

Annual Report  
**2016**

Management Report  
Corporate Governance  
Compensation Report  
Financial Report

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## Financial Report 2016

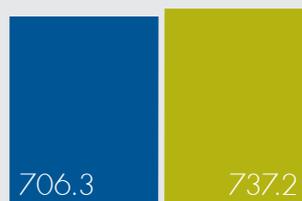
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## MANAGEMENT REPORT 2016

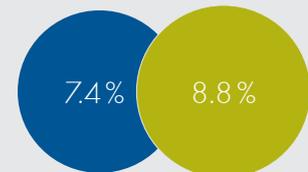
Significant rise in order intake (+6.2 %)



Net sales increased by 4.4 %

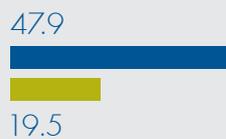


EBIT margin at the upper end of the target range of 6-9 %



Radio Frequency and Fiber Optics record dynamic growth and double-digit EBIT margins

Free operating cash flow generated despite acquisition



Successful acquisitions: Astrolab and Cube Optics see very positive development – Polatis opens up new opportunities

■ 2015 ■ 2016 in CHF million

## Increase in net sales and profit



In 2016 business performance was characterised by three distinct phases: A very dynamic first half year was followed by a weaker third quarter. Demand picked up again from November onwards. Overall, order intake increased by 6.2 % to CHF 746.6 million compared to the previous year. The Fiber Optics and Radio Frequency divisions saw double-digit growth (+19.0 % and +12.5 % respectively), while order intake in the Low Frequency division experienced a decline on account of low demand in the railway market (-14.2 %).

Net sales increased to CHF 737.2 million (+4.4 %). In organic terms, i.e. excluding currency, copper and portfolio impacts, growth in net sales amounted to 3.8 %.

Net sales of the Fiber Optics division recorded the strongest growth with an increase of 8.9 %. The Radio Frequency division also recorded a very pleasing development with growth of 6.3 %. In the Low Frequency division, the marked growth in the automotive market was not able to compensate for the decline in the railway market, with net sales declining by 3.3 % as a result.

The EBIT margin grew by 1.4 percentage points to 8.8 %, thus reaching the upper end of the mid-term target range of 6–9 %. The net income of CHF 49.1 million almost doubled compared to the previous year (CHF 24.7 million). This corresponds to a return on sales of 6.7 %. The free operating cash flow (CHF 19.5 million) remained positive despite the acquisition of Polatis in June 2016.

The number of permanent employees worldwide increased by 382 to 4031 (an annual average of 3810 full-time positions). This development was the result of the expansion of production capacity in Poland and Tunisia and the acquisition of Polatis. In Switzerland the number of permanent employees decreased slightly by 21 to 1250. The appointment of three Executive Group Management members represented an important step forward. All three were recruited from our own ranks.

### **Communication market was the driver for growth, transportation and industrial markets remained stable at around previous year levels**

Net sales in the communication market rose by 9.4 % to CHF 372.6 million. Order intake grew even more strongly by 21.2 % to CHF 390.4 million. The reasons for this rapid development were diverse: HUBER+SUHNER was able to acquire considerable market shares with the big communication network suppliers, and the company continued on its successful course in the fiber-to-the-antenna application. In addition, the Cube Optics business unit made a significant contribution to the growth.

Net sales in the transportation market were just short of the previous year's level (CHF 198.5 million, -1.8 %). Order intake on the other hand was significantly lower than in 2015 (CHF 187.4 million, -11.8 %). The reason for this unsatisfactory development was a restrained demand in the railway market. By contrast, the automotive submarket developed with significantly higher net sales and a number of promising customer projects which will ensure further growth in the medium term.

Net sales and order intake in the industrial high-tech niches increased slightly (net sales: CHF 166.1 million, +1.5 %; order intake: CHF 168.8 million, +0.4 %). Without the sale of the Composites business unit at the end of 2015 the growth of both net sales and order intake would have been about two percentage points higher. HUBER+SUHNER Astrolab, which was acquired at the end of 2012, reported healthy growth, boosting the Aerospace+Defense market segment. In addition, the pipeline of promising customer projects in this submarket increased.

