

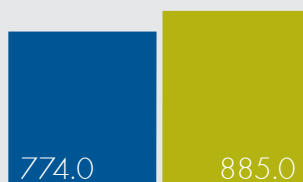
MANAGEMENT REPORT 2018

KEY FACTS AT A GLANCE

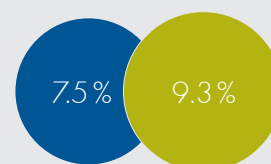
Order intake increases again by more than 10 %



Strong growth in net sales of 14.3 %, organic growth of 13.6 %



Significant increase in profitability – EBIT margin at 9.3 %



Geographically broad-based growth in net sales – all regions grow at double-digit rates

All three technology segments increase order intake and net sales significantly

Growth initiatives make a major contribution to dynamic development – successful design-ins for electric vehicles in the automotive segment

■ 2017 ■ 2018 in CHF million

HUBER+SUHNER reports strong organic growth – profitability increases significantly



Urs Kaufmann (Chairman) and Urs Ryffel (CEO)

As in the previous year, all three technology segments increased in both order intake and net sales in 2018. Order intake at Group level once again rose by a double-digit 10.8 % to CHF 915.2 million. Low Frequency (+16.0 %) benefited from above-average momentum in both the railway and automotive markets. Fiber Optics reported significantly more orders (+5.7 %), while Radio Frequency (+12.1 %) grew more than twice as strongly as in the previous year.

Net sales at Group level grew by 14.3 % to CHF 885.0 million. Adjusted for portfolio, currency and copper effects, organic growth amounted to a high 13.6 %. Low Frequency made a leap in net sales (+28.6 %). Radio Frequency (+10.5 %) and Fiber Optics (+6.9 %) also grew significantly. Developments were particularly pleasing in three of the four growth initiatives, aerospace and defense, data centers, and electric vehicles. The fourth growth initiative – small cells – has yet to gain momentum despite its high potential in view of the forthcoming development of 5G networks. Net sales shares by region remained virtually unchanged from the prior year at 44 % (PY 45 %) in EMEA, 37 % (PY 36 %) in APAC, and 19 % (PY 19 %) in the Americas. This underlines the broad geographic base for growth. The EBIT margin developed positively to 9.3 % (PY 7.5 %). In addition to the high level of growth, the disproportionately lower increase in costs and a favourable product mix laid the foundation for improved profitability. Year-on-year, research and development expenditure increased by 6.9 % to CHF 36.6 million. Net income increased to CHF 61.4 million (PY CHF 42.1 million), corresponding to a return on sales of 6.9 %. Free operating cash flow reached a high CHF 71.7 million (PY CHF 20.0 million). Among other factors, the sharp increase in cash flow can be attributed to a significant improvement in inventory turnover.

The strong growth in net sales necessitated an expansion of capacities within the global production network. As a result, the number of permanent employees worldwide increased by 256 to 4456 (4297 full-time equivalents – annual average). In Switzerland, the workforce increased by 24 to 1261, which primarily benefited the growth initiatives.

Double-digit growth in the transportation and industrial markets; communication market also clearly up

The communication market recovered in the 2018 financial year and recorded a plus in net sales of 6.7 % to CHF 401.0 million. By contrast, order intake was up 3.9 % on the previous year to CHF 406.4 million, thus not maintaining the high level of the first half of the year as expected. This was attributable to seasonal effects, particularly in the expansion of mobile communications infrastructure on the Indian subcontinent.

Order intake in the transportation market increased by 11.0 % to CHF 271.1 million, while net sales actually experienced a growth spurt with +24.6 % to CHF 269.3 million. In the railway market, the momentum regained in Asia in 2017 continued and the European markets also recorded high growth. In the automotive market segment, the company benefited from a positive market environment in general and from a high level of activity with new projects for high-voltage connectivity solutions in electric vehicles in particular.

In the industrial market, growth rates of 24.5 % to CHF 237.7 million in order intake and 17.8 % to CHF 214.7 million in net sales were even considerably higher than in the previous year. In addition to the important growth initiative in aerospace and defense, the wide variety of applications in other industrial high-tech niches also developed positively across the board.

Radio Frequency technology segment with double-digit growth and further increase in profitability

The Radio Frequency technology segment once again improved significantly on the previous year, both in order intake with growth of 12.1 % to CHF 269.1 million and net sales of 10.5 % to CHF 255.4 million. At 16.0 %, the EBIT margin increased by almost two and a half EBIT percentage points. In the aerospace and defense market segment, orders, e.g. for connectors in satellite construction, where rapid assembly processes, low weight and absolute zero error tolerance are important, contributed to growth.

