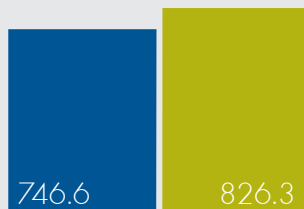


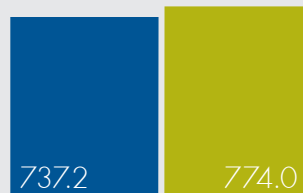
# MANAGEMENT REPORT 2017

## KEY FACTS AT A GLANCE

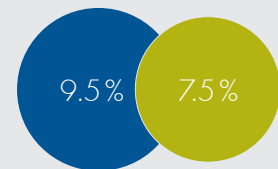
Significant increase in order intake of 10.7 %



Net sales increased by 5.0 %



EBIT margin slightly below medium-term target range



All three technology segments<sup>1)</sup> 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

<sup>1)</sup> 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



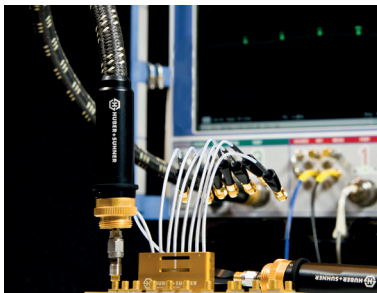
HUBER+SUHNER awarded contract for the HV distribution system used in e-buses and hybrid trucks of a major European manufacturer

## 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



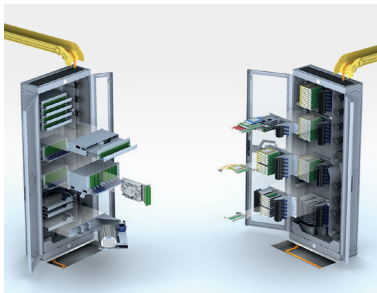
#### Precision and reliability: the test and measurement business

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.



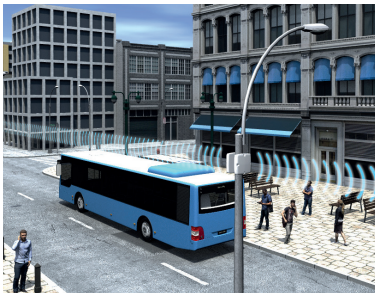
The strong pillars at HUBER+SUHNER reflect these developments. On the one hand, they enable solid sales and profits. On the other hand, they allow the company to invest in so-called growth initiatives that are suitable for becoming an important part of the business in the medium term.

## 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 <sup>1)</sup>	%
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	

<sup>1)</sup> 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 <sup>1)</sup>	%
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	

<sup>1)</sup> 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 <sup>1)</sup>	%
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	

<sup>1)</sup> 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

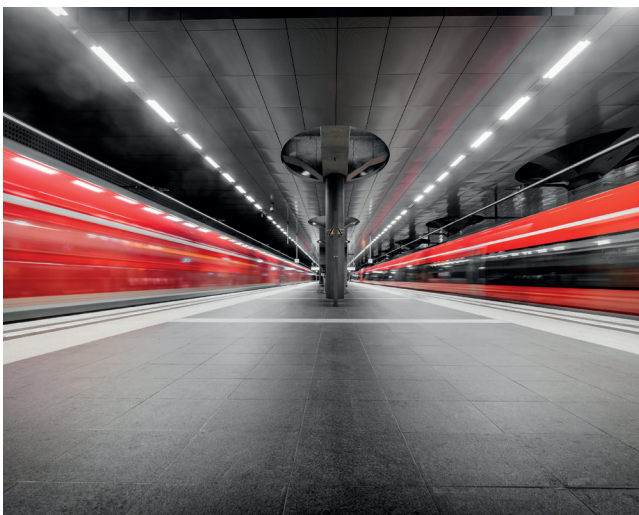
"Our 'Road to 5G' roadshow through 17 European countries showcased our solutions for the data transmission standard of the future to mobile network operators, communication equipment manufacturers and infrastructure providers. They know that we are well prepared, whatever form infrastructure development 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

<b>Group</b> 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%)
<b>Data per share</b> 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 <sup>1)</sup>	1.25	(12.0%)

<sup>1)</sup> 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.

## Company information

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## 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](http://www.hubersuhner.com)

This management report is also available in German. The German version is binding.