

**ANNUAL REPORT**  
2018





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# HIGHLIGHTS

**1'362 mn**

Revenue in CHF

**12.5%**

EBIT margin

**121 mn**

Net result in CHF

## KEY FIGURES DATWYLER GROUP

<u>in CHF millions</u>	<b>2018</b>	2017
<b>Net revenue</b>	1'361.6	1'291.4
Year-on-year change (%)	5.4%	6.2%
<b>Operating result before depreciation and amortisation (EBITDA)</b>	231.5	219.8
EBITDA as % of net revenue	17.0%	17.0%
<b>Operating result (EBIT)</b>	170.0	162.6
Operating result as % of net revenue	12.5%	12.6%
<b>Net result</b>	121.0	123.7
Net result as % of net revenue	8.9%	9.6%
<b>ROCE in %</b>	22.8%	23.2%
Average capital employed	744.6	700.0
<b>Net cash from operating activities</b>	162.9	112.7
<b>Net cash used in investing activities</b>	-334.9	-110.0
<b>Free cash flow</b>	-172.0	2.7
<b>Net cash provided by / (used in) financing activities</b>	64.0	-41.2
<b>Net change in cash and cash equivalents</b>	-108.0	-38.5
<b>Cash and cash equivalents</b>	170.8	281.8
<b>Capital expenditures</b>	138.0	117.9
<b>Total assets</b>	1'314.8	1'299.6
<b>Equity</b>	827.4	898.5
Equity as % of total assets	62.9%	69.1%
<b>Number of employees</b>	8'305	7'614
<b>Full-time equivalents</b>	8'118	7'469

**PER SHARE DATA**

<u>in CHF</u>	<b>2018</b>	2017
Earnings per bearer share	7.12	7.28
Dividend per bearer share	3.00 <sup>1</sup>	3.00
Distribution yield at 31 December	2.4%	1.6%
Market price (high/low) per bearer share	212/123	190/139

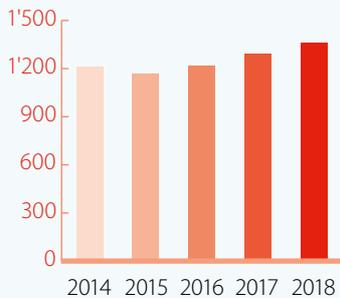
<sup>1</sup> Board of Directors' proposal to the Annual General Meeting



**138 mn**  
Capital expenditures in CHF

**NET REVENUE**

in CHF millions



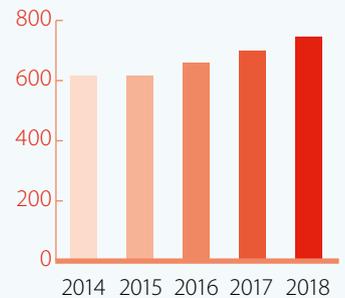
**OPERATING RESULT (EBIT)**

in CHF millions



**CAPITAL EMPLOYED**

average in CHF millions



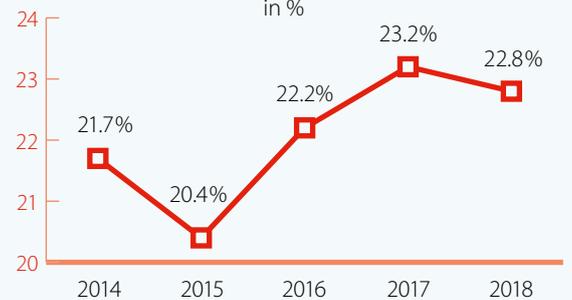
**EBIT MARGIN**

in %

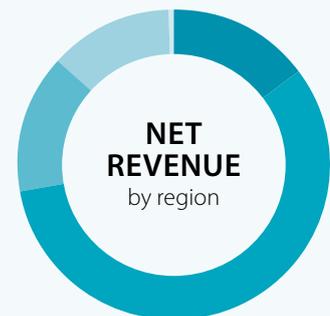


**ROCE**

in %



**8'300**  
Employees



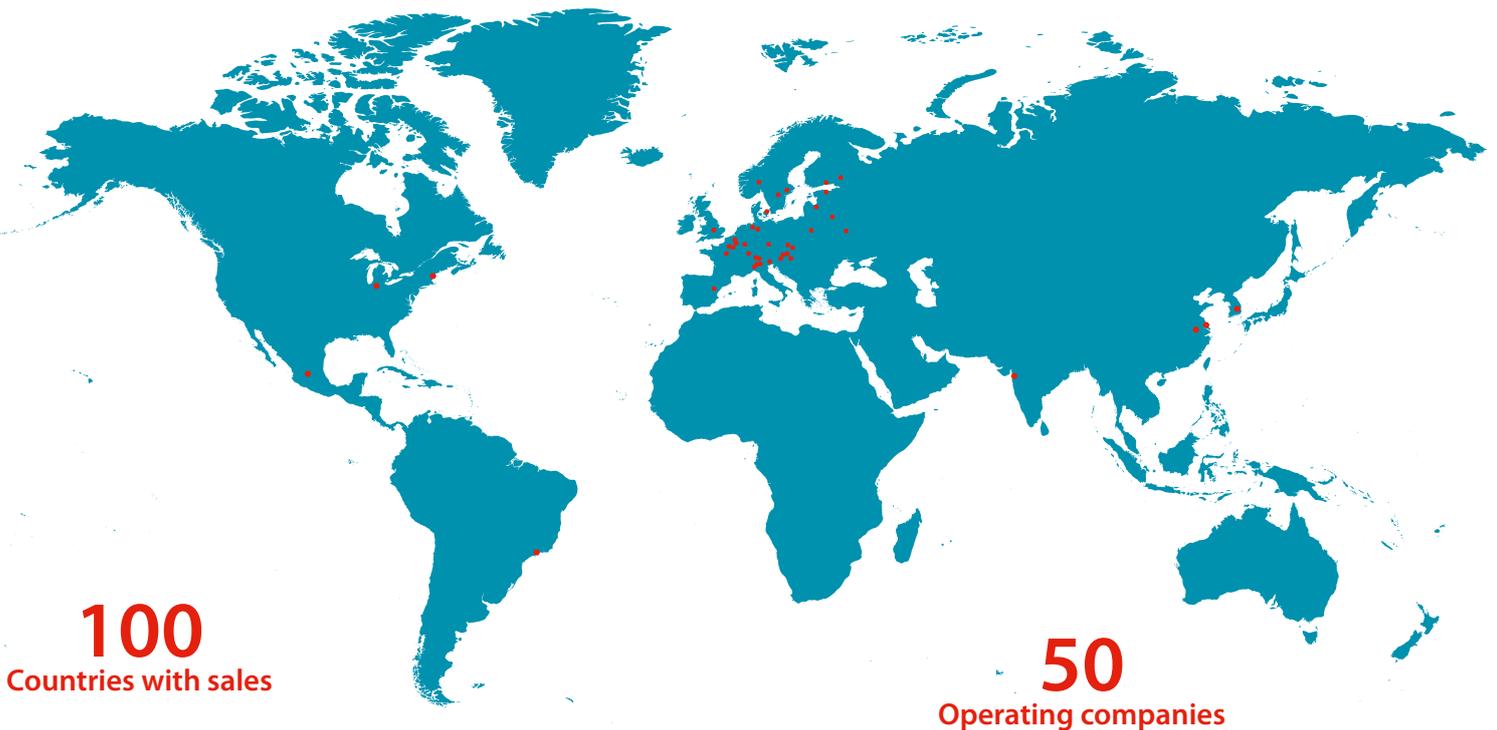
● Switzerland ● Rest of Europe ● North and South America ● Asia ● Other markets

# DATWYLER GROUP – FOCUSED INDUSTRIAL SUPPLIER

The Datwyler Group is a focused industrial supplier with leading positions in global and regional markets. With its technological leadership and customer-specific solutions, the Group delivers added value to customers in the markets served. Datwyler concentrates on markets that offer opportunities to create more value and sustain profitable growth. With some 50 operating companies, sales in over 100 countries and more than 8'000 employees, the Datwyler Group generates annual revenue of more than CHF 1'300 million.

**2**  
Divisions

**650'000**  
Customers



**100**  
Countries with sales

**50**  
Operating companies

## Worldwide presence

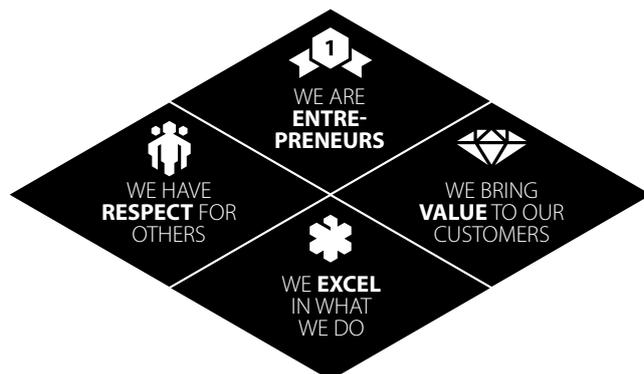
The Datwyler Sealing Solutions division has a presence – with its own production facilities – in the three key business regions of Europe, Asia and the NAFTA area. The Technical Components division is focused on Europe and uses its local presence to stand out from the rest.



**Sealing Solutions division**

**Technical Components division**

Development and production of system-critical and customer-specific sealing components	<b>BUSINESS MODEL</b>	High-service distribution for time-critical electronic components
Health Care, Automotive, General Industries	<b>MARKETS</b>	Maintenance, Repair, Operations (MRO), Automation, Electronic Design Engineers (EDE), Wholesale consumer electronics
Datwyler sealing components are used worldwide in every second car, in billions of syringes and medicine bottles, and in over 650 tunnels. They help keep drivers, patients and railway passengers safe, wherever in the world they may be.	<b>APPLICATIONS</b>	The electronic components of the Datwyler distribution companies make digitalisation possible. Examples include the industrial internet of things (Industry 4.0), industrial robots and home automation (smart home, security).
Leading expertise in materials, engineering and manufacturing processes	<b>CORE COMPETENCIES</b>	Up-to-date and comprehensive range of more than 250'000 electronic components, product management, competent technical advice, high availability and fast delivery
Worldwide presence with its own manufacturing plants in Europe, Asia and the NAFTA area	<b>GEOGRAPHY</b>	Europe, using its local presence to stand out
Datwyler, Parco, Bins	<b>BRANDS</b>	Distrelec, Reichelt, Nedis
891 million Swiss francs in annual revenue, 800 customers, 6'900 employees, 20 locations	<b>KEY FIGURES</b>	471 million Swiss francs in annual revenue, 650'000 customers, 1'100 employees, 30 locations



**Future-proof – for more than 100 years**

Healthy and sustainable growth for the benefit of our employees, customers and shareholders – this has distinguished Datwyler for more than 100 years. Our success story began with a small cable and rubber factory in Central Switzerland, which Adolf Dätwyler took over in 1915. With a visionary drive, he managed to expand his company and keep it aligned with the ever-changing market. Adolf Dätwyler took carefully considered, far-sighted management decisions. He placed great value on responsible business conduct. The values of our founder are the basis of our success to this day.

# STRATEGIC PRIORITIES

Current examples



## Opening of the Health Care plant in the USA

The new plant for high-quality components for the health care industry is now open in the USA.



## Accessing new markets

New markets are being accessed through the acquisition of the US company Parco. There is an increased focus on the Custom Production of Electromechanical Goods (CPE) at Distrelec.



## Promotion of new technologies and skills

Injection moulding technology and the "Lean and Clean" production concept are opening up new opportunities in terms of electromobility.



## Expansion into new geographical markets

The acquisition of Bins improves access to the South American automotive industry. International expansion of Reichelt with local webshops.



## Innovative new products and applications

The existing materials expertise is being used for innovative new products within Health Care and Automotive.



## Expansion of Health Care capacity in India

The upgrade of part of the production capacity in India to meet the First Line standard is now complete.



## Culture change

Targeted training is helping promote a "coaching" style of management so employees can give free rein to all their talents, skills and creativity.

DRIVE  
PROFITABLE  
GROWTH

INCREASE  
AGILITY



### **Modernisation and expansion of the ERP software package**

A strong platform for future digital applications is being created by investing around CHF 50 million in state-of-the-art ERP applications.



### **Robotic process automation (RPA)**

Improvements in product quality and competitiveness are being achieved by exploiting the technological potential of automation.

## ACCELERATE DIGITALISATION



### **Use of big data**

Predictive customer analysis and predictive maintenance through Big Data analysis using the latest digital technologies.



### **Automated guided vehicles (AGV)**

Automated material flow through the use of self-driving forklifts in internal logistics.



### **Digitalisation of all human resource processes**

With the introduction of the SAP solution SuccessFactors, employees are benefiting from a forward-looking digital working environment.



### **Vision of a self-learning organisation**

Self-motivated employees can help the company anticipate change both early and quickly.



### **Empowerment of employees**

Encouraging staff to develop an entrepreneurial outlook should make it easy for our customers to do business with Datwyler.



### **Employee survey underlines high levels of commitment and motivation**

The employee survey has returned the highest-ever levels of satisfaction with Datwyler as an employer.

# LETTER TO THE SHAREHOLDERS

## Course set for future profitable growth

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

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

### Further improvement in operating result

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

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

### Stepping up activity in the growing health care market

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

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

### **Geographical expansion and new technologies in the automotive market**

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

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

### **Accessing new industries within the general industries market**

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

### **Successful refining of customer segmentation in the distribution business**

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

### **Digitalisation and agility are key**

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

### Well positioned to tackle future challenges

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

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

On behalf of the Board of Directors



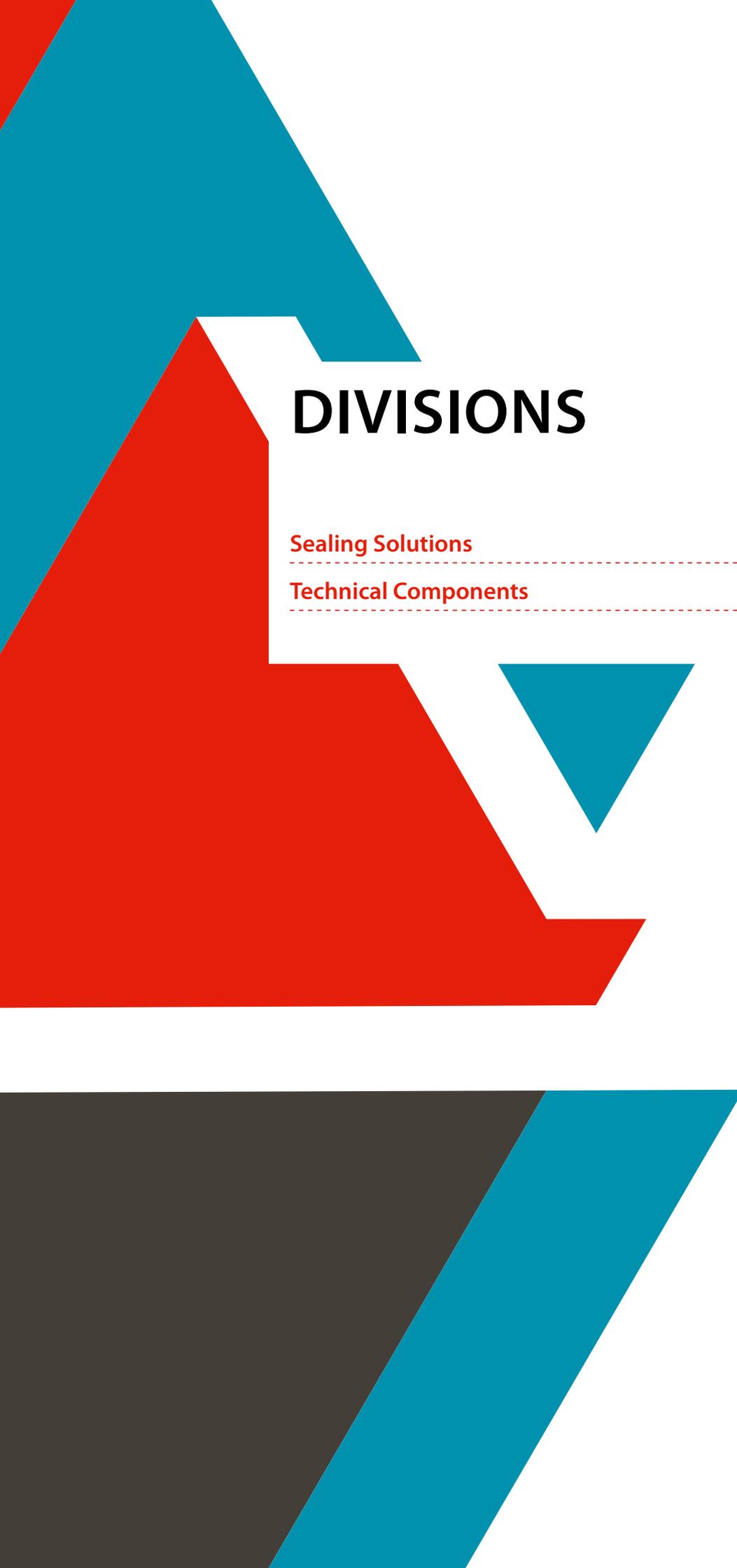
Dr. Paul J. Hälg, Chairman

On behalf of the Executive Management



Dirk Lambrecht, CEO





# DIVISIONS

Sealing Solutions

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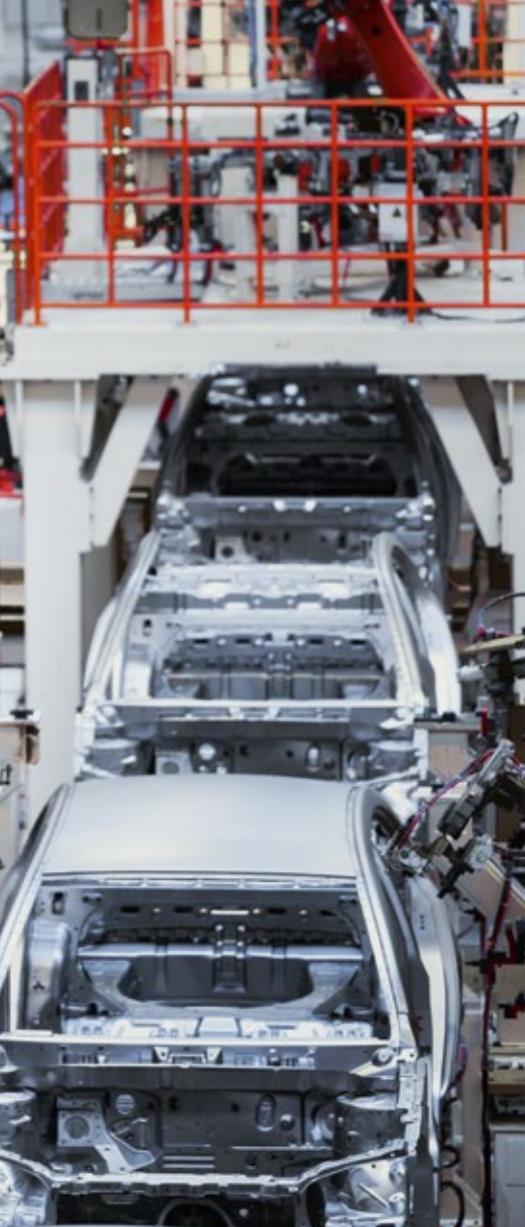
Technical Components

18



## SEALING SOLUTIONS

The Datwyler Sealing Solutions division is a leading supplier of customer-specific sealing, closure and packaging solutions to global markets, such as the Health Care, Automotive and General Industries. This is thanks to its leading material, engineering and process expertise and worldwide presence with its own production locations. As an acknowledged development partner, Datwyler maintains close working relationships with global customers, and has in-depth knowledge of the business models and technologies used in the markets in which it operates.



### Target groups

- Manufacturers and contract fillers of injectable drugs
- Manufacturers of diagnostic and medical products
- Manufacturers of parenteral drug delivery systems
- Automotive system suppliers
- Oil and gas service companies
- Aerospace
- Manufacturer of water filtration systems
- Tunnel and construction industry
- Manufacturer of portioned food products

### Geographical markets

- Europe
- North and South America
- Asia
- Australia

### Products and services

#### Health Care

- High-quality rubber components for prefilled syringes, pens and injection systems

- Rubber, aluminium and plastic components and closures for injectable drugs
- Rubber components for blood collection systems, IV administration sets, disposable syringes, etc.
- Rubber components for diagnostics and medical devices

#### Automotive

High-quality sealing components for

- Brake systems
- Fuel and engine management
- Exhaust gas aftertreatment (Selective Catalytic Reduction)
- Comfort and safety equipment
- Electromobility

#### General Industries

- Sealing components and O-rings for various applications and industries such as oil and gas
- Sealing components for power tools
- Sealing profiles for tunnel construction, civil engineering and building construction
- Sealing solutions for portioned food



With the new First Line production capacity, Datwyler is ideally positioned to benefit from the strong growth of Health Care components.

## Health Care enjoying strong demand – strategic acquisitions to promote growth

### Revenue and earnings

- The Sealing Solutions division continued to enjoy profitable growth in 2018. Thanks to leading market positions, net revenue increased on the strong previous year by 7.0% to CHF 891.1 million (previous year: CHF 832.8 million).
- Adjusted for positive currency and acquisition effects, the resulting organic growth was 3.0%.
- Datwyler recorded strong demand in the health care market, particularly for high-quality First Line components. The company continued to do well in the automotive market, despite a more challenging environment. While growth slowed in China and the USA, demand for innovative components used in the treatment of exhaust gases from diesel vehicles (SCR technology) was up in Europe. Revenue in the general industry market was suppressed in the reporting year by inventory effects and project delays, although the newly acquired business Parco performed very well.
- In total, the operating result (EBIT) increased to CHF 155.5 million (previous year: CHF 151.6 million) for the sixth time in a row.
- The EBIT margin stood at 17.5% (previous year: 18.2%). Efficiency enhancements could not fully compensate for the considerable start-up costs for the new Health Care capacity in the USA and India, the one-off costs for further growth-related projects and higher raw material prices. It should be possible, however, to absorb higher raw material prices in the first quarter of 2019.

### Important developments in 2018

- Significant customer interest was generated with the opening – as scheduled – of the new Health Care plant in the USA, which features the state-of-the-art First Line standard.
- The acquisition of the US company Parco supports further differentiation within growth areas of the general industry market (revenue of CHF 60 million).
- The takeover of the Brazilian company Bins provides access to the South American automotive industry (revenue of CHF 20 million).

### Current priorities

- Thanks to the new First Line production capacity for Health Care components, Datwyler is better positioned than most to profit from the strong growth of prefilled syringes and modern drug delivery systems. The health care market benefits from structural growth drivers, attractive margins and high barriers to entry and is largely impervious to economic cycles.
- Datwyler is keen to exploit the strong market positions enjoyed by its acquisition Parco with a view to accessing new industries such as oil and gas. The aim is to accelerate profitable growth with the help of targeted cross-selling.
- Datwyler will be able to offer its full range to automotive suppliers and industrial customers in South America via the distribution network of its acquisition Bins.
- Given the shift towards electric vehicles, Datwyler is actively identifying new business opportunities. Target areas include sealing components for electro-hydraulic brakes, sensors, connectors and housings involving two components technology and electroactive polymers.

### Outlook

- Thanks to the new production capacity, Datwyler expects to continue enjoying strong, above-average growth in the health care market. The start-up costs for the new US plant will be considerable during 2019 too.
- A lot of attention will be devoted to integrating the recent acquisitions Bins and Parco.
- Conditions within the automotive market remain challenging. Any forecasts are likely to be unreliable, given the political discussions regarding trade barriers and the sheer difficulty of predicting technological developments. However, Datwyler has created a platform that should enable it to respond accordingly to future developments.

## KEY FIGURES OF SEALING SOLUTIONS

in CHF millions	2018	2017
Net revenue	891.1	832.8
Operating result (EBIT)	155.5	151.6
Operating result as % of net revenue	17.5%	18.2%
ROCE in %	29.8%	31.2%
Average capital employed	522.2	485.4
Capital expenditures	130.2	109.4
Number of full-time equivalents (at year-end)	6'929	6'321

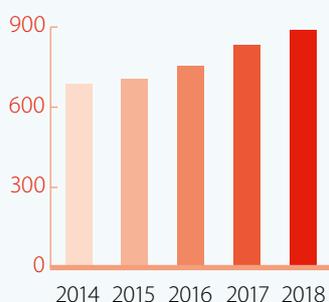


**891 mn**

Net revenue in CHF

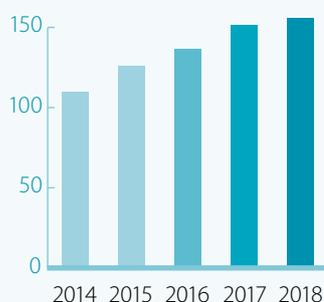
### NET REVENUE

in CHF millions



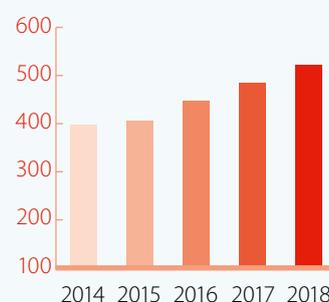
### OPERATING RESULT (EBIT)

in CHF millions



### CAPITAL EMPLOYED

average in CHF millions



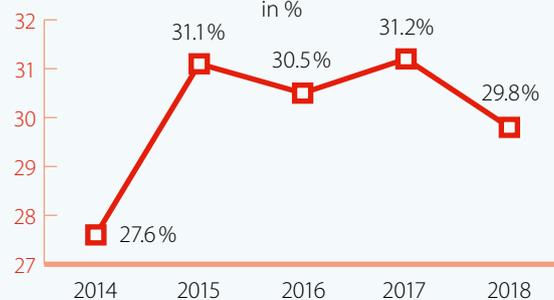
### EBIT MARGIN

in %



### ROCE

in %

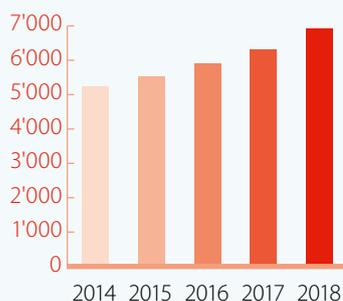


**17 bn**

Components for the health care industry

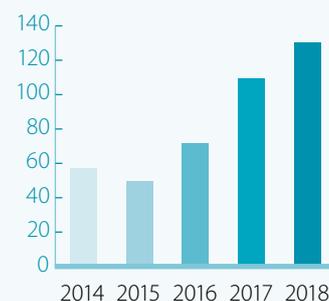
### FULL-TIME EQUIVALENTS

at year-end



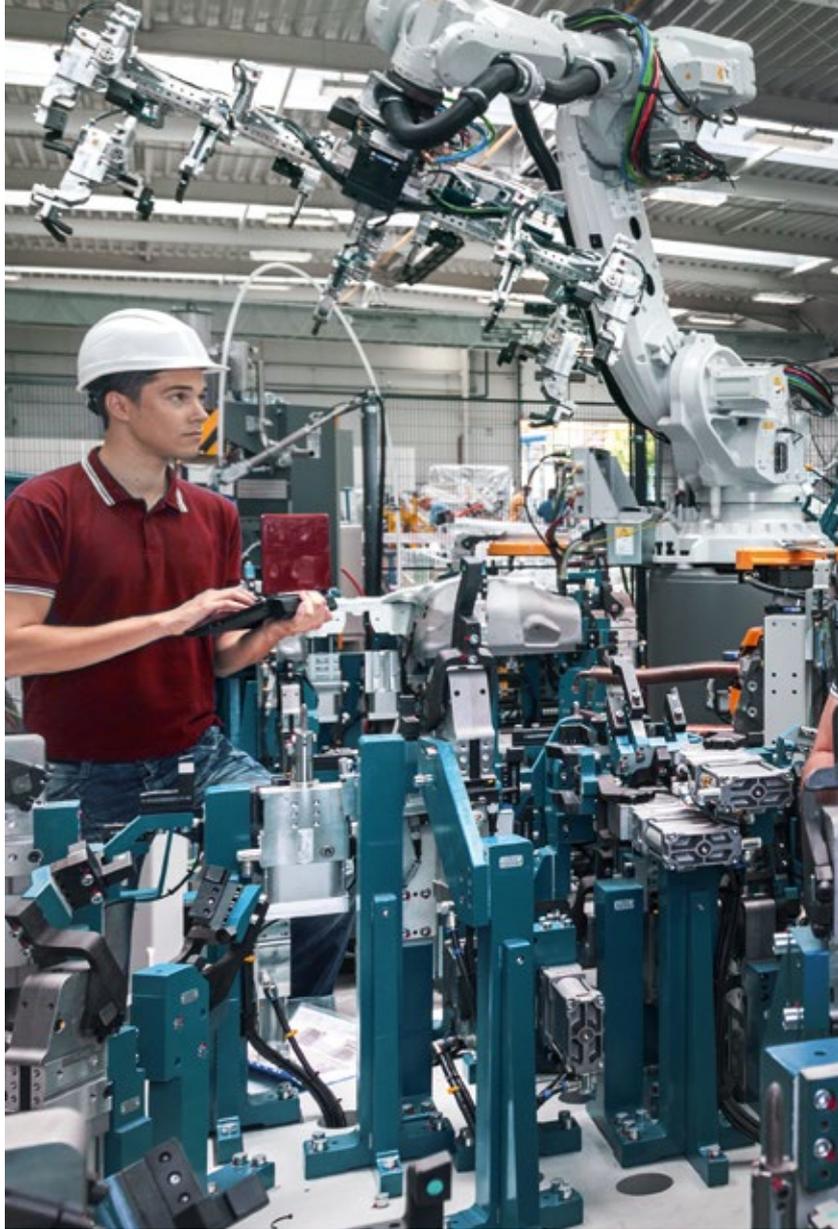
### CAPITAL EXPENDITURES

in CHF millions



**6'930**

Full-time equivalents



## TECHNICAL COMPONENTS

The Datwyler Technical Components division is one of Europe's leading high-service distributors with local representation, a modern omni-channel offering and an attractive product range. It comprises three specialised brands – Distrelec, Reichelt and Nedis. Altogether, the Technical Components division offers an extended range of up to 500'000 products for Custom Production of Electromechanic Goods, maintenance, automation, electronics, ICT and home/consumer electronics, with excellent availability and fast delivery times.