### **Radio Frequency division: Marked increase in new orders**

The Radio Frequency division returned to a path of growth with a 6.3 % increase in net sales to CHF 219.7 million. The division's order intake developed even better (CHF 226.4 million, +12.5 %). In addition, the measures implemented after the strong appreciation of the Swiss franc showed the expected effect: The EBIT margin reached an attractive 12.5 %, corresponding to an increase of two percentage points. This strong growth in Radio Frequency was primarily attributable to an increased market share in business with major communication equipment manufacturers, the expansion of market leadership in the field of board connectors and progress in the Aerospace+Defense market segment.

### **Fiber Optics division: Best performance in corporate history**

Net sales in Fiber Optics grew by 8.9 % compared to the previous year to CHF 305.7 million. Order intake significantly exceeded net sales (CHF 322.3 million; +19.0 %). The EBIT margin also improved again by 0.3 percentage points to 12.6 %. This success is attributable to increased market shares in business with the large-scale communication equipment manufacturers. HUBER+SUHNER Cube Optics, which was acquired in October 2014, also made a noticeable contribution to growth in net sales and profitability. The business generated by the introduction of the LTE mobile radio standard was able to maintain a high level in 2016 thanks to geographical diversification. The acquisition of Polatis, the technology leader in

the field of ‘All-optical switches’, further boosted the position and the outlook in the data centers market segment.

**Low Frequency division: Automotive successes not fully compensated faltering railway market**

Net sales in the Low Frequency division fell slightly compared to the previous year (–3.3%); order intake decreased significantly (–14.2%). The EBIT margin also remained unsatisfactory at 1.8%, +0.7 percentage points compared with the previous year. The fall in order intake in the railway market was attributable to low demand for cable systems from the important European countries and to delayed orders in China. There were several reasons for the unsatisfactory EBIT margin. The cable system project for the SBB Twindexx trains caused considerable problems and unpredictable additional costs in the second half year. The project is now back on track. Finally, the division made large-scale preliminary investments in the field of electromobility, a market which is promising good growth prospects for the medium term.

**Changes in Board of Directors and Executive Group Management**

The Board of Directors will propose to the Annual General Meeting that Urs Kaufmann, the long-standing CEO, be elected as Chairman of the Board. Beat Kälin, who assumed this role in 2015 for a maximum of two years, remains a Board Member and shall become Vice President. As of 1 April 2017, Urs Ryffel will become CEO of the HUBER+SUHNER Group. The Fiber Optics division, which he had headed since 2007, was divided into ‘Mobile Communication & Industry’ and ‘Fixed Networks & Data Center’ on 1 October 2016. The respective heads, Fritz Landolt and Martin Strasser, have been members of the Executive Group Management since 1 January 2017.

**Risk management**

At its meeting on 5 December 2016, the Board of Directors assessed entrepreneurial risks as part of its ongoing risk management and approved the 2016 risk report including the defined measures.

**Dividend**

The Board of Directors proposes to the Annual General Meeting to raise the dividend from CHF 1.00 per share in the previous year to CHF 1.25. That corresponds to a payout ratio of 50%.

**Outlook**

Thanks to increasing order intake towards the end of 2016, HUBER+SUHNER got off to a good start in the 2017 financial year. The growth opportunities in the target markets of Communication, Transportation and Industrial are intact within the well established 3x3 strategy. The growth drivers continue to be the appetite for bandwidth, the exponential growth of transported and stored data, the need of the growing urban population for environmentally friendly mobility, and the sustained technology development and need for innovation in the high-tech niches. Although trends in the global economy are difficult to evaluate because of the political and macro-economic risks, HUBER+SUHNER expects to remain on a course of growth and to keep the EBIT margin at the previous year’s attractive level in 2017, assuming that exchange rates remain similar to those in 2016.

**Thank you very much**

HUBER+SUHNER would like to thank all employees for their great commitment and contribution to the business progress. Equally, we thank all shareholders, customers and suppliers for their trust and successful collaboration.

