalents	152 605	157 512

15 Trade receivables

	31.12.2017	31.12.2016
Trade receivables from third parties	149 672	134 641
Provision for doubtful trade receivables	(2 730)	(2 010)
Total trade receivables, net	146 942	132 631

16 Other short-term receivables

	31.12.2017	31.12.2016
Other short-term receivables	32 804	23 569
Derivative financial instruments	681	515
Total other short-term receivables	33 485	24 084

Other short-term receivables include value-added and withholding tax receivables, current income tax receivables, received letters of credit, and other short-term receivables such as a receivable relating to an earlier divestment, prepayments and other current assets.

17 Inventories

	31.12.2017	31.12.2016
Raw materials and supplies	83 252	68 761
Work in progress	12 685	11 920
Finished goods	111 311	98 835
Total inventories, gross	207 248	179 516
Inventory provision	(42 282)	(37 051)
Total inventories, net	164 966	142 465

18 Derivative financial instruments

To hedge future exposure to fluctuation in foreign currency, the Group is using derivative financial instruments, especially forward exchange contracts. Derivative financial instruments used for hedging balance sheet items are recognised at current value at the date a derivative contract is entered into and are recorded as other short-term receivables or other short-term liabilities. Derivatives are subsequently remeasured to their fair value at each balance sheet date by reference to current market prices, with unrealised gains and losses recognised in the income statement.

Derivative financial instruments	Positive market value	Negative market value	Purpose	Positive market value	Negative market value	Purpose
	31.12.2017			31.12.2016		
Foreign exchange	681	1 881	Hedging	515	1 102	Hedging
Total	681	1 881		515	1 102	

All amounts are in CHF 1000

19 Property, plant and equipment

	Undeveloped property	Land and buildings	Technical equipment and machinery	Other equipment [1]	Assets under construction	Total
Cost at 1.1.2016	2 080	185 593	299 714	65 255	19 389	572 031
Additions	–	1 585	6 636	2 682	16 413	27 316
Disposals	–	(2 237)	(4 073)	(1 826)	–	(8 136)
Reclassifications	–	3 925	19 070	3 451	(26 446)	–
Change in consolidation scope	–	44	643	23	–	710
Currency translation differences	–	(1 296)	(64)	(147)	(323)	(1 830)
Cost at 31.12.2016	2 080	187 614	321 926	69 438	9 033	590 091
Additions	–	6 112	5 656	3 114	18 692	33 574
Disposals	–	(2 295)	(7 853)	(4 801)	(2)	(14 951)
Reclassifications	–	8 736	6 196	2 787	(17 719)	–
Change in consolidation scope	–	–	40	33	–	73
Currency translation differences	–	2 159	1 768	810	33	4 770
Cost at 31.12.2017	2 080	202 326	327 733	71 381	10 037	613 557

	Undeveloped property	Land and buildings	Technical equipment and machinery	Other equipment [1]	Assets under construction	Total
Accumulated depreciation and impairment at 1.1.2016	–	(102 826)	(225 005)	(54 893)	–	(382 724)
Additions	–	(4 219)	(17 294)	(4 599)	–	(26 112)
Impairments	–	–	–	–	–	–
Disposals	–	1 987	3 995	1 798	–	7 780
Reclassifications	–	(82)	262	(180)	–	–
Currency translation differences	–	364	(103)	139	–	400
Accumulated depreciation and impairment at 31.12.2016	–	(104 776)	(238 145)	(57 735)	–	(400 656)
Additions	–	(4 781)	(18 244)	(4 855)	–	(27 880)
Impairments	–	–	–	–	–	–
Disposals	–	2 096	7 312	4 250	–	13 658
Reclassifications	–	(125)	372	(247)	–	–
Currency translation differences	–	(816)	(765)	(522)	–	(2 103)
Accumulated depreciation and impairment at 31.12.2017	–	(108 402)	(249 470)	(59 109)	–	(416 981)
Net book value at 1.1.2016	2 080	82 767	74 709	10 362	19 389	189 307
Net book value at 31.12.2016	2 080	82 838	83 781	11 703	9 033	189 435
Net book value at 31.12.2017	2 080	93 924	78 263	12 272	10 037	196 576

[1] Other equipment includes IT-equipment, measurement equipment, testing equipment and vehicles.

All amounts are in CHF 1000

20 Intangible assets

	Software	Other	Total
Cost at 1.1.2016	58 949	1 532	60 481
Additions	4 919	–	4 919
Disposals	(897)	–	(897)
Change in consolidation scope	5	–	5
Currency translation differences	95	(46)	49
Cost at 31.12.2016	63 071	1 486	64 557
Additions	4 236	–	4 236
Disposals	(302)	–	(302)
Change in consolidation scope	–	–	–
Currency translation differences	63	30	93
Cost at 31.12.2017	67 068	1 516	68 584
Accumulated amortisation and impairment at 1.1.2016	(36 704)	(125)	(36 829)
Additions	(4 935)	(32)	(4 967)
Disposals	897	–	897
Impairments	–	–	–
Currency translation differences	(82)	4	(78)
Accumulated amortisation and impairment at 31.12.2016	(40 824)	(153)	(40 977)
Additions	(4 469)	(29)	(4 498)
Disposals	300	–	300
Impairments	–	–	–
Currency translation differences	(56)	(1)	(57)
Accumulated amortisation and impairment at 31.12.2017	(45 049)	(183)	(45 232)
Net book value at 1.1.2016	22 245	1 407	23 652
Net book value at 31.12.2016	22 247	1 333	23 580
Net book value at 31.12.2017	22 019	1 333	23 352

Other intangible assets include the acquired rights of land use in Changzhou, China.