### Target groups

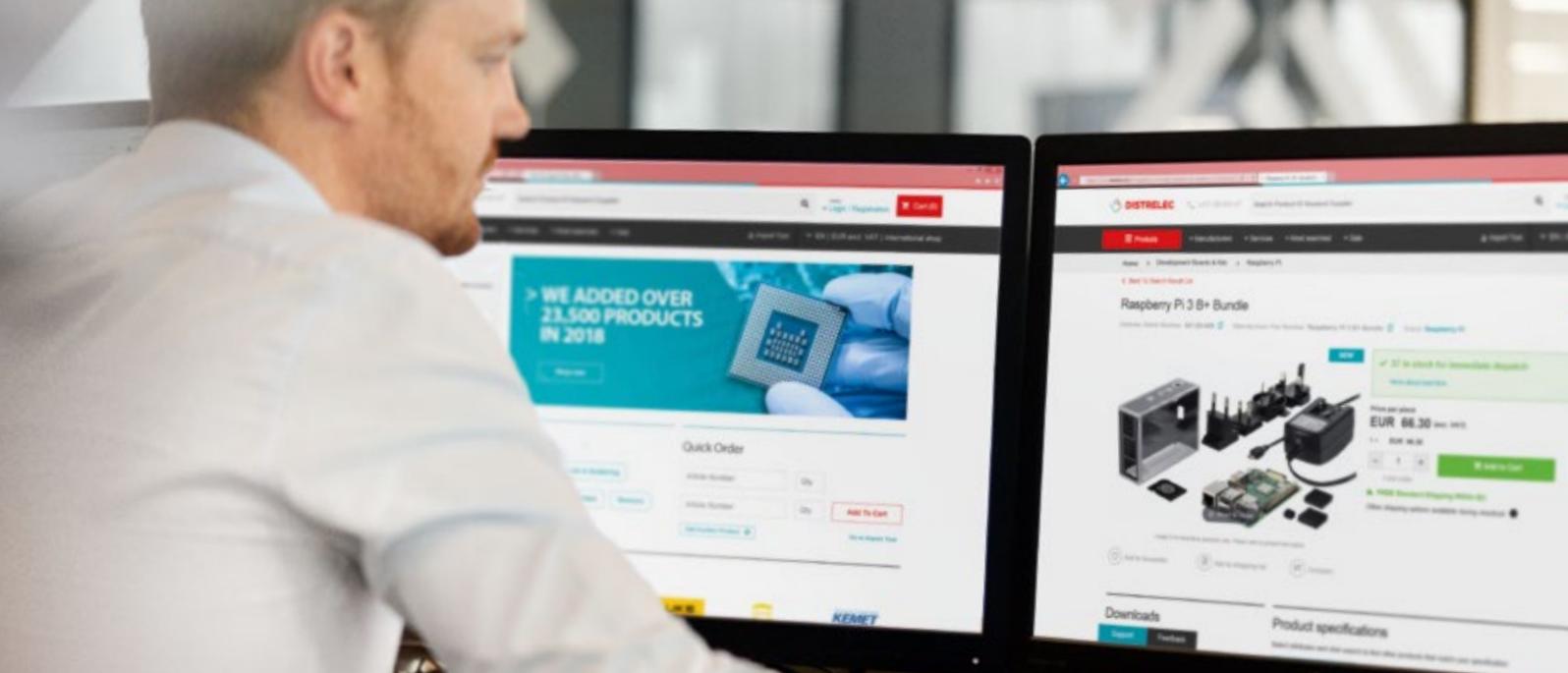
- Custom Production of Electromechanic Goods (CPE)
- Maintenance, Repair, Operations (MRO)
- Automation
- Electronic Design Engineers (EDE)
- Online and retail distributors of home and consumer electronics

### Geographical markets

- Europe

### Products and services

- Maintenance and safety
- Electronic components and accessories
- Automation
- Connectors
- Electrical engineering
- T&M equipment
- Network technologies
- ICT components and accessories
- Building technology and building automation
- Alarm and security technology



Distrelec has further improved the performance of its web shop and now has one of the fastest and most customer-friendly solutions in the industry.

## Targeted measures to drive organic growth

### Revenue and earnings

- The Technical Components division increased its revenue by 2.6% to CHF 470.5 million (previous year: CHF 458.6 million). Adjusted for positive currency effects, this means that revenue remained the same in organic terms. Per trading day revenue increased by 0.6%.
- While Reichelt made a disproportionately large contribution to revenue growth – on the back of international expansion and a sharper focus on business-to-business customers – Nedis further streamlined its range for the wholesale supply of home/consumer electronics with a view to improving margins, accepting that this would curb revenue.
- Thanks to consistent cost control, operating result (EBIT) improved to CHF 14.5 million (previous year: CHF 11.0 million). This was achieved in spite of the one-off costs for implementing the one-brand strategy pursued by Nedis.
- A keener focus on more attractive customer segments helped improve the EBIT margin to 3.1% (previous year: 2.4%).

### Important developments in 2018

- Distrelec improved collaboration in terms of procurement, product, category and marketing management at its Manchester site. The central enterprise hub is continuously improving operating performance, and this is reflected in improvements in key performance indicators relating to service, customer satisfaction and the online shop.
- Reichelt continued to drive international expansion during the reporting year with online shops in local languages. It managed to do this without neglecting the domestic market, as evidenced when the German trade magazine *Elektronik* awarded the company the title of “Electronics Distributor of the Year”.
- Nedis successfully launched its new one-brand strategy at the IFA trade fair in Berlin. At the same time, the company improved product quality, fine-tuned product management and made sales more efficient.

### Current priorities

- Datwyler is using state-of-the-art digital technologies to help with predictive analysis in relation to online distribution. This enables Distrelec and Reichelt to address their target customers with increasingly personalised offers. Drawing on its market analysis, Distrelec is now focusing on so-called Custom Production of Electromechanical Goods (CPE). This relates to an attractive segment of small and medium-sized enterprises. Essentially, these are businesses which produce relatively small runs of high-tech products, tend to place orders of above-average value and are not catered for by mass-market providers. The product categories favoured by CPE customers have seen revenue grow over the past three years.
- In 2019, Reichelt is planning to launch three new online shops in the relevant local languages in Italy, Belgium and Spain. As well as pursuing international expansion, the company is sharpening its focus on the high-margin business-to-business market with new products and marketing activities.
- Nedis is using the new one-brand strategy and working towards accessing new customer groups such as big online dealers or the promotional products sector.
- Shared procurement initiatives are being stepped up. In particular, the growing range of own-brand RND and Nedis products is being marketed by all three distribution companies.

### Outlook

- The emphasis is on continuously improving the shopping experience, focusing on business-to-business customers, expanding the range and driving organic growth. The various measures introduced will provide a platform for this.
- Making better use of distribution centres and ensuring consistent cost control will have a positive impact on both margins and profitability.

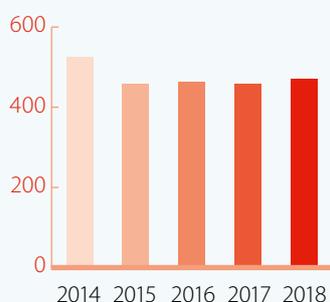
## KEY FIGURES OF TECHNICAL COMPONENTS

in CHF millions	2018	2017
Net revenue	470.5	458.6
Operating result (EBIT)	14.5	11.0
Operating result as % of net revenue	3.1%	2.4%
ROCE in %	6.7%	5.2%
Average capital employed	217.4	210.7
Capital expenditures	3.4	7.1
Number of full-time equivalents (at year-end)	1'113	1'112

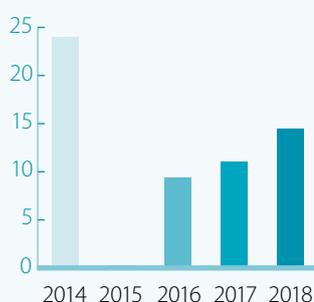


**471 mn**  
Net revenue in CHF

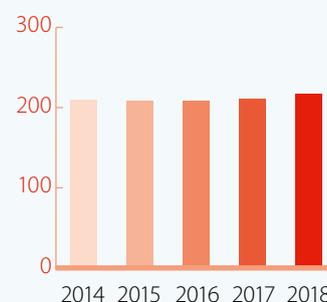
### NET REVENUE in CHF millions



### OPERATING RESULT (EBIT) in CHF millions



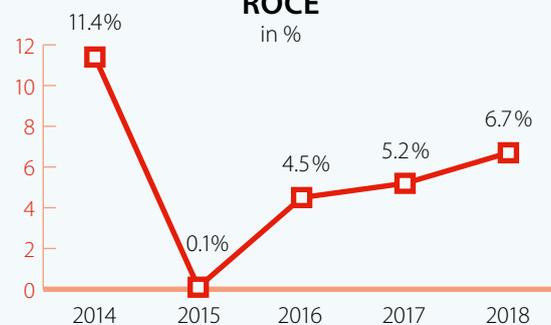
### CAPITAL EMPLOYED average in CHF millions



### EBIT MARGIN in %

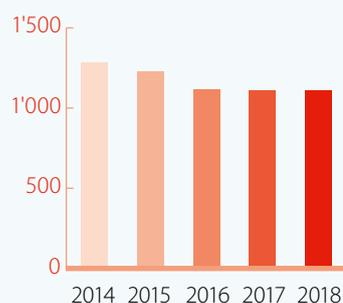


### ROCE in %

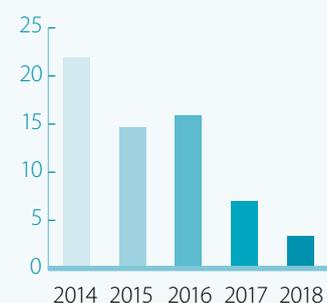


**250'000**  
Products in stock

### FULL-TIME EQUIVALENTS at year-end

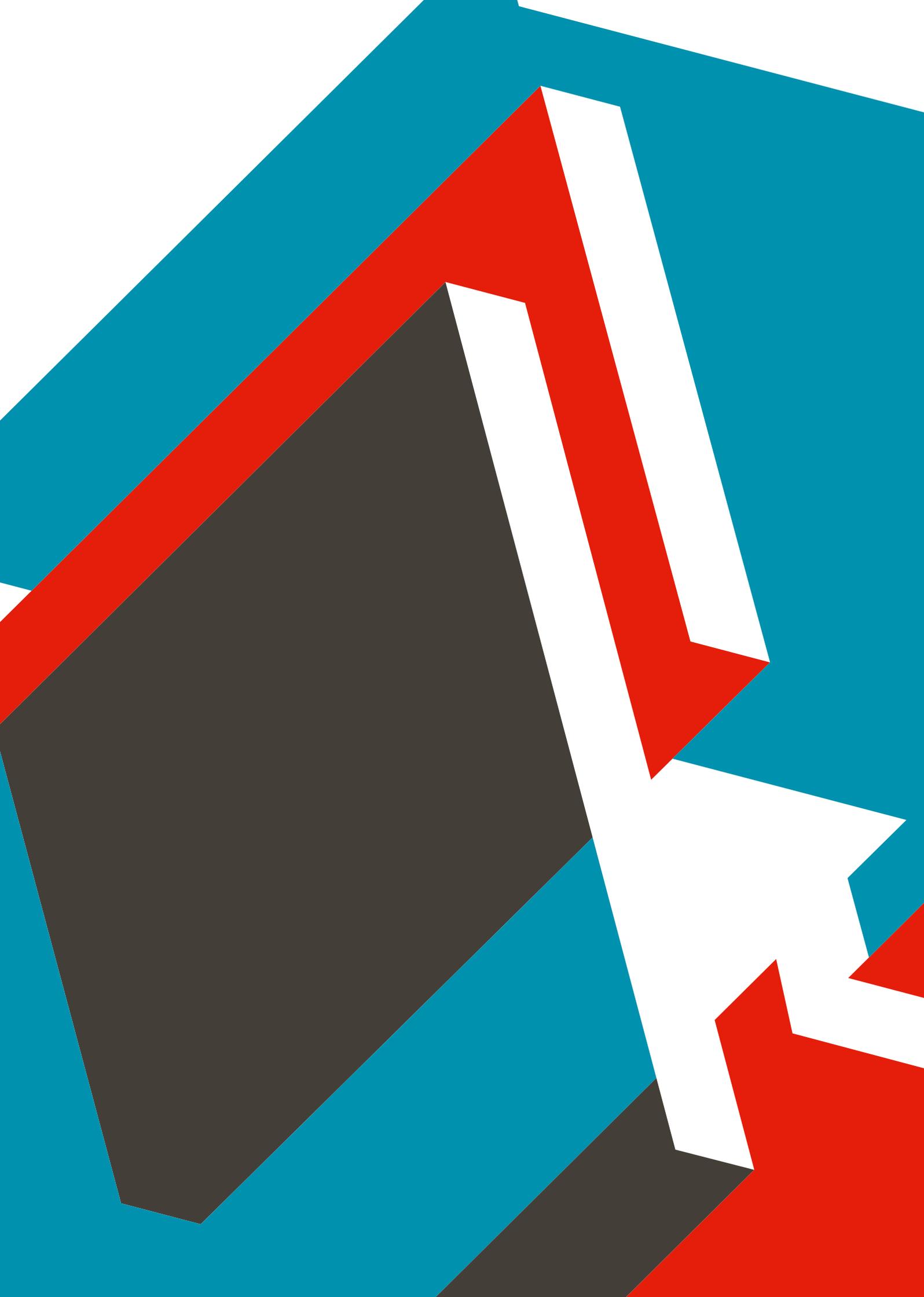


### CAPITAL EXPENDITURES in CHF millions



**1'100**  
Full-time equivalents

2014 continuing operations (without Maagtechnic)



# SUSTAINABILITY

Long-term values

24

Sustainability as part of the company strategy

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# SUSTAINABILITY

## Long-term values

More than 100 years of innovation for the benefit of our customers, employees, shareholders and the community – that is the hallmark of the Datwyler Group. Over this period, Datwyler has evolved from a family-owned Swiss company into an international group. Building on our strong roots, we have developed our own style with high standards and unique values:

- We are entrepreneurs.
- We bring value to our customers.
- We excel in what we do.
- We have respect for others.

We strive to deliver sustainable profitable growth for the benefit of our stakeholders as the foundation for adding long-term value and preserving the corporate independence of the Datwyler Group. In our efforts, we are addressing the challenges of our times. As early as 2008, we voluntarily adopted the standards of the Global Reporting Initiative (GRI) for the sustainability section of our Annual Report,

and in 2009 we joined the UN Global Compact. This is an initiative launched by the United Nations stating ten principles in the areas of human rights, labour, the environment and in combating corruption. As a UN Global Compact participant, Datwyler commits to follow the ten principles and to accept its responsibility within society. This endeavour is based on Datwyler's values and the Code of Conduct that lay down globally binding rules for all Datwyler Group employees.

As far as our suppliers are concerned, we have set out our requirements in a dedicated code of conduct based on the UN Global Compact since the beginning of 2014. Regular surveys of customers, suppliers and employees provide the basis for our process of continuous improvement. Since 2013, the Datwyler Group has also reported its greenhouse gas emissions to the Carbon Disclosure Project (CDP). In this way, we live up to our social responsibility every day as a reliable partner to our stakeholders.

## Selected objectives and visions related to the relevant topics of sustainability

### Economic performance

Above-average long-term profitable growth in the markets we serve; revenue target 2019 CHF 1'450 million to CHF 1'500 million with an EBIT margin of 12% to 15%.

### High client satisfaction

Continuous improvement in customer satisfaction (measured on the basis of regular customer surveys); reduction in customer complaints; specific targets in terms of acquiring new customers and orders.

### High-quality, sustainable products/services

Reduction in packaging material; increase in the share of reusable containers and in the percentage of recycled content in materials used; integration of Ecodesign as a standard process in the development of new products.

### Attractive employer

Strengthening of talent management; more detailed documentation of fluctuation; comprehensive development discussions; global onboarding processes for new employees.

### Safe workplace

Reduction in work-related accidents, injuries and illnesses – towards the long-term goal of an accident and injury-free working environment.

### Sustainable use of natural resources

Decrease in resource consumption (electricity, energy, water) and in waste per revenue unit.

### Fair business practices

No cases of corruption; no cases of legal actions against Datwyler; compliance with the Datwyler Code of Conduct by each and every employee.

### Sustainable supply chain management

Binding code of conduct for suppliers; principles of the UN Global Compact as the minimum standard for suppliers; integration and monitoring of sustainability criteria in the sourcing process.

### Employee engagement

Continuous improvement in employee commitment (measured on the basis of regular employee surveys).

## Prioritisation of sustainability topics relevant to the Datwyler Group



### Sustainability as part of the company strategy

Sustainability is about balancing economic, social and environmental responsibility. Within the Datwyler Group, sustainability is an important strategic objective, embedded in all we do from product development, customer support, human resources management and production to social engagement. Taking the issue's significant importance into account, Datwyler's sustainability report for the 2016 reporting year was published as a separate document for the first time. This document meets the latest GRI standards on sustainability reporting. Datwyler launched a comprehensive process to this end in 2016, aimed at defining material sustainability topics for the company while determining objectives in each main area of focus.

As part of a multi-stage process, Datwyler first interviewed representatives of the management teams and experts from both divisions on the topic of sustainability. We also performed a benchmark analysis of peer companies. The Executive Management structured the identified material topics by order of strategic relevance, and approved them for the Group accordingly.

In a workshop attended by over 70 managers from both divisions and all key subsidiaries, Datwyler subsequently drew up objectives, concepts and priorities related to these topics in terms of strategic focus and strategic development. Datwyler will continue to develop the sustainability objectives over the next few years. In the Sustainability Report 2017, the company also communicated quantitative targets for reducing the relative consumption of resources per revenue unit for the first time.

As a responsible company, Datwyler wants to contribute to achieving the UN Sustainable Development Goals. We still want to grow as a company, but we also want to reduce our consumption per revenue unit of resources such as heating energy, electricity and water. The same applies to the volume of waste produced at our plants.

In future, the ideal of sustainable processes and products must be engrained in our mindset – just as innovation and quality have been for many years. Through responsible management of resource use and other sustainability issues, Datwyler believes that it will create added value for its customers, stand out from its competitors, become more attractive to employees and meet societal requirements.

The 2018 Datwyler Sustainability Report will be available from the second quarter of 2019 via the following link:  
[www.datwyler.com/en/company/sustainability/](http://www.datwyler.com/en/company/sustainability/)



# CORPORATE GOVERNANCE

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# CORPORATE GOVERNANCE

at 31 December 2018

As a company committed to creating long-term value, Datwyler has a clear framework of management and control policies in place to ensure compliance with the principles of good corporate governance. These policies are set out in the Articles of Association\* and the Rules of Organisation and Business Conduct of Dätwyler Holding Inc. They are presented below following the applicable Directive issued by the SIX Swiss Exchange. Where appropriate, reference is made to issues that are discussed in detail in the notes to the financial statements and in the Remuneration Report. Where information required under a section of the SIX Directive has been omitted, it is either not applicable to Datwyler or the corresponding situation does not exist at Datwyler or does not apply to Datwyler.

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\* [www.datwyler.com](http://www.datwyler.com) > Governance > Articles of Association

## Group structure and shareholders

The Datwyler Group is a focused industrial supplier with leading positions in global and regional markets. The Sealing Solutions division is a leading supplier of customer-specific sealing solutions to global markets, such as the health care, automotive and general industries. The Technical Components division is one of Europe's foremost high-service distributors of maintenance, electronic, automation and ICT components and accessories.

### Substantial shareholders and shareholder structure

The ownership structure of the Datwyler Group (see chart, p. 29) is the result of the Dätwyler family succession arrangements of 1990. The family's primary objective was to ensure the long-term independence of the Company.

Following the 1986 IPO, Peter and Max Dätwyler's interest had been reduced to roughly 50% of capital and just below 80% of votes. They placed this ownership interest without compensation in a company they had founded, Pema Holding AG (PeMa = Peter and Max). Today, the Board of Directors of Dätwyler Holding Inc. controls these assets and the associated voting rights on a fiduciary basis and without beneficial ownership. It does so through Dätwyler Führungs AG, likewise founded by the Dätwyler brothers in 1990. The members of the Board of Directors of Dätwyler Holding Inc. (see p. 33, Members of the Board of Directors) are concurrently members of the Board of Directors of Pema Holding AG and hold equal interests of CHF 0.1 million in the share capital of Dätwyler Führungs AG. A shareholders' agreement requires departing Board members to pass their shares in Dätwyler Führungs AG on to their successors at par value and without financial gain.

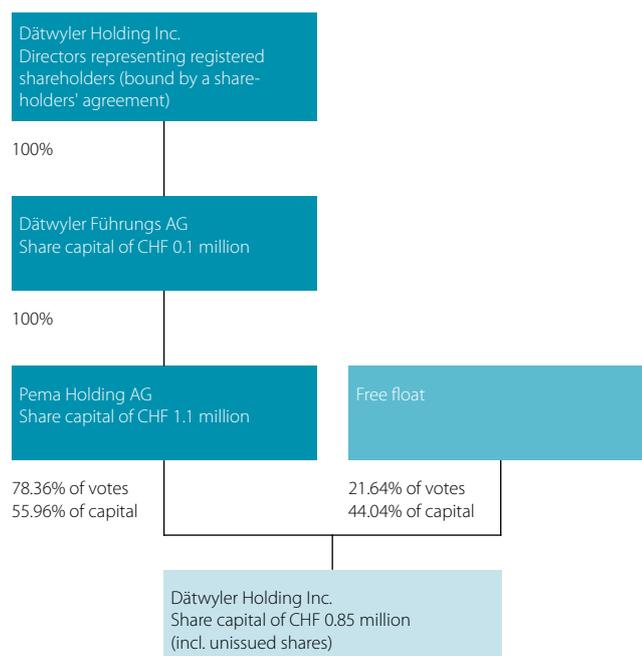
The Board members are likewise not entitled to receive dividend payments from Dätwyler Holding Inc. Dividends are retained by Pema Holding AG and can be reinvested in Dätwyler Holding Inc.

Under the shareholders' agreement, Pema Holding AG may invest only in the Datwyler Group and its spin-offs. It therefore has no conflicts of interest with other shareholdings and completely reflects the interests of the bearer shareholders. Disposal of a majority of votes is permitted only by a qualified majority, and only in the event that it is no longer economically feasible to maintain Dätwyler Holding Inc. as an independent going concern. In this case, Dätwyler Führungs AG and Pema Holding AG are to be liquidated, with the proceeds going to the Datwyler Foundation. Pema Holding AG may be compared to a family of entrepreneurs who hold the majority of the capital and voting rights in a listed company. The restriction relating to Dätwyler Holding Inc., as set out in the shareholders' agreement, allows Pema Holding AG a management mandate with an obligation to create long-term value.

The representative of public shareholders on the Board of Directors of Dätwyler Holding Inc. is not member of the Boards of Directors of Pema Holding AG or of Dätwyler Führungs AG. Concluded in 1990, these Dätwyler family succession arrangements entailed a waiver of claims to substantial assets and are unique.

Pema Holding AG currently owns all 22 million registered shares and 5'112'691 of the total of 12.6 million bearer shares of Dätwyler Holding Inc. This represents 78.36% of the voting rights and 55.96% of the share capital.

The Board of Dätwyler Holding Inc. is not aware of any other shareholders, or groups of shareholders subject to voting agreements, who hold 3% or more of the total voting rights. No disclosure notices were received in the year under review.



### Group structure and companies

The required disclosures relating to the Group structure are presented on the following pages of the Annual Report:

- Page 71: segment reporting.
- Page 90: detailed list of subsidiaries and investments.
- Page 115 and 118: details of Dätwyler Holding Inc.
- Page 118: directory of Group operations.

No listed companies are included in the consolidation of Dätwyler Holding Inc. There are no cross-shareholdings with other companies.

### Capital structure

Composition of share capital in CHF at 31 December 2018:

22'000'000 registered shares of CHF 0.01 each	220'000
12'600'000 bearer shares of CHF 0.05 each	630'000
Total ordinary share capital	850'000
Authorised additional share capital	none
Authorised contingent share capital	none
Participation certificates	none
Profit-sharing certificates	none
Registration and voting restrictions	none
Opting-out and opting-up provisions	none

All shares are fully paid-up and – irrespective of their value – are entitled to vote and rank for dividend. Information about changes in equity for 2018 and 2017 is presented in the statement of changes in equity on page 63. Changes in equity for 2017 and 2016 are shown in the statement of changes in equity on page 60 of the Annual Report 2016 ([www.datwyler.com](http://www.datwyler.com) > Investors > Publications > Annual Reports).

### Convertible bonds and share options

As at 31 December 2018, Datwyler did not have any outstanding convertible bonds or options. On 30 May 2018, a 0.625% CHF 150 million bond was placed. The bond is repayable on 30 May 2024. The 1.125% CHF 150 million bond was repaid on 7 June 2018 at nominal value. (see page 82, Note 18, Bond).

## Internal organisation

### Role of the Board of Directors

The Board of Directors is the ultimate decision-making, management and governing body of the Datwyler Group. The Board consists of no fewer than five and no more than eleven members. At 31 December 2018, the Board comprised seven Directors. The roles of the Chairman and Chief Executive Officer (CEO) are separate. The Directors or companies and organisations which they influence have no executive functions in the Group and do not have any business relationship with the Datwyler Group. The current Chairman, Paul Hälg, was the CEO of the Datwyler Group from 2004 to 2016. The other members of the Board never served in executive functions for the Datwyler Group. No Director holds cross-directorships with other Directors through involvement in other listed companies.

When members are appointed to the Board of Directors, care is taken to ensure that the kinds of competencies important to the Datwyler Group with regard to the various industries, technologies and markets are suitably represented.

Since the Annual General Meeting 2014, Directors are elected for one-year terms. They are eligible for re-election for further periods, with no limit on the number of terms they may serve. Each class of shares is entitled to nominate at least one representative to the Board. The average age of the Directors currently in office is 61 and their average tenure is four years.

### Main responsibilities and operation of the Board

The Board organises itself. Its main responsibilities are defined in Art. 716a of the Swiss Code of Obligations. In order to discharge these responsibilities efficiently, the Board has authority under the Rules of Organisation and Business Conduct of Dätwyler Holding Inc. to appoint Committees from among its members to deal with specific matters. There are currently two Committees: the Audit Committee and the Nomination and Compensation Committee.