Dr. Beat Kälin  
Chairman of the  
Board of Directors

Urs Kaufmann  
Delegate of the Board of Directors  
and CEO

Milestones in 2016

**Communication:**  
Data centers



HUBER+SUHNER acquires the US-American-British company Polatis

**Transportation:**  
Infrastructure



Cooled charging cable wins the Bavarian State Prize for electromobility

**Transportation:**  
Railway market



HUBER+SUHNER becomes the preferred cable supplier of Bombardier Transportation

**Communication:**  
Mobile communication



Huawei awards HUBER+SUHNER the ‘Best Collaboration Award 2016’

## Solutions for today and tomorrow

Our future will be characterised by technical developments: The manner in which we travel from one place to the next, how we inform ourselves, how we make and remain in contact with other people, and how and where we work. Tomorrow's cars will be electric and will travel in an environmentally friendly way. We will be able to journey in relaxed fashion as the car of the future will eventually travel our roads largely autonomously. In addition, we will always be connected to the Internet, no matter where we are at a particular time. In the process we will transmit even greater data volumes than today in an even shorter time. Not only will people communicate with each other via the Internet but they will also communicate with devices and machines – with devices and machines also communicating with each other. HUBER+SUHNER has the right connectivity solutions for the present and is working at full speed on developing solutions for the future. In 2016 the company invested CHF 30.3 million in research and development.

### Solutions for today



#### Power distribution for electric vehicles

In electric vehicles strong currents flow from the charging socket to the battery, from there to the engines and back to the battery again during braking. These are supplemented by less strong currents to other electrical loads such as air conditioning and headlights. Products and systems manufactured by HUBER+SUHNER ensure reliable and durable connections in engine compartments. High-voltage distribution boxes, RACS connectivity systems and extremely robust RADOX® power cables.



#### Cell sites and wireless access installed quickly in buildings

Radio communication signals are weakened by ceilings and walls in large buildings such as office complexes and shopping centres, resulting in poor reception. A system consisting of signal amplifiers and interior antennas eliminates this problem. The latest development by HUBER+SUHNER in this field is the Quick-Fit Plus connector family and the appropriate tool set. This enables a connector to be mounted on a radio frequency cable in less than two minutes. The installation time of entire in-building coverage systems is reduced considerably.



#### IANOS: A system grows with the demands placed on it

The vast streams of data which we produce day by day in our work and private lives have to be processed in data centers. The increasing data volumes place ever-increasing demands on the capacity and data transmission speed. The cabling also has to be customised and this has to be done as quickly as possible, in a cost-effective fashion, and without interruptions. The new IANOS® product family developed by HUBER+SUHNER offers data centers a flexible and future-proof system that fulfils all requirements.



## Developed for tomorrow



### Cooled charging cable: 'Fill up' in minutes

To date, their limited range and long charging times have prevented electric vehicles from becoming broadly accepted. The solution is high-power charging stations with charging times under 15 minutes, which are currently at the development stage. They are designed to work with charging currents of over 400 amperes. HUBER+SUHNER has already developed a cable and connector system which makes this possible and which is flexible and easy to use thanks to integrated cooling slimmer than a fuel feed pipe.



### Autonomous driving with eagle eye radar

Today's distance radar systems in cars work with a frequency of 24 gigahertz (GHz). They are not able to detect details and only work two dimensionally, rendering them unsuitable for autonomous driving. Future systems work with 77 GHz and provide a detailed and three-dimensional picture of the vehicle's environment. HUBER+SUHNER possesses the expertise for the required new antenna technology and is working with leading car manufacturers and their suppliers on the radar of the future.



### Remote-controlled connecting and switching

Currently, fiber-optic data connections are established and switched manually. Changes are time-consuming and prone to error. With the acquisition of Polatis, HUBER+SUHNER has gained a promising technology which makes it possible to change connections in seconds with the aid of software control: The so-called all-optical switch has a broad application potential, for example in telecommunication, in data centers or for automated testing of optical network components.

## Radio Frequency division

Return to a path of growth – double-digit EBIT margin – important orders acquired in the Aerospace+Defense segment

In the Radio Frequency division order intake developed even more pleasingly than net sales. This positive development was largely due to the increased market share in business with large-scale communication equipment manufacturers and the expansion of market leadership in the field of board connectors. HUBER+SUHNER Astrolab also developed pleasingly. The subsidiary is increasingly benefiting from the company's global sales network.