Theoretical movement schedule for goodwill

Goodwill from acquisitions is fully offset against equity at the date of acquisition. The theoretical amortisation of goodwill is based on the straight-line method over the useful life of five years. The carrying amounts of goodwill existing at conversion from IFRS to Swiss GAAP FER at 1 January 2016 have been included in the theoretical movement schedule below using the closing rates at 1 January 2016. Goodwill from new acquisitions is fixed to Swiss francs using the closing rate at acquisition date. With this procedure no foreign exchange differences are necessary in the movement schedule. The impact of the theoretical capitalisation and amortisation of goodwill is disclosed below:

Cost	2017	2016
Balance at 1.1.	94 284	70 515
Additions from acquisitions	3 228	23 769
Balance at 31.12.	97 512	94 284
Accumulated amortisation		
Balance at 1.1.	(47 162)	(30 286)
Amortisation expense	(18 965)	(16 876)
Balance at 31.12.	(66 127)	(47 162)
Theoretical net book value at 31.12.	31 385	47 122

Impact on balance sheet

	31.12.2017	31.12.2016
Equity according to the balance sheet	593 459	573 327
Theoretical capitalisation of goodwill	31 385	47 122
Theoretical equity incl. net book value of goodwill	624 844	620 449

Impact on income statement

	2017	2016
Net income	42 146	53 194
Amortisation of goodwill	(18 965)	(16 876)
Theoretical net income	23 181	36 318

21 Financial assets

	31.12.2017	31.12.2016
Assets from employer contribution reserves	15 591	15 127
Others	4 342	3 999
Total financial assets	19 933	19 126

Others include rental deposits and re-insurance from retirement plan obligations.

22 Restrictions on the title to assets

No assets were pledged or assigned as collateral to secure own obligations in the years 2017 and 2016.

23 Other short-term liabilities

	31.12.2017	31.12.2016
Accrual for personnel expenses	25 547	21 892
Advance payments from customers	2 557	2 244
Derivative financial instruments	1 881	1 102
Current income tax liabilities	15 155	9 476
Other liabilities	8 702	6 654
Total other short-term liabilities	53 842	41 368

24 Provisions

	Retirement plan obligations	Restructuring provisions	Employee-related provisions	Order-related provisions	Other provisions	Total
Balance at 1.1.2016	3 109	2 557	3 615	6 980	5 193	21 454
Additions	181	–	876	2 305	1	3 363
Releases	–	(465)	(150)	(577)	(1 000)	(2 192)
Utilisation	(85)	(1 487)	(244)	(1 063)	(56)	(2 935)
Reclassifications	(203)	–	203	–	–	–
Change in consolidation scope	–	–	–	108	–	108
Currency translation differences	25	1	18	(40)	107	111
Balance at 31.12.2016	3 027	606	4 318	7 713	4 245	19 909
Additions	135	–	1 064	1 412	377	2 988
Releases	(18)	–	(59)	(233)	–	(310)
Utilisation	(88)	(475)	(864)	(1 004)	(24)	(2 455)
Reclassifications	(201)	–	201	–	–	–
Change in consolidation scope	–	–	–	13	–	13
Currency translation differences	125	–	71	79	(21)	254
Balance at 31.12.2017	2 980	131	4 731	7 980	4 577	20 399
Short-term provisions	–	454	1 558	6 722	1 960	10 694
Long-term provisions	3 027	152	2 760	991	2 285	9 215
Total provisions at 31.12.2016	3 027	606	4 318	7 713	4 245	19 909
Short-term provisions	–	131	1 147	7 272	1 945	10 495
Long-term provisions	2 980	–	3 584	708	2 632	9 904
Total provisions at 31.12.2017	2 980	131	4 731	7 980	4 577	20 399

Retirement plan obligations include liabilities in connection with defined contribution plans (pension plans without own assets) mainly for individual former employees.
The restructuring provisions include liabilities to third parties that are related to a detailed restructuring program.
Employee-related provisions include mainly length-of-service rewards and obligations to employees.
Order-related provisions are directly related to services arising from product deliveries and projects and are formulated based on experience and estimation of each project. Order-related provisions relate to warranties, customer claims, penalties and other guarantees.
Other provisions include obligations which do not fit into the aforementioned categories such as current or possible litigations arising from divestments, licence agreements or duties as well as other constructive or legal obligations.
Due to the nature of the non-current provisions the timing of the cash outflows is uncertain whereas a partial cash outflow is expected between two to three years on average.

25 Deferred tax assets and liabilities

	Deferred tax assets	Deferred tax liabilities
Balance at 1.1.2016	13 488	25 116
Additions	906	2 045
Releases	(3 064)	(686)
Reclassifications	(206)	(206)
Change in consolidation scope	2 092	–
Currency translation differences	174	(340)
Balance at 31.12.2016	13 390	25 929
Additions	1 925	218
Releases	(2 650)	(456)
Reclassifications	(292)	(292)
Change in consolidation scope	–	–
Currency translation differences	169	18
Balance at 31.12.2017	12 542	25 417

26 Share capital

As at 31.12.2017 20 200 000 (previous year: 20 200 000) registered shares were outstanding with a nominal value of CHF 0.25. The Company has no authorised or conditional capital.

The reserves which are not disposable respectively distributable amount to CHF 2.5 million as of 31 December 2017 (previous year: CHF 2.5 million).

The following table shows transactions and balances relating to treasury shares:

	Quantity	Transaction price (Ø) in CHF	Purchase cost	Quantity	Transaction price (Ø) in CHF	Purchase cost
	2017			2016		
Balance at 1.1.	748 640		1 259	748 154		1 054
Purchases of treasury shares	23 275	54.31	1 264	29 886	48.99	1 464
Disposals of treasury shares	(30 775)	51.54	(1 586)	(29 400)	42.82	(1 259)
Balance at 31.12.	741 140		937	748 640		1 259

As at the balance sheet date, foundations related to the Group hold 210 025 shares of HUBER+SUHNER AG (previous year: 232 257). Pension funds related to the Group hold no shares of HUBER+SUHNER AG.

27 Earnings per share

	2017	2016
Net income	42 146	53 194
Average number of outstanding shares	19 465 765	19 452 158
Earnings per share (CHF)	2.17	2.73
Diluted earnings per share (CHF)	2.17	2.73

The average number of outstanding shares is calculated based on issued shares less the weighted average of treasury shares. There are no conversion or option rights outstanding; therefore, there is no dilution of earnings per share.

28 Future commitments

The Group companies have committed to various capital expenditures essential to the day to day running of their businesses. At the year-end there were commitments for the purchase of property, plant and equipment and intangible assets amounting to CHF 5.3 million (previous year, CHF 11.3 million).

29 Events after the balance sheet date

There were no events between the balance sheet date and the date these consolidated financial statements were approved by the Board of Directors (8 March 2018) which affect the annual results or require any adjustments to the Group's assets and liabilities.