In accordance with the Rules of Organisation, the Board holds at least five regular meetings a year, each lasting between half a day and one full day. A two-day annual strategy workshop is held to review and develop the strategy. The strategy workshop is usually combined with a visit to one of the divisions. Special Board meetings are held when necessary. Agendas for Board meetings are set by the Chairman in consultation with the CEO and CFO. Any Director may request that an item be placed on the agenda or that a special meeting be held. The CFO acts as Secretary to the Board.

Directors receive papers and information in good time in advance of meetings to allow them to prepare for discussion of each item. Depending on the nature of the business to be transacted, the Chairman may invite members of the Executive Management to provide information at Board meetings and participate in an

advisory capacity. The Board operates as a team and strives to reach decisions unanimously, wherever possible. If a unanimous decision cannot be reached, the minutes of the meeting must give the names of who voted and how they voted. The Board has a quorum when at least a majority of its members is present. Its resolutions are passed by a majority of the members present. The Chairman is also a voting member and has the casting vote in the event of a tie. Resolutions may also be adopted by telephone conference or by circular letter.

During 2018, the Board held six meetings. In addition, there were three phone conferences. One member of the Board of Directors was excused for two meetings and one phone conference and one member for one phone conference. The CEO and CFO and the other members of the Executive Management were present at each meeting for the discussion of items relating to them. In 2018, no external specialists were called in.

### Operation of the Committees

The Committees have written terms of reference specifying their responsibilities. In addition to these written terms, the Audit Committee has defined its tasks and responsibilities in a detailed checklist. The Committees generally prepare the groundwork for decision-making by the full Board. They meet at the call of their chairmen as often as necessary to discharge their duties, but at least once a year. Their meetings usually last half a day. All Directors, Executive Management members and the external auditors may request a meeting of the Committees. Depending on the nature of the business to be transacted, meetings are attended by the CEO, CFO or, if required, a representative of the external auditors or a specialist in an advisory capacity. The agendas for Committee meetings are set by the respective chairmen in agreement with the CEO and CFO. Committee members receive papers and information in advance of meetings to allow them to prepare for discussion of each item. At least two members must be present to constitute a quorum. The Committees pass their resolutions by an absolute majority of the votes cast. In the event of a tie, the chairman has the casting vote. The Committees keep a record of their decisions and recommendations in minutes submitted to the Board and report the results of their activities at the next Board meeting.

### Audit Committee

The Audit Committee consists of at least three Directors, each of whom has experience in finance and accounting, who are appointed by the Board from among its members for a period of one year. The Audit Committee appoints its chairman. Members of the Audit Committee are: Jürg Fedier (Chairman), Paul Hälg and Hanno Ulmer. In 2018, the Audit Committee held four meetings, each of which was attended by the CEO and CFO. One member was excused for

one meeting. The reporting of the internal audit is a standard agenda item at the meetings of the Audit Committee. The representatives of the external auditors attended all the meetings for the discussion of selected items. In 2018, other external specialists were not called in.

#### **Responsibilities of the Audit Committee**

- To ensure a comprehensive and effective audit programme for Dätwyler Holding Inc. and the Datwyler Group.
- To comment on the annual and consolidated financial statements.
- To comment on the audit plan and results of audits.
- To receive recommendations from the external auditors, discuss the recommendations with the Executive Management and provide a summary for the Board of Directors.
- To present the Executive Management's proposal for the appointment of Dätwyler Holding Inc.'s external auditors to the Board of Directors for consideration by the Annual General Meeting of Shareholders.

#### **Nomination and Compensation Committee**

The responsibilities of the Nomination and Compensation Committee are recorded in the Remuneration Report on page 42.

#### **Division of responsibilities between the Board of Directors and Executive Management**

The authority and responsibilities delegated to the Board of Directors and Executive Management are laid down in the "Rules of Organisation" as provided in Article 20 of the Articles of Association of Dätwyler Holding Inc. These rules are updated on a regular basis. They describe the duties and responsibilities of the Board of Directors and define the duties and responsibilities of the Executive Management, presided over by the CEO. In addition to the non-delegable functions reserved for the Board of Directors by law, the Rules of Organisation delegate the following duties, among others, to the Board:

- To determine the principles of corporate strategy.
- To make decisions on financial policy.
- To adopt resolutions on the establishment of new business units and discontinuation of existing ones.
- To adopt resolutions on the setting up of new sites and closure of existing ones.
- To adopt resolutions on the acquisition and disposal of equity holdings.
- To adopt resolutions on the acquisition, encumbrance and disposal of land and buildings.
- To review the risk management system.

As a rule, the Board of Directors approves major projects it deems expedient together with the budget. For urgent capital expenditures not included in the budget, levels of authority are defined and a return on investment analysis must be prepared. Capital expenditures exceeding CHF 3 million must be approved by the full Board of Directors.

The policies set out in the "Rules of Organisation" are detailed for all business and functional areas in the following written documents: "Division of Responsibilities of the Executive Management" and "Investment Manual". The Datwyler Group operates a systematically decentralised management system within a clear framework. The Group fosters an entrepreneurial culture where decisions are taken at the lowest possible level close to the market and customers.

#### **Information and control systems for monitoring the Executive Management**

The Board has an internal control system in place to monitor and control the Executive Management. This is based on an institutionalised, annual management process cycle, of which the key elements available to the full Board of Directors are as follows:

- Monthly report with a division and Group consolidation: budget, actual and forecast figures, including variance analyses and a written commentary by the division managers on current developments and potential risks.
- Interim and annual report.
- Annual review and approval of the annual budget and three-year medium-term plan.
- Annual review and approval of the updated Group and division strategies.
- Uniform Group-wide management system with integrated risk evaluation for strategic projects.
- Special reports on major items of capital expenditures, acquisitions and alliances.
- Inclusion of Executive Management members at Board and Committee meetings.

In addition to these institutionalised information and control systems, the Chairman of the Board and CEO engage in regular dialogue regarding all important business. In addition, the CEO and CFO are required to inform the Chairman of the Board without delay of any important unusual events or developments and measures planned.

**Internal Audit**

Internal Audit reports to the Audit Committee and is under the direct administrative line management of the CFO. Every year it draws up a risk-based audit plan, which is approved by the Audit Committee. The interval between audits of Group companies varies between two and five years, depending on the size and importance of the individual company. To optimise cooperation, the head of Internal Audit meets regularly with the representatives of the external auditors. At their meetings they harmonise audit plans and audit priorities and exchange useful information.

Internal Audit verifies compliance with the division of responsibilities and monitors the internal control system, risk management and the efficiency of the structures and processes. The findings and recommendations of Internal Audit are recorded in written reports. Following completion of the audit, the findings are reviewed and discussed with the local management. In coordination with Internal Audit, the local management defines specific corrective measures and a timetable for implementation. Division management and local management each issue an opinion. The report (including the corrective measures, the timetable for implementation and the opinions) is sent to the line managers, the external auditors, Executive Management and the Audit Committee. The head of Internal Audit presents the significant findings contained in the audit reports at the respective next meeting of the Audit Committee. Comments and suggestions of the Audit Committee and the external auditors are taken into consideration in planning and conducting audits. Internal Audit also ensures that all discrepancies raised by its audits are addressed within the prescribed period and submits a report on such matters to Executive Management and the Audit Committee.

**Risk Management**

The Datwyler Group is aware of the importance of systematic risk management for lasting corporate success. Final responsibility in assessing risks lies with the Board of Directors. The head of Internal Audit is responsible for the Group-wide coordination of risk management. He is supported by risk officers in both divisions.

As part of a standard process, the division managements hold an annual workshop to evaluate significant risks. A record of the results is kept in a risk management system. To ensure uniform valuation methods, the CFO of the Datwyler Group and the head of Internal Audit conduct annual reviews with the division managements and the risk officers. These reviews guarantee the same treatment of similar risks across all divisions. The head of Internal Audit is responsible for the consolidation of risks and the presentation of the annual risk management report to the Board of Directors. In addition to this standardised risk management process, ongoing risk assessment is an integral part of all operational planning and management processes. Division managements and Executive Management regularly assess risks in particular in their joint business review meetings.

Datwyler distinguishes in principle between two categories of risk: risks arising from the business environment and risks arising from business processes. The business environment category includes risks associated with the industry and the market, the external stakeholder groups, laws and regulations and catastrophic events. The business process category in turn includes risks along the value-added chain, in IT, the planning and reporting process, finances and human resources. Risks are assessed on the basis of probability of occurrence and the potential loss on occurrence. After identifying and assessing the individual risks, it is the task of the division managements to draw up for each risk a number of measures to reduce the danger of occurrence and the potential damage. The implementation of these measures is monitored as part of the systematic risk management process and taken into consideration at the next risk assessment.

## Board of Directors

The Directors of Dätwyler Holding Inc. are all – with the exception of the representative of the public shareholders – also Directors of Pema Holding AG and Dätwyler Führungs AG. Pema Holding AG is the majority owner of Dätwyler Holding Inc. (see p. 28, Substantial shareholders and ownership).

Pursuant to Article 14 of the Dätwyler Holding Inc. Articles of Association, the number of mandates members of the Board of Directors may hold on management and supervisory boards of legal entities outside the Group is restricted as follows:

- Four mandates in exchange-listed enterprises.
- Ten mandates in unlisted enterprises.
- Fifteen mandates in other legal entities such as foundations and associations

Paul J. Hälg (1954, Swiss)

Chairman (term expires in 2019)

Paul Hälg was appointed to the Board and Chairman of Dätwyler Holding Inc. at the 2017 Annual General Meeting. He is a member of the Audit Committee and a Director of Dätwyler Cabling Solutions AG, a sister company of publicly listed Dätwyler Holding Inc. From 2004 until the end of 2016 Paul Hälg had managed the Datwyler Group as CEO. Before joining Datwyler, he served on Forbo Group's Executive Board as Executive Vice President of Forbo Adhesives. From 1986 to 2001, he held a number of management positions with Gurit-Essex (Gurit-Heberlein Group), ultimately as CEO. In the five years prior to that, he worked for the Swiss Aluminium Group. Paul Hälg is Chairman of listed Sika Ltd. and Director of Sonceboz Automotive SA. He is also a member of the Foundation Board of the ETH Foundation, Swisscontact and of the Swiss air-rescue service Rega. He studied chemistry at the Swiss Federal Institute of Technology Zurich, graduating with a doctorate (DSc).

Hanspeter Fässler (1956, Swiss)

Vice Chairman (term expires in 2019)

Hanspeter Fässler has been a Director of Dätwyler Holding Inc. since 2004. He is Vice Chairman (since 2017), Chairman of the Nomination and Compensation Committee, and Chairman of the Board of Directors of Dätwyler Cabling Solutions AG, a sister company of the listed Dätwyler Holding Inc. He is also a member of the board of Axpo Holding AG and Hatebur Metalforming Equipment Ltd. As Executive Chairman of the robotics spinoff ANYbotics AG, he brings valuable digital competence to the Datwyler Board of Directors. Hanspeter Fässler held various national and international management positions within the ABB Group, including the position of Country Manager Switzerland. From 2006 to 2010 he was responsible for ABB's Mediterranean Region and Country Manager of ABB

Italy. From 2010 until 2011 he was CEO of the Implen Construction Services Group. He earned a doctorate specialising in mechatronics/robotics from the Swiss Federal Institute of Technology Zurich and also holds an Engineer's degree from Stanford University (USA).

Claude R. Cornaz (1961, Swiss)

Director (term expires in 2019)

Claude R. Cornaz was appointed to the Board of Directors of Dätwyler Holding Inc. at the 2018 General Meeting. He is a member of the Nomination and Compensation Committee. From 2000 to 2017, Claude R. Cornaz was the delegate of the Board of Directors and CEO of the listed Vetropack Group. He was nominated as Chairman of the Board of Directors of the Vetropack Group at the 2018 Annual General Meeting. Since 2002, he is a member of the Board of Directors of the listed Bucher Industries Group. In addition, he is member of the Board of Directors of Glas Trösch Holding AG and Vice Chairman of H. Goessler AG and Cornaz AG-Holding. Claude R. Cornaz is a graduated mechanical engineer ETH/BWL.

Jürg Fedier (1955, Swiss)

Director (term expires in 2019)

Public shareholders' representative

Jürg Fedier was appointed to the Board of Dätwyler Holding Inc. at the 2015 Annual General Meeting. He is Chairman of the Audit Committee and a representative of the public shareholders. Since 2009, he serves as Chief Financial Officer of the world wide operating and listed Oerlikon Group. From 2007 to 2008 he acted as CFO of Ciba Group. Between 2006 and 2007, he was Head of Finance of Dow Europe and a Member of the Executive Board. From 2002 to 2006, Jürg Fedier served as Vice President Finance for Dow Chemical, Performance Chemicals, USA, between 2000 and 2002 as Global Business Finance Director for Dow Chemical, Thermosets. From 1978 to 2000, he filled several management positions with Dow Chemical in the USA and in Asia. Jürg Fedier is Director of the listed Ascom Holding Inc. He holds a Commercial Diploma from the College of Commerce in Zurich, Switzerland, and completed international executive management programmes at the IMD, Switzerland, and the University of Michigan, USA.

Gabi Huber (1956, Swiss)

Director (term expires in 2019)

Gabi Huber was appointed to the Board of Dätwyler Holding Inc. in 2013 and is a member of the Nomination and Compensation Committee and Chairwoman of the Board of Directors of Dätwyler Immobilien AG, a sister company of the publicly listed Dätwyler Holding Inc. Co-owner of the law firm of Bachmann & Huber in Altdorf, she has practised as an independent lawyer and notary public since 1982 and was certified as a mediator in 2006.

She represented the Canton of Uri in the National Council from 2003 to 2015 and was the "FDP.The Liberals" parliamentary group leader from 2008 to 2015. Prior to her election to the National Council, Gabi Huber served as a member of the cantonal government and head of the Finance Department of the Canton of Uri from 1996 to 2004. From 2002 to 2004, she was president of the Uri cantonal executive. She is Vice Chairwoman of the Board of Directors of UBS Switzerland AG. Furthermore, she is a member of the Foundation Board of the Swiss air-rescue service Rega. Gabi Huber graduated 1980 from the University of Fribourg, completed a course of study at Columbia University, New York and did a doctorate in law in 1990.

Hanno Ulmer (1957, Austrian)

Director (term expires in 2019)

Hanno Ulmer was appointed to the Board of Dätwyler Holding Inc. at the 2015 Annual General Meeting. He is a member of the Audit Committee. He has served on the Executive Board of Doppelmayr Holding AG, the parent company of the world's leading ropeway manufacturer based in Austria, since 1994. Hanno Ulmer has held various finance and management positions within the Doppelmayr Group since 1976. He is also Chairman of Garaventa AG and of Rope-trans AG and a Supervisory Board member of Bank für Tirol und Voralberg AG. Hanno Ulmer holds an accounting diploma from WFI Voralberg and completed university studies in export and international management.

Zhiqiang Zhang (1961, Chinese)

Director (term expires in 2019)

Zhiqiang Zhang was appointed to the Board of Dätwyler Holding Inc. at the Annual General Meeting 2016. The Chinese national works for ABB China as Country Managing Director as per October 2018. From 2012 until September 2018 he had been with the Swedish Sandvik Group and was serving as President of Sandvik China and Regional Holding Officer of APAC. From 2005 to 2012 he was President of Nokia Siemens Networks Greater China Region and from 1999 to 2005 he served as President of Siemens VDO Automotive China. Prior to that, Zhiqiang Zhang supported the development of the Chinese market since 1987 in various management positions at Siemens. Since 2005 he has been a member of the Board of Directors at the listed Georg Fischer Group. Zhiqiang Zhang holds a Bachelor of Sciences of Northern Jiaotong University, Beijing (China) and an MBA of Queen's University, Kingston (Canada).

## Honorary Directors

Roland Zimmerli (1934, Swiss)

Honorary Chairman (since 2005)

During his 35 years of committed service in a variety of management positions, Roland Zimmerli helped to shape Datwyler into a Group of international dimensions. After the IPO, he circumspectly transformed Datwyler from a family-owned business into a public company. In appreciation of his services to the Datwyler Group, the Board appointed him Honorary Chairman in 2005, following his term as Chairman from 1999 to 2005. Before joining the Board, Roland Zimmerli served as CEO of Dätwyler Holding Inc. from 1991 to 1999. His expertise was also much sought after on the Boards of renowned Swiss companies. He graduated with a degree in business administration from the University of Zurich.

Max Dätwyler (1929, Swiss)

Honorary Director (since 1999)

Max Dätwyler was Chairman of Dätwyler Holding Inc. from its inception in 1958 until 1965. After handing over the Chairmanship to outside Directors, he continued to serve as Deputy Chairman and Executive Director until the end of 1999. Together with his late brother, Peter Dätwyler, Max Dätwyler was instrumental in building Dätwyler Holding Inc. into a diversified international corporation and, in 1990, ensured the Group's long-term independence through the shareholders' agreement of Dätwyler Führungs AG. He holds a doctorate in chemistry from the Swiss Federal Institute of Technology Zurich and a degree in economics from the University of Zurich.

## Changes in the composition of the Board of Directors

At the ordinary Annual General Meeting for 2018, long-standing Director Ernst Odermatt stepped down for age-related reasons. At this same 2018 Annual General Meeting, Claude R. Cornaz was newly elected as Director.

Jens Breu, CEO of the SFS Group, will be recommended for election as a new Director and a further representative of the public shareholders at the 2019 Annual General Meeting.

Board of Directors



Paul J. Hälg, Chairman



Hanspeter Fässler, Vice Chairman



Claude R. Cornaz



Jürg Fedier



Gabi Huber



Hanno Ulmer



Zhiqiang Zhang

## Executive Management

Pursuant to Article 19 of the Dätwyler Holding Inc. Articles of Association, the number of mandates members of the Executive Management may hold on management and supervisory boards of legal entities outside the Group is restricted as follows:

- Two mandates in exchange-listed enterprises.
- Five mandates in unlisted enterprises.
- Ten mandates in other legal entities such as foundations and associations.

### Dirk Lambrecht (1960, German)

#### Chief Executive Officer (CEO)

Dirk Lambrecht was appointed CEO of the Datwyler Group at the beginning of 2017. Previously, he led the Sealing Solutions division, in which the divisions previously known as Sealing Technologies and Pharma Packaging are combined. He was head of the Sealing Technologies division from 2005 to 2012. Before joining the Datwyler Group, he managed Phoenix Traffic Technology GmbH, a subsidiary of Phoenix AG. Prior to that, from 1987 to 2003, he held a number of international management positions with Phoenix AG in Hamburg. Dirk Lambrecht is a Director of Dätwyler Cabling Solutions AG, a sister company of listed Dätwyler Holding Inc. He earned a degree in mechanical engineering, specialising in apparatus engineering, from Hamburg University of Applied Sciences and completed further studies, including programmes at the Management School St. Gallen.

### Reto Welte (1959, Swiss)

#### Chief Financial Officer (CFO)

Reto Welte was appointed Chief Financial Officer and Member of the Datwyler Executive Management from 2009. Before joining Datwyler, he for two years held the same function with the Kardex Remstar Group, also a SIX Swiss Exchange-listed Group of companies. Between 2003 and 2006, he was CFO and member of Group Management of the Feintool Group. Previously Reto Welte was CFO of the Gretag Imaging Group and of co.don AG in Berlin. From 1991 to 2000, he held various management positions in finance with the Alstom group and was head of the Medium-Voltage Technology unit. Reto Welte is Vice Chairman of Pfister Arco Holding AG. He also is a Director of Dätwyler Cabling Solutions AG, a sister company of listed Dätwyler Holding Inc. He holds a degree in business administration from the University of St. Gallen.

### Torsten Maschke (1969, German)

#### Head of Sealing Solutions division

Torsten Maschke has been head of the Sealing Solutions division and member of the Executive Management since 1 October 2016. Before joining the Datwyler Group, he was responsible for the worldwide distribution of sealing and damping solutions for the automotive industry at the Freudenberg Group since 2011. Prior to this – having completed his education in 1996 – he was employed in various international management roles within the automotive business of the Freudenberg Group. Torsten Maschke earned degrees in mechanical engineering from Münster University of Applied Sciences and in industrial engineering from Bochum University of Applied Sciences.

### Neil Harrison (1967, British)

#### Head of Technical Components division

Neil Harrison, as a member of the Executive Management, is head of the Technical Components division. Before joining the Datwyler Group, he was, since 2009, the President of Premier Farnell Europe, a UK-based company, where he was responsible for the European business. In addition, as the global head of eCommerce, he was responsible for the continuous upgrading and expansion of the worldwide e-business offering. Neil Harrison has held several international management functions for Premier Farnell since 1995. He has completed various international management programmes at the universities of Harvard (USA) and Cranfield (GB).

**Executive Management**



Dirk Lambrecht, CEO



Reto Welte, CFO



Neil Harrison, Head of Technical Components division



Torsten Maschke, Head of Sealing Solutions division

### **Management contracts**

There are no management contracts with external individuals or companies to perform management tasks for the Datwyler Group.

## **Remuneration, shareholdings and loans**

The information on remuneration, shareholdings and loans is recorded in the Remuneration Report on page 42 ff.

## **Shareholders' participation rights**

The shareholders' participation rights comply with the provisions of Swiss Corporation Law, subject to the one-share-per-vote principle presented below. The Articles of Association contain no quorum requirements that differ from those prescribed by law.

### **Voting restrictions and proxy voting**

There are no restrictions on registration or voting. Under the Articles of Association of Dätwyler Holding Inc., each share carries one vote at general meetings regardless of its par value. Persons representing shareholders must present a written proxy. Legal representatives of shareholders do not need a proxy appointment. Shareholders who are unable to attend a general meeting may also appoint and instruct an independent proxy to represent them. To do so, an electronic solution has been provided since 2014. The independent proxy is elected annually by the Annual General Meeting for the next ordinary Annual General Meeting.

### **Calling of general meetings and additions to the agenda**

The procedures for calling general meetings and adding items to the agenda are set out in the Articles of Association of Dätwyler Holding Inc. in accordance with the Swiss Code of Obligations (Art. 699 f.). Shareholders holding no less than 10% of the share capital are entitled to submit agenda items in writing. The deadline for submitting agenda items is published in advance in the Swiss Official Gazette of Commerce.

### **Share registration**

Every person whose name is entered in the share register no later than 14 days prior to a general meeting is recognised by the Company as a shareholder and holder of all rights attached to the registered shares.

### **Change of control and defensive measures**

The Articles of Association do not contain any "opting out" or "opting up" provisions. Dätwyler Holding Inc. does not have any change of control clauses which benefit Directors or Executive Management members.

## Statutory auditors

KPMG was mandated to audit the consolidated financial statements at the Annual General Meeting 2018. The auditors are appointed by the Annual General Meeting of Shareholders for a period of one year. In accordance with the Swiss Code of Obligations, the normal rate of rotation for the auditor in charge is seven years. Some of the Group companies are audited by other audit firms.

Fees paid in 2018 to the statutory and other auditors:

<u>in CHF</u>	Statutory auditors	Other auditors
Auditing services, total	824'000	337'000
Additional services, total	130'000	110'000
Tax consulting	27'000	107'000
Legal consulting	–	3'000
Transaction services	–	–
Other advisory services	103'000	–

Representatives of the statutory auditors attend all meetings of the Audit Committee for the discussion of certain items. Four meetings were held in 2018. At each meeting, the statutory auditors present a written report on the progress of their work. The core element of the auditors' reporting is the annual audit report with recommendations to the Audit Committee.

The supervisory body for the external statutory auditors is the overall Board of Directors. It conducts an annual evaluation of the statutory auditors. This is based on the following criteria:

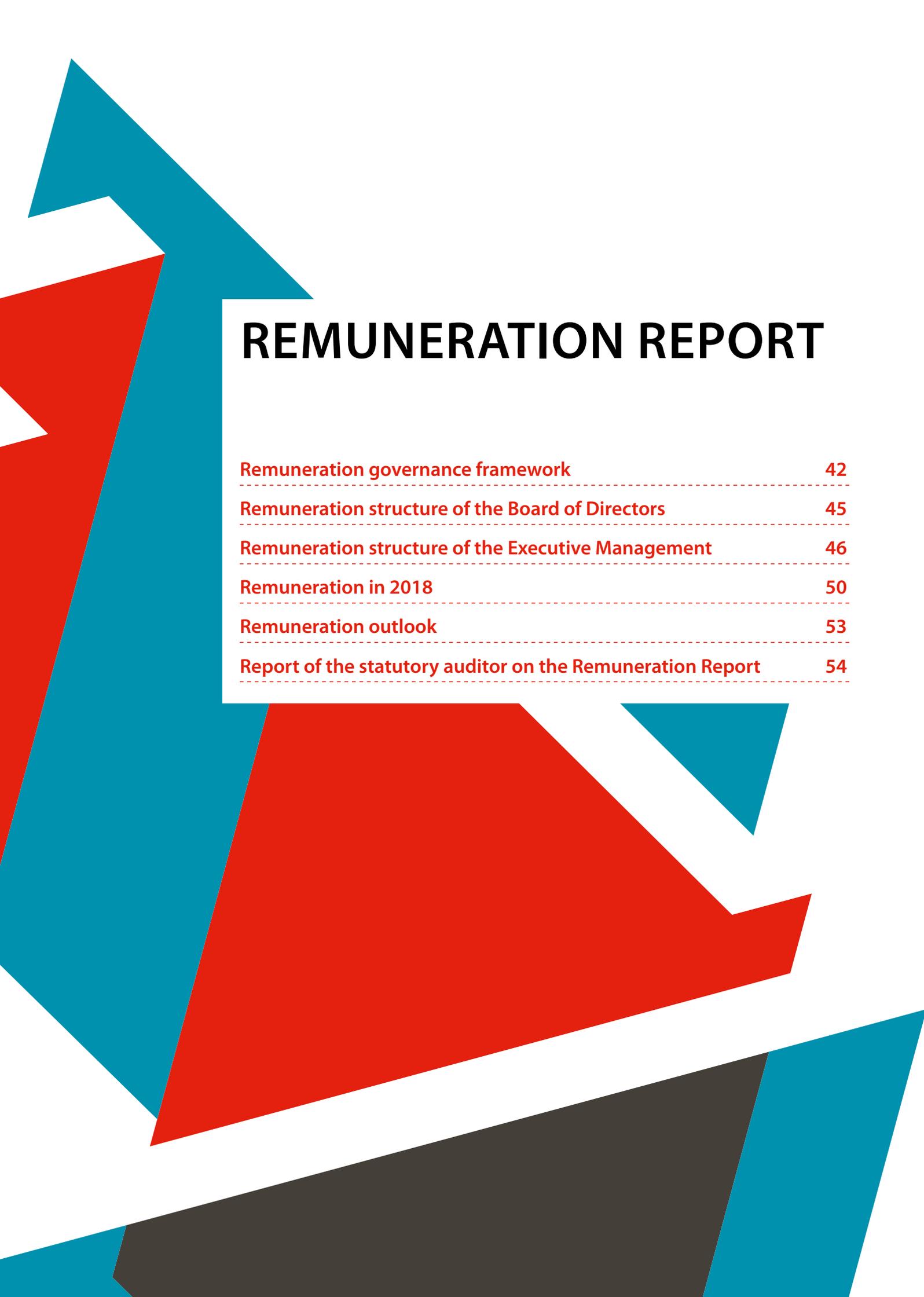
- Professional competence.
- Scope and quality of their written reports and verbal statements.
- Practicability of recommendations.
- Priority setting.
- Transparent and effective communication and coordination.
- Ability to meet deadlines.
- Independence.
- Fees.

The members of the Board of Directors rely on the competencies and experience they have gained in similar roles with other companies, on the statutory auditors' reports as well as on the comments made by the Audit Committee. The responsibilities of the Audit Committee are defined on page 31.

## Information policy

The Datwyler Group maintains an open dialogue with all stakeholders. In the interests of shareholders, Datwyler especially fosters relationships with investors, banks and media representatives. Communication takes place through the Annual Report, Interim Report, Annual General Meeting and at least one press and analyst conference every year. Through press releases and on its website ([www.datwyler.com](http://www.datwyler.com)), Datwyler provides up-to-the-minute information on all important projects as required by the ad hoc publicity rules of SIX Swiss Exchange. The archive of ad hoc press releases can be found at [www.datwyler.com](http://www.datwyler.com) > Media > Press Releases. A facility for signing up to receive ad hoc press releases is provided at [www.datwyler.com](http://www.datwyler.com) > Media > Email Alerts. Contact details and important dates are given in the "General Information" section on page 117. Official notices concerning Datwyler are published in the Swiss Official Gazette of Commerce. Notices and invitations to registered shareholders are made in writing.