Key figures		2016	2015	%
Order intake	CHF million	226.4	201.2	+12.5
Net sales	CHF million	219.7	206.6	+6.3
Operating profit (EBIT)	CHF million	27.5	21.7	+26.7
EBIT margin	%	12.5	10.5	

## Fiber Optics division

Highest net sales and highest EBIT since the division was founded – order intake surpassed net sales – Cube Optics experienced strong growth and made an important profit contribution

Increased market shares in business with large-scale communication equipment manufacturers also contributed to the positive result in Fiber Optics. Cube Optics again proved to be a guarantee for success in 2016. The division secured the 'all-optical switches' technology as a result of acquiring Polatis. The organisational split into two divisions will ensure an even stronger market focus, a reduction in complexity, and even greater flexibility and agility.

Key figures		2016	2015	%
Order intake	CHF million	322.3	270.8	+19.0
Net sales	CHF million	305.7	280.7	+8.9
Operating profit (EBIT)	CHF million	38.4	34.4	+11.4
EBIT margin	%	12.6	12.3	

## Low Frequency division

Slight drop in net sales – sharp fall in order intake – unsatisfactory EBIT margin

The railway business had a negative impact on Low Frequency as the result of both weak demand for cable systems in Europe and long-expected orders from Chinese customers not being placed until very late in the year. The strong growth in net sales in the automotive segment was not able to compensate fully in this respect. There are interesting growth options in the medium term thanks to a large number of interesting customer projects in this segment and to the newly developed cooled charging cable system.

Key figures		2016	2015	%
Order intake	CHF million	198.0	230.8	-14.2
Net sales	CHF million	211.8	219.0	-3.3
Operating profit (EBIT)	CHF million	3.8	2.4	+57.7
EBIT margin	%	1.8	1.1	



**Reto Bolt, COO Radio Frequency**

"2016 was a year with many positive aspects for the division: The EBIT margin was once again in the double-digit range. Astrolab made an important contribution to the comprehensive income. The markets developed positively and we were able to acquire large-scale orders and further expand our position in key areas."



**Urs Ryffel, COO Fiber Optics**

"Above all, the successful business with large-scale mobile communication equipment manufacturers generated growth in net sales of 8.9% and a double-digit EBIT margin. Cube Optics achieved a record result. With the acquisition of Polatis, we now have at our disposal ground-breaking technology for data centers and other applications."



**Patrick Riederer, COO Low Frequency**

"The global framework contract between Bombardier Transportation and HUBER+SUHNER as preferred cable supplier opens up new opportunities. Although important investments in our automotive business had a negative impact on our profitability, they will enable us to exploit the potential in this market."

# Key figures 2016 and Financial calendar

<b>Group</b> in CHF million	2016	2015	Change
Order intake	746.6	702.8	6.2%
Order backlog as of 31.12.	177.2	169.7	4.4%
Net sales	737.2	706.3	4.4%
Gross margin	36.7%	34.6%	
EBITDA	101.1	86.5	16.9%
as % of net sales	13.7%	12.2%	
EBIT	65.1	52.3	24.4%
as % of net sales	8.8%	7.4%	
Net financial result	2.7	(15.4)	n/a
Net income	49.1	24.7	98.7%
as % of net sales	6.7%	3.5%	
Purchases of PP&E and intangible assets	32.2	23.5	37.0%
Net cash from operating activities	76.9	69.7	10.9%
Free operating cash flow	19.5	47.9	(59.4%)
Net liquidity	157.5	160.0	(1.5%)
Shareholders' equity	658.4	649.6	1.3%
as % of balance sheet total	82.8%	83.5%	
Employees as of 31.12.	4 031	3 649	10.5%
Market capitalisation as of 31.12.	1 099.0	901.6	21.9%
<b>Data per Share (in CHF)</b>			
Stock market price as of 31.12.	56.50	46.35	21.9%
Net income	2.52	1.27	98.7%
Dividend	1.25 <sup>1)</sup>	1.00	25.0%

<sup>1)</sup> proposed dividend

## Company information

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## Financial calendar

Annual General Meeting (Pfäffikon)	5 April 2017
Half-year report	22 August 2017
Media and analysts' conference	22 August 2017
Sales and order intake (Q1–Q3)	24 October 2017