All amounts are in CHF 1000

Group Companies

Companies at 31.12.2017 (all fully consolidated)		Domicile		Capital stock in 1000	Ownership	Purpose
Switzerland	HUBER+SUHNER AG	Herisau	CHF	5 050	parent company	▲■
	HUBER+SUHNER Finance AG	Herisau	CHF	2 800	100%	◆
Australia	HUBER+SUHNER (Australia) Pty Ltd.	Frenchs Forest, New South Wales	AUD	1 000	100%	▲■
Brazil	HUBER+SUHNER América Latina Ltda.	Caçapava	BRL	39 197	100%	▲■
Canada	HUBER+SUHNER (Canada) Ltd.	Ottawa	CAD	2 350	100%	–
China	HUBER+SUHNER (Hong Kong) Ltd.	Hong Kong	HKD	12 325	100%	◆■
	HUBER+SUHNER (Shanghai) Co. Ltd. [1]	Shanghai	CNY	19 970	100%	■
	HUBER+SUHNER T&C (Shanghai) Co. Ltd. [1]	Shanghai	CNY	27 854	100%	■
	HUBER+SUHNER CCM (Changzhou) Co. Ltd. [1]	Changzhou	CNY	126 246	100%	▲
Costa Rica	HUBER+SUHNER Astrolab Costa Rica S.r.l. [2]	San José	USD	0	100%	▲
France	HUBER+SUHNER (France) SAS	Voisins-le-Bretonneux	EUR	200	100%	■
Germany	HUBER+SUHNER GmbH	Taufkirchen	EUR	3 068	100%	◆■
	HUBER+SUHNER Cube Optics AG [3]	Mainz	EUR	590	100%	▲■
India	HUBER+SUHNER Electronics Pvt. Ltd. [4]	New Delhi	INR	170 000	100%	▲■
Malaysia	HUBER+SUHNER (Malaysia) Sdn Bhd [5]	Kuala Lumpur	MYR	502	100%	▲■
Netherlands	HUBER+SUHNER B.V.	Rosmalen	EUR	200	100%	–
Poland	HUBER+SUHNER Sp. z o.o.	Tczew	PLN	5 600	100%	▲
Singapore	HUBER+SUHNER (Singapore) Pte Ltd.	Singapore	SGD	3 000	100%	◆■
Spain	HUBER&SUHNER (Spain) [6]	Madrid	EUR	3	100%	▲
Tunisia	HUBER+SUHNER (Tunisie) SARL	Sousse	TND	100	100%	▲
United Kingdom	HUBER+SUHNER (UK) Ltd.	Bicester	GBP	4 000	100%	▲■
	HUBER+SUHNER Polatis Ltd. [7]	Cambridge	GBP	700	100%	▲■
USA	HUBER+SUHNER (North America) Corp.	Charlotte, North Carolina	USD	1	100%	◆
	HUBER+SUHNER, Inc. [8]	Charlotte, North Carolina	USD	50	100%	▲■
	HUBER+SUHNER Astrolab, Inc. [8]	Warren, New Jersey	USD	12 000	100%	▲■
	HUBER+SUHNER Polatis, Inc. [8]	Delaware	USD	1	100%	◆
	HUBER+SUHNER Polatis Photonics, Inc. [7]	Bedford, Massachusetts	USD	52 959	100%	■

1) subsidiaries of HUBER+SUHNER (Hong Kong) Ltd.
2) subsidiary of HUBER+SUHNER Astrolab, Inc.
3) subsidiary of HUBER+SUHNER GmbH
4) subsidiary of HUBER+SUHNER Finance AG and of HUBER+SUHNER B.V.
5) subsidiary of HUBER+SUHNER (Singapore) Pte Ltd.
6) subsidiary of HUBER+SUHNER Cube Optics AG
7) subsidiary of HUBER+SUHNER Polatis, Inc.
8) subsidiary of HUBER+SUHNER (North America) Corp.

◆ Holding/Finance companies
▲ Production and assembly plants
■ Sales organisations
— Dormant or in liquidation

Report of the statutory auditor
to the General Meeting of HUBER+SUHNER AG
Herisau

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of HUBER+SUHNER AG and its subsidiaries (the Group) which comprise the consolidated income statement for the year ended 31 December 2017, the consolidated balance sheet as at 31 December 2017, the consolidated cash flow statement and consolidated statement of equity for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 29 to 48) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 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 Group materiality: CHF 2'850'000

We concluded full scope audit work at twelve reporting units in seven countries. Our audit scope addressed over 77% of the Group's revenue. In addition, specified procedures were performed on one further reporting unit representing a further 13% of the Group’s revenue. Further, reviews were performed on a further seven reporting units in seven countries.

As key audit matters the following areas of focus have been identified:

- Valuation of inventories
- Conversion from IFRS to Swiss GAAP FER

PricewaterhouseCoopers AG, Vadianstrasse 25a/Neumarkt 5, Postfach, CH-9001 St. Gallen, Switzerland
Telefon: +41 58 792 72 00, Telefax: +41 58 792 72 10, www.pwc.ch

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Audit scope
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.

The audit strategy for the consolidated financial statements was determined taking into account the work performed by the Group auditor, the component auditors in the PwC network and third parties. The Group auditor performed the audit of the consolidation, the disclosures and the presentation of the consolidated financial statements as well as the conversion from IFRS to Swiss GAAP FER. Where audits were performed by component auditors, we ensured that, as Group auditor, we were adequately involved in the audit in order to assess whether sufficient appropriate audit evidence was obtained from the work of the component auditors to provide a basis for our opinion. Our involvement comprised analysing the reporting, taking part in telephone calls with the component auditors during the interim audit and the year-end audit, communicating the risks identified at Group level and determining the materiality thresholds for the audits performed by component auditors.

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 Group 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.

Overall Group materiality	CHF 2'850'000
How we determined it	5% of income before taxes
Rationale for the materiality benchmark applied	We chose income before taxes 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 for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 225'000 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.