# REMUNERATION REPORT

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# REMUNERATION REPORT

The Remuneration Report describes the governance framework and principles of remuneration of the Board of Directors and Executive Management of the Datwyler Group. It also provides information on remuneration plans and remuneration paid for the 2018 fiscal year.

The Remuneration Report is written in accordance with the Ordinance Against Excessive Remuneration in Listed Companies Limited by Shares (ERCO), the Directive on Information Relating to Corporate Governance of the SIX Swiss Exchange and the Swiss Code of Best Practice for Corporate Governance of *economiesuisse*.

## Remuneration governance framework

### Nomination and Compensation Committee

The Nomination and Compensation Committee generally consists of three members of the Board of Directors who are elected individually each year by the Annual General Meeting. The Nomination and Compensation Committee appoints its chairman. At the end of 2018, the members of the Nomination and Compensation Committee were: Hanspeter Fässler (Chairman), Gabi Huber and Claude R. Cornaz. In 2018 the Nomination and Compensation Committee met five times. All members were present at all meetings.

Responsibilities of the Nomination and Compensation Committee:

- Basic human resource matters (e.g. talent management, succession planning, etc.) of the Datwyler Group.
- Nominations to the Board of Directors and Executive Management.
- Preparation of the maximum compensation amounts to the Board of Directors and Executive Management to be submitted to shareholders' vote at the Annual General Meeting
- Determination of remuneration for members of the Board of Directors within the parameters of the maximum amount approved by the Annual General Meeting and in compliance with Art. 21b of the Articles of Association.
- Terms of employment for members of the Executive Management.
- Determination of performance-based remuneration for members of the Executive Management within the parameters of the maximum amount approved by the Annual General Meeting and in compliance with Art. 21c of the Articles of Association.
- Monitoring of structure and development of remuneration.

- Oversight of compliance by the members of the Board of Directors and Executive Management with the provisions of the Articles of Association concerning the number of mandates in top management and supervisory bodies of legal entities outside the Datwyler Group (Art. 14 section 5 and Art. 19 section 3 of the Articles of Association) including any necessary measures.
- Compliance with regulations concerning the disclosure of remuneration of members of the Board of Directors and Executive Management.
- Preparation of the remuneration report.

The Nomination and Compensation Committee has written terms of reference setting out its responsibilities. The Committee generally prepares the groundwork for proposals and decision-making by the full Board. It has executive authority only within the remuneration framework already approved in principle by the Annual General Meeting or Board of Directors and where expressly provided in the Articles of Association or a policy. It meets upon invitation of its Chairman as often as necessary, but at least once a year. When the business to be transacted so requires, meetings are attended by the CEO and CFO, by invitation and in an advisory capacity. At the agenda points, where their own performance and remuneration are being discussed, the CEO and CFO do not attend. The members of the Committee receive documentation before meetings to enable them to prepare for the individual agenda items. At least two members must be present to adopt decisions. The committees pass resolutions by an absolute majority of the votes cast. In the event of a tie, the Chairman casts the deciding vote. The Nomination and Compensation Committee keeps a record of its decisions and recommendations in minutes submitted to the full Board of Directors and reports the results of its activities at the next Board meeting.

## Approval levels

	Proposal	Review	Approval
Remuneration principles (Articles of Association)	Nomination and Compensation Committee	Board of Directors	Annual General Meeting (binding vote)
Remuneration models for the Board of Directors and Executive Management	Nomination and Compensation Committee		Board of Directors
Remuneration Report	Nomination and Compensation Committee	Board of Directors	Annual General Meeting (consultative vote)
Maximum aggregate amount of remuneration for Board of Directors	Nomination and Compensation Committee	Board of Directors	Annual General Meeting (binding vote)
Individual remuneration of Board of Directors members	Nomination and Compensation Committee		Board of Directors
Maximum aggregate amount of remuneration for Executive Management	Nomination and Compensation Committee	Board of Directors	Annual General Meeting (binding vote)
Remuneration CEO	Nomination and Compensation Committee		Board of Directors
Individual remuneration other members of Executive Management	CEO	Nomination and Compensation Committee	Board of Directors

### Determination procedure for the remuneration system

The remuneration system is normally reviewed every three years by the Nomination and Compensation Committee and may be adjusted to reflect the evolving business environment.

The Datwyler Group's remuneration policy is compared against common standards for similar positions at comparable companies. The process for determining the elements and levels of remuneration for the Board of Directors and Executive Management is based on a periodic benchmarking analysis on the basis of remuneration surveys and of remuneration disclosures published by comparable companies in their annual reports. Comparable companies are defined as international industrial companies listed on the SIX Swiss Exchange with similar geographic scope, revenue, complexity, capitalisation and employee headcount. They include: Bucher Industries, Feintool, Forbo, Geberit, Georg Fischer, Dormakaba, Lonza, Oerlikon, Sika, Sonova and Sulzer.

The Annual General Meeting approves the proposals of the Board of Directors concerning the maximum aggregate amount for remuneration of the Board of Directors each year for the period up to the next ordinary Annual General Meeting pursuant to Art. 21b of the Articles of Association, and of remuneration for the Executive Management for the following fiscal year pursuant to Art. 21c of the Articles of Association.

The amount of remuneration for members of the Board of Directors is based on service on the individual committees. It is determined annually by the Nomination and Compensation Committee within the parameters of the maximum amount approved by the Annual General Meeting and in compliance with Art. 21b of the Articles of Association. The full Board of Directors approves the result. Members of the Board of Directors have a right to be consulted at these meetings of the Board of Directors.

The effective performance-based remuneration of members of the Executive Management is determined annually by the Nomination and Compensation Committee within the parameters of the maximum amount approved by the Annual General Meeting and in compliance with Art. 21c of the Articles of Association. The full Board of Directors approves the result.

Under Art. 21a section 5 of the Articles of Association, the Company is authorised to pay an additional amount of up to 50% of the applicable aggregate amount of the applicable maximum total remuneration of the Executive Management to members of the Executive Management who join the Executive Management or assume additional duties during a period for which Executive Management remuneration has already been approved in the event that the approved maximum aggregate amount of remuneration is insufficient for this period.

The Remuneration Report is submitted to the Annual General Meeting for approval in an consultative vote.

#### **Remuneration philosophy and principles**

The remuneration philosophy, as set forth in the Articles of Association, is aligned with the business strategy of sustainable, profitable growth and aims to promote and support the four core values of the Datwyler Group:

- We are entrepreneurs.
- We excel at what we do.
- We bring value to our customers.
- We have respect for others.

#### **Remuneration principles**

##### **Pay for performance**

The variable incentive plan for Executive Management rewards the collective performance of the company and the individual contributions.

##### **Reward long-term and sustainable value creation**

Part of the remuneration is paid in the form of blocked shares for the Board of Directors and in the form of performance share units for the Executive Committee in order to encourage a long-term view and to create alignment with the interests of the shareholders. Furthermore, the variable incentive plan for Executive Management has no excessive leverage and therefore does not encourage inappropriate risk-taking.

##### **Market competitiveness**

Remuneration levels are in line with competitive market practice and are designed to attract, retain and develop the best talent.

##### **Fairness and transparency**

Remuneration programmes are straightforward, transparent and fair.

The framework for implementing these remuneration principles is set forth in the Articles of Association.

## Remuneration structure of the Board of Directors

### Remuneration model for members of the Board of Directors

Base fee for Board membership		Additional fee for special functions	
		Cash (CHF)	Blocked shares (CHF)
CHF 50'000 in cash	CHF 150'000 in blocked shares		
		Board chairmanship	80'000 180'000
		Board vice-chairmanship	20'000 80'000
		Committee chairmanship	40'000
		Committee membership	20'000
		Representation of minority shareholders	40'000
		Additional functions (per diem)	5'000

The remuneration of members of the Board of Directors is determined based on the responsibility and time requirements of their function and includes a base fee for Board membership and additional fees for special functions such as committee chairmanship and membership. The additional fees are cumulative in the case of multiple functions. Members of the Board of Directors receive their remuneration in the form of a fixed fee in cash and a grant of bearer shares of Dätwyler Holding Inc., blocked for five years. The number of bearer shares granted is calculated from the fixed amount and the average price on the 20 trading days prior to the grant date. In the event of death or disability of a Board member, the shares may be subject to early un-blocking if the participant or his or her beneficiaries so choose. They remain blocked in all other instances.

Fees are paid and shares allocated in June for the current year of Board service. They are subject to regular social security contributions but are not pensionable. Members of the Board of Directors receive no additional reimbursement of business expenses beyond actual expenditures for business travel.

## Remuneration structure of the Executive Management

### Remuneration model for the Executive Management

	Instrument	Purpose
<b>Fixed base salary</b>	Monthly cash payments	To compensate for performance of duties and for qualifications required to perform the role
<b>Variable incentive</b>	Annual cash payment	To reward collective business performance and achievement of individual objectives in the reporting year
<b>Long-term incentive plan</b>	Annual granting of performance share units with a vesting period of three years	To drive sustainable results and create long-term alignment with shareholders' interests
<b>Employer social insurance contributions and perquisites</b>	Retirement pension, insurance & perquisites	To protect against risks and reimburse business expenses

The remuneration of Executive Management members is determined based on the scope and responsibilities of their position and consists of a fixed base salary, a variable incentive, a long-term incentive plan with performance share units and benefits such as retirement pension, insurance and perquisites.

#### Fixed base salary

The amount of the fixed base salary depends on the scope of the position, the qualifications and experience required to perform the role together with the market environment. The objective is to pay fixed salaries in line with those offered by comparable companies for similar positions.

#### Variable incentives

The variable incentive plan rewards the collective performance of the company and the individual contributions over a time horizon of one year. It is split into a collective performance component and an individual performance component. The variable incentives are capped at 180% of the annual fixed base salary for the CEO and 120% for the other members of Executive Management.

In alignment with the overall strategy of sustainable profitable growth, the collective performance will be measured on the basis of two performance indicators weighted equally:

- Net sales growth compared to previous year, relative to a peer group of companies;
- EBIT improvement (earnings before interest and tax) compared to previous year, relative to the same peer group of companies.

Relative net sales growth and EBIT improvement are measured by an independent consulting firm that compares and ranks the performance of Datwyler against the performances of similar companies. For each of the two Datwyler divisions, a specific peer group of more than 30 companies has been determined, including industrial and distribution firms that have a comparable base of products, technology, customers, suppliers or investors and thus are exposed to similar market cycles as the corresponding Datwyler division (for the list of peer companies, please refer to page 47). The intention of measuring the performance relatively to peer companies is to neutralise the effect of market cycles and external factors that impact the company's performance but are outside of the control of management. The external market cycles being neutralised, the true performance of the company can be better assessed.

The objective of the collective performance component will be to achieve the median performance of the peer group on both indicators (net sales growth and EBIT improvement), which provides for a 100% payout. The maximum payout of 200% can only be achieved if the division achieves the best ranking among all peer companies on both net sales growth and EBIT improvement. Should a Datwyler division perform below all peer companies on both indicators, the collective performance component of this division will be set at zero. The payout percentage for any point between the last ranking (0% payout), the median (100%) and the best ranking (200%) is determined by linear interpolation.

## Overview of calculation and payout of the variable incentive

Target values in % of annual fixed base salary		CEO	CFO	COO (division heads)
<b>Collective performance</b>	Net sales growth relative to peers	37.5% average of both divisions	25% average of both divisions	25% own division
	EBIT improvement relative to peers	37.5% average of both divisions	25% average of both divisions	25% own division
<b>Individual performance</b>	Individual objectives	15%	10%	10%
<b>Total (at target)</b>		90%	60%	60%
<b>Total (at maximum)</b>		180%	120%	120%

## Peer groups of companies to measure the collective performance

### Technical Components division

#### Company

ams AG  
Arrow Electronics – EMEA  
ASBISc Enterprises Plc  
Atea ASA – Products  
Avnet – Europe  
Bechtle – IT e-commerce  
Eaton Corporation – Electrical Production  
Elma Electronic AG  
Elmos Semiconductor AG  
Esprinet SpA  
Flex Ltd.  
Ingram Micro Inc  
Logitech International SA  
LPKF Laser & Electronics AG  
S&T AG  
Scanfil Oyj  
Schweizer Electronic AG  
STMicroelectronics NV – Microcontrollers and Digital ICs  
Texas Instruments

### Sealing Solutions division

#### Company

Amgen  
Aptargroup – Food & Beverages  
Aptargroup – Pharma  
Atrion Corp.  
Becton Dickinson & Company – Life Sciences  
Becton Dickinson & Company – Medical  
Bridgestone Corporation  
Continental – Chassis & Safety  
Continental – Powertrain  
Continental – Interior  
Continental – ContiTech  
Delphi Technologies (formerly Delphi)  
Aptiv (formerly Delphi)  
Gerresheimer – Plastics & Devices  
Gerresheimer – Primary Packaging Glass  
Hexpol AB  
Johnson Controls International PLC  
Parker-Hannifin - Diversified Industrial (America and International)  
Sanok (Stomil Sanok)  
Semperit AG Holding  
Trelleborg – Sealing Solutions  
Valeo  
West Pharmaceutical  
ZF Friedrichshafen

The Board of Directors may decide to adjust both performance indicators to reflect currency effects, extraordinary effects such as one-time costs or sale of real estate and structural changes such as acquisitions or divestments affecting divisional net sales by more than 10% of the previous year figure. In case of a negative net result of a division or the Datwyler Group, the Board of Directors reserves the right to deviate from the above mentioned calculation approach.

The assessment of the individual performance is based on personal objectives that are set as part of the annual performance evaluation process. The personal objectives are clearly measurable and may include financial indicators such as net working capital in percent of net sales, but also non-financial metrics such as customer satisfaction and employee commitment. The level of achievement for each objective corresponds to a payout percentage, which ranges from 0% to 200%.

The illustration at the top of page 47 summarises the performance objectives and their respective weighting in percentage of the annual fixed base salary for the CEO and the other members of Executive Management.

### Long-term incentive plan

With the 2018 financial year, Datwyler replaced the previous share participation for the Executive Board with a long-term incentive plan. The performance is now measured relative to comparable peer companies. This is intended to neutralise the effect of market cycles and external factors that impact the company's performance but are outside of the control of management. The external market cycles being neutralised, the true performance of the Company can be better assessed.

Share-based remuneration will be awarded under a long-term incentive plan in future in the form of performance share units (PSUs). A PSU is a conditional right to receive shares of the Company subject to the fulfilment of certain conditions during a three-year vesting period. The vesting conditions will include both the achievement of predetermined performance objectives (performance conditions) and continuous employment at the end of the vesting period (service condition).

As a basis for the allocation of PSUs, a target amount for the long-term incentive plan was determined for each member of the Executive Management. This target amount is based on the previous share participation and the relevant compensation benchmarks.

At grant date (1 January), the target incentive amount will be converted to a number of PSUs on the basis of the average closing share price during the twenty trading days before the grant date. The PSUs will be subject to a three-year vesting period, conditional on continued service within the company and on the following performance targets being achieved:

- Relative net sales growth, with one-third weight
- Relative ROCE growth, with one-third weight
- Relative total shareholder return (TSR), with one-third weight

Datwyler's performance on all three indicators will be compared with a peer group of companies. The peer group is a consolidation of the peer companies that are already considered for the calculation of the annual variable incentive.

### Peer group

The peer group consists of the following companies:

Amgen	ams AG
Aptargroup	Aptiv
Arrow Electronics	ASBISc Enterprises Plc
Atea ASA	Atrion Corp.
Avnet	Bechtle
Becton Dickinson & Company	Bridgestone Corporation
Continental	Delphi Technologies
Eaton Corporation	Elma Electronic AG
Elmos Semiconductor AG	Esprinet SpA
Flex	Hexpol AB
Gerresheimer AG	Johnson Control
Ingram Micro Inc	LPKF Laser & Electronics AG
Logitech International SA	S&T AG
Parker-Hannifin	Scanfil Oyj
Sanok Rubber Company	Semperit AG Holding
Schweizer Electronic AG	Texas Instruments
STMicroelectronics NV	Valeo
Trelleborg	ZF Friedrichshafen
West Pharmaceutical	

The peer group is confirmed by the Board prior to the annual grant of PSUs and may be adjusted if required.

The total number of shares transferred to the participant after the vesting period will be calculated as follows:

$$\begin{array}{|c|} \hline \text{Number of PSUs originally} \\ \text{granted to the participant} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Combined payout factor} \\ \text{(0–200\%)} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Number of shares transferred} \\ \hline \end{array}$$

### Reward for long-term performance

With the long-term incentive plan, a significant portion of compensation of Executive Management is linked to the long-term company's performance. This strengthens the alignment to shareholders' interests. Datwyler's relative performance will be expressed as a percentile rank, which determines a payout factor between 0% and 200%:

- Ranking < 25% of the peer group (threshold): 0% payout
- Ranking at the median of the peer group: 100% payout
- Ranking > 75% of the peer group (cap): 200% payout
- Linear interpolation between those points

The combined payout factor is a weighted average of the payout factors for relative sales growth (one-third weight), relative ROCE growth (one-third weight) and relative TSR (one-third weight) over the three-year vesting period. An independent external specialist will calculate the level of relative performance achievement and the combined payout factor. If Datwyler reports a negative profit after tax (i.e. a loss) from continuous operations during the last year of the three-year vesting period, or if the Board of Directors believes that an adequate dividend cannot be paid out to shareholders, the Board of Directors reserves the right to determine whether and to what extent the PSUs for this period should be forfeited, irrespective of the combined payout factor achieved.

In the case of someone leaving, PSUs are usually forfeited, except in the case of retirement, death, disability or change of control of the company where they are converted into shares for the number of months up to the time of leaving based on the payout factor achieved (pro-rata vesting).

In the event of death, the pro-rata payout is made at the time of leaving (accelerated vesting). It follows the regular vesting schedule in the other cases.

If Datwyler is required to prepare an accounting/financial restatement, clawback and malus provisions will apply to PSUs or shares awarded under the long-term incentive plan. Datwyler shall have the right to forfeit (malus provision) and/or to obtain reimbursement (claw-back provision) of any PSU or shares that were granted or allocated to the participant in the case that fraud or misconduct by the participant has led to the booking correction.

### Transition rules

In order to facilitate the transition from the former long-term incentive plan (fixed number of restricted shares) to the new long-term incentive plan that is fully performance-based, specific transition rules have been determined for current members of the Executive Management.

First of all, the individual grant value in the transition years 2018, 2019 and 2020 will be multiplied by a factor of 1.75, 1.5 and 1.25 respectively. This is to compensate for the fact that in each of those years, neither shares will be allocated under the former share participation programme (discontinued) nor under the new long-term incentive plan (no vesting before the year 2020).

Secondly, the vesting schedule for the awards granted in the transition years 2018, 2019 and 2020 is subject to an upper limit, but also a lower limit as follows:

- PSUs granted in 2018: the vesting in 2020 will range from a minimum of 80% to a maximum of 120%
- PSUs granted in 2019: the vesting in 2021 will range from 50% to 150%
- PSUs granted in 2020: the vesting in 2022 will range from 25% to 175%

The Board of Directors has decided to introduce a lower upper limit during the transition period. This is due to the introduction of the above mentioned factor, which could lead to all too high payout values. However, the Board of Directors also decided that the introduction of an upper limit would at the same time be supplemented by a symmetrical lower limit for reasons of fairness. This ensures that the payout values remain in a reasonable range within the transitional phase between the two systems. PSUs granted to current Executive Management members from 2021 onwards will follow the regular plan rules. The same applies to new Executive Management members who are hired after 1 January 2018.

### Employer social insurance contributions

Members of the Executive Management participate in the regular employee pension plan provided by Datwyler to all employees in Switzerland. The retirement plan consists of a basic plan covering annual earnings up to the sixfold of the maximal retirement pension of the Swiss Governmental Old-Age, Survivors' and Disability Insurance (AHV) and a supplementary plan in which earnings in excess of this limit are insured up to a maximum of the tenfold of the upper limiting amount according to the Swiss Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (BVG). The benefits provided under the pension fund exceed the legal requirements of the Swiss Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (BVG) and are in line with typical market practice of other industrial companies in Switzerland.

### Perquisites

Members of Executive Management do not receive any particular executive benefits. They are entitled to a company car and a fiscally approved entertainment allowance, in accordance with the expense

rules applicable to all employees at management levels employed in Switzerland. Since representation allowance represent a reimbursement of expenses, they are not included in the remuneration tables on page 50.

### Employment contracts

Employment contracts with members of Executive Management stipulate a notice period of 6 to 12 months and of 12 months for the CEO. They contain neither a severance provision in the event of termination of employment, nor any change of control clauses. The employment contracts of Executive Management members contain a clawback clause allowing the company, where necessary under applicable Swiss law and the Articles of Association, to recover remuneration already paid, insofar as and to the extent that such remuneration was paid before approval by the Annual General Meeting and the next Annual General Meeting fails to approve the proposals of the Board of Directors.

## Remuneration in 2018

The remuneration to current and former members of the Board of Directors and Executive Management and persons connected with them are presented below. Tables 1 to 4 have been audited by the statutory auditors.

**Table 1: Remuneration Executive Management in 2018 (in CHF)**

Surname and first name	Function	Fixed base salary, gross	Variable incentives, gross <sup>2</sup>	Performance Share Units <sup>3</sup>		Employer social insurance contributions <sup>1</sup>	Perquisites	Total remuneration
				Number	Grant value			
Dirk Lambrecht <sup>1</sup>	CEO	720'000	540'000	3'630	650'060	297'409	9'520	2'216'989
<b>Total for Executive Management</b>		<b>1'942'000</b>	<b>1'340'400</b>	<b>7'821</b>	<b>1'400'585</b>	<b>992'255</b>	<b>35'280</b>	<b>5'710'520</b>

<sup>1</sup> Highest remuneration.

<sup>2</sup> Best estimate at the time of publication of the annual report.

<sup>3</sup> The performance share units of the long-term incentive plan were granted on 1 January 2018 based on the Datwyler bearer share price of CHF 179.08 (average closing price 20 trading days prior to the grant date).

**Table 2: Remuneration Executive Management in 2017 (in CHF)**

Surname and first name	Function	Fixed base salary, gross	Variable incentives, gross <sup>2</sup>	Share participation <sup>3</sup>		Employer social insurance contributions <sup>1</sup>	Perquisites	Total remuneration
				Number	Fair value			
Dirk Lambrecht <sup>1</sup>	CEO	726'000	635'069	4'000	663'200	332'274	9'120	2'365'663
<b>Total for Executive Management</b>		<b>2'080'509</b>	<b>1'645'548</b>	<b>8'500</b>	<b>1'409'300</b>	<b>1'082'490</b>	<b>54'914</b>	<b>6'272'761</b>

<sup>1</sup> Highest remuneration.

<sup>2</sup> The variable incentives paid to the Executive Management in 2018 reporting year and relating to the 2017 fiscal year were in total CHF 542,444 lower than the estimate published in the 2017 Annual Report.

<sup>3</sup> The shares were granted on 1 June 2017 at a daily closing price of CHF 165.80.

**Table 3: Remuneration Board of Directors in 2018 (in CHF)**

Surname and first name	Function	Fixed base salary, gross	Share participation <sup>2</sup>		Employer social insurance contributions <sup>1</sup>	Total remuneration
			Number	Fair value		
Hälg Paul <sup>1</sup>	Chairman	150'000	1'736	344'075	30'834	524'909
Fässler Hanspeter	Vice Chairman	110'000	1'210	239'822	22'162	371'984
Cornaz Claude R.	Director	70'000	789	156'380	14'473	240'853
Fedier Jürg	Director	130'000	789	156'380	19'047	305'427
Huber Gabi	Director	70'000	789	156'380	14'633	241'013
Ulmer Hanno	Director	70'000	789	156'380	14'129	240'509
Zhang Zhiqiang	Director	50'000	789	156'380	13'162	219'542
<b>Total for Directors</b>		<b>650'000</b>	<b>6'891</b>	<b>1 365'797</b>	<b>128'440</b>	<b>2'144'237</b>

<sup>1</sup> Highest remuneration.

<sup>2</sup> The shares were valued on 1 June 2018 at a daily closing price of CHF 198.20.

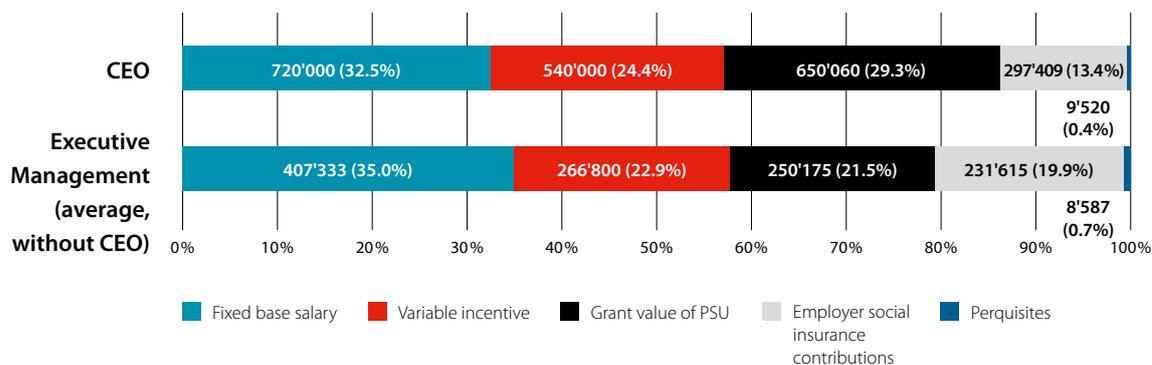
**Table 4: Remuneration Board of Directors in 2017 (in CHF)**

Surname and first name	Function	Fixed base salary, gross	Share participation <sup>2</sup>		Employer social insurance contributions	Total remuneration
			Number	Fair value		
Hälg Paul <sup>1</sup>	Chairman	150'000	2'400	397'920	33'992	581'912
Fässler Hanspeter	Vice Chairman	110'000	1'700	281'860	24'375	416'235
Fedier Jürg	Director	130'000	1'100	182'380	20'395	332'775
Huber Gabi	Director	70'000	1'100	182'380	16'000	268'380
Odermatt Ernst	Director	70'000	1'100	182'380	12'933	265'313
Ulmer Hanno	Director	70'000	1'100	182'380	13'385	265'765
Zhang Zhiqiang	Director	50'000	1'100	182'380	14'535	246'915
<b>Total for Directors</b>		<b>650'000</b>	<b>9'600</b>	<b>1'591'680</b>	<b>135'615</b>	<b>2'377'295</b>

<sup>1</sup> Highest remuneration.

<sup>2</sup> The shares were awarded on 1 June 2017 at a daily closing price of CHF 165.80.

Structure of 2018 remuneration for members of Executive Management (in CHF)



Remuneration mix

The chart above illustrates the remuneration mix for members of Executive Management for the remuneration related to 2018 and includes the fixed cash salary in 2018, the variable incentive that will be paid out in 2019 related to performance year 2018, the number of performance share units granted in 2018, and the value of benefits received in 2018.

Remuneration paid to members of the Board of Directors and Executive Management

The fixed remuneration for members of the Board of Directors remained unchanged compared to the previous year. For the members of the Board of Directors, the fixed base salary depends on membership of the various committees. One member of the Board of Directors (representatives in accordance with SCO 709) received higher remuneration in consideration of his efforts in favour of bearer shareholders.

The Executive Management's variable incentive for the 2018 reporting year was calculated according to the model described in detail on pages 46 to 48.

The following provisional figures for the collective performance component are based on the available revenue and profit figures of the peer group and the Datwyler Group as at mid-December 2018. The Sealing Solutions division outperformed 37.2% of the peer group in net revenue growth and 55.3% in EBIT improvement. The Technical Components division surpassed 4.6% of the peer group in net revenue growth and 0.2% in EBIT improvement. Both indicators – net revenue growth and EBIT improvement – are afforded the same weighting as far as their aggregate value is concerned.

An external, independent specialist calculated the provisional figures for net revenue growth and EBIT improvement relative to peer groups of similar companies. Based on the annual reports published by peer companies, the same specialist will ascertain the definitive figures in April 2019 before the date on which the collective performance component is paid out.

In terms of the individual performance component for members of the Executive Management, the Board of Directors envisages achievements between 15% and 85% for the year under review, with the definitive figures to be calculated on the basis of the annual financial statements.