Detailed figures are available online at  
[www.hubersuhner.com](http://www.hubersuhner.com)

# Corporate Governance 2016

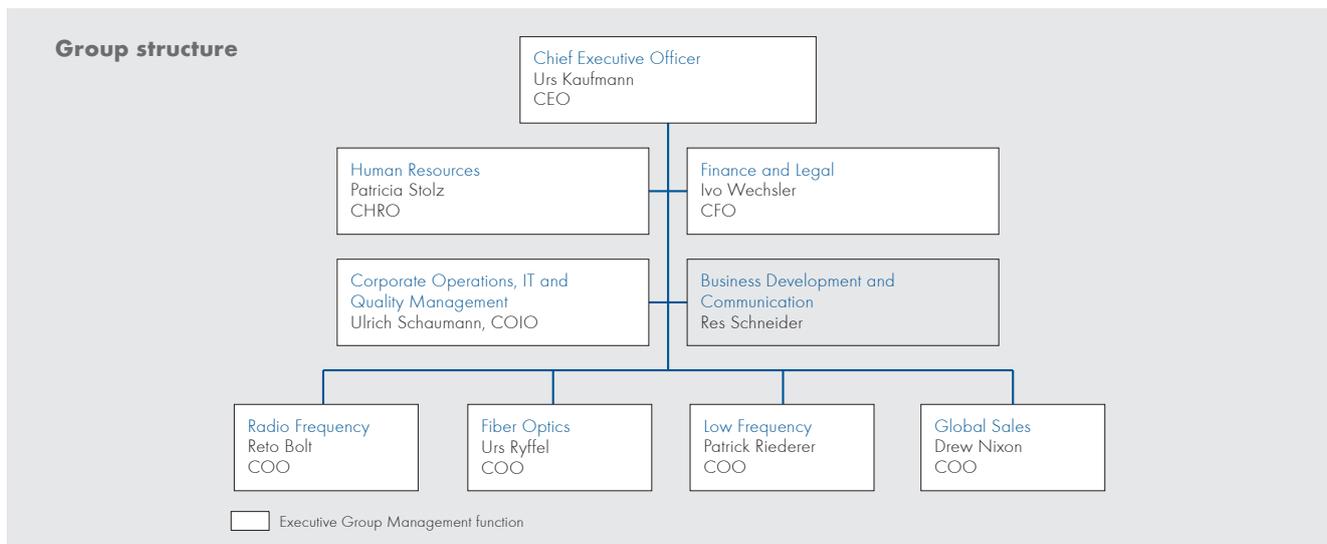
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# CORPORATE GOVERNANCE

The term “Corporate Governance” refers to all of the principles and rules aimed at safeguarding shareholder interests. While maintaining decision-making capability and efficiency at the highest level of a company, these principles are intended to guarantee transparency and a healthy balance of management and control.

The following Corporate Governance report is structured according to the Directive on Corporate Governance (DCG) published by the SIX Swiss Exchange. All details refer to the closing date on 31 December 2016 – unless otherwise indicated.

## 1 Group structure and shareholders



### 1.1 Group structure

The HUBER+SUHNER Group operational management is structured as a matrix organisation. It is made up of the three divisions, Radio Frequency, Fiber Optics and Low Frequency on the one side, and of Global Sales with seven regions on the other side. At Group level, the four service units Human Resources, Finance and Legal Services, Global Operations, IT and Quality Management, Corporate Development and Communication support the Chief Executive Officer (CEO).

### Listed Group company

HUBER+SUHNER AG, headquartered in Herisau AR, Switzerland, is the holding company for the HUBER+SUHNER Group. Its shares are listed in the main segment of the SIX Swiss Exchange with the security number 3'038'073. More formation about market capitalisation, shares and capital stock is disclosed in the section Share Data on page 90.

### Non-listed Group companies

Information about the HUBER+SUHNER AG Group companies, of which none are listed, is presented in the Notes to the Group Financial Statements under Group companies on page 70.