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Valuation of inventories

Key audit matter	*How our audit addressed the key audit matter*
Inventories represent a significant item on the balance sheet (CHF 165.0 million). Determining production costs, write-downs and net realisable value involves significant scope for judgement. An incorrect estimate could have a significant impact on the result for the period. Please refer to page 35 (Accounting policies – Inventories) and page 42 (Inventories) in the notes to the Group financial statements.	Our audit procedures regarding the recognition and measurement of inventories comprised mainly the following: • We gained an understanding of the inventory valuation process and tested selected internal controls relating to this process. • We attended year-end and rolling inventory counts. • We analysed on a sample basis the standard cost calculations. Additionally, we verified the differences between the standard and actual costs and, for large differences, we assessed whether appropriate measures had been taken with regard to valuation. • We considered the assumptions underlying any write-downs in the light of historical experience and assessed their appropriateness. • We verified compliance with the principle of net realisable value for finished goods by comparing production costs with the expected sale proceeds (net of any costs to be incurred). The results of our audit support the recognition and measurement of inventories in the 2017 consolidated financial statements.

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Conversion from IFRS to Swiss GAAP FER

Key audit matter	*How our audit addressed the key audit matter*
With effect as of 1 January 2017, HUBER+SUHNER AG changed the accounting framework it uses from International Financial Reporting Standards (IFRS) to Swiss GAAP FER. This change has a significant impact on the 2017 consolidated financial statements and the prior-year figures. Additionally, the Board of Directors and the Executive Group Management have exercised various policy choices and implemented for the first time the disclosure requirements in accordance with Swiss GAAP FER. Please refer to pages 33 and 34 (Adjustments due to the first-time application of Swiss GAAP FER) in the notes to the Group financial statements.	In our audit of the change from IFRS to Swiss GAAP FER, we performed in particular the following audit procedures: • We requested the Executive Group Management's assessment of the impact of the change on the opening balance as at 1 January 2016 and on the 2016 income statement, and we then assessed whether – all the effects of the change in accounting standards had been identified and recorded by the Management; – the goodwill from acquisitions, acquired brands, client relationships and technologies had been correctly offset against equity; – the requirements of Swiss GAAP FER 16 'Pension benefit obligations' had been correctly implemented; – deferred taxes had been correctly restated to take into account the effects of the change. • We checked whether the figures prepared according to Swiss GAAP FER in the opening balance as at 1 January 2016 and the 2016 income statement were restated correctly. Additionally, we checked that the reconciliation of the shareholders' equity as at 1 January 2016 and 31 December 2016 and the net income for 2016 were disclosed correctly in the 2017 consolidated financial statements. • We assessed the completeness and the appropriateness of the disclosures according to Swiss GAAP FER in the 2017 consolidated financial statements. The results of our audit are consistent with a correct implementation of the Swiss GAAP FER requirements in the 2017 consolidated financial statements.

pwc

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 either intends 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

Beat Inauen	Oliver Illa
Audit expert Auditor in charge	Audit expert

St. Gallen, 8 March 2018

Five-Year Financial Summary

in CHF million	2013 (IFRS)	2014 (IFRS)	2015 (IFRS)	2016 (Swiss GAAP FER)	2017 (Swiss GAAP FER)
Order intake	683.4	768.1	702.8	746.6	826.3
change in % over prior year	(8.6)	12.4	(8.5)	6.2	10.7
Order backlog as of 31.12.	149.2	186.2	169.7	177.2	230.5
change in % over prior year	(22.0)	24.8	(8.8)	4.4	30.1
Net sales	719.7	748.5	706.3	737.2	774.0
change in % over prior year	3.1	4.0	(5.6)	4.4	5.0
Gross margin	34.3 %	35.8 %	34.6 %	36.7 %	34.5 %
EBITDA	83.9	101.1	86.5	100.8	90.5
as % of net sales	11.7	13.5	12.2	13.7	11.7
EBIT	51.6	69.0	52.3	69.7	58.1
as % of net sales	7.2	9.2	7.4	9.5	7.5
change in % over prior year	115.5	33.7	(24.2)	n/a[1]	(16.6)
Financial result	(3.6)	4.8	(15.4)	3.0	(0.7)
Net income	32.5	59.2	24.7	53.2	42.1
as % of net sales	4.5	7.9	3.5	7.2	5.4
change in % over prior year	51.9	82.2	(58.3)	n/a[1]	(20.8)
Purchases of PP&E and intangible assets	25.8	42.5	23.5	32.2	37.8
change in % over prior year	(60.1)	65.0	(44.6)	37.0	17.3
Cash flow from operating activities	115.9	78.0	69.7	79.6	52.9
change in % over prior year	195.6	(32.7)	(10.7)	n/a[1]	(33.5)
Free operating cash flow	95.9	(11.9)	47.9	22.1	20.0
change in % over prior year	n/a	n/a	n/a	n/a[1]	(9.7)
Net liquidity as of 31.12.	169.8	143.3	160.0	157.5	152.6
change in % over prior year	100.1	(15.6)	11.7	(1.5)	(3.1)
Equity as of 31.12.	622.8	673.6	649.6	573.3	593.5
as % of balance sheet total	83.0	80.5	83.5	81.5	78.9
Employees at year-end (permanent employees)	3 503	3 891	3 649	4 031	4 200
change in % over prior year	(9.7)	11.1	(6.2)	10.5	4.2
Employees, yearly average	3 739	3 789	3 584	3 866	4 198

[1] due to conversion from IFRS to Swiss GAAP FER change in % over prior year is not comparable.

Financial Report 2017

Financial Statements HUBER+SUHNER AG

Income Statement

in CHF 1000	Notes	2017	2016
Net Sales		398 959	391 088
Other operating income	3.1	28 046	28 693
Change in semi-finished and finished goods		9 051	(109)
Total operating income		436 056	419 672
Material expenses		(197 767)	(180 256)
Personnel expenses		(142 297)	(139 470)
Other operating expenses		(69 123)	(72 025)
Depreciation and amortisation		(13 632)	(14 130)
Total operating expenses		(422 819)	(405 881)
Operating profit (EBIT)		13 237	13 791
Financial income		5 486	7 283
Financial expense		(170)	(3 317)
Income from investments	3.2	6 143	7 113
Non-operating income		1 343	1 801
Non-operating expenses		(772)	(1 088)
Extraordinary income		–	400
Income before taxes		25 267	25 983
Income taxes		(3 516)	(2 382)
Net Income		21 751	23 601