Overall, this equates to a variable incentive of 75% of the annual fixed base salary for the CEO in 2018 (target: 90%; maximum rate: 180%). For the members of the Executive Management excluding the CEO, the average variable incentive corresponds to 65.5% of the annual fixed base salary (target: 60%; maximum rate: 120%). In absolute figures, the variable incentive for the entire Executive Management in 2018 was CHF 305,148 or 18.5% below the previous year's figure paid out (best estimate on the date of publication of this remuneration report). This is the direct result of the revenue and EBIT development. Compared to the peer group, both divisions performed worse than in the strong previous year. If the variable incentive that is ultimately paid out differs significantly from the amount shown in the remuneration table on page 50, the Remuneration Report of the following year will state this.

The share participation for the members of the Board of Directors for the year 2018 was determined by the Nomination and Compensation Committee and approved by the Board of Directors in accordance with the maximum aggregate amount approved by the Annual General Meeting and Art. 21b of the Articles of

Association. For the first time, the grant of bearer shares as of 1 June 2018 was based on a fixed amount and the average share price of the 20 trading days prior to the grant date (CHF 190.13). As a result of this new calculation method, the number of granted shares was significantly reduced in the year under review. The granted shares continue to be blocked for a period of five years. After the end of this period, the shares are at the free disposal of the beneficiary or his or her legal successor regardless of death, disability or termination. For members of Executive Management, the share participation was replaced in the year under review by the new long-term incentive plan (for details see pages 48 and 49). The performance share units were granted on 1 January 2018 based on the Datwyler bearer share price of CHF 179.08 (average closing price 20 trading days prior to the grant date). The grant value of the granted performance share units is slightly lower than the market value of the share participation in the previous year.

The heading employer social insurance contributions includes all employer expenditures for pension plans and social security contributions. Perquisites reflect the employer's contribution to private use of business vehicles and child allowances.

The total remuneration of the Board of Directors and the Executive Management is significantly below the maximum total remuneration figures of CHF 3.1 million and CHF 9.7 million respectively, which the shareholders approved for the 2018 fiscal year at the 2017 Annual General Meeting.

#### **Remuneration of former members of the Board of Directors and Executive Management**

No remuneration was paid to former members of the Board of Directors or Executive Management in the year under review, nor was any non-arm's length remuneration paid to persons connected with current or former members of the Board of Directors or Executive Management.

#### **Loans and credits**

The Articles of Association do not allow for the possibility to grant loans and/or credits to current or former members of the Board of Directors or Executive Management or persons connected with them.

## **Remuneration outlook**

The Board of Directors will propose the following maximum total sums to the 2019 ordinary Annual General Meeting for remuneration of the Board of Directors for their service during the period up to the 2020 ordinary Annual General Meeting and for remuneration of the Executive Management for the 2020 fiscal year:

- Board of Directors (new eight instead of seven members): CHF 2'400'000, of which CHF 800'000 for cash remuneration plus CHF 1'600'000 for granting of Dätwyler Holding Inc. bearer shares. The maximum amounts proposed have not changed compared to the previous year, although the Board of Directors will have one more member as of the 2019 Annual General Meeting.
- Executive Management (unchanged four members): CHF 8'800'000, of which CHF 6'500'000 for cash remuneration (fixed base salary, variable incentive, employer social insurance and perquisites) plus CHF 2'300'000 for the maximum value at grant of the Performance Share Units awarded under the new long-term incentive plan.

Furthermore, due to the renewed market segmentation and the focus on Custom Production of Electromechanical Goods (CPE) in the Technical Components division, the Board of Directors adjusted the peer group for the variable incentives in this division with effect from the 2019 business year.

## Report of the statutory auditor on the Remuneration Report



# Report of the Statutory Auditor

To the General Meeting of Dätwyler Holding AG, Altdorf

We have audited the accompanying remuneration report of Dätwyler Holding AG for the year ended 31 December 2018. 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 1 to 4 on pages 50 to 51 and page 53 of the remuneration report.

### Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration 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 remuneration system and defining individual remuneration packages.

### Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration 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 remuneration 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 remuneration 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 remuneration 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 remuneration 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 remuneration report for the year ended 31 December 2018 of Dätwyler Holding AG complies with Swiss law and articles 14 – 16 of the Ordinance.

### Other matter

The remuneration report of Dätwyler Holding AG for the year ended 31 December 2017 was audited by another auditor who expressed an unmodified opinion on that report on 2 February 2018.

KPMG AG

Toni Wattenhofer  
Licensed Audit Expert  
Auditor in Charge

Manuel Odoni  
Licensed Audit Expert

Zürich, 4 February 2019

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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# Consolidated Financial Statements

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## Group Financial Review

### CONSOLIDATED INCOME STATEMENT DATWYLER GROUP

In 2018, the Datwyler Group generated net revenue of CHF 1'361.6 million (previous year CHF 1'291.4 million), representing an increase of 5.4%. The effect of subsidiaries acquired amounted to CHF 19.4 million or 1.5%. The positive impact from foreign currency translation to Swiss francs on consolidation was 1.9%. Adjusted for these factors, organic growth was 2.0%.

#### Change in net revenue

<u>in CHF millions</u>	<b>2018</b>	<b>%</b>	2017	%
Acquisition/disposal of subsidiaries	19.4	1.5%	25.0	2.0%
Foreign currency translation to CHF	25.3	1.9%	15.4	1.3%
Organic change	25.5	2.0%	35.2	2.9%
<b>Total change in net revenue</b>	<b>70.2</b>	<b>5.4%</b>	<b>75.6</b>	<b>6.2%</b>

The gross profit margin decreased to 25.2% (previous year 25.5%). Gross profit was impacted by positive foreign currency translation effects of 1.5% and by raw material prices up 2.6%. Other organic change of gross profit amounted to 3.8%.

#### Change in gross profit

<u>in CHF millions</u>	<b>2018</b>	<b>%</b>	2017	%
Acquisition/disposal of subsidiaries	4.6	1.4%	3.6	1.1%
Foreign currency translation to CHF	4.9	1.5%	3.3	1.0%
Impact raw material purchases	-8.5	-2.6%	-3.3	-1.0%
Other organic change	12.4	3.8%	5.9	1.9%
<b>Total change in gross profit</b>	<b>13.4</b>	<b>4.1%</b>	<b>9.5</b>	<b>3.0%</b>

In 2018, the Group's operating result (EBIT) reached CHF 170.0 million (previous year CHF 162.6 million) and the EBIT margin was 12.5% (previous year 12.6%) with the following factors contributing to this change:

#### Change in operating result

<u>in CHF millions</u>	<b>2018</b>	<b>%</b>	2017	%
Acquisition/disposal of subsidiaries	2.0	1.3%	0.4	0.2%
Foreign currency translation to CHF	1.0	0.6%	2.9	2.0%
Organic change	4.4	2.7%	13.2	9.1%
<b>Total change in operating result</b>	<b>7.4</b>	<b>4.6%</b>	<b>16.5</b>	<b>11.3%</b>

The operating result includes a gain of CHF 0.5 million (previous year CHF 0.1 million) on sale of property, plant and equipment.

Net finance costs increased to CHF 9.5 million (previous year CHF 7.8 million), with lower interest expense of CHF 1.8 million (previous year CHF 2.4 million). Income tax expense increased to CHF 39.5 million (previous year CHF 31.1 million). Accordingly, the tax ratio increased to 24.6% (previous year 20.1%). The Group's weighted average income tax rate for 2018 was 23.6% (previous year 24.1%).

The net result amounts to CHF 121.0 million (previous year CHF 123.7 million) corresponding to 8.9% (previous year 9.6%) of net revenue.

## CONSOLIDATED BALANCE SHEET DATWYLER GROUP

Total assets increased by CHF 15.2 million during the year to CHF 1'314.8 million (previous year CHF 1'299.6 million). Trade accounts receivable decreased to CHF 198.0 million (previous year CHF 201.9 million) and inventories increased to CHF 230.9 million (previous year CHF 215.8 million). With trade accounts payable of CHF 76.3 million (previous year CHF 78.5 million), net working capital increased by 4.0% to CHF 352.6 million (previous year CHF 339.2 million). Cash and cash equivalents decreased by CHF 111.0 million.

Compared to the previous year, equity decreased by CHF 71.1 million to CHF 827.4 million (previous year CHF 898.5 million), maintaining a solid equity ratio of 62.9% (previous year 69.1%). The significant changes in equity include the net result of CHF 121.0 million (previous year CHF 123.7 million), the dividend payment of CHF -51.0 million (previous year CHF -37.4 million), the offset of goodwill from acquisitions of CHF -124.4 million (previous year CHF -0.4 million) and negative currency translation differences of CHF -17.1 million (previous year CHF 7.0 million) arising on net investments in foreign subsidiaries.

Short-term and long-term bank debt increased by CHF 58.9 million during the year to CHF 70.5 million (previous year CHF 11.6 million). On 30 May 2018, a 0.625% CHF 150.0 million bond was placed at an issue price of 100.368%. Interest payments are due annually on 30 May and the bond is repayable on 30 May 2024. The 1.125% CHF 150.0 million bond was repaid on 7 June 2018 at nominal value. The Group's liquidity situation remains good, with cash and cash equivalents amounting to CHF 170.8 million (previous year CHF 281.8 million) at the end of the year under review. Including the bond of CHF 150.1 million and the loan of CHF 60.0 million granted by Pema Holding AG, net debt amounts to CHF 109.8 million (previous year net cash of CHF 120.2 million).

Current assets decreased by 12.8% to CHF 639.6 million (previous year CHF 733.7 million). Non-current assets increased by 19.3% to CHF 675.2 million (previous year CHF 565.9 million).

## CONSOLIDATED CASH FLOW STATEMENT DATWYLER GROUP

With the net result of CHF 121.0 million (previous year CHF 123.7 million), net cash from operating activities amounted to CHF 162.9 million (previous year CHF 112.7 million). These cash flows were used to pay for investments in property, plant and equipment totalling CHF 137.9 million (previous year CHF 99.7 million). This represents a capital expenditure ratio (capital expenditure as a percentage of net revenue) of 10.1% versus 7.7% a year earlier. In addition, operating cash flow was partly used for the acquisition of subsidiaries in the amount of CHF 188.7 million (previous year none). Proceeds from bank debt amounted to CHF 57.0 million net (previous year repayments CHF 0.5 million). In addition, Pema Holding AG granted a loan in the amount of CHF 60.0 million. Overall cash outflows and inflows led to a net change in cash and cash equivalents of CHF -108.0 million (previous year CHF -38.5 million), resulting in a cash and cash equivalents balance of CHF 170.8 million (previous year CHF 281.8 million) at year-end.

## ADDITIONAL INFORMATION

The commentary of the significant events during the year under review is presented on pages 2 to 21 of this annual report.

### Full-time equivalents

The annual average of full-time equivalents was 7'705 (previous year 7'357).

### Risk assessment

As part of its duties to oversee the management of the Group, the Board of Directors of Dätwyler Holding Inc. conducts a systematic risk assessment at least once a year. At its meeting held on 28 September 2018, the Board of Directors acknowledged management's report on group-wide risk management and approved the proposed actions included therein.

### Financial risk management

The Datwyler Group's global operations expose it to a variety of financial risks, including currency risk, interest rate risk, credit risk, liquidity risk and market price risk. The nature of these risks has not changed significantly from the previous year. The Group's financial risk management measures, implemented without change from the previous year, seek to minimise potential adverse effects of the unpredictability of financial markets on the Group's financial performance. For this purpose, derivative financial instruments are used to hedge risks and exposures.

### Liquidity reserves

<u>in CHF millions</u>	2018	2017
Cash and cash equivalents	170.8	281.8
Available credit lines	305.8	362.1
<b>Total liquidity reserves</b>	<b>476.6</b>	<b>643.9</b>

### Net cash surplus

<u>in CHF millions</u>	2018	2017
Cash and cash equivalents	170.8	281.8
Less short-term bank debt and in the previous year the bond repaid in 2018	-63.6	-154.3
<b>Net cash surplus</b>	<b>107.2</b>	<b>127.5</b>

### Order intake and backlog

For Datwyler Group overall no meaningful order intake or backlog data can be presented because the business in the Technical Components division is mostly executed on a daily basis with no significant order intake and backlog existing.

### Research and development expenses

The research and development expenses are disclosed in the consolidated income statement. The research and development activities relate to various projects primarily for customers or products in the Sealing Solutions division.

**Exceptional events**

Acquisition and sale of subsidiaries are disclosed in note 31, other business transactions are presented in note 2 of the notes to the consolidated financial statements.

**Future outlook**

The estimates relating to the future outlook are presented on pages 6 to 21 of this annual report.

## Consolidated Income Statement

in CHF millions

	Note	2018	2017
<b>Net revenue</b>	3	1'361.6	1'291.4
Cost of goods sold		-1'018.5	-961.7
<b>Gross profit</b>		343.1	329.7
Research and development expenses		-28.0	-26.1
Marketing and selling expenses		-94.3	-88.4
General and administrative expenses		-72.1	-70.3
Other operating income	4	21.6	18.2
Other operating expenses		-0.3	-0.5
<b>Operating result</b>	3	170.0	162.6
Net finance result	8	-9.5	-7.8
<b>Earnings before tax (EBT)</b>		160.5	154.8
Income tax expenses	9	-39.5	-31.1
<b>Net result</b>		121.0	123.7
<b>Net result per bearer share entitled to dividend (in CHF)</b>	24	<b>7.12</b>	<b>7.28</b>

For both years, there were no dilutive effects affecting the net result per share.

The accompanying notes on pages 64 to 91 are an integral part of these consolidated financial statements.

## Consolidated Balance Sheet

### Assets

in CHF millions	Note	31.12.2018	31.12.2017
Cash and cash equivalents	10	170.8	281.8
Trade accounts receivable	11	198.0	201.9
Inventories	12	230.9	215.8
Other receivables	13	27.3	23.2
Prepayments made and accrued income		12.6	11.0
<b>Current assets</b>		<b>639.6</b>	<b>733.7</b>
Property, plant and equipment	14	566.2	491.9
Intangible assets	15	26.0	21.7
Deferred income tax assets	22	80.0	48.8
Miscellaneous financial assets	16	3.0	3.5
<b>Non-current assets</b>		<b>675.2</b>	<b>565.9</b>
<b>Total assets</b>		<b>1'314.8</b>	<b>1'299.6</b>

### Liabilities and equity

in CHF millions	Note	31.12.2018	31.12.2017
Trade accounts payable	19	76.3	78.5
Short-term bank debt	17	63.6	4.3
Current interest-bearing liabilities due to Pema Holding AG	32	60.0	–
1.125% bond 2012–2018	18	–	150.0
Current provisions	21	17.0	18.0
Other current liabilities	20	42.9	66.3
Accrued expenses and deferred income		43.7	45.1
<b>Current liabilities</b>		<b>303.5</b>	<b>362.2</b>
Long-term bank debt	17	6.9	7.3
0.625% bond 2018–2024	18	150.1	–
Long-term provisions	21	7.4	10.3
Deferred income tax liabilities	22	13.0	14.9
Pension liabilities	6	4.1	4.6
Other long-term liabilities	20	2.4	1.8
<b>Long-term liabilities</b>		<b>183.9</b>	<b>38.9</b>
<b>Total liabilities</b>		<b>487.4</b>	<b>401.1</b>
Share capital	23	0.9	0.9
Treasury shares	25	–	–
Additional paid-in capital		205.1	205.1
Goodwill offset against equity		–780.6	–656.2
Retained earnings		1'511.1	1'440.7
Cumulative translation adjustments		–109.1	–92.0
<b>Equity</b>		<b>827.4</b>	<b>898.5</b>
<b>Total liabilities and equity</b>		<b>1'314.8</b>	<b>1'299.6</b>

The accompanying notes on pages 64 to 91 are an integral part of these consolidated financial statements.

## Consolidated Cash Flow Statement

in CHF millions	Note	2018	2017
<b>Net result</b>		121.0	123.7
Income tax expenses	9	39.5	31.1
Depreciation and amortisation	7	61.5	57.2
Share award and long-term incentive plan		2.1	3.3
Exchange differences		9.9	-25.8
(Gain)/loss on sale of property, plant and equipment, net		-0.2	0.3
Change in long-term provisions and pension liabilities		-3.2	-2.1
Interest income	8	-0.2	-0.1
Interest expense	8	1.8	2.4
Operating cash flow before changes in working capital		232.2	190.0
Change in trade accounts receivable		5.8	-1.5
Change in other receivables, prepayments made and accrued income		-8.5	3.0
Change in inventories		-12.7	-30.1
Change in trade accounts payable		-3.9	12.1
Change in other current liabilities, accrued expenses and deferred income		-5.0	-3.1
Change in current provisions		-1.5	-7.5
Interest received		0.3	0.1
Interest paid		-2.1	-2.1
Income tax paid		-41.7	-48.2
<b>Net cash from operating activities</b>		162.9	112.7
Disbursements relating to purchases of/ investments in:			
Property, plant and equipment		-137.9	-99.7
Intangible assets		-11.7	-7.9
Subsidiaries (net of cash and cash equivalents acquired)	31	-188.7	-
Earn-out payments		-	-2.6
Financial assets		-	-0.3
Proceeds from sale of:			
Property, plant and equipment		2.8	0.5
Financial assets		0.6	0.0
<b>Net cash used in investing activities</b>		-334.9	-110.0
Proceeds from short-term bank debt		64.8	6.2
Repayment of short-term bank debt		-7.8	-6.7
Proceeds from loan payable to Pema Holding AG	32	60.0	-
Net proceeds from issue of bond	18	150.1	-
Repayment of bond	18	-150.0	-
Decrease in finance lease and other long-term liabilities		-0.4	-0.1
Purchase of treasury shares		-1.7	-3.2
Dividend paid to shareholders		-51.0	-37.4
<b>Net cash provided / (used in) by financing activities</b>		64.0	-41.2
<b>Net change in cash and cash equivalents</b>		-108.0	-38.5
Cash and cash equivalents at 1 January	10	281.8	317.5
Effect of exchange rate changes on cash and cash equivalents		-3.0	2.8
<b>Cash and cash equivalents at 31 December</b>	10	<b>170.8</b>	<b>281.8</b>

The accompanying notes on pages 64 to 91 are an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

in CHF millions							
	Share capital <sup>1</sup>	Treasury shares	Additional paid-in capital	Goodwill offset against equity	Retained earnings	Cumulative translation adjustments <sup>2</sup>	Total equity <sup>3</sup>
<b>At 1 January 2017</b>	<b>0.9</b>	<b>–</b>	<b>205.0</b>	<b>–655.8</b>	<b>1'354.4</b>	<b>–99.0</b>	<b>805.5</b>
Net result	–	–	–	–	123.7	–	123.7
Dividends	–	–	–	–	–37.4	–	–37.4
Purchase of treasury shares (see note 25)	–	–3.2	–	–	–	–	–3.2
Share award plan (see note 26)	–	3.2	0.1	–	–	–	3.3
Offset of goodwill from acquisitions (see note 15)	–	–	–	–0.4	–	–	–0.4
Currency translation differences	–	–	–	–	–	7.0	7.0
<b>At 31 December 2017</b>	<b>0.9</b>	<b>–</b>	<b>205.1</b>	<b>–656.2</b>	<b>1'440.7</b>	<b>–92.0</b>	<b>898.5</b>
Net result	–	–	–	–	121.0	–	121.0
Dividends	–	–	–	–	–51.0	–	–51.0
Purchase of treasury shares (see note 25)	–	–1.7	–	–	–	–	–1.7
Share award plan (see note 26)	–	1.7	–	–	–	–	1.7
Long-term incentive plan (see note 26)	–	–	–	–	0.4	–	0.4
Offset of goodwill from acquisitions (see note 15)	–	–	–	–124.4	–	–	–124.4
Currency translation differences	–	–	–	–	–	–17.1	–17.1
<b>At 31 December 2018</b>	<b>0.9</b>	<b>–</b>	<b>205.1</b>	<b>–780.6</b>	<b>1'511.1</b>	<b>–109.1</b>	<b>827.4</b>

<sup>1</sup> Holding company's share capital of CHF 850'000 (previous year CHF 850'000).

<sup>2</sup> Arising on translation of subsidiaries' equity and income statements denominated in foreign currencies.

<sup>3</sup> At 31 December 2018 shareholders' equity includes legal reserves of CHF 209.3 million (previous year CHF 171.5 million), of which CHF 38.5 million (previous year CHF 38.8 million) are not distributable.

The accompanying notes on pages 64 to 91 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## I / SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

The consolidated financial statements give a true and fair view of the financial position, results of operations and cash flows of the Datwyler Group. They have been prepared in accordance with the complete set of Swiss GAAP Accounting and Reporting Recommendations (Swiss GAAP ARR) and are based on the subsidiaries' annual financial statements at 31 December which are prepared using uniform classification and accounting policies. The consolidated financial statements are prepared under the going concern assumption, based on the historical cost principle, and also comply with the Listing Rules of the SIX Swiss Exchange and the provisions of Swiss Corporation Law. The Board of Directors of Dätwyler Holding Inc. approved the consolidated financial statements at its meeting on 4 February 2019 for submission to the Annual General Meeting on 12 March 2019.

### **Use of estimates**

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of Dätwyler Holding Inc. domiciled in Altdorf (Switzerland) and all subsidiaries that belonged to the Group during the year and over which Dätwyler Holding Inc. had the power to govern the financial and operating policies so as to obtain benefits from their activities. At Datwyler Group, this is achieved when more than 50% of a subsidiary's share capital or voting rights is unconditionally owned directly or indirectly by Dätwyler Holding Inc.

A list of the subsidiaries included in the consolidation is presented in note 34.

### **Consolidation method**

The reporting date for Dätwyler Holding Inc., all subsidiaries and the consolidated financial statements is 31 December.

The full consolidation method is applied to all subsidiaries included in the consolidation. Their assets, liabilities, income and expenses are incorporated in full. Minority interests are presented as a separate component of the Group's equity and net result. The purchase method of accounting is used to account for the acquisition of subsidiaries. Under this method, the carrying amount of the investment in a subsidiary is offset against the Group's share of the fair value of the subsidiary's net assets.

Intercompany transactions and balances are eliminated. Unrealised intercompany profits on goods and services supplied within the Group but not yet sold to third parties are eliminated on consolidation.

Companies over which the Group has the power to exercise significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights, are classified as associates and accounted for using the equity method. At year-end of the current reporting year, the Group had no investments classified as associates.

Companies acquired or established or those in which the Group increases its interest and thereby obtains control during the year are consolidated from the date of formation or date on which control commences. Companies are deconsolidated from the date that control effectively ceases upon disposal or a reduction in ownership interest.

## Foreign currency translation

### TRANSLATION FOR CONSOLIDATION PURPOSES

The financial statements of foreign subsidiaries are prepared in local currencies. For the purpose of consolidation, the local financial statements are translated into Swiss francs (CHF), which is the Group's presentation currency. The principal exchange rates used to translate foreign currencies in the Datwyler Group were as follows:

	2018		2017	
	Closing rate at 31.12.	Average rate for the year	Closing rate at 31.12.	Average rate for the year
100 CNY	14.25	14.78	14.99	14.57
1 EUR	1.12	1.15	1.17	1.11
1 USD	0.98	0.98	0.98	0.99

For the purpose of presenting consolidated financial statements, assets and liabilities for each balance sheet are translated at the closing rate at the balance sheet date, while income statements, cash flow statements and other movements are translated at average exchange rates for the year.

Exchange differences arising from the translation of balance sheets and income statements of foreign subsidiaries are taken directly to reserves (currency translation reserve in equity) and not recognised in the income statement.

### TRANSLATION OF BALANCES AND TRANSACTIONS IN THE ACCOUNTS OF SUBSIDIARIES

In preparing the financial statements of the individual subsidiaries, assets and liabilities denominated in foreign currencies are translated at the closing rates used in the consolidation. Exchange differences resulting from the settlement of foreign currency transactions and from the translation of assets and liabilities denominated in foreign currencies are recognised as foreign exchange gains or losses in the income statement. Exchange differences from the valuation of equity-like loans denominated in foreign currencies or in CHF at foreign subsidiaries are directly charged to equity.

## Income statement and balance sheet

### REVENUE RECOGNITION

In the Sealing Solutions division revenues are mainly generated from the sale of products from own production and in the Technical Components division from distribution of goods for resale. Revenue arising from the sale of manufactured products and goods for resale is recognised when the significant risks and rewards of ownership have passed to the buyer, which generally coincides with their delivery, depending on the terms agreed for instance ex works or on arrival at the customer's destination. Revenue under long-term multiple supply contracts is recorded when each instalment is delivered, according to the quantity delivered. Revenue from services rendered is recognised by reference to the stage of completion in the period in which the services were rendered.

### GROSS PROFIT

The income statement is presented using the functional format where gross profit represents net revenue less cost of goods sold.

### RESEARCH AND DEVELOPMENT

Research expenditure is recognised as an expense in the period in which it is incurred. Development costs are capitalised only if it can be demonstrated that future economic benefits will be generated. Otherwise they are charged to the income statement.

#### INCOME TAX EXPENSE

Current income tax is calculated on taxable profits for the year and recognised on an accrual basis.

Deferred income tax is provided, using the liability method, on all temporary differences and recognised as tax liabilities or assets. Temporary differences arise between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The same method is also used to provide for differences arising on acquisitions between the fair value and tax base of the assets acquired. Deferred tax assets and liabilities are offset when the Group has a legally enforceable right and intends to settle its current tax assets and liabilities on a net basis. Deferred tax is calculated using local tax rates that have been enacted by the balance sheet date.

Tax losses carried forward and other temporary valuation differences are recognised as deferred tax assets to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Provision is made for tax that will arise on the distribution of profits retained by subsidiaries, mainly comprising non-refundable withholding tax and income tax in the parent company, if it is intended to remit such profits in the form of dividends.

#### CASH AND CASH EQUIVALENTS AND MONEY MARKET INVESTMENTS

Cash and cash equivalents comprise cash in hand, deposits in postal and bank accounts, and money market investments with original maturities of three months or less. They are stated at nominal value. Money market investments with a maturity of 91 to 360 days are also stated at nominal value and classified separately in the balance sheet.

#### TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT RECEIVABLES

Trade accounts receivable and other current receivables are recognised at nominal value less provision for any impairment.

Doubtful debts are provided for by way of specific provisions and taking into account the actual losses expected based on past experience. Delinquency in payment by customers, or the probability that the debtor will enter bankruptcy or financial reorganisation are considered indicators of impairment. The provision for impairment of receivables is presented separately. The amount of the provision is the difference between the receivable's carrying amount and its current estimated recoverable amount. When receivables are no longer collectible, they are written off against the provision for impairment. Changes in the carrying amount of the provision for impairment and income from recoveries of receivables previously written off are recognised in operating expenses in the income statement.

#### INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Purchasing discounts received are offset against the production cost of inventories. Production cost comprises all direct material and manufacturing costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined using the weighted average method. Appropriate provisions are made for slow-moving inventories and obsolete inventories are fully written off. If the net realisable value of inventories is lower than their purchase price or production cost, then their carrying amount is written down as necessary.

#### PROPERTY, PLANT AND EQUIPMENT

Land is stated at cost. Buildings, plant and equipment are stated at cost less depreciation, calculated on a straight-line basis to write off the assets over their estimated useful lives, and less any impairment losses. Cost comprises the purchase price and any costs directly attributable to bringing the assets into working condition for their intended use.

The estimated useful lives and depreciation periods are as follows:

	Years
Buildings:	
Building structures	20–40
Interiors	20
Installations, storage equipment, tanks, silos, etc.	10–20
Production equipment	10–15
Production equipment: electrical/electronic equipment	5–8
Machinery	8–10
Moulds and tools	3

Land is generally not depreciated, but any impairment loss is recognised.

Costs of maintenance and renovations, other than improvements, are charged to the income statement. Borrowing costs of long-term projects actually incurred during construction in progress are capitalised, all other financing costs are expensed as incurred.

The residual values and useful lives of property, plant and equipment are reviewed annually and adjusted, if appropriate.

#### LEASES

The Datwyler Group leases certain assets. Finance leasing and operating leasing agreements are treated differently. In a finance lease, the lessor transfers substantially all the risks and rewards relating to ownership of the leased asset to the Datwyler Group. The fair value of such assets or, if lower, the net present value of the future minimum lease payments is therefore recognised as a non-current asset and as a finance lease liability in the balance sheet. Assets acquired under finance leases are depreciated over the shorter of their estimated useful lives or the lease term. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

#### INTANGIBLE ASSETS

Intangible assets mainly include software as well as licences, patents and other intangible assets which are capitalised at cost and amortised on a straight-line basis over their estimated useful lives. Useful lives of software are between 3 and 5 years.