### 1.2 Significant shareholders

Significant shareholders who hold a share worth three or more percent according to the share register at the end of the year, are:

Voting rights share	31.12.2016
Metrohm AG	10.62%
Abegg Holding AG	10.04%
S. Hoffmann-Suhner	6.18%
EGS Beteiligungen AG	4.95%
Huwa Finanz- und Beteiligungs AG	3.17%

The company holds 748 640 treasury shares (726 640 treasury stock and 22 000 other treasury shares).

HUBER+SUHNER AG has not published any disclosures in connection with shareholder participation in the reporting year. Disclosures can be viewed in the database of the SIX Swiss Exchange for significant shareholders: Available at: <https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>

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

### 1.3 Cross-shareholdings

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

## 2 Capital structure

### 2.1/2.2 Capital/Authorised and conditional capital in particular

The HUBER+SUHNER share capital is fully deposited and, on the balance sheet date, amounts to CHF 5 050 000. Authorised or conditional capital does not exist. More information about the share capital is disclosed in the Notes to the Group Financial Statements under Share capital on page 69.

### 2.3 Changes in capital

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

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

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

### 2.6 Limitations on transferability and nominee registrations

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

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

Private individuals, legal entities and business partnerships with mutual associations through capital, voting rights, management or in any other way, as well as individuals or legal entities and legal communities that are coordinated for the purpose of circumventing registration restrictions, shall be regarded as a single purchaser. The registration restrictions also apply when purchasing registered shares resulting from exertion of subscription, option and conversion rights.

The Annual General Meeting is required to make a decision about cancelling or modifying registration restrictions to registered shares. At least two-thirds of the represented share votes and the

absolute majority of nominal value of the shares issued must agree to this. Nominees are fundamentally not recognised for the position as a shareholder with voting rights.

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

In the reporting year, the Board of Directors did not allow any exceptions regarding the registration restrictions.

### 2.7 Convertible bonds and options

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

## 3 Board of Directors

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

The HUBER+SUHNER AG Board of Directors must consist of at least five members. At the Annual General Meeting on 6 April 2016 Jörg Walther was elected as the successor of Peter Altorfer, who was no longer available for re-election. The other six acting members of the Board of Directors were re-elected.

With the exception of Urs Kaufmann (delegate of the Board of Directors and Chief Executive Officer), all members of the Board of Directors are non-executive; they do not participate in the management of the Group. They also do not have any significant business relationships with HUBER+SUHNER AG or other Group companies. None of the non-executive members did belong to either the HUBER+SUHNER Executive Group Management or one of its Group companies in the three years before the reporting period.

On 31 December 2016 the Board of Directors comprised of the following seven persons:

#### Dr Beat Kälin

Chairman of the Board of Directors

1957, Swiss citizen, Chairman of the Board of Directors since 2015, Board of Directors since 2009

#### Education and professional background

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

#### Other activities and vested interests

None

**Prof Dr Monika Bütler**

1961, Swiss citizen, Board of Directors since 2014

**Education and professional background**

Degree in Mathematics/Physics at the University of Zurich and doctorate in Economics at the University of St. Gallen. Assistant Professor at the University of Tilburg in the Netherlands (1997–2001) and Professor at the University of Lausanne (2001–2004). Since 2004, Professor of Economics and since 2008, Director of the Swiss Institute for Empirical Economic Research (SEW) at the University of St. Gallen.

**Other activities and vested interests**

Member of the Board of Directors at Schindler Holding AG, Hergiswil and member of the Board of Directors at Suva, Lucerne. Member of the Bank Council at the Swiss National Bank, Zurich.

**Dr Christoph Fässler**

1952, Swiss citizen, Board of Directors since 2013

**Education and professional background**

Chemical engineer ETH Zurich. 1980 to 1986, Holcim in the United States, Egypt, Brazil and, most recently, as a plant manager in Mexico. 1986 to 1998, Manager at Forma Vitrum AG, St. Gallen. 1998 to 2004, Division Manager at Schott, Germany. From 2005 to 2015 CEO and Delegate of the Board of Directors, since May 2016 Chairman of the Board of Directors at Metrohm AG\*, Herisau.

**Other activities and vested interests**

Member of the Board of Directors at the Alba Group, Appenzell, Elvy Weaving, Egypt and Cabana AG, Herisau.