Balance Sheet

in CHF 1000	Notes	31.12.2017	%	31.12.2016	%
Assets					
Cash and cash equivalents		120 574		123 261	
Trade receivables third party		14 079		14 565	
Trade receivables group companies		38 552		30 166	
Other short-term receivables third party		9 282		9 237	
Other short-term receivables group companies		2 471		2 700	
Inventories	3.3	41 669		36 474	
Accrued income		697		597	
Short-term loans group companies		–		252	
Current assets		227 324	47.2	217 252	46.7
Property, plant, equipment and intangible assets	3.4	102 361		97 252	
Investments in subsidiaries	3.5	53 094		49 590	
Long-term loans group companies		98 933		100 930	
Non-current assets		254 388	52.8	247 772	53.3
Assets		481 712	100.0	465 024	100.0
Liabilities and equity					
Trade payables third party		18 329		6 832	
Trade payables group companies		13 484		10 712	
Other short-term liabilities third party		21 003		15 393	
Short-term provisions		652		1 907	
Accrued liabilities		2 920		3 615	
Current liabilities		56 388		38 459	
Long-term loans group companies		2 392		2 819	
Long-term provisions		53 069		50 040	
Other long-term liabilities		1 354		–	
Non-current liabilities		56 815		52 859	
Liabilities		113 203	23.5	91 318	19.6
Share capital	3.6	5 050		5 050	
Legal reserves		40 271		40 271	
General reserves		90 209		89 860	
Retained earnings		233 921		239 740	
Treasury shares	3.7	(942)		(1 215)	
Equity		368 509	76.5	373 706	80.4
Liabilities and equity		481 712	100.0	465 024	100.0

Notes to Financial Statements

1 General

The financial statements of HUBER+SUHNER AG, domiciled in Herisau, are prepared in accordance with the Swiss Code of Obligations (OR).

2 Accounting policies

2.1 General
These financial statements were prepared in accordance with the provisions of the commercial accounting of the Swiss Code of Obligations. The accounting of major balance sheet positions is disclosed hereinafter.

2.2 Foreign currency translation
All assets and liabilities denominated in foreign currencies are converted into Swiss francs at the year-end exchange rates considering the imparity principle. Income and expenses as well as transactions in foreign currency are converted at the conversion rate valid at transaction date. The resulting foreign exchange differences are recognised in the income statement.

2.3 Revenue recognition
Revenues from sales of products are recognised when the risks and rewards of the sold products have been transferred to the customer.

2.4 Trade receivables
Trade receivables are measured at amortised cost less allowances. Indications for impairment are substantial financial problems of the customer, a declaration of bankruptcy or a material delay in payment. Additionally a fiscally permitted allowance is recognised on the remaining trade receivables.

2.5 Inventories
Inventories are stated at the lower of cost and net realisable value. The cost of goods comprises direct material and production costs and related production overheads. It excludes borrowing costs. The valuation of the inventory is based on standard costs that are verified annually. Slow-moving and obsolete stock that have insufficient inventory turns are systematically partially or fully revaluated. Additionally a fiscally permitted allowance is recognised on the remaining inventories.

2.6 Property, plant, equipment and intangible assets
Property, plant, equipment and intangible assets are stated at the purchased or manufactured cost less fiscally permitted accumulated depreciation. If there are indications that the carrying amount is overstated, property, plant, equipment and intangible assets are reviewed for impairment and written down to the recoverable amount if necessary.

2.7 Investments in subsidiaries
Investments in subsidiaries are valued individually if they are material and if they are not grouped for valuation purposes based on their interconnectedness.

2.8 Provisions
Provisions are made for warranties, personnel expenses, restructuring costs, legal and miscellaneous other operational risks that meet the recognition criteria. They are recognised when the company has a present legal or constructive obligation as a result of past events and if it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Warranty provisions are generally measured and recognised based on experience values. Additional provisions may be made if fiscally permitted.

2.9 Treasury shares
Treasury shares are stated at acquisition cost and deducted from shareholders' equity. No subsequent valuation is made. If the treasury shares are later disposed of, the resulting gain or loss is recognised in the reserves.

3 Details to individual positions

3.1 Other operating income
Includes income from other activities such as the sale of scrap, miscellaneous services, the capitalisation of internally produced capital goods, the release of provisions and miscellaneous, not periodical, operating revenues from third parties.

3.2 Income from investments
Income from investments includes dividend payments from subsidiaries in the amount of TCHF 6 143 (previous year, TCHF 6 650). No impairments of investments have been recognised or reversed (previous year, reversal of TCHF 369). Previous year, additionally a gain out of the liquidated Swedish subsidiary has been recognised in the amount of TCHF 94.

3.3 Inventories

in CHF 1000	31.12.2017	31.12.2016
Raw materials and supplies	11 753	12 283
Work in progress	7 715	7 169
Semi-finished and finished goods	85 619	76 568
Inventory provision	(63 418)	(59 546)
Total	41 669	36 474

3.4 Property, plant, equipment and intangible assets

in CHF 1000	31.12.2017	31.12.2016
Land	6 226	6 226
Buildings	43 979	40 511
Technical equipment and machinery	29 835	30 826
Other equipment	976	988
Assets under construction	8 089	7 421
Investment property	2 080	2 080
Intangible assets	11 176	9 200
Total	102 361	97 252

3.5 Investments in subsidiaries

Directly and indirectly held subsidiaries are listed on page 48 of the Group Financial Statements.

3.6 Share capital

Both at 31 December 2017 and at 31 December 2016 the share capital is composed of 20 20 000 registered shares at CHF 0.25 nominal value each.
The composition of capital stock is disclosed in the Notes to the Group Financial Statements (see note 26).

3.7 Treasury shares

The company holds 741 140 treasury shares, thereof 726 640 treasury stock and 14 500 other treasury shares
(previous year: 748 640 treasury shares, thereof 726 640 treasury stock and 22 000 other treasury shares).

in CHF 1000	2017	2016
Number at 1.1.	748 640	748 154
Purchases	23 275	29 886
Sales	–	–
Allotment	(30 775)	(29 400)
Number at 31.12.	741 140	748 640

4 Contingent liabilities

in CHF 1000	31.12.2017	31.12.2016
Guarantees for loans with promissory notes and other loans to Group companies	–	–

5 Liabilities to pension funds

in CHF 1000	31.12.2017	31.12.2016
Total liabilities to pension funds	–	–

6 Net release of undisclosed reserves

in CHF 1000	2017	2016
Total net release of undisclosed reserves	–	4 149

7 Significant shareholders / shareholdings of Board of Directors and of Executive Group Management

Shares of votes and capital	31.12.2017	31.12.2016
Metrohm AG	10.62 %	10.62 %
Abegg Holding AG	10.04 %	10.04 %
S. Hoffmann-Suhner	6.18 %	6.18 %
EGS Beteiligungen AG	5.72 %	4.95 %
Huwa Finanz- und Beteiligungs AG	3.19 %	3.17 %
Norges Bank (Central bank of Norway)	3.07 %	< 3.00 %

Information about published disclosure notices following article 20 BEHG are included in Corporate Governance clause 1.2 Significant shareholders.