#### GOODWILL

Goodwill arising on business combinations represents the excess of the cost of acquisition over the Group's interest in the fair value of the acquired assets and liabilities at the date of acquisition. Goodwill from acquisitions is fully offset against equity at the date of acquisition. The impact of the theoretical capitalisation and amortisation of goodwill is disclosed in the notes to the consolidated financial statements. On sale of an acquired subsidiary, goodwill from acquisitions formerly directly offset against equity is charged to income at original cost when calculating the gain or loss on sale. For the determination of goodwill from acquisitions, parts of the purchase price contingent on future performance are estimated best possible at the date of acquisition. Accordingly, goodwill offset against equity is modified for adjustments resulting later from the final purchase price determination. Goodwill may also arise upon investments in associates, being the excess of the cost of investment over the Group's share of the fair value of the net assets recognised.

#### **IMPAIRMENT OF NON-CURRENT ASSETS AND GOODWILL**

At every balance sheet date an assessment is made for non-current assets (in particular property, plant, equipment, intangible assets, financial assets as well as goodwill offset against equity) whether indicators for an impairment exist. If indicators for a continuous impairment exist, the recoverable amount of the asset is determined. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest cash-generating unit to which the asset belongs.

When the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. As goodwill is fully offset against equity at the date of acquisition, an impairment of goodwill will not affect income, but only be disclosed in the notes to the consolidated financial statements.

#### **DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments used for hedging balance sheet items are recognised at fair value on the date a derivative contract is entered into and are recorded as other receivables or other current liabilities. Derivatives are subsequently remeasured to their current fair value at each balance sheet date, with unrealised gains and losses recognised in the income statement. Fair values of derivative financial instruments are determined by reference to current market prices on the balance sheet date. Changes in the fair value of derivative financial instruments used to hedge future cash flows are directly recognised in equity until realised.

The Group uses forward exchange contracts and currency options to hedge its exposure to foreign currency risk.

#### **MISCELLANEOUS FINANCIAL ASSETS**

Miscellaneous financial assets include loans to third parties and minority shareholdings. Loans receivable and minority shareholdings are stated at cost less appropriate impairment losses.

#### **TRADE ACCOUNTS PAYABLE**

Trade accounts payable are recognised at nominal value.

#### **PROVISIONS**

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. A provision for the expected costs associated with restructuring is recognised when a detailed restructuring plan has been developed and the measures have been approved before the balance sheet date. For long-term provisions material discounting effects are considered.

#### **BANK DEBT**

Bank debt is recognised at nominal value. Discounts are netted with bank debt and recognised on a straight-line basis in the financial result of the income statement over the period of the respective bank loan. Bank debt is classified as current liabilities unless the Group has the right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### **BONDS**

Bonds are initially recorded at issue price net of issue costs. Issue costs and any discount or premium are recognised in the financial result of the income statement over the period of the respective bond.

#### **DIVIDENDS**

Dividend payments to shareholders are recognised as a liability in the balance sheet in the period in which the dividends are approved by shareholders.

#### **PENSION BENEFITS**

Pension benefit obligations of subsidiaries are recognised in the consolidated financial statements according to legal regulations and local rules of the respective countries. The actual economic impact of pension schemes for a Group company is calculated as at balance sheet date. An economic benefit is recorded, if it will be used for future pension contributions made by the company. An economic obligation is recognised if the requirements to record a provision are met. Unrestricted employer contribution reserves are capitalised as an asset.

The Swiss subsidiaries of the Group have their own legally independent pension schemes financed by employer and employee contributions. The economic impact of a funding surplus or deficit of pension schemes for the Group, the change in employer contribution reserves and the contributions accrued for the period are charged to income as personnel expenses. The calculation of a funding surplus or deficit is made based on the annual financial statements of the respective pension schemes prepared in accordance with Swiss GAAP ARR 26.

There are no significant pension schemes in foreign countries. Certain foreign subsidiaries have unfunded pension schemes and recognise the respective benefit obligation as a provision directly in the balance sheet. Such pension liabilities are calculated using methods accepted in the respective countries with changes charged to income as personnel expenses. In addition, in certain countries there are comprehensive coverages with insurance companies where the paid insurance premiums are recorded as an expense.

#### **SHARE AWARD PLAN AND LONG-TERM INCENTIVE PLAN**

The share award plan, which was introduced in 2007, was adapted effective from 2018. From 2019 onwards, only directors will participate in this plan, see note 26. In the transition year 2018 shares were awarded for the last time to senior executives excluding members of the executive management. The awarding of shares will now be based on a fixed monetary amount rather than on a fixed number of shares. The number of shares to be awarded, representing the fixed monetary amount, is determined based on current market value. Share-based payments under the share award plan are recognised as personnel expenses in full at issue date, because the voting and dividend rights of shares awarded are transferred to the beneficiaries at issue date. The shares awarded under the share award plan may not be sold for a period of five years after issue date.

Starting in 2018, a new long-term incentive plan was implemented for senior executives, granting the participants a conditional right to receive bearer shares of Dätwyler Holding Inc. subject to fulfilment of certain conditions after completion of a three-year vesting period. Participants leaving the company before completion of the three-year vesting period usually will forfeit the right to receive shares. The number of shares to be received after completion of the vesting period is dependent on the share price performance as well as on achieving three performance targets in comparison with a peer group of companies.

#### **CAPITAL MANAGEMENT**

The Group has a solid equity base. It consequently focuses the management of its capital structure on the equity of the Group as a whole, the following objectives and policies being relevant:

- Where possible and economically viable, the Group finances its operations through equity, the objective being to maintain an equity ratio of at least 40%.
- A portion of profits generated is paid out to owners as dividends, taking into account current financing needs and compliance with legal requirements. The current dividend policy is generally to maintain a payout ratio of some 40 percent of the Group's net result for the year.

## **2 / BUSINESS ACQUISITIONS AND DISPOSALS**

Acquisitions and disposals during 2018 and 2017 are shown below, see also note 31. The percentages in brackets indicate the percentage voting rights held in each company.

### **Transactions 2018**

#### **COMPANIES ESTABLISHED**

Datwyler Parco Holdings, Inc., domiciled in Wilmington (Delaware), USA (100%)

#### **ACQUISITIONS**

Bins Indústria de Artefatos de Borracha Ltda., domiciled in São Leopoldo, Brazil (100%)

Parco LLC, domiciled in Ontario (California), USA (100%) and Double-E LLC, domiciled in Dallas (Texas), USA (100%)

#### **MERGERS**

In 2018 Nedis Proditex AG (100%) was merged with Dätwyler Schweiz AG.

At the end of 2018 Datwyler Sealing Solutions do Brasil Ltda was merged with Bins Indústria de Artefatos de Borracha Ltda.

#### **LIQUIDATIONS**

Nedis Slovakia a.s., Bratislava, Slovakia (100%)

### **Transactions 2017**

#### **COMPANIES ESTABLISHED**

Datwyler IT Services India LLP, Magarpatta, Pune, India (100%). The company started its operation at the beginning of 2018.

#### **MERGERS**

In December 2017 Distrelec Group AG (100%) was merged with Dätwyler Schweiz AG.

### 3 / SEGMENT INFORMATION

in CHF millions	Sealing Solutions	Technical Components	Elimi- nations	Total Group
<b>2018</b>				
Revenue from external customers	891.1	470.5	–	1'361.6
Inter-segment revenue	–	0.0	–0.0	–
<b>Total net revenue</b>	891.1	470.5	–0.0	1'361.6
<b>Operating result</b>	155.5	14.5	–	170.0
Operating result as % of net revenue	17.5%	3.1%	–	12.5%

in CHF millions	Sealing Solutions	Technical Components	Elimi- nations	Total Group
<b>2017</b>				
Revenue from external customers	832.8	458.6	–	1'291.4
Inter-segment revenue	0.0	0.0	–0.0	–
<b>Total net revenue</b>	832.8	458.6	–0.0	1'291.4
<b>Operating result</b>	151.6	11.0	–	162.6
Operating result as % of net revenue	18.2%	2.4%	–	12.6%

The Datwyler Group is a focused industrial supplier with leading positions in global and regional markets. The Group is organised into two divisions.

The result of the Group management functions is allocated to the divisions using a revenue-based key. The divisions are managed independently and their business performance is measured separately.

The Sealing Solutions division offers customised sealing solutions in the markets health care, automotive and general industries. The significant manufacturing and distribution companies are located in Switzerland, Germany, Belgium, Italy, the Czech Republic, Ukraine, China, South Korea, India, the USA, Brazil and Mexico.

The Technical Components division is a high-service distributor of maintenance, automation, electronic and ICT components and accessories with about 30 distribution and service companies across Europe. Significant operations are located in Switzerland, Germany, the Netherlands as well as in Scandinavia.

## Net revenue by geographical region

<u>in CHF millions</u>	<b>2018</b>	2017
Switzerland	203.2	210.6
Rest of Europe	780.8	735.1
North and South America	198.1	180.3
Asia	172.9	160.7
Other markets	6.6	4.7
<b>Total Group</b>	<b>1'361.6</b>	<b>1'291.4</b>

*Net revenue by geographical region corresponds to revenue from external customers by destination.*

## 4 / ADDITIONAL INCOME STATEMENT DISCLOSURES

Material expense of CHF 588.6 million (previous year CHF 566.5 million) is included in the income statement.

Other operating income includes gain on sale of property, plant and equipment of CHF 0.5 million (previous year CHF 0.1 million) as well as ancillary revenues and rental income.

## 5 / PERSONNEL EXPENSES

<u>in CHF millions</u>	<b>2018</b>	2017
Wages and salaries	279.0	263.8
Benefit costs	60.5	55.7
State social security contributions	38.2	35.4
Pension costs (see note 6)	10.0	10.2
Other benefit costs	12.3	10.1
Other employee costs	14.9	15.6
<b>Total personnel expenses</b>	<b>354.4</b>	<b>335.1</b>

Since 2007, Directors and senior executives receive a portion of their remuneration in the form of bearer shares of Dätwyler Holding Inc., see note 26.

## 6 / EMPLOYEE BENEFIT SCHEMES

### Economic benefit / obligation and pension costs

in CHF millions	Funding surplus/deficit according to Swiss GAAP ARR 26	Economic impact Group	Economic impact Group	Changes not affecting income <sup>1</sup>	Change to prior year or charge to income current year	Contributions for the period	Pension costs in personnel expenses	Pension costs in personnel expenses
	31.12.2018	31.12.2018	31.12.2017				2018	2017
Welfare funds Switzerland	0.4	–	–	–	–	–	–	–
Pension schemes without funding surplus/deficit Switzerland	–	–	–	–	–	6.1	6.1	–
Pension schemes with funding surplus Switzerland	–	–	–	–	–	–	–	6.2
Pension schemes without funding surplus/deficit abroad	–	–	–	–	–	3.5	3.5	3.1
Unfunded pension schemes abroad	–	–4.1	–4.6	–0.2	–0.3	0.7	0.4	0.9
<b>Total</b>	–	<b>–4.1</b>	<b>–4.6</b>	<b>–0.2</b>	<b>–0.3</b>	<b>10.3</b>	<b>10.0</b>	<b>10.2</b>

<sup>1</sup> Translation differences and acquisition/disposal of subsidiaries.

At year-end 2018, as at the end of the previous year, no employer contribution reserves (ECR) existed. The Swiss pension schemes calculate their pension benefit obligations using the statistical assumptions of the VZ 2015 mortality tables and a discount rate of 1.75%. The pension conversion rate was 5.6% in the current year.

### Summary of pension costs

in CHF millions	Switzerland	Abroad	Total
	2018	2018	2018
Contributions to pension schemes expensed at Group companies	6.1	4.2	10.3
Contributions to pension schemes made from employer contribution reserves (ECR)	–	–	–
Total contributions	6.1	4.2	10.3
+/- Changes in ECR due to asset performance, value adjustments, discounting, etc.	–	–	–
<b>Contributions and changes in employer contribution reserves</b>	<b>6.1</b>	<b>4.2</b>	<b>10.3</b>
Increase/reduction economic benefit Group from excess coverage	–	–	–
Reduction/increase economic obligation Group from insufficient coverage	–	–0.3	–0.3
Total change in economic impact from excess/insufficient coverage	–	–0.3	–0.3
<b>= Pension costs included in personnel expenses for the period</b>	<b>6.1</b>	<b>3.9</b>	<b>10.0</b>

in CHF millions	Switzerland	Abroad	Total
	2017	2017	2017
Contributions to pension schemes expensed at Group companies	6.2	3.7	9.9
Contributions to pension schemes made from employer contribution reserves (ECR)	–	–	–
Total contributions	6.2	3.7	9.9
+/- Changes in ECR due to asset performance, value adjustments, discounting, etc.	–	–	–
<b>Contributions and changes in employer contribution reserves</b>	<b>6.2</b>	<b>3.7</b>	<b>9.9</b>
Increase/reduction economic benefit Group from excess coverage	–	–	–
Reduction/increase economic obligation Group from insufficient coverage	–	0.3	0.3
Total change in economic impact from excess/insufficient coverage	–	0.3	0.3
<b>= Pension costs included in personnel expenses for the period</b>	<b>6.2</b>	<b>4.0</b>	<b>10.2</b>

## 7 / DEPRECIATION AND AMORTISATION

in CHF millions	2018	2017
Depreciation of property, plant and equipment (see note 14)	54.3	50.9
Amortisation of intangible assets (see note 15)	7.2	6.1
Impairment charges (see notes 14 and 15)	–	0.2
<b>Total depreciation and amortisation</b>	<b>61.5</b>	<b>57.2</b>

## 8 / NET FINANCE RESULT

in CHF millions	2018	2017
Interest expense on bond, bank and other loans	1.8	2.4
Interest expense on finance leases	0.0	0.0
Fair value loss on forward exchange contracts	–	5.2
Net foreign exchange loss on financing activities	11.9	–
Finance charges	1.3	1.0
<b>Total interest and finance expenses</b>	<b>15.0</b>	<b>8.6</b>
Interest income on bank deposits and loans receivable	–0.2	–0.1
Fair value gain on forward exchange contracts	–5.3	–0.1
Net foreign exchange gain on financing activities	–	–0.6
<b>Total interest and finance income</b>	<b>–5.5</b>	<b>–0.8</b>
<b>Net finance result (expenses, net)</b>	<b>9.5</b>	<b>7.8</b>

## 9 / INCOME TAX EXPENSES

<u>in CHF millions</u>	<b>2018</b>	2017
Current income tax expense	35.1	31.8
Deferred income tax expense/(credit)	4.4	-0.7
<b>Total income tax expenses</b>	<b>39.5</b>	<b>31.1</b>

The effective tax charge on earnings before tax, using the weighted average income tax rate of 23.6% (previous year 24.1%) of the Group, can be analysed as follows:

<u>in Mio. CHF</u>	<b>2018</b>	2017
Earnings before tax	160.5	154.8
Income tax expense calculated at the weighted average tax rate	37.8	37.3
Effect of current year tax losses not recognised and reassessment of tax loss carryforwards	3.4	10.5
Effect of previously unrecognised tax loss carryforwards used against taxable profits	-0.0	-0.0
Other new assessments of temporary differences	-	-12.7
Change in tax rates for deferred income taxes	-1.4	-2.0
Expense and income items treated differently for tax purposes	-2.7	-1.0
Non-refundable taxes on intra-group charges and dividends	0.6	1.1
Prior year tax adjustments	1.6	-2.1
Other effects	0.2	0.0
<b>Total (current and deferred) income tax expenses</b>	<b>39.5</b>	<b>31.1</b>

Other new assessments of temporary differences include in the previous year the release of deferred income tax liabilities of CHF 13.3 million to income, because after the merger of Distrelec Group AG with Dätwyler Schweiz AG in December 2017 the respective temporary valuation differences ceased to exist. On the other hand, capitalised tax loss carryforwards amounting to CHF 10.5 million were written down in the previous year, among others at Nedis. Taxable results differing by region are responsible for changes in the weighted average tax rate.

## 10 / CASH AND CASH EQUIVALENTS

<u>in CHF millions</u>	<b>2018</b>	2017
Cash in hand and at bank	159.5	181.2
Money market investments (original maturities up to 90 days)	11.3	100.6
<b>Total cash and cash equivalents</b>	<b>170.8</b>	<b>281.8</b>

## 11 / TRADE ACCOUNTS RECEIVABLE

<u>in CHF millions</u>	2018	2017
Trade accounts receivable from third parties, gross	199.1	204.2
Provision for impairment of trade accounts receivable	-2.6	-3.0
<b>Total trade accounts receivable from third parties, net</b>	<b>196.5</b>	<b>201.2</b>
Trade accounts receivable from related parties	1.5	0.7
<b>Total trade accounts receivable, net</b>	<b>198.0</b>	<b>201.9</b>

### Aging analysis of gross trade accounts receivable from third parties

<u>in CHF millions</u>	2018	2017
Not yet due	164.6	164.2
Past due 1–30 days	21.7	25.5
Past due 31–60 days	6.7	6.6
Past due 61–90 days	1.7	1.8
Past due 91–180 days	1.5	2.7
Past due more than 180 days	2.9	3.4
<b>Total trade accounts receivable from third parties, gross</b>	<b>199.1</b>	<b>204.2</b>

### Movements in provision for impairment of trade accounts receivable

<u>in CHF millions</u>	2018	2017
At 1 January	3.0	2.9
Charge for the year	1.4	2.3
Unused amounts reversed	-0.9	-1.8
Receivables written off as uncollectible	-0.7	-0.6
Acquisition/disposal of subsidiaries	0.0	-
Exchange differences	-0.2	0.2
<b>At 31 December</b>	<b>2.6</b>	<b>3.0</b>
Of which specific provisions for impairment	2.4	2.7

## 12 / INVENTORIES

<u>in CHF millions</u>	2018	2017
Raw material, gross	31.2	30.7
Consumables, gross	18.9	17.1
Work in progress, gross	16.7	16.0
Finished goods, gross	51.0	45.1
Goods for resale, gross	144.1	132.1
Provision for impairment of inventories	-31.0	-25.2
<b>Total inventories</b>	<b>230.9</b>	<b>215.8</b>

### 13 / OTHER RECEIVABLES

in CHF millions	2018	2017
Withholding, capital and value added tax receivables	10.9	9.1
Current income tax assets	4.0	6.4
Prepayments made, advances given and deposits made	3.4	2.6
Derivative assets: forward exchange contracts (see note 28)	3.9	0.4
Miscellaneous receivables	5.1	4.7
<b>Total other receivables</b>	<b>27.3</b>	<b>23.2</b>

### 14 / PROPERTY, PLANT AND EQUIPMENT

in CHF millions	Real estate	Machinery and production equipment	Office equipment, computer systems, vehicles	Assets under construction	Total property, plant and equipment
<b>PROPERTY, PLANT AND EQUIPMENT 2018</b>					
<b>At cost</b>					
At 1 January 2018	298.6	607.9	47.2	127.2	1'080.9
Additions	2.1	25.9	4.2	94.1	126.3
Disposals	-3.8	-8.3	-3.2	-	-15.3
Transfers	11.4	31.3	1.3	-44.0	-
Acquisition/disposal of subsidiaries	4.2	15.3	0.8	0.0	20.3
Exchange differences	-7.5	-17.8	-1.9	-2.6	-29.8
<b>At 31 December 2018</b>	<b>305.0</b>	<b>654.3</b>	<b>48.4</b>	<b>174.7</b>	<b>1'182.4</b>
<b>Accumulated depreciation</b>					
At 1 January 2018	-124.1	-430.7	-34.2	-	-589
Depreciation expense	-9.8	-40.6	-3.9	-	-54.3
Disposals	1.9	7.9	2.9	-	12.7
Exchange differences	2.4	10.7	1.3	-	14.4
<b>At 31 December 2018</b>	<b>-129.6</b>	<b>-452.7</b>	<b>-33.9</b>	<b>-</b>	<b>-616.2</b>
<b>Net book values</b>					
At 1 January 2018	174.5	177.2	13.0	127.2	491.9
<b>At 31 December 2018</b>	<b>175.4</b>	<b>201.6</b>	<b>14.5</b>	<b>174.7</b>	<b>566.2</b>

in CHF millions					
	Real estate	Machinery and production equipment	Office equipment, computer systems, vehicles	Assets under construction	Total property, plant and equipment
<b>PROPERTY, PLANT AND EQUIPMENT 2017</b>					
<b>At cost</b>					
At 1 January 2017	285.4	554.6	42.0	56.3	938.3
Additions	1.2	12.5	4.4	91.9	110.0
Disposals	-3.4	-4.8	-2.9	-	-11.1
Transfers	4.8	19.2	0.8	-24.8	-
Exchange differences	10.6	26.4	2.9	3.8	43.7
<b>At 31 December 2017</b>	<b>298.6</b>	<b>607.9</b>	<b>47.2</b>	<b>127.2</b>	<b>1'080.9</b>
<b>Accumulated depreciation</b>					
At 1 January 2017	-114.5	-380.5	-30.5	-	-525.5
Depreciation expense	-9.3	-38.1	-3.7	-	-51.1
Disposals	3.2	4.5	2.7	-	10.4
Exchange differences	-3.5	-16.6	-2.7	-	-22.8
<b>At 31 December 2017</b>	<b>-124.1</b>	<b>-430.7</b>	<b>-34.2</b>	<b>-</b>	<b>-589.0</b>
<b>Net book values</b>					
At 1 January 2017	170.9	174.1	11.5	56.3	412.8
<b>At 31 December 2017</b>	<b>174.5</b>	<b>177.2</b>	<b>13.0</b>	<b>127.2</b>	<b>491.9</b>

Acquisition/disposal of subsidiaries include the additions from acquisitions and the disposals on sale of subsidiaries, see also notes 2 and 31. In 2018, no impairment charges (previous year CHF 0.2 million) were recognised.

### Other details of property, plant and equipment

in CHF millions		2018	2017
Leased property, plant and equipment, at cost		3.4	4.0
Accumulated depreciation		-2.0	-1.9
<b>Net book value of property, plant and equipment under finance leases</b>		<b>1.4</b>	<b>2.1</b>

At year-end, property, plant and equipment in the amount of CHF 0.8 million (previous year CHF 1.6 million) were pledged or assigned to secure own liabilities. Assets under construction include prepayments made in the amount of CHF 15.8 million (previous year CHF 19.5 million). Additions to property, plant and equipment include no capitalised borrowing costs (previous year none). At balance sheet date, commitments for capital expenditure on property, plant and equipment amounted to CHF 49.7 million (previous year CHF 45.1 million).

## 15 / INTANGIBLE ASSETS

in CHF millions	Software	Other intangible assets	Total intangible assets
<b>INTANGIBLE ASSETS 2018</b>			
<b>At cost</b>			
At 1 January 2018	46.3	3.5	49.8
Additions	11.7	–	11.7
Disposals	–0.1	–	–0.1
Acquisition/disposal of subsidiaries	0.1	–	0.1
Exchange differences	–0.4	–0.2	–0.5
<b>At 31 December 2018</b>	<b>57.6</b>	<b>3.3</b>	<b>60.9</b>
<b>Accumulated amortisation</b>			
At 1 January 2018	–26.3	–1.8	–28.1
Amortisation expense	–6.6	–0.6	–7.2
Disposals	0.1	–	0.1
Exchange differences	0.2	0.1	0.3
<b>At 31 December 2018</b>	<b>–32.6</b>	<b>–2.3</b>	<b>–34.9</b>
<b>Net book values</b>			
At 1 January 2018	20.0	1.7	21.7
<b>At 31 December 2018</b>	<b>25.0</b>	<b>1.0</b>	<b>26.0</b>

in CHF millions	Software	Other intangible assets	Total intangible assets
<b>INTANGIBLE ASSETS 2017</b>			
<b>At cost</b>			
At 1 January 2017	38.9	2.2	41.1
Additions	6.9	1.0	7.9
Disposals	–0.1	–	–0.1
Exchange differences	0.6	0.3	0.9
<b>At 31 December 2017</b>	<b>46.3</b>	<b>3.5</b>	<b>49.8</b>
<b>Accumulated amortisation</b>			
At 1 January 2017	–20.5	–1.1	–21.6
Amortisation expense	–5.7	–0.4	–6.1
Disposals	0.1	–	0.1
Exchange differences	–0.2	–0.3	–0.5
<b>At 31 December 2017</b>	<b>–26.3</b>	<b>–1.8</b>	<b>–28.1</b>
<b>Net book values</b>			
At 1 January 2017	18.4	1.1	19.5
<b>At 31 December 2017</b>	<b>20.0</b>	<b>1.7</b>	<b>21.7</b>

Intangible assets include no assets under finance leases (previous year none). Additions to software include capitalised cost in the amount of CHF 4.2 million (previous year CHF 2.3 million). In 2018, no impairment charges (previous year none) were recognised.

### Goodwill from acquisitions

Goodwill from acquisitions is fully offset against equity at the date of acquisition. The impact of the theoretical capitalisation and amortisation of goodwill is disclosed below:

### Theoretical movement schedule for goodwill

in CHF millions	2018	2017
<b>At cost</b>		
At 1 January	656.2	655.8
Additions from acquisition of subsidiaries	124.6	–
Adjustments from earn-out agreements	–0.2	0.4
<b>At 31 December</b>	<b>780.6</b>	<b>656.2</b>
<b>Accumulated amortisation</b>		
At 1 January	–631.2	–594.9
Amortisation expense	–15.7	–36.3
Impairment charges	–	–
<b>At 31 December</b>	<b>–646.9</b>	<b>–631.2</b>
<b>Theoretical net book values</b>		
At 1 January	25.0	60.9
<b>At 31 December</b>	<b>133.7</b>	<b>25.0</b>

Goodwill is theoretically amortised on a straight-line basis usually over 5 years. The carrying amounts of goodwill existing on conversion from IFRS to Swiss GAAP ARR at 1 January 2009 have been included in the theoretical movement schedule above using the closing rates prevailing at 1 January 2009. Goodwill from new acquisitions is converted once to Swiss francs using the closing rate as at acquisition date. With this procedure no exchange differences result in the movement schedule.

### Impact on income statement

in CHF millions	2018	2017
Operating result according to income statement	170.0	162.6
Amortisation of goodwill	–15.7	–36.3
Theoretical operating result incl. amortisation of goodwill	154.3	126.3
Net result according to income statement	121.0	123.7
Amortisation of goodwill	–15.7	–36.3
Theoretical net result incl. amortisation of goodwill	105.3	87.4

### Impact on balance sheet

<u>in CHF millions</u>	2018	2017
Equity according to balance sheet	827.4	898.5
Theoretical capitalisation of goodwill (net book value)	133.7	25.0
Theoretical equity incl. net book value of goodwill	961.1	923.5
Equity according to balance sheet	827.4	898.5
Equity as % of total assets	62.9%	69.1%
Theoretical equity incl. net book value of goodwill	961.1	923.5
Theoretical equity incl. net book value of goodwill as % of total assets	66.4%	69.7%

### 16 / MISCELLANEOUS FINANCIAL ASSETS

<u>in CHF millions</u>	2018	2017
Long-term loans to third parties	0.3	0.3
Other financial investments	2.7	3.2
<b>Total miscellaneous financial assets</b>	<b>3.0</b>	<b>3.5</b>

### 17 / BANK DEBT

<u>in CHF millions</u>	2018	2017
Bank overdrafts	2.2	4.2
Current portion of long-term bank loans	61.4	0.1
<b>Total short-term bank debt</b>	<b>63.6</b>	<b>4.3</b>
Long-term bank loans	6.9	7.3
<b>Total bank debt</b>	<b>70.5</b>	<b>11.6</b>
Secured portion of short-term and long-term bank debt	0.8	1.6

The average interest rate was 0.5 percent for the bank overdrafts in Swiss francs, euros and Brazilian real and 2.9 percent for the long-term bank loans in euros and Brazilian real.

#### Maturity of long-term bank debt

<u>in CHF millions</u>	2018	2017
Within 2 years	6.3	0.3
Within 3 years	0.3	6.7
Within 4 years	0.0	–
Within 5 years	0.0	–
Beyond 5 years	0.3	0.3
<b>Total long-term bank debt</b>	<b>6.9</b>	<b>7.3</b>

## 18 / BOND

On 30 May 2018, a 0.625% CHF 150.0 million bond was placed at an issue price of 100.368%. Interest payments are due annually on 30 May and the bond is repayable on 30 May 2024. The 1.125% CHF 150.0 million bond was repaid on 7 June 2018 at nominal value.