Positive trend in Fiber Optics technology segment

The technology segment Fiber Optics was able to increase order intake by 5.7 % to CHF 347.9 million and net sales by 6.9 % to CHF 338.2 million compared to the previous year, achieving an EBIT margin of 5.9 % (PY 5.6 %). Once again, mobile communications infrastructure projects in India accounted for a high level of net sales. Business in the data center growth initiative increased significantly. The company is also well positioned with innovative products and solutions in view of the upcoming development of 5G networks.

Low Frequency technology segment makes significant strides forward

Thanks to good development over the entire reporting period, the Low Frequency technology segment is in an even better position than it was one year ago. This is based on a 16.0 % increase in order intake to CHF 298.2 million and a leap of 28.6 % in net sales to CHF 291.4 million. The EBIT margin also developed impressively, almost doubling to 9.8 %. Despite the high level of orders, supply

capability was maintained at a good level, and improved inventory management made a substantial contribution to the Group's increase in cash flow. At the Pfäffikon site, the course was set for the merger of the two cable production plants Dorf and Witzberg. This will also strengthen the technology segment in the medium term. The nomination as a supplier of high-voltage connection solutions for installation in a platform of the latest generation of Geely electric vehicles represents a milestone in the electric vehicle growth initiative.

Risk management

At its meeting on 5 December 2018, the Board of Directors assessed the business risks as part of its ongoing risk management and approved the 2018 risk report including the defined measures.

Dividend

The Board of Directors proposes to the Annual General Meeting a payout of CHF 2.50 per share. This comprises an ordinary dividend of CHF 1.50 and an anniversary dividend of CHF 1.00 per share to mark the 50th anniversary of HUBER+SUHNER in 2019. That corresponds to a payout ratio of 79 %.

Change to the Board of Directors

The Board of Directors of HUBER+SUHNER AG will propose to the Annual General Meeting on 10 April 2019 to elect Dr. Franz Studer as a new Board member. He holds a doctorate in law and is admitted to the bar. Mr. Studer is Investment Director and Member of the Executive Board of EGS Beteiligungen AG, a core shareholder of HUBER+SUHNER AG.

After his highly commendable work on the Board of Directors since 2013, Dr. Christoph Fässler will not stand for re-election at the forthcoming Annual General Meeting. The Board of Directors of HUBER+SUHNER would like to express its sincere thanks for his dedicated work on the Board, his valuable contributions and the excellent collaboration.

Outlook

Taken as a whole, 2018 was a strong financial year above average. In the second half of the year, however, order intake slowed somewhat. From today's perspective, we expect different developments in the two largest submarkets, railway and cell site. While activities in the railway market should remain stable at around the high level of 2018, we expect a somewhat lower volume in the cell site submarket for the time being, before this business is likely to pick up again from 2020 in the wake of the 5G roll-outs that will begin. On the other hand, further overall progress can be expected in the four growth initiatives.

For the current financial year, the Group expects net sales at the level of 2018. The EBIT margin is expected to be in the upper half of the medium-term EBIT target range of 8–10 %, provided that exchange rates remain comparable to 2018.

Our sincere thanks

We would like to thank all our employees throughout the entire world for their excellent work and high level of dedication over the past year. Thanks to their contribution, we have succeeded in mastering the many challenges and above-average growth together and in shaping the year as a whole with extraordinary success. On behalf of the Board of Directors and Executive Group Management, we would also like to express our sincere thanks to all shareholders, customers and suppliers for their good cooperation and the trust placed in HUBER+SUHNER.



Urs Kaufmann
Chairman of the Board of Directors



Urs Ryffel
CEO

Milestones 2018

Transportation

Growth initiative
EV Automotive



HUBER+SUHNER becomes a Tier 1 supplier to Geely, a leading Chinese electric vehicles manufacturer

Communication

Growth initiative
Small Cells



Market launch of active multiplexer and converter system solutions for optimal use of existing fiber optic infrastructures in densified 5G networks

Communication

Growth initiative
Data Centers



Delivery of the entire fiber optic cabling to a German network operator of two of Europe's most advanced data centers

Industrial

High-tech niche
Medical



Breakthrough with customized radio frequency products in microwave ablation applications

Innovations for demanding and attractive markets

The term “innovation” derives from the Latin for “renewal”. To be successful as a company, renewing oneself and continually redefining the boundaries is both a challenge and a driving ambition. For HUBER+SUHNER, innovation is key to standing apart from the competition and achieving success with demanding customers in attractive markets. In 2018, the company once again launched a range of new products with the potential to set new standards in the relevant markets.