According to the Ordinance against Excessive Compensation in Listed Companies (OaEC) which is in force since 1 January 2014, details of the compensation for members of the Board of Directors and the Executive Group Management are presented in a separate Compensation Report (see Compensation Report pages 21 to 25).
Shareholdings in the company by members of Board of Directors and by members of Executive Group Management, in accordance with Swiss Code of Obligations (OR) article 663c, are as follows:

Shareholdings of Board of Directors (Number of shares at 31 December 2017)		Own shares	Shares of close family members	Total shares	Of which non-restricted shares	Of which restricted shares [1]	Total share of votes [2]
U. Kaufmann	Chairman	76 200	600	76 800	27 800	49 000	0.39%
B. Kälin	Deputy Chairman	16 500	–	16 500	6 000	10 500	< 0.10%
M. Bütler	Member	3 600	–	3 600	–	3 600	< 0.10%
C. Fässler	Member	5 300	–	5 300	1 700	3 600	< 0.10%
G. Müller	Member	17 600	184 586	202 186	198 586	3 600	1.04%
R. Seiffert	Member	8 633	–	8 633	5 033	3 600	< 0.10%
J. Walther	Member	1 200	–	1 200	–	1 200	< 0.10%
Total shareholdings BoD 2017		129 033	185 186	314 219	239 119	75 100	1.61%

Shareholdings of Board of Directors (Number of shares at 31 December 2016)		Own shares	Shares of close family members	Total shares	Of which non-restricted shares	Of which restricted shares [1]	Total share of votes [2]
B. Kälin	Chairman	12 500	–	12 500	4 800	7 700	< 0.10%
M. Bütler	Member	2 400	–	2 400	–	2 400	< 0.10%
C. Fässler	Member	4 100	–	4 100	500	3 600	< 0.10%
U. Kaufmann	Delegate of BoD / CEO	71 200	600	71 800	21 800	50 000	0.37%
G. Müller	Member	16 400	184 586	200 986	197 386	3 600	1.03%
R. Seiffert	Member	7 433	–	7 433	3 833	3 600	< 0.10%
J. Walther	Member	–	–	–	–	–	–
Total shareholdings BoD 2016		114 033	185 186	299 219	228 319	70 900	1.54%

Shareholdings of Executive Group Management (Number of shares at 31 December 2017)		Own shares	Shares of close family members	Total shares	Of which non-restricted shares	Of which restricted shares [1]	Total share of votes [2]
U. Ryffel	CEO	15 100	–	15 100	8 700	6 400	< 0.10%
R. Bolt	Member	9 470	–	9 470	3 070	6 400	< 0.10%
F. Landolt	Member	240	–	240	40	200	< 0.10%
D. Nixon	Member	3 650	–	3 650	–	3 650	< 0.10%
P. Riederer	Member	9 100	–	9 100	3 100	6 000	< 0.10%
U. Schaumann	Member	3 325	–	3 325	–	3 325	< 0.10%
P. Stolz	Member	1 920	–	1 920	70	1 850	< 0.10%
M. Strasser	Member	200	–	200	–	200	< 0.10%
I. Wechsler	Member	11 000	–	11 000	1 000	10 000	< 0.10%
Total EGM shareholdings 2017		54 005	–	54 005	15 980	38 025	0.28%

Shareholdings of Executive Group Management (Number of shares at 31 December 2016)		Own shares	Shares of close family members	Total shares	Of which non-restricted shares	Of which restricted shares [1]	Total share of votes [2]
U. Kaufmann	Delegate of BoD / CEO	71 200	600	71 800	21 800	50 000	0.37%
R. Bolt	Member	7 470	–	7 470	1 470	6 000	< 0.10%
D. Nixon	Member	2 820	–	2 820	870	1 950	< 0.10%
P. Riederer	Member	9 500	–	9 500	3 500	6 000	< 0.10%
U. Ryffel	Member	13 100	–	13 100	7 100	6 000	< 0.10%
U. Schaumann	Member	3 205	–	3 205	1 280	1 925	< 0.10%
P. Stolz	Member	670	–	670	70	600	< 0.10%
I. Wechsler	Member	11 000	–	11 000	1 000	10 000	< 0.10%
Total EGM shareholdings 2016		118 965	600	119 565	37 090	82 475	0.61%

[1] shares with remaining lock-in periods of up to 10 years
[2] shares in % of shares entitled to a dividend

Allotted number of shares to:	2017	2016
Board of Directors	10 750	10 000
Executive Group Management	18 825	17 450
Employees	2 925	3 325

Allotted shares in CHF 1000	2017	2016
Expensed amount in Income Statement	1 653	1 739

Outstanding shares are actually assigned in the following year – for members of Board of Directors and Executive Group Management subject to approval by the Annual General Meeting. The expensed amount in the Income Statement is based on the year-end 2017 share price of CHF 50.85 (previous year, CHF 56.50).

8 Full-time positions

As in the previous year, HUBER+SUHNER AG employed over 250 full-time positions in 2017.

9 Leasing obligations not recorded in the balance sheet

Per balance sheet date there are short-term obligations with a duration of less than one year of TCHF 182 (previous year, TCHF 687) and no obligations in excess of one year with a duration of one to five years (previous year, obligations with a duration of one to five years TCHF 172).

10 Events after the balance sheet date

There were no additional events after the balance sheet date which affect the annual results or would require an adjustment to the carrying amounts of HUBER+SUHNER AG's assets and liabilities.

11 Additional disclosures, cash flow statement and management report

In accordance with article 961d par. 1 of Swiss Code of Obligations (OR) no additional disclosures are made, as HUBER+SUHNER AG prepares Group Financial Statements in accordance with generally accepted accounting principles (Swiss GAAP FER).