## 19 / TRADE ACCOUNTS PAYABLE

Trade accounts payable include accounts payable to related parties of CHF 0.2 million (previous year CHF 0.1 million).

## 20 / OTHER LIABILITIES

### Other current liabilities

<u>in CHF millions</u>	<b>2018</b>	2017
Customer advances received	6.9	4.6
Social security liabilities	3.5	3.7
Current income tax liabilities	9.7	18.7
Capital and value added tax liabilities	6.3	8.9
Current finance lease liabilities (see notes 14 and 15)	0.4	0.6
Other short-term loans payable and financial liabilities	0.0	0.7
Deferred earn-out obligations	0.6	–
Derivative liabilities: forward exchange contracts (see note 28)	0.6	2.4
Miscellaneous current liabilities	14.9	26.7
<b>Total other current liabilities</b>	<b>42.9</b>	<b>66.3</b>

### Other long-term liabilities

Other long-term liabilities include long-term finance lease liabilities of CHF 0.7 million (previous year CHF 1.1 million) and deferred earn-out obligations of CHF 1.2 million (previous year none), see also note 31.

## 21 / PROVISIONS

in CHF millions	Employees and social security	Restructuring	Warranty and liability claims	Other	Total
<b>PROVISIONS 2018</b>					
At 1 January 2018	23.6	1.3	0.3	3.1	28.3
Charges	19.9	–	0.7	1.5	22.1
Uses	–19.3	–1.3	–0.3	–2.6	–23.5
Unused amounts reversed	–2.8	–	–0.0	–0.2	–3
Acquisition/disposal of subsidiaries	1.3	–	0.0	–	1.3
Exchange differences	–0.9	–0.0	–0.0	0.1	–0.8
<b>At 31 December 2018</b>	<b>21.8</b>	<b>–</b>	<b>0.7</b>	<b>1.9</b>	<b>24.4</b>
Thereof current provisions	14.6	–	0.7	1.7	17.0
Thereof long-term provisions	7.2	–	–	0.2	7.4

in CHF millions	Employees and social security	Restructuring	Warranty and liability claims	Other	Total
<b>PROVISIONS 2017</b>					
At 1 January 2017	25.4	0.4	0.3	10.6	36.7
Charges	18.0	5.0	0.1	1.2	24.3
Uses	–19.8	–3.3	–0.0	–7.8	–30.9
Unused amounts reversed	–1.5	–0.8	–0.1	–0.9	–3.3
Exchange differences	1.5	0.0	0.0	0.0	1.5
<b>At 31 December 2017</b>	<b>23.6</b>	<b>1.3</b>	<b>0.3</b>	<b>3.1</b>	<b>28.3</b>
Thereof current provisions	13.4	1.3	0.3	3.0	18.0
Thereof long-term provisions	10.2	–	–	0.1	10.3

### Discounting

Long-term provisions amounting to CHF 0.7 million were discounted using discount rates between 0.8% and 2.5%.

### Employees and social security

This provision covers holiday pay, overtime, statutory termination benefits, long-term employee retention plans and similar liabilities. The provisions are calculated based on actual data.

### Restructuring

The restructuring provisions of CHF 1.3 million at the end of 2017 concerned the Technical Components division and included obligations relating to headcount reductions.

### Warranty and liability claims

The Datwyler Group gives warranties in connection with the products and services it provides. These are based on local legislation or contractual arrangements as well as on past experience. The provision for liability claims is based on actual claims reported, which are generally settled within one year.

### Other provisions

Other provisions among others include provisions for rental contracts of redundant facilities.

## 22 / DEFERRED INCOME TAX ASSETS/LIABILITIES

<u>in CHF millions</u>	<b>2018</b>	2017
<b>At 1 January:</b>		
Deferred income tax assets	48.8	60.8
Deferred income tax liabilities	14.9	27.9
<b>Deferred income tax (assets)/liabilities, net</b>	<b>-33.9</b>	<b>-32.9</b>
Deferred income tax expense/(credit)	4.4	-0.7
Changes directly affecting equity	-	1.1
Acquisition/disposal of subsidiaries (see note 31)	-38.2	-
Exchange differences	0.7	-1.4
<b>At 31 December:</b>		
Deferred income tax assets	80.0	48.8
Deferred income tax liabilities	13.0	14.9
<b>Deferred income tax (assets)/liabilities, net</b>	<b>-67.0</b>	<b>-33.9</b>

Deferred income taxes are calculated at every subsidiary using the local effective income tax rates (weighted average around 23%, previous year around 18%) applicable.

### Tax loss carryforwards

Total available tax loss carryforwards result in deferred income tax assets, gross, of CHF 34.4 million (previous year CHF 40.2 million), of which a net amount of CHF 17.0 million (previous year CHF 25.3 million) was capitalised. Deferred income tax assets were impacted by valuation allowances for and non-capitalisation of tax loss carryforwards in the amount of CHF 17.4 million (previous year CHF 14.9 million).

## 23 / SHARE CAPITAL

### Composition

<u>in CHF</u>	<b>2018</b>	2017
22 million registered shares of CHF 0.01 each	220'000	220'000
12.6 million bearer shares of CHF 0.05 each	630'000	630'000
<b>Total share capital</b>	<b>850'000</b>	<b>850'000</b>

## Per share data

	2018	2017
<b>Bearer shares</b>		
Par value (CHF)	0.05	0.05
Number issued	12'600'000	12'600'000
Number with voting rights and ranking for dividend	12'600'000	12'600'000
Proposed/approved dividend per bearer share (CHF)	3.00 <sup>1</sup>	3.00
<b>Registered shares</b>		
Par value (CHF)	0.01	0.01
Number issued	22'000'000	22'000'000
Number ranking for dividend	22'000'000	22'000'000
Proposed/approved dividend per registered share (CHF)	0.60 <sup>1</sup>	0.60
<b>Total par value of shares ranking for dividend (CHF)</b>	850'000	850'000
Authorised additional share capital (until 9 August 2018)	none	84'999.94
Authorised contingent share capital	none	none
Registration/voting restrictions	none	none
Opting-out and opting-up provisions	none	none

<sup>1</sup> See Board of Directors' proposed appropriation of retained earnings.

## 24 / NET RESULT PER SHARE

Net result per share is calculated by dividing net result by the weighted average number of shares in issue and ranking for dividend, excluding the weighted average number of treasury shares. The weighted value of the 22'000'000 registered shares represents 4'400'000 bearer shares. As in the previous year, the weighted average number of bearer and registered shares outstanding was 17 million shares in total. The short-time purchase and subsequent award of treasury shares, see notes 25 and 26, had no noticeable impact on the calculation of earnings per share. The net result per share of CHF 7.12 (previous year CHF 7.28) thus arises from the simple division of the net result of CHF 121.0 million (previous year CHF 123.7 million) by the weighted average number of 17 million shares.

## 25 / TREASURY SHARES

In 2018, 8'541 shares were purchased from the related party Pema Holding AG at the current market price of CHF 198.20 and subsequently awarded within the scope of the share award plan, see note 26. In the previous year, 19'750 shares were purchased on the stock exchange as well as from the related party Pema Holding AG at market prices averaging CHF 161.12. At the end of 2018 as at the end of the previous year, the Group held no treasury shares.

## 26 / SHARE AWARD PLAN AND LONG-TERM INCENTIVE PLAN

Since 2007, Directors and senior executives have received a portion of their remuneration in the form of bearer shares of Dätwyler Holding Inc.

The share award plan, which was introduced in 2007, was adapted effective from 2018. From 2019 only directors will participate in this plan. In the transition year 2018 shares were awarded for the last time to senior executives excluding members of the executive management. The awarding of shares will now be based on a fixed monetary amount rather than on a fixed number of shares. The number of shares to be awarded, representing the fixed monetary amount, is determined based on current market value. Share-based payments under the share award plan are recognised as personnel expenses in full at issue date, because the voting and dividend rights of shares awarded are transferred to the beneficiaries at issue date. The shares awarded under the share award plan may not be sold for a period of five years after issue date. In June 2018, Directors were awarded a total of 6'891 (previous year 9'600) bearer shares and senior executives were awarded a total of 1'650 (previous year 10'150) bearer shares of Dätwyler Holding Inc., see note 25. Personnel expenses relating to the share award plan amount to CHF 1.7 million (previous year CHF 3.3 million), without impact on additional paid-in capital (previous year net increase of CHF 0.1 million).

Starting in 2018, a new long-term incentive plan was implemented for senior executives, granting the participants a conditional right to receive bearer shares of Dätwyler Holding Inc. subject to fulfilment of certain conditions after completion of a three-year vesting period. Participants leaving the company before completion of the three-year vesting period usually will forfeit the right to receive shares. The number of shares to be received after completion of the vesting period is dependent on the share price performance as well as on achieving three performance targets in comparison with a peer group of companies. Personnel expenses attributable to 2018 amount to CHF 0.4 million for the new longterm incentive plan. Shares will be awarded for the first time in 2021 under this plan.

## 27 / SHAREHOLDERS

At year-end 2018, Pema Holding AG holds as in the previous year all 22'000'000 registered shares, plus 5'112'691 (previous year 5'121'232) of the total of 12'600'000 bearer shares of Dätwyler Holding Inc. This represents 78.36% (previous year 78.39%) of the voting rights and 55.96% (previous year 56.01%) of the share capital. The entire share capital of Pema Holding AG is held by Dätwyler Führungs AG, thereby indirectly possessing the majority of the voting rights in Dätwyler Holding Inc.

The Board of Dätwyler Holding Inc. is not aware of any other shareholders, or groups of shareholders subject to voting agreements, who hold 3% or more of the total voting rights.

## 28 / DERIVATIVE FINANCIAL INSTRUMENTS

The Group economically hedges part of its exposure to foreign currency risk on trade accounts receivable and payable as well as intercompany loans. Forward exchange contracts and currency options, which generally have maturities of less than 12 months, are used as hedging instruments.

### Unsettled forward exchange contracts

<u>in CHF millions</u>	31.12.2018	31.12.2017
Positive fair value	3.9	0.4
Notional amounts	341.5	41.9
Negative fair value	0.6	2.4
Notional amounts	48.4	300.8

These forward exchange contracts have maturities until October 2019. Positive fair values are recorded as other receivables (see note 13), while negative fair values have been recognised in other current liabilities (see note 20).

## 29 / CONTINGENT LIABILITIES

In the ordinary course of business, the Group is exposed to a number of risks among others in connection with litigation cases and outstanding or disputed tax assessments which can lead to possible obligations (contingent liabilities). For most actual cases the amounts involved are insignificant. No provisions have been made where the outcome of such matters is uncertain or the risk is not quantifiable or an outflow of resources is not probable. Provisions have been recognised to the extent that the outcome can be reliably estimated and an outflow of resources is probable.

At year-end 2018, guarantees amounting to CHF 0.3 million in favour of third parties existed. The Datwyler Group has not given any other guarantees in respect of its business relationships with third parties. Performance bonds and guarantees within the Group have been eliminated on consolidation. There are no subordination agreements with third parties.

## 30 / COMMITMENTS

### Maturities of commitments under operating leases, long-term rental and outsourcing agreements

<u>in CHF millions</u>	2018	2017
Less than 1 year	22.4	20.9
Between 2 and 5 years	37.9	33.8
Over 5 years	4.9	6.2
<b>Total commitments</b>	<b>65.2</b>	<b>60.9</b>

Total commitments include CHF 36.4 million (previous year CHF 37.8 million) relating to IT outsourcing contracts for the years 2019 to 2023. Operating lease payments recognised as an expense in the income statement amounted to CHF 6.6 million (previous year CHF 6.2 million). There are no individually significant operating leases.

## 31 / ACQUISITION AND SALE OF SUBSIDIARIES

Acquisitions of subsidiaries had the following effect on the Group's assets and liabilities:

### Acquisitions in 2018

At the beginning of September 2018, Bins Indústria de Artefatos de Borracha Ltda. in São Leopoldo, Brazil, was fully acquired by the Sealing Solutions division. Since September until the end of 2018, the acquired company employing an average of 371 people generated net revenue of CHF 6.1 million. The following table shows the fair value of assets and liabilities acquired at acquisition date and the goodwill arising from this transaction.

in CHF millions	Fair value on acquisition
Cash and cash equivalents	0.1
Trade accounts receivable	2.0
Inventories	2.6
Other current assets	0.2
Property, plant and equipment	2.5
Other non-current assets	0.2
Current liabilities	-4.0
Long-term liabilities	-0.8
<b>Net assets acquired at fair value</b>	<b>2.8</b>
Goodwill including directly attributable transaction costs	7.3
Total	10.1
Less deferred deferred earn-out obligations	-1.8
Less cash and cash equivalents acquired	-0.1
<b>Net cash outflow on acquisition</b>	<b>8.2</b>

At the beginning of October 2018, Parco LLC in Ontario (California) and Double-E LLC in Dallas (Texas), USA, were fully acquired by the Sealing Solutions division. Since October until the end of 2018, the acquired companies employing an average of 250 people generated net revenue of CHF 13.3 million. The following table shows the fair value of assets and liabilities acquired at acquisition date and the goodwill arising from this transaction.

in CHF millions	Fair value on acquisition
Cash and cash equivalents	4.0
Trade accounts receivable	7.1
Inventories	5.1
Other current assets	0.3
Property, plant and equipment	17.8
Intangible assets	0.1
Deferred income tax assets	38.2
Current liabilities	-5.2
Long-term liabilities	-0.2
<b>Net assets acquired at fair value</b>	<b>67.2</b>
Goodwill including directly attributable transaction costs	117.3
Total	184.5
Less cash and cash equivalents acquired	-4.0
<b>Net cash outflow on acquisition</b>	<b>180.5</b>

## 32 / RELATED PARTY TRANSACTIONS

### **Pema Holding AG**

Transactions between the companies include the dividend payments to Pema Holding AG of CHF 28.6 million (previous year CHF 21.0 million) and administrative costs of CHF 20'000 (previous year CHF 20'000) for administration and accounting services provided by Alvest AG. In addition, the following transactions with Pema Holding AG and its subsidiaries occurred in 2018: Net revenue of CHF 0.0 million (previous year CHF 0.2 million), material expense of CHF 0.8 million (previous year CHF 0.9 million), IT and trademark service revenues and other service revenue of CHF 8.1 million in total (previous year CHF 8.6 million) and service expenses of CHF 0.6 million (previous year CHF 0.6 million). In 2018, Pema Holding AG granted a new loan to Dätwyler Holding Inc. in the amount of CHF 60.0 million with interest charges of CHF 0.1 million. 8'541 shares (previous year 4'360 shares) of Dätwyler Holding AG were purchased from Pema Holding AG at the current market price of CHF 198.20 (previous year CHF 165.80), see notes 25 and 26. Accounts receivable and payable with Pema Holding AG and its subsidiaries are disclosed as items with related parties in notes 11 and 19.

### **Pension schemes**

Alvest AG charged administrative costs of CHF 0.2 million (previous year CHF 0.2 million) to the pension schemes.

### **Remuneration of Directors and Executive Board members**

Except for the remuneration as disclosed in the remuneration report on pages 42 to 54 of this annual report, no further relations or transactions existed in 2018 and 2017 with the members of the Board of Directors and the Executive Board.

## 33 / EVENTS AFTER BALANCE SHEET DATE

The Board of Directors and the Executive Board are not aware of any other significant events occurring up to the date of approval of the consolidated financial statements on 4 February 2019 that would cause an adjustment of the carrying amounts of the Group's assets and liabilities.

## 34 / SUBSIDIARIES

Dätwyler Holding Inc. directly or indirectly owned the following fully consolidated subsidiaries at 31 December 2018, all with a capital and voting interest of 100%. There are no minority interests.

		Registered office	Original currency	Capital in original currency (in millions)	Technical Components	Sealing Solutions	Service and financial companies
<b>SWITZERLAND</b>	Alvest AG *	Altdorf	CHF	15.000			●
	Dätwyler AG *	Altdorf	CHF	0.100			●
	Dätwyler IT Services AG *	Altdorf	CHF	0.100			●
	Dätwyler Schweiz AG *	Schattdorf	CHF	32.000		○	
	Dätwyler Sealing Solutions International AG	Schattdorf	CHF	0.100		●	
	Dätwyler Teco Holding AG *	Altdorf	CHF	9.900	●		
	Dätwyler Technical Components AG	Altdorf	CHF	0.100	●		
	Distrelec AG *	Altdorf	CHF	0.090			●
	Pohl Immobilien AG	Schattdorf	CHF	1.600		●	
Teco Immobilien AG	Altdorf	CHF	0.500	●			
<b>BELGIUM</b>	Dätwyler Pharma Packaging Belgium NV	Alken	EUR	17.693		○	
	Dätwyler Pharma Packaging International NV	Alken	EUR	107.330		●	
	Nedis NV	Geel	EUR	0.062	□		
<b>BRAZIL</b>	Bins Indústria de Artefatos de Borracha Ltda	São Leopoldo	BRL	11.476		□	
<b>CHINA</b>	Dätwyler Sealing Technologies (Anhui) Co., Ltd.	Ningguo	USD	5.000		○	
	Dätwyler Sealing Technologies (Wuxi) Co., Ltd.	Wuxi	USD	5.000		○	
	TeCo Asia Technology (Shenzhen) Co. Ltd	Shenzhen	CNY	0.500	●		
<b>DENMARK</b>	Elfa Distrelec A/S	Aarhus	DKK	1.000	□		
<b>GERMANY</b>	Dätwyler Pharma Packaging Deutschland GmbH	Karlsbad	EUR	2.600		○	
	Dätwyler Sealing Technologies Deutschland GmbH	Waltershausen	EUR	18.756		○	
	Dätwyler Teco Holding (Deutschland) GmbH	Sande	EUR	3.100	●		
	Distrelec GmbH	Bremen	EUR	0.800	□		
	Nedis GmbH	Willich	EUR	0.026	□		
	Dätwyler Sealing Solutions Deutschland GmbH & Co. KG	Cleebronn	EUR	1.000		○	
	Reichelt Elektronik GmbH & Co. KG	Sande	EUR	3.000	□		
<b>UK</b>	Distrelec Ltd.	Manchester	GBP	0.002	●		
	Nedis (UK) Limited	Leicester	GBP	0.009	□		
<b>ESTONIA</b>	Elfa Distrelec OÜ	Tallinn	EUR	0.079	□		
<b>FINLAND</b>	Elfa Distrelec Oy	Helsinki	EUR	0.020	□		
	Nedis Oy	Savonlinna	EUR	0.017	□		
<b>FRANCE</b>	Nedis SAS	Nantes	EUR	0.100	□		
<b>HONG KONG</b>	Teco Asia Limited	Hong Kong	HKD	0.010	●		

		Registered office	Original currency	Capital in original currency (in millions)	Technical Components	Sealing Solutions	Service and financial companies
<b>INDIA</b>	Datwyler IT Services India LLP	Magarpatta, Pune	INR	0.100			●
	Datwyler Pharma Packaging India Private Limited	Kesurdi, Satara	INR	656.233		○	
<b>ITALY</b>	Datwyler Pharma Packaging Italy srl	Milano	EUR	2.000		○	
	Distrelec Italia srl	Milano	EUR	1.275	□		
	Nedis Italia srl	Milano	EUR	0.100	□		
	Datwyler Sealing Solutions Italy S.p.A.	Viadanica	EUR	1.300		○	
<b>LATVIA</b>	Elfa Distrelec SIA	Riga	EUR	0.008	□		
<b>LITHUANIA</b>	Elfa Distrelec UAB	Vilnius	EUR	0.003	□		
<b>MEXICO</b>	Datwyler Sealing Technologies Mexico S DE RL DE CV	Silao	MXN	82.000		○	
<b>NETHERLANDS</b>	Datwyler TeCo Holding B.V.	Amsterdam	EUR	51.768	●		
	Distrelec B.V.	's-Hertogenbosch	EUR	0.064	□		
	Nedis B.V.	's-Hertogenbosch	EUR	0.045	□		
	Nedis Group B.V.	's-Hertogenbosch	EUR	0.018	●		
	TeCo CDC B.V.	Amsterdam	EUR	0.018	●		
<b>NORWAY</b>	Elfa Distrelec AS	Trollåsen	NOK	0.200	□		
<b>AUSTRIA</b>	Distrelec Gesellschaft m.b.H.	Wien	EUR	0.145	□		
	Nedis Elfogro GmbH	Wien	EUR	0.035	□		
<b>POLAND</b>	Elfa Distrelec Spz oo	Warschau	PLN	0.100	□		
<b>SWEDEN</b>	Elfa Distrelec AB	Kista	SEK	0.100	□		
	Nedis AB	Kista	SEK	3.575	□		
<b>SPAIN</b>	Nedis Iberia SL	Barcelona	EUR	0.153	□		
<b>SOUTH KOREA</b>	Datwyler Korea Inc.	Daegu	KRW	1'131.000		○	
<b>CZECH REPUBLIC</b>	Datwyler Sealing Technologies CZ s.r.o.	Novy Bydzov	CZK	20.000		○	
	Nedis Kerr s.r.o.	Modřice	CZK	0.100	□		
<b>UKRAINE</b>	Datwyler Sealing Technologies Ukraine JSC	Malyn	UAH	12.500		○	
<b>HUNGARY</b>	Nedis Kft.	Budapest	HUF	13.040	□		
<b>USA</b>	Datwyler Parco Holdings Inc.	Wilmington	USD	0.000		●	
	Datwyler Pharma Packaging USA Inc.	Pennsauken	USD	9.130		○	
	Datwyler Sealing Solutions USA Inc.	Dayton	USD	0.153		○	
	Double-E LLC	Dallas	USD	0.000		○	
	Parco LLC	Ontario	USD	0.000		○	

- *Manufacturing and sales*
- *Distribution*
- *Services/finance/real estate*

\* = Held directly by Dätwyler Holding Inc.

# Report of the Statutory Auditor on the Consolidated Financial Statements



## Statutory Auditor's Report

To the General Meeting of Dätwyler Holding AG, Altdorf

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Dätwyler Holding AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flows statement 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 60 to 91) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated results of operations 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.

#### Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



##### Revenue Recognition



##### Valuation of Inventories in the Technical Components Division



##### Acquisitions

Key audit matters are those matters that, in our professional judgment, 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.



## Revenue Recognition

### Key Audit Matter

Consolidated net revenue recognized for the year ended 31 December 2018 amounted to CHF 1,361.6 million. Revenues are an important metric to evaluate the Group's business performance and are therefore considered by external and internal stakeholders.

In the Sealing Solutions Division revenues are mainly generated from the sale of products from own production and in the Technical Components Division from distribution of goods for resale. Revenue is recognised when the significant risks and rewards of ownership have passed to the buyer in accordance with the agreed terms and conditions.

Risk and rewards of ownership generally transfer with their delivery. Revenues under long-term multiple supply contracts are recorded at delivery of each instalment, according to the quantity delivered. These circumstances have to be considered when determining the appropriate time of revenue recognition. This results in a significant risk from an audit perspective.

There is an additional risk that Revenues may be deliberately over- or understated in order for management to achieve planned results. This could for example occur by manipulating inputs in the Group's accounting system.

Based on this rationale, we consider revenue recognition as a key audit matter.

### Our response

We obtained an understanding of the revenue recognition process from initiating sales orders to payment receipts. Based on this we critically assessed whether transactions are completely and accurately recorded in the consolidated financial statements.

We considered the existence (design and implementation) of the relevant controls within the Group and we tested the operating effectiveness of key controls relating to revenue recognition on a sample basis.

We assessed the appropriateness of accounting policies for revenue recognition and, specifically, for the appropriate time of revenue recognition.

In addition and among others, our procedures included the following:

- On a sample basis, we performed detailed cut-off testing of revenue transactions to either side of the balance sheet date with reference to shipping documentation and contracts. Based on that we assessed the appropriate revenue recognition based on the transfer of risks and rewards of ownership to the buyer in accordance with the agreed terms and conditions.
- On a sample basis, we obtained trade debtors confirmations and agreed the confirmations to the trade debtors balances.
- On a sample basis, we assessed the appropriateness of credit notes issued as well as the payments received after year end.
- In addition we performed analytical procedures including gross margin trend analysis on a Division level as well as on the level of various entities.
- In addition to the procedures described above, we further addressed the risk of management override of controls by analysing manual journal entries related to revenue accounts.

For further information on Revenue Recognition refer to the following:

- Summary of Significant Accounting Policies on page 65
- Segment Information on page 71



## Valuation of Inventories in the Technical Components Division

### Key Audit Matter

Inventories are a significant balance sheet position for the Dätwyler Group. As per 31 December 2018 inventories in the Technical Components Division amounts to CHF 117.4 million, which represents 51% of total inventories.

Inventories are stated based on the principle of lower of cost and net realisable value. Write-downs of inventory are principally due to the application of this principle, covering obsolete and surplus inventory.

The business model of the Technical Components Division offers customers a broad range of products, which are delivered within a very short time. This model requests a very high readiness for delivery and therefore includes the risk of surplus or technically obsolete inventory. In addition, Nedis launched its new brand identity "Nedis" in 2018. The new product brand reduces a number of product brands to one new strong Nedis product brand.

The calculation of the write-downs includes estimates and judgments, as the amount is depending on inventory levels, expected sales volumes and an estimate of the technical currency of individual products.

Based on this rationale, we consider the valuation of inventories in the Technical Components Division as a key audit matter.

### Our response

We obtained an understanding of the purchase process from initiating purchase orders to payment of supplier invoices. Based on this we assessed whether transactions are completely and accurately recorded in the accounts. Considering the diverse design of internal control systems at individual subsidiaries, we tested the operating effectiveness of key controls relating to acquisition and manufacturing costs, respectively.

We compared the methodology applied to calculate the inventory write-downs with the accounting policies of the Group.

On a sample basis we challenged the method and the appropriateness of the assumptions used by Management to calculate inventory write-downs by assessing whether the criteria used for the calculation of the write-down, especially the inventory level, the inventory value, the age and the sales information by product, are accurate.

On a sample basis we assessed the computational accuracy of the write-downs.

For further information on Valuation of Inventories in the Technical Components Division refer to the following:

- Summary of Significant Accounting Policies on page 66
- Inventories on page 76



## Acquisitions

### Key Audit Matter

In 2018 the Dätwyler Group acquired all shares of Bins Indústria de Artefatos de Borracha Ltda and of Parco LLC. These are two significant acquisitions. The accounting for these acquisitions requires management to exercise judgement and is based on a number of assumptions, among others the following:

- The fair value measurement of assets and liabilities acquired at the date of acquisition;
- The fair value measurement of the contingent consideration;
- Accounting treatment and classification of goodwill, earn-out agreements and acquisition related costs.

Based on this rationale, we consider acquisitions as a key audit matter.

### Our response

With the support of one of our own valuation specialists, we challenged the main valuation assumptions applied.

Among others, our audit procedures included the following:

- Audit of the opening balance sheet of the entities acquired;
- Analysing the purchase agreements to identify conditions contained within the agreement with an impact on the purchase price allocation;
- Considering the appropriateness of the fair values ascribed to assets, liabilities and the contingent consideration;
- With the support of one of our own valuation specialists we critically challenged the assumptions applied by management to identify and measure the fair values of assets and liabilities;
- Evaluating proper accounting and disclosure of the transactions in the consolidated financial statements.

For further information on Acquisitions refer to the following:

- Summary of Significant Accounting Policies on page 67
- Acquisition and Disposal of Subsidiaries on page 88

### Other matter

The consolidated financial statements of Dätwyler Holding AG for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those consolidated statements on 2 February 2018.

### Responsibility 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.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



### Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the 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.

KPMG AG

A handwritten signature in blue ink, appearing to read 'Toni Wattenhofer'.

Toni Wattenhofer  
Licensed Audit Expert  
Auditor in Charge

A handwritten signature in blue ink, appearing to read 'Manuel Odoni'.