Defense

No contradiction: Cables that are both flexible and robust

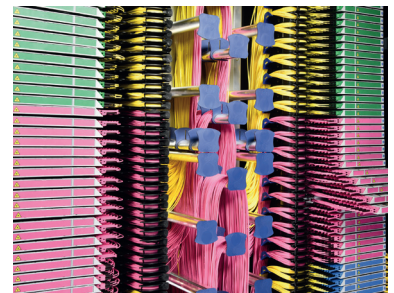


Radio frequency cables are placed under particular strain in military vehicles and ships. In addition to being flame retardant and flexible, they must also operate with minimal signal loss. The Spuma RS radio frequency cable with a TPU (thermoplastic polyurethane) sheath is the answer to these challenges. RS stands for the rotary swaging technology patented by HUBER+SUHNER. In this additional process step, thin, stranded copper wires are pressed together to form the round inner conductor. This process creates a highly flexible cable without compromising on its electrical properties.

Data centers

Creating order: LISA Double Access for convenient fiber management

The operators of colocation data centers need to maintain a clear distinction between incoming data connections and the connections to their tenants' servers. This requirement provided the impetus for the development of the new LISA Double Access fiber management system. As a further development of the LISA system already successfully in use for almost two decades, this solution offers a very high packing density and, since the cassettes and connections can be accessed from both the left and right side, is easy to operate.



Industrial applications

Making good even better: The latest generation saves space and is even more robust



Innovation also means improving on existing technology, as evidenced by the next generation of the RADOX® 125 cable family. By building on proven performance characteristics, it offers optimised outer dimensions for installation in restricted spaces and is particularly resistant to fire and high heat generation. Thanks to the improved cable sheath compound, the RADOX® 125 cable family meets the requirements of the EU Construction Products Regulation and is suitable for automated processing.

Fiber in the home

Keeping it shut: New connector for increased safety and reliability in the living room

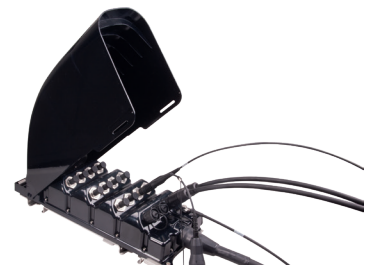


The LC is the world's most frequently used fiber optic connector in fiber-to-the-home networks. However, since it is susceptible to the ingress of dirt and the light beam can cause eye damage when the connector is removed, it is not without risk for the user. The newly developed COVERINO LC minimises these risks. Only when the connector is inserted does the protective cap open automatically. Once removed again, the cap closes so that end users also remain safe when handling the fiber optic technology.

Cell site

More power for 5G: New hybrid cable system supplies remote radio heads with 230 volts alternating current

The remote radio heads (RRH) used in the 5G mobile networks of the future have increased power requirements. Due to the electrical resistance of the cable, a conventional DC power supply results in losses that are too high. Initiatives are therefore underway to operate modern RRHs using 230 V AC. For this purpose, HUBER+SUHNER has developed the suitable MLUH HV hybrid cable system which transports the 230 V AC to the masthead with low loss.



Macro cells and Small cells

Multi-talented: Network densification using existing fibers

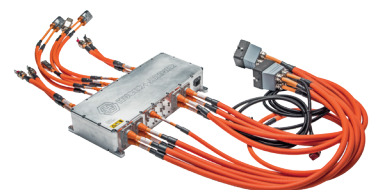


The CUBO Converter ensures that data and telecommunication networks remain fit for the future. In addition to converting signal wavelengths, it can simultaneously transmit a large number of different signals along one fiber optic cable thanks to optical wavelength division multiplexing. This enables the capacity of existing networks to be increased significantly without the need for additional cabling. The CUBO Converter therefore has an important role to play in the rapid roll-out of the 5G mobile infrastructure. Its modular construction can be adapted to the needs of a wide range of mobile communication providers and network operators.

Electric vehicles

One size fits all: Modular high-voltage distribution system fulfils a wide range of requirements

At the heart of every electric vehicle lies its high-voltage distribution system. Whether small cars, special vehicles or trucks, these vehicles require high-voltage distribution boxes in a range of different sizes. The new high-voltage distribution unit (HVDU) from HUBER+SUHNER meets every customer requirement in a simple, flexible and economical package.



Microwave energy applications



Unimaginable precision: A connector helps revolutionise cooking

At a recent trade exhibition for microwave technology, HUBER+SUHNER presented a prototype microwave oven that utilises semiconductors to achieve previously unheard-of cooking precision, thanks to the ability to control the microwave source. Its inner workings include the newly developed RFEX connector. Together with the likewise newly developed polymer-strengthened waveguides, the RFEX enables compact integration of the electronics in the housing and is set to generate a great deal of interest in the market.