On 10 November 2017 HUBER+SUHNER acquired Inwave Elektronik AG in Reute (Switzerland) with retroactive merger into HUBER+SUHNER AG per 1 November 2017. The goodwill from the merger of Inwave which was offset with equity is CHF 3.2 million. Further details are disclosed in the Group Financial Statements on page 37.

Recommendation for Appropriation of Earnings

The Board of Directors of HUBER+SUHNER AG recommends to the Annual General Meeting of Shareholders the following appropriation of available earnings for the year 2017:

in CHF 1000	2017	2016
Prior-year retained earnings	215 398	216 139
Goodwill from merger – direct netting with equity	(3 228)	–
Net income for the year	21 751	23 601
Total retained earnings	233 921	239 740
Dividend	(21 405)	(24 342)
Total appropriation	(21 405)	(24 342)
Retained earnings carried forward	212 516	215 398

If this proposal is accepted the following amounts would be valid for each registered share at CHF 0.25 nominal value

	CHF	CHF
Gross dividend	1.10	1.25
Less 35 % withholding tax	0.3850	0.4375
Net dividend	0.7150	0.8125

Report of the statutory auditor

to the General Meeting of HUBER+SUHNER AG

Herisau

Report on the audit of the financial statements

Opinion

We have audited the financial statements of HUBER+SUHNER AG, which comprise the income statement for the year ended 31 December 2017, the balance sheet as at 31 December 2017 and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 56 to 62) as at 31 December 2017 comply with Swiss law and the company's 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 1'240'000

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 key audit matters the following areas of focus have been identified:

- Valuation of inventories
- Impairment testing of investments in subsidiaries

pwc

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 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.

Overall materiality	CHF 1'240'000
How we determined it	5% of income before taxes
Rationale for the materiality benchmark applied	We chose income before taxes as the benchmark because, in our view, it is the benchmark against which the performance of the entity is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 124'000 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.

pwc

Valuation of inventories

Key audit matter	*How our audit addressed the key audit matter*
Inventories represent a significant item on the balance sheet (CHF 41.7 million). Determining production costs, write-downs and net realisable value involves significant scope for judgement. An incorrect estimate could have a significant impact on the result for the period. Please refer to page 58 (Accounting policies – Inventories) in the notes to the financial statements.	Our audit procedures regarding the recognition and measurement of inventories comprised mainly the following: • We gained an understanding of the inventory valuation process and tested selected internal controls relating to this process. • We attended year-end and rolling inventory counts. • We analysed on a sample basis the standard cost calculations. Additionally, we verified the differences between the standard and actual costs and, for large differences, we assessed whether appropriate measures had been taken with regard to valuation. • We considered the assumptions underlying any write-downs in the light of historical experience and assessed their appropriateness. • We verified compliance with the principle of net realisable value for finished goods by comparing production costs with the expected sale proceeds (net of any costs to be incurred). The results of our audit support the recognition and measurement of inventories in the 2017 financial statements.

Impairment testing of investments in subsidiaries

Key audit matter	*How our audit addressed the key audit matter*
Investments in subsidiaries is a significant asset category on the balance sheet (CHF 53.1 million). Impairment testing of investments whose book value is greater than the book value of the underlying net assets requires Management to consider capitalised earnings or valuations at the company level. Doing so involves significant scope for judgement, particularly to determine the assumptions to use concerning future business results and the average weighted cost of capital to apply to the expected cash flows. Please refer to pages 58 (Accounting policies – Investments in subsidiaries) and 59 (Investments in subsidiaries) of the Notes to financial statements.	In our audit of investments in subsidiaries, we performed the following main audit procedures: • We compared the book value of the investments in the year under review with their pro-rata share of the respective company's equity or the company's valuation, based on capitalised earnings. • We checked for plausibility the key assumptions applied by Management. We consider the valuation process and the assumptions used to be an appropriate and adequate basis for the impairment testing as at 31 December 2017.

pwc

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

Beat Inauen	Oliver Illa
Audit expert Auditor in charge	Audit expert

St. Gallen, 8 March 2018

Share Data

HUBER+SUHNER AG is a Swiss listed company whose shares are traded on the SIX Swiss Exchange, and which have the following listing details:

Registered office	9100 Herisau, Switzerland
Listing	SIX Swiss Exchange, Swiss Reporting Standard
Security number	3'038'073
ISIN	CH0030380734
Security symbol	HUBN
Nominal value	CHF 0.25

Registered shares at 31.12. (nominal value CHF 0.25)	2013 (IFRS)	2014 (IFRS)	2015 (IFRS)	2016 (Swiss GAAP FER)	2017 (Swiss GAAP FER)
Number of issued shares	20 200 000	20 200 000	20 200 000	20 200 000	20 200 000
Number of shares entitled to a dividend	19 461 360	19 443 360	19 451 846	19 451 360	19 458 860
Number of shareholders at 31.12.	3 869	3 689	3 694	3 530	4 523
Stock market price (in CHF)					
– high	51.10	50.75	52.00	65.60	73.80
– low	41.80	41.50	38.60	40.60	50.55
– year-end	46.90	47.40	46.35	56.50	50.85
Amounts per registered share[1] (in CHF)					
– Net income	1.67	3.05	1.27	2.73	2.17
– Dividend	0.80	1.40	1.00	1.25	1.10[3]
– Pay-out ratio	48 %	46 %	79 %	46 %	51%
Market capitalisation[2]					
– in CHF million	913	922	902	1 099	989
– as % of net sales	127	123	128	149	128
– as % of shareholders' equity	147	137	139	192	167

Since the beginning of 2017 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. Prior period figures have been restated to conform to the presentation for the reporting period to ensure comparability, see note 2.2.

1) based on the average outstanding shares
2) stock market price at year-end × number of shares entitled to a dividend
3) proposed dividend

For further information on the HUBER+SUHNER Group, please visit www.hubersuhner.com.