Manuel Odoni  
Licensed Audit Expert

Zurich, 4 February 2019



# Dätwyler Holding Inc.

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## Income Statement

in CHF	Notes	2018	2017
Dividend income from subsidiaries	2.1	11'000'000	52'000'000
Other income		4'863	3'653
Personnel expenses		-2'143'848	-2'380'418
Other operating expenses	2.2	-2'064'106	-2'786'974
<b>Income before interest and taxes</b>		<b>6'796'909</b>	<b>46'836'261</b>
Financial income	2.3	9'992'708	9'539'231
Financial expenses	2.4	-1'426'547	-1'795'214
<b>Income before taxes</b>		<b>15'363'070</b>	<b>54'580'278</b>
Direct taxes		-335'350	-267'736
<b>Annual profit</b>		<b>15'027'720</b>	<b>54'312'542</b>

*The accompanying notes are an integral part of these financial statements.*

## Balance Sheet

### Assets

in CHF	Notes	31.12.2018	31.12.2017
Cash and cash equivalents		392'080	65'147'763
Other current receivables		9'575	45'809
Due from third parties		9'575	45'809
<b>Total current assets</b>		<b>401'655</b>	<b>65'193'572</b>
Financial assets: Long-term receivables from subsidiaries	2.5	1'062'467'884	958'785'653
Investments in subsidiaries	2.6	145'963'753	145'965'148
Intangible assets: Trademarks		1	1
<b>Total non-current assets</b>		<b>1'208'431'638</b>	<b>1'104'750'802</b>
<b>Total assets</b>		<b>1'208'833'293</b>	<b>1'169'944'374</b>

### Liabilities and shareholders' equity

in CHF	Notes	31.12.2018	31.12.2017
Current liabilities third parties		305'551	249'038
Current interest-bearing liabilities	2.7	75'012'781	150'000'000
Due to subsidiaries		15'012'781	–
Due to Pema Holding AG		60'000'000	–
Bond 2012–2018		–	150'000'000
Accrued expenses and deferred income		955'469	1'163'564
<b>Total current liabilities</b>		<b>76'273'801</b>	<b>151'412'602</b>
Long-term interest-bearing liabilities	2.7	150'000'000	–
Bond 2018–2024		150'000'000	–
<b>Total long-term liabilities</b>		<b>150'000'000</b>	<b>–</b>
<b>Total liabilities</b>		<b>226'273'801</b>	<b>151'412'602</b>
Share capital	2.8	850'000	850'000
Statutory capital reserves		83'000'000	83'000'000
Statutory retained earnings		4'000'000	4'000'000
Voluntary retained earnings	2.10	305'263'318	305'263'318
Retained earnings available for distribution		589'446'174	625'418'454
Profit carried forward		574'418'454	571'105'912
Annual profit		15'027'720	54'312'542
<b>Total shareholders' equity</b>		<b>982'559'492</b>	<b>1'018'531'772</b>
<b>Total liabilities and shareholders' equity</b>		<b>1'208'833'293</b>	<b>1'169'944'374</b>

The accompanying notes are an integral part of these financial statements.

# Notes to the Financial Statements

## 1 / VALUATION PRINCIPLES

These Financial Statements were prepared in accordance with the provisions of the Swiss Code of Obligations concerning commercial accounting and financial reporting standards (SCO 957 ff.). Significant balance sheet items are reported as follows.

### **Financial assets and investments in subsidiaries**

Financial assets are measured at nominal value less necessary impairment charges. Investments in subsidiaries are measured individually at purchase price less necessary impairment charges.

### **Measurement of liabilities/bonds**

Liabilities including bonds are carried at nominal value.

## 2 / EXPLANATIONS CONCERNING THE FINANCIAL STATEMENTS

Dätwyler Holding Inc. is domiciled in Altdorf.

The average number of full-time equivalents in the course of a year does not exceed ten employees.

### **2.1 / DIVIDEND INCOME FROM SUBSIDIARIES**

Dividend income from subsidiaries comprises profit distributions from subsidiaries.

### **2.2 / OTHER OPERATING EXPENSES**

This item comprises Dätwyler Holding Inc.'s general costs of doing business. Dätwyler Holding Inc. has no operating costs, as these are charged in full to Alvest AG and then in turn to the subsidiaries. "Stewardship costs" (Dätwyler Holding Inc. administrative expenses) are charged to Dätwyler Holding Inc.

### **2.3 / FINANCIAL INCOME**

Financial income is derived primarily from interest-bearing assets of subsidiaries.

### **2.4 / FINANCIAL EXPENSES**

Financial expenses comprise interest expenses for bond coupon payments together with commissions and bank fees.

### **2.5 / LONG-TERM RECEIVABLES FROM SUBSIDIARIES**

These are Swiss franc-denominated long-term loans receivable from subsidiaries. At the end of 2018, a subordination agreement in the amount of CHF 140 million (previous year CHF 120 million) was declared. Based on a current valuation of the respective investment, no impairment write-down was considered necessary.

### **2.6 / INVESTMENTS IN SUBSIDIARIES**

Dätwyler Holding Inc.'s direct and indirect subsidiaries are disclosed in note 34 to the consolidated financial statements.

## 2.7 / BONDS

On 30 May 2018, a 0.625% CHF 150.0 million bond was placed at an issue price of 100.368%. Interest payments are due annually on 30 May and the bond is repayable on 30 May 2024. The 1.125% CHF 150.0 million bond was repaid on 7 June 2018 at nominal value.

## 2.8 / SHARE CAPITAL

in CHF	31 Dec. 2018	31 Dec. 2017
22'000'000 registered shares at CHF 0.01 par	220'000	220'000
12'600'000 bearer shares at CHF 0.05 par	630'000	630'000
<b>Share capital</b>	<b>850'000</b>	<b>850'000</b>

Shares in Dätwyler Holding Inc. are listed on the SIX Swiss Exchange. Each registered share and each bearer share, regardless of nominal value, carries one vote at the General Meeting of Shareholders, with the exception of bearer treasury shares.

All 22'000'000 registered shares along with 5'112'691 of the total 12'600'000 bearer shares are held by Pema Holding AG, Altdorf; thus its percentage of capital is 55.96% and its percentage of voting shares is 78.36%.

The Board of Directors is unaware of any further shareholders or of shareholder voting pools whose interest amounts to 3% of all votes.

## 2.9 / EMPLOYEE SHARE OWNERSHIP PLAN / TREASURY SHARES

In the current year, a total of 8'541 (previous year 19'750) bearer shares were acquired by Alvest AG at current stock exchange prices averaging CHF 198.20 and then used for Group employees under the Employee Share Ownership Plan. 6'891 (previous year 9'600) bearer shares with a total value of CHF 1'365'797 (previous year CHF 1'591'680) were allocated to members of the Board of Directors, see Remuneration Report. 1'650 (previous year 1'650) bearer shares with a total value of CHF 327'030 (previous year CHF 273'570) were allocated to other employees.

At the end of 2018 and 2017, no treasury shares were held.

## **2.10 / VOLUNTARY RETAINED EARNINGS**

The voluntary retained earnings represent a free reserve at the disposal of the General Meeting of Shareholders. Pursuant to Art. 659a para. 2 and Art. 671a of the Swiss Code of Obligations, the Company is required to maintain a separate reserve for treasury shares held by a subsidiary in an amount equal to their purchase cost. The Board of Directors forms this reserve by transfers to and from the voluntary retained earnings.

## **2.11 / SURETIES, GUARANTEES AND PLEDGE COMMITMENTS IN FAVOUR OF THIRD PARTIES**

On a basis of joint and several liability, lines of credit were granted to various subsidiaries in the amount of CHF 157.6 million (previous year CHF 136.3 million), of which CHF 70.3 million (previous year CHF 13.9 million) was used to secure bank debt and unsettled forward exchange contracts. In addition, Dätwyler Holding Inc. has issued a guarantee in the amount of CHF 6.3 million until the end of 2027 for future rental commitments.

## **2.12 / JOINT AND SEVERAL LIABILITY**

Since 1 January 2009 the Company has been a member of the value-added tax group under the number CHE-116.346.605 MWST. The principal member of the group is Alvest AG, Altdorf. For the term of its membership in this group, the Company bears joint and several liability pursuant to Art. 15 para. 1 lit c of the VAT Act.

## **2.13 / CONTINGENT LIABILITIES**

In the normal course of business, risks arise in connection with such matters as legal disputes and pending or disputed tax assessments that could potentially lead to liabilities (contingent liabilities). The amount involved in most current cases is immaterial. Where the outcome of such cases is unclear or the risk is unquantifiable or the likelihood of an outflow of funds is unlikely, no provisions are being made. Provisions are being made where the outcome can be estimated or an outflow of funds is probable.

## **2.14 / LOANS AND CREDITS**

No loans and/or credits were granted to individual current or former members of the Board of Directors or Executive Management (including persons connected with them) in the year under review.

## **2.15 / BOARD OF DIRECTORS AND EXECUTIVE BOARD SHAREHOLDINGS**

As at 31 December 2018, the individual members of the Board of Directors and Executive Management and their related parties held the following quantities of the Company's equity securities:

### Board of Directors shareholdings 2018

Last name, first name	Position	Number of shares	% of voting rights	Of which blocked until				
				2019	2020	2021	2022	2023
Hälg, Paul J.	Chairman	29'651	0.085697	3'300	3'300	3'300	2'400	1'736
Fässler, Hanspeter	Vice-Chairman	14'174	0.040965	1'100	1'100	1'100	1'700	1'210
Cornaz, Claude R.	Member	789	0.002280	0	0	0	0	789
Fedier, Jürg	Member	4'089	0.011818	0	1'100	1'100	1'100	789
Huber, Gabi	Member	6'458	0.018665	1'100	1'100	1'100	1'100	789
Ulmer, Hanno	Member	4'089	0.011818	0	1'100	1'100	1'100	789
Zhang, Zhiqiang	Member	2'989	0.008639	0	0	1'100	1'100	789

*Share type: Bearer share, nom. CHF 0.05*  
*Voting rights per bearer share: 0.00000289%*

### Executive Management shareholdings 2018

Last name, first name	Position	Number of shares	% of voting rights	Of which blocked until				
				2019	2020	2021	2022	2023
Lambrecht, Dirk	CEO	10'000	0.028902	1'500	1'500	1'500	4'000	0
Welte, Reto	CFO	6'000	0.017341	1'500	1'500	1'500	1'500	0
Harrison, Neil	Division CEO	4'500	0.013006	0	1'500	1'500	1'500	0
Maschke, Torsten	Division CEO	1'500	0.004335	0	0	0	1'500	0

*Share type: Bearer share, nom. CHF 0.05*  
*Voting rights per bearer share: 0.00000289%*

### Board of Directors shareholdings 2017

Last name, first name	Position	Number of shares	% of voting rights	Of which blocked until				
				2018	2019	2020	2021	2022
Hälg, Paul J.	Chairman	29'915	0.086460	3'300	3'300	3'300	3'300	2'400
Fässler, Hanspeter	Vice-Chairman	12'964	0.037468	1'100	1'100	1'100	1'100	1'700
Fedier, Jürg	Member	3'300	0.009538	0	0	1'100	1'100	1'100
Huber, Gabi	Member	5'669	0.016384	1'100	1'100	1'100	1'100	1'100
Odermatt, Ernst	Member	12'364	0.035734	1'100	1'100	1'100	1'100	1'100
Ulmer, Hanno	Member	3'300	0.009538	0	0	1'100	1'100	1'100
Zhang, Zhiqiang	Member	2'200	0.006358	0	0	0	1'100	1'100

Share type: Bearer share, nom. CHF 0.05

Voting rights per bearer share: 0.00000289%

### Executive Management shareholdings 2017

Last name, first name	Position	Number of shares	% of voting rights	Of which blocked until				
				2018	2019	2020	2021	2022
Lambrecht, Dirk	CEO	10'000	0.028902	1'500	1'500	1'500	1'500	4'000
Welte, Reto	CFO	7'100	0.020520	1'100	1'500	1'500	1'500	1'500
Harrison, Neil	Division CEO	4'500	0.013006	0	0	1'500	1'500	1'500
Maschke, Torsten	Division CEO	1'500	0.004335	0	0	0	0	1'500

Share type: Bearer share, nom. CHF 0.05

Voting rights per bearer share: 0.00000289%

## 2.16 / SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

## Proposed Appropriation of Retained Earnings

### Retained earnings carried forward

<u>in CHF</u>	<b>2018</b>	2017
Profit carried forward	574'418'454	571'105'912
Annual profit	15'027'720	54'312'542
<b>Retained earnings at disposal of General Meeting of Shareholders</b>	<b>589'446'174</b>	<b>625'418'454</b>

### Proposal of the Board of Directors on the appropriation of retained earnings

<u>in CHF</u>	<b>2018</b>	2017
	Proposal of the Board of Directors	Resolution of the General Meeting of Shareholders
<b>Retained earnings at disposal of General Meeting of Shareholders</b>	<b>589'446'174</b>	<b>625'418'454</b>
Distribution of cash dividend	-51'000'000	-51'000'000
Registered shares: CHF 0.60 (previous year CHF 0.60)	-13'200'000	-13'200'000
Bearer shares: CHF 3.00 (previous year CHF 3.00)	-37'800'000	-37'800'000
<b>To be carried forward</b>	<b>538'446'174</b>	<b>574'418'454</b>

# Report of the Statutory Auditor on the Financial Statements



## Statutory Auditor's Report

To the General Meeting of Dätwyler Holding AG, Altdorf

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Dätwyler Holding AG (the Company), which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 100 to 106) for the year ended 31 December 2018 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.

#### Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority



##### Recoverability of investments in subsidiaries and long-term receivables from subsidiaries in the Technical Components Division

Key audit matters are those matters that, in our professional judgment, 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.



#### Recoverability of investments in subsidiaries and long-term receivables from subsidiaries in the Technical Components Division

##### Key Audit Matter

As per 31 December 2018 the Company has investments in subsidiaries of CHF 30.0 million and long-term receivables of CHF 436.3 million from subsidiaries in the Technical Components Division, which represent significant items for Dätwyler Holding AG. The recoverability of these items depends on the economic substance and the future results of this division of the Group.

On an annual basis, the Company assesses whether there is a need for impairment on investments in subsidiaries and long-term receivables from subsidiaries. The assessment of the recoverability of the investments in subsidiaries and long-term receivables from subsidiaries is based on a comparison of the carrying amounts with the value of the Company's share of equity.

For critical investments the economic value of equity is based on their expected future results respectively cash flows (discounted cash flow valuation). For other investments in subsidiaries, the economic value of equity is determined based on net asset values or simplified earnings values, respectively.

The Group companies generate their forecast of future results based on a budgeting process defined by the Board of Directors. Management and the Board of Directors monitor this process and challenge the assumptions used.

The impairment assessment of investments in subsidiaries and long-term receivables from subsidiaries requires significant management judgment, and is therefore considered a key audit matter.

For further information on Recoverability of investments in subsidiaries and long-term receivables from subsidiaries in the Technical Components Division refer to the following:

- Valuation principles on page 102
- Long-term receivables from subsidiaries on page 102

##### Other matter

The financial statements of Dätwyler Holding AG for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 2 February 2018.

##### Our response

As part of our audit we evaluated the assessment of the recoverability of investments in subsidiaries and long-term receivables from subsidiaries in the Technical Components Division prepared by the management. In particular we satisfied ourselves that the methodologies applied to assess the recoverability are appropriate, the calculations are comprehensible and that the assumptions made by the management are appropriate.

Among others, our audit procedures included the following:

Regarding investments in subsidiaries and long-term receivables from subsidiaries for which discounted cash flow valuations have been prepared, our audit procedures included among others the following:

- comparing future results underlying the valuations to actual forecasts prepared by management and to budget plans approved by the Board of Directors;
- challenging the robustness of the key assumptions used to determine the recoverable amount, including forecast cash flows, long-term growth rates and discount rates by comparison with publicly available information;
- comparing the carrying amounts of the investments and the long-term receivables to the economic value of equity of the relevant companies.



### **Responsibility 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.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



### Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the 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.

KPMG AG

A handwritten signature in blue ink, appearing to read 'Toni Wattenhofer'.

Toni Wattenhofer  
Licensed Audit Expert  
Auditor in Charge

A handwritten signature in blue ink, appearing to read 'Manuel Odoni'.

Manuel Odoni  
Licensed Audit Expert

Zurich, 4 February 2019



## Shareholder Information

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## Five Year Summary

### Datwyler Group

in CHF millions	2018	2017	2016	2015	2014
<b>Net revenue</b>	1'361.6	1'291.4	1'215.8	1'165.2	1'251.9
Year-on-year change (%)	5.4	6.2	4.3	-6.9	-9.4
<b>EBITDA</b>	231.5	219.8	204.3	179.4	185.8
<b>Depreciation and amortisation</b>	61.5	57.2	58.2	53.3	53.6
As % of net revenue	4.5	4.4	4.8	4.6	4.3
Year-on-year change (%)	7.5	-1.7	9.2	-0.6	-8.2
<b>Operating result (EBIT)</b>	170.0	162.6	146.1	126.1	132.3
As % of net revenue	12.5	12.6	12.0	10.8	10.6
Year-on-year change (%)	4.6	11.3	15.9	-4.7	-2.7
<b>Net result</b>	121.0	123.7	57.6	82.2	97.9
As % of net revenue	8.9	9.6	4.7	7.1	7.8
Year-on-year change (%)	-2.2	114.8	-29.9	-16.0	-18.6
<b>Net cash from operating activities</b>	162.9	112.7	90.7	172.5	110.8
As % of net revenue	12.0	8.7	7.5	14.8	8.9
Year-on-year change (%)	44.5	24.3	-47.4	55.7	-33.4
<b>Free cash flow (based on Consolidated Cash Flow Statement)</b>	-172.0	2.7	39.4	126.9	180.7
<b>Non-current assets</b>	675.2	565.9	496.3	453.4	459.7
Year-on-year change (%)	19.3	14.0	9.5	-1.4	7.1
<b>Current assets</b>	639.6	733.7	720.8	675.7	700.1
Year-on-year change (%)	-12.8	1.8	6.7	-3.5	0.9
<b>Total assets</b>	1'314.8	1'299.6	1'217.1	1'129.1	1'159.8
<b>Equity</b>	827.4	898.5	805.5	726.1	753.2
Year-on-year change (%)	-7.9	11.5	10.9	-3.6	14.0
As % of total assets	62.9	69.1	66.2	64.3	64.9
<b>Total liabilities</b>	487.4	401.1	411.6	403.0	406.6
Year-on-year change (%)	21.5	-2.6	2.1	-0.9	-12.0
Thereof current liabilities	303.5	362.2	208.5	196.3	206.0
Thereof long-term liabilities	183.9	38.9	203.1	206.7	200.6
<b>Capital expenditures</b>	138.0	117.9	87.4	64.5	81.6
Year-on-year change (%)	17.0	34.9	35.5	-21.0	40.9
<b>Personnel expenses</b>	354.4	335.1	311.9	296.6	329.5
Year-on-year change (%)	5.8	7.4	5.2	-10.0	-10.4
<b>Number of employees (at year-end)</b>	8'305	7'614	7'312	7'013	6'760
Year-on-year change (%)	9.1	4.1	4.3	3.7	-4.1

### Dätwyler Holding Inc.

in CHF mio.	2018	2017	2016	2015	2014
Finance and investment income	21.0	61.5	207.8	79.7	91.3
Annual profit	15.0	54.3	146.4	72.8	102.9
Equity	982.6	1'018.5	1'001.6	891.4	961.6
Equity as % of total assets	81.3	87.1	86.7	85.5	86.3
Share capital	0.9	0.9	0.9	0.9	0.9
Distribution	51.0 <sup>(1)</sup>	51.0	37.4	36.2	142.9

<sup>1</sup> Board of Directors' proposal to the Annual General Meeting.

## Share Information

	Currency	2018	2017	2016	2015	2014
<b>Share capital</b>						
	in CHF mio.	0.85	0.85	0.85	0.85	0.85
Eligible for a dividend	in CHF mio.	0.85	0.85	0.85	0.82	0.80
<b>Number of shares</b>						
Bearer shares of CHF 0.05 each		12'600'000	12'600'000	12'600'000	12'600'000	12'600'000
Unissued shares		–	–	–	550'042	1'047'673
Bearer shares in issue		12'600'000	12'600'000	12'600'000	12'049'958	11'552'327
Registered shares of CHF 0.01 each		22'000'000	22'000'000	22'000'000	22'000'000	22'000'000
<b>Market price SIX (high/low)</b>						
Bearer share – high	CHF	211.50	189.60	153.00	148.70	147.20
Bearer share – low	CHF	122.60	138.80	111.00	102.00	111.00
<b>Trading volume</b>						
Number of shares		4'296'019	4'009'272	3'385'022	3'559'931	4'058'475
Value	in CHF mio.	755	634	463	454	525
<b>Gross dividend</b>						
Bearer share	CHF	3.00 <sup>(1)</sup>	3.00	2.20	2.20	8.96
Registered share	CHF	0.60 <sup>(1)</sup>	0.60	0.44	0.44	1.79
<b>Net result per share</b>						
Bearer share	CHF	7.12	7.28	3.47	5.04	6.14
Registered share	CHF	1.42	1.46	0.69	1.01	1.23
<b>Net cash from operating activities per share</b>						
Bearer share	CHF	9.58	6.63	5.46	10.59	6.95
Registered share	CHF	1.92	1.33	1.09	2.12	1.39
<b>Price/earnings ratio (average)</b>		24.7	21.7	39.4	25.3	21.1
<b>Equity per share</b>						
Bearer share	CHF	49	53	47	44	47
Registered share	CHF	10	11	9	9	9
<b>Market capitalisation</b>						
Average for the year	in CHF mio.	2'988	2'688	2'273	2'078	2'062
As % of equity		361	299	282	286	274
At 31 December	in CHF mio.	2'122	3'203	2'353	2'359	2'037
As % of equity		256	356	292	325	270

The Articles of Association of Dätwyler Holding Inc. do not contain any opting-out or opting-up provisions pursuant to the Swiss Stock Exchange Act.

<sup>1</sup> Board of Directors' proposal to the Annual General Meeting.

## Share Price Performance

in CHF

— Datwyler bearer share  
— SPI



## Dividend History

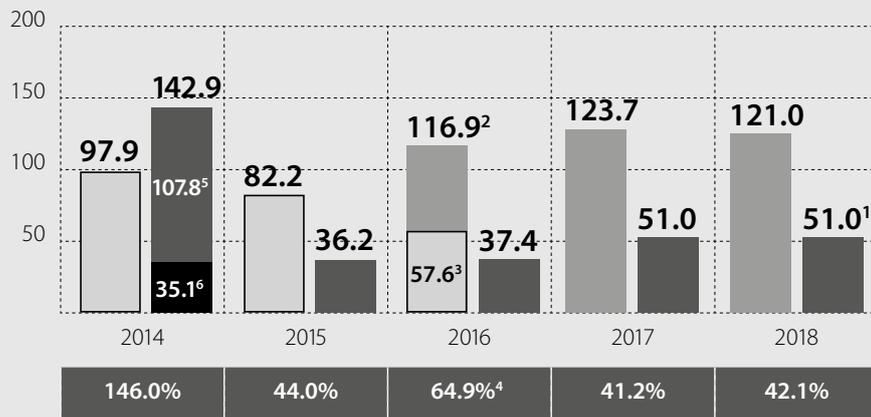
### Dividend per share in CHF

— Dividend per share in CHF  
1 Proposal to the Annual General Meeting.  
2 Anniversary dividend (stock dividend plus cash dividend).  
3 Cash dividend business year 2014.



### Dividend in CHF millions

□ Net result in CHF millions  
■ Dividend in CHF millions  
1 Proposal to the Annual General Meeting.  
2 Adjusted net result 2016.  
3 Reported net result 2016.  
4 Corresponds to 32.0% of the adjusted net result.  
5 Stock dividend on the occasion of the 100 years anniversary.  
6 Cash dividend business year 2014.



Payout ratio

## General Information

### Financial year

Datwyler Group: 1 January to 31 December

Dätwyler Holding Inc.: 1 January to 31 December

### Incorporated

Dätwyler Inc.: 1915

Dätwyler Holding Inc.: 1958

publicly listed since 1986

### Share trading

Bearer shares traded on the SIX Swiss Exchange

### Ticker symbols

Security	Security No.	Investdata	ISIN	Common Code	Reuters
Datwyler bearer share	3 048 677	DAE	CH003 048677 0	XS030821700	DAE
Datwyler bond	40 993 815	DAE18	CH0409938153	182003140	DAE

### Taxable value set by the Swiss Federal Tax Administration at 31 December 2018

Bearer share: CHF 124.80

0.625% Bond 2018–2024: 100.0%

### Important dates

#### 2019

Annual General Meeting: 12 March 2019

Interim Report: 13 August 2019

#### 2020

Annual Press Conference and Analyst Conference: 6 February 2020

Annual General Meeting: 11 March 2020

Interim Report: 11 August 2020

Annual General Meetings are held at 5.00 p.m. at the Theater Uri (Tellspielhaus) Altdorf

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This Annual Report is also available in German and can be downloaded from our website at [www.datwyler.com](http://www.datwyler.com).  
In the event of any inconsistency, the German version will prevail.

# DATWYLER GROUP

at 8 February 2019

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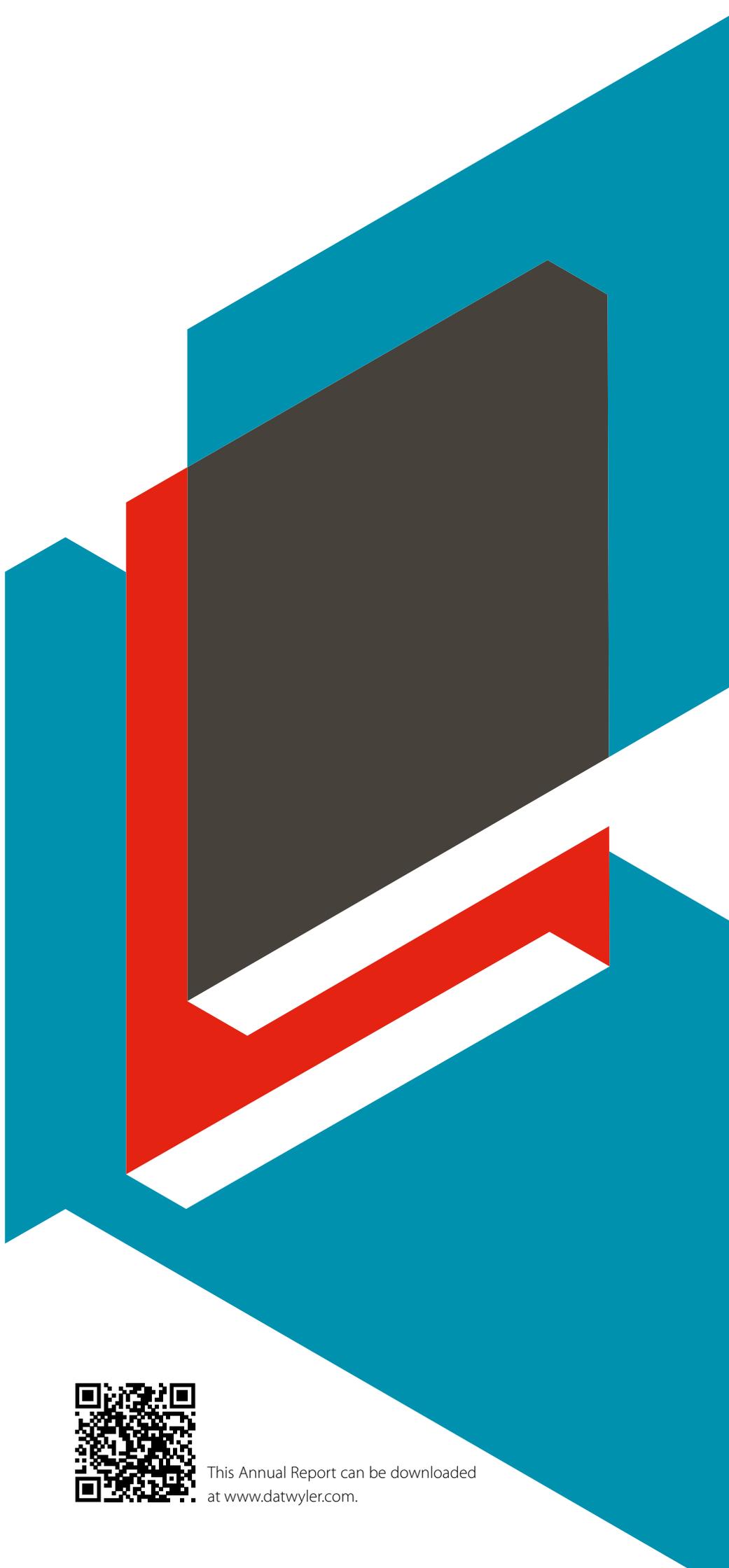
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This Annual Report is available in English and German and can also be downloaded from our website at [www.datwyler.com](http://www.datwyler.com). The German version is binding.

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