Radio Frequency technology segment

Order intake and net sales experience significant double-digit growth – further increase in profitability

Once again, the Radio Frequency technology segment proved to be a strong pillar of the company. All submarkets developed positively. Maximum performance, optimal signal integrity, extremely low weight and space-saving design are key attributes shared by many radio frequency solutions from HUBER+SUHNER, thanks to which significant customer projects were won in demanding markets.

Key figures		2018	2017	%
Order intake	CHF million	269.1	239.9	+12.1
Net sales	CHF million	255.4	231.2	+10.5
Operating profit (EBIT)	CHF million	40.8	31.5	+29.4
EBIT margin	%	16.0	13.6	

Fiber Optics technology segment

Slight improvement compared to previous year – EBIT not yet fully recovered – technology offers unchanged opportunities in various markets

The individual market segments within the communication market developed at different rates. Whereas data centers and cell sites experienced strong growth, business with communication equipment manufacturers and WAN declined slightly. The market launch of active multiplexer and converter system solutions for the optimal use of existing fiber optic infrastructures provides interesting solutions for the densified 5G networks of the future.

Key figures		2018	2017	%
Order intake	CHF million	347.9	329.2	+5.7
Net sales	CHF million	338.2	316.2	+6.9
Operating profit (EBIT)	CHF million	20.0	17.7	+12.9
EBIT margin	%	5.9	5.6	

Low Frequency technology segment

Portfolio adjustment and high workload generate high single-figure EBIT margin – reference projects with high-power charging cables

Thanks to the previous year's turnaround, HUBER+SUHNER was perfectly placed to seize the opportunities that arose in 2018. Both Asia and Europe experienced dynamic development in the railway and automotive submarkets. The RADOX® HPC high-power charging system also enabled the company to establish itself successfully in the American market as a system supplier for the expansion of the charging station infrastructure.

Key figures		2018	2017	%
Order intake	CHF million	298.2	257.2	+16.0
Net sales	CHF million	291.4	226.6	+28.6
Operating profit (EBIT)	CHF million	28.7	11.6	+147.7
EBIT margin	%	9.8	5.1	



Reto Bolt

COO Radio Frequency

"The past year was characterised by advances in a wide range of areas. We defended our position in the volume markets while further expanding our share in industrial markets. As a result of the latter, profitability increased once again."



Fritz Landolt

COO Fiber Optics Mobile Communication & Industry

"The targeted expansion of our globally proven product portfolio enabled us to build on our leading position for 4G roll-outs. By working as a technology partner, we support mobile network operators in their planning for future 5G networks and provide optimum solutions."



Martin Strasser

COO Fiber Optics Fixed Network & Data Centers

"We acquired customers around the world with our Polatis optical switches. These innovative, high-tech products are playing an ever greater role in modern communication networks and data centers."



Patrick Riederer

COO Low Frequency

"We asserted our market position in the railway market and successfully seized the growth opportunities in Asia and Europe. We also achieved a breakthrough in the EV Automotive growth initiative thanks to high-voltage components and solutions."

Key Figures and Financial Calendar

Group in CHF million	2018	2017	Change
Order intake	915.2	826.3	10.8%
Order backlog as of 31.12.	246.9	230.5	7.1%
Net sales	885.0	774.0	14.3%
Gross margin	34.6%	34.5%	
EBITDA	116.4	90.5	28.6%
as % of net sales	13.2%	11.7%	
EBIT	82.5	58.1	41.9%
as % of net sales	9.3%	7.5%	
Financial result	(2.8)	(0.7)	n/m
Net income	61.4	42.1	45.6%
as % of net sales	6.9%	5.4%	
Purchases of PP&E and intangible assets	27.0	37.8	(28.5%)
Cash flow from operating activities	99.6	52.9	88.0%
Free operating cash flow	71.7	20.0	259.2%
Net liquidity as of 31.12.	198.8	152.6	30.3%
Equity as of 31.12.	620.8	593.5	4.6%
as % of balance sheet total	80.7%	78.9%	
Employees as of 31.12.	4 456	4 200	6.1%
Market capitalisation as of 31.12.	1 274.2	989.5	28.8%
Data per share in CHF	2018	2017	Change
Stock market price as of 31.12.	65.50	50.85	28.8%
Net income	3.15	2.17	45.6%
Dividend	2.50 ¹⁾	1.10	127.3%

¹⁾ Proposed dividend (of which CHF 1.50 ordinary dividend and CHF 1.00 anniversary dividend)

n/m = not meaningful

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Financial calendar

Annual General Meeting (Winterthur)	10 April 2019
Half-year report	20 August 2019
Media and analysts' conference	20 August 2019
Sales and order intake (9 months)	24 October 2019

Detailed figures are available online at www.hubersuhner.com

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