Addresses

Australia

▲■ **HUBER+SUHNER (AUSTRALIA) PTY LTD**
Unit 6, 4 Skyline Place
Frenchs Forest
Sydney NSW 2086
Phone: +61 (0)2 8977 1200
Fax: +61 (0)2 9972 7549
info.au@hubersuhner.com

Brazil

▲■ **HUBER+SUHNER AMÉRICA LATINA LTDA**
Rodovia Presidente Dutra
KM 134
Vila Galvão
12286-160 Caçapava SP 160
Phone: +55 (12) 3657 1000
Fax: +55 (12) 3657 1028
info.br@hubersuhner.com

China

■ **HUBER+SUHNER (HONG KONG) LTD**
Unit A1, 17/F., TML Tower
3 Hoi Shing Road
Tsuen Wan, N.T. Hong Kong
Phone: +852 2866 6600
Fax: +852 2866 6313
info.hk@hubersuhner.com

■ **HUBER+SUHNER (SHANGHAI) CO., LTD**
Part B 23, 2/F
333 Fu Te Xi Yi Road Waigaoqiao
Shanghai 200131
Phone: +86 (0)21 5190 1111
Fax: +86 (0)21 5190 1371
infoshanghai@hubersuhner.com

▲ **HUBER+SUHNER CABLE & CONNECTOR MANUFACTURE (CHANGZHOU) CO., LTD**
No.6, Xin Yong Road
Wujin District, Changzhou
Jiangsu Province, 213164
Phone: +86 (0)519 6889 6666
Fax: +86 (0)519 6889 6790
infoshanghai@hubersuhner.com

● Headquarters
▲ Production and assembly sites
■ Sales organisations

Costa Rica

▲ **HUBER+SUHNER ASTROLAB COSTA RICA S.R.L.**
Zona Franca Metropolitana
Edificio 5B3E
Barreal-Heredia
Phone: +506 25890820
Fax: +506 25890822

France

■ **HUBER+SUHNER FRANCE SAS**
21 E, rue Jacques-Cartier
78960 Voisins-le-Bretonneux
Phone: +33 (0)1 61 37 25 55
Fax: +33 (0)1 30 64 73 68
info.fr@hubersuhner.com

Germany

■ **HUBER+SUHNER GMBH**
Mehlbeerenstrasse 6
82024 Taufkirchen
Phone: +49 (0)89 612 01 0
Fax: +49 (0)89 612 01 162
info.de@hubersuhner.com

▲■ **HUBER+SUHNER CUBE OPTICS AG**
Robert-Koch-Strasse 30
55129 Mainz
Phone: +49 (0)6131 69851 0
Fax: +49 (0)6131 69851 79
www.hubersuhner.com/cubeoptics
info.cubo@hubersuhner.com

India

▲■ **HUBER+SUHNER ELECTRONICS PRIVATE LTD**
Plot 125, Sector 8, IMT Manesar,
Gurgaon, Haryana
122051
Phone: +91 (0)124 452 61 00
Phone: +91 (0)124 452 62 00
Fax: +91 (0)124 410 27 04
info.in@hubersuhner.com

Malaysia

▲■ **HUBER+SUHNER (MALAYSIA) SDN. BHD.**
No 6 & 8, PJ51 Business Park
Jalan Tandang 51/205A,
Section 51
46050 Petaling Jaya
Selangor Darul Ehsan
Phone: +6 03 7454 5111
Fax: +6 03 7454 5112
info.my@hubersuhner.com

Poland

▲ **HUBER+SUHNER SP. Z O.O.**
ul. Bałdowska 26
83-110 Tczew
Phone: +48 58 560 2100
Fax: +48 58 560 2172
info.pl@hubersuhner.com

Spain

▲ **HUBER&SUHNER (SPAIN), S.L.**
Calle Pau Claris, 94 – PRAL. 2
08010 Barcelona
Phone: +34 93 764 83

Switzerland

●▲■ **HUBER+SUHNER AG**
9100 Herisau
Phone: +41 (0)71 353 41 11
Fax: +41 (0)71 353 44 44
info@hubersuhner.com

●▲■ **HUBER+SUHNER AG**
8330 Pfäffikon ZH
Phone: +41 (0)44 952 22 11
Fax: +41 (0)44 952 24 24
info@hubersuhner.com

Singapore

■ **HUBER+SUHNER (SINGAPORE) PTE LTD**
114 Lavender Street
#02-67 CT HUB2
Singapore 338729
Phone: +65 6472 2777
Fax: +65 6252 8330
info.sg@hubersuhner.com

Tunisia

▲ **HUBER+SUHNER (TUNISIE) SARL**
Zone Industrielle Sidi
Abdelhamid, LOT 88, Voie No. 8
4061 Sousse
Phone: +821 673 830 902
Fax: +821 673 830 903

United Kingdom

▲■ **HUBER+SUHNER (UK) LTD**
Telford Road
Bicester, Oxfordshire
OX26 4LA
Phone: +44 (0)1 869 364 100
Fax: +44 (0)1 869 249 046
info.uk@hubersuhner.com

▲■ **HUBER+SUHNER POLATIS LTD**
332/2 Cambridge Science Park
Cambridge CB4 0WN
Phone: +44 (0)1 223 424 200
Fax: +44 (0)1 223 472 015
www.hubersuhner.com/polatis
info@polatis.com

USA

▲■ **HUBER+SUHNER, INC.**
Steele Creek Commerce Park
8530 Steele Creek Place Drive
Suite H
Charlotte, NC 28273
Phone: +1 866 482 3778
Fax: +1 704 587 1238
info.na@hubersuhner.com

▲■ **HUBER+SUHNER ASTROLAB, INC.**
4 Powder Horn Drive,
Warren, NJ 07059-5105
Phone: +1 732 560 3800
Fax: +1 732 560 9570
www.hubersuhner.com/astrolab
sales.astrolab@hubersuhner.com

■ **HUBER+SUHNER POLATIS PHOTONICS, INC.**
213 Burlington Road
Suite 123
Bedford, MA 01730
Phone: +1 781 275 5080
Fax: +1 781 275 5081
www.hubersuhner.com/polatis
info@polatis.com

Publishing information

Concept and Editorial
Corporate Finance
HUBER+SUHNER, CH-8330 Pfäffikon

Design and Type
plusgestaltung, CH-8032 Zürich

HUBER+SUHNER AG

Degersheimerstrasse 14
CH-9100 Herisau AR
Phone +41 71 353 41 11
Fax +41 71 353 44 44

Tumbelenstrasse 20
CH-8330 Pfäffikon ZH
Phone +41 44 952 22 11
Fax +41 44 952 24 24

www.hubersuhner.com