**Urs Kaufmann**

1962, Swiss citizen, Board of Directors since 2014  
Delegate of the Board of Directors and Chief Executive Officer (CEO)

For education and professional background and other activities and vested interests, see 4.1.

**George H. Müller**

1951, Swiss citizen, Board of Directors since 2001

**Education and professional background**

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

**Other activities and vested interests**

Chairman of the Board of Directors at 3D AG, Baar. Consul General of Japan in Zurich.

**Rolf Seiffert**

1958, Swiss citizen, Board of Directors since 2010

**Education and professional background**

Dipl. Ing. ETH Zurich. 1988 to 1998, various positions in product development and product management at Bombardier Transportation. 1999 to 2004, Head of Development Train Control and 2005 to 2010, Head of International Business Rail Automation at Siemens Schweiz AG, Wallisellen. From 2011 to June 2013, Vice President of Sales and member of the management at Duagon AG, Dietikon and from July 2013 till August 2015, Head of Sales and member of the management at Ruf Telematik AG, Schlieren. Since September 2015 General Manager of Kummler+Matter AG, Zürich.

**Other activities and vested interests**

None

**Jörg Walther**

1961, Swiss citizen, Board of Directors since 2016

**Education and professional background**

Lic. iur. University of Zurich. Admitted to the Aargau bar. MBA from the University of Chicago. Acquired several years of industry experience as a legal consultant to various multinational corporations (Danzas (1991 to 1995), ABB Asea Brown Boveri (1995 to 2001) and Novartis (2001 to 2009)). Since 2010 as partner at Schärer Attorneys at Law in Aarau.

**Other activities and vested interests**

Chairman of the Board of Directors at Proderma AG, Schötz and a member of the Board of Directors at SFS Group AG, Heerbrugg, Zehnder Group AG, Gränichen, AEW Energie AG, Aarau, Kraftwerk Augst AG, Augst, Immobilien AEW AG, Aarau. Chairman of the Special Expert Committee of SIKA AG.

**Honorary chairmen:**

Marc C. Cappis, 1935

David W. Syz, 1944

\* Significant shareholders at HUBER+SUHNER AG

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

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

**3.4 Elections and terms of office**

According to legal provisions, all Members of the Board of Directors, the Chairman and the members of the Nomination and Compensation Committee are elected annually and individually. The articles of association do not allow for any different election rules. The term of office of a Member of the Board lasts until the end of the next Annual General Meeting. Re-election is possible.

Please refer to 3.1/3.2 for the first election per member. The Members of the Board resign at the Annual General Meeting in the year in which they turn 70 years of age.

The Annual General Meeting also chooses the independent voting representative each year. The term lasts until the end of the next Annual General Meeting. Re-election is possible.

### 3.5 Internal organisational structure

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

#### Working practices of the Board of Directors

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

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

The Chairman of the Board of Directors maintains on-going and close contact with the CEO and makes decisions regarding the disclosure of facts relevant to shares or the adoption of posts outside the company by members of Executive Group Management. In addition, he is responsible for monitoring implementation of and compliance with decisions made by the Annual General Meeting and the Board of Directors, as well as for informing all other members of the Board of Directors in a regular and timely manner.

#### The composition and working practices of the committees

The Board of Directors has established two permanent committees for support, the Nomination and Compensation Committee and the Audit Committee.

The tasks and competencies, as well as the working practices of the committees are defined in detail in the Annex to the HUBER+SUHNER AG Bylaws.

The committees support the Board of Directors in its supervisory and control tasks and are primarily responsible for advice, assessment and preparation; they are made up as follows:

	Nomination and Compensation Committee	Audit Committee
Beat Kälin, Chairman of BoD	Chairman	
Peter Altorfer, Member of BoD	Member <sup>1)</sup>	Chairman <sup>1)</sup>
Monika Büttler, Member of BoD		Member <sup>1)</sup> , Chairman <sup>2)</sup>
Christoph Fässler, Member of BoD	Member <sup>2)</sup>	
Jörg Walther, Member of BoD		Member <sup>2)</sup>

<sup>1)</sup> until 6 April 2016

<sup>2)</sup> since 7 April 2016

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

#### The Nomination and Compensation Committee (NCC)

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

The committee prepares all the relevant decisions relating to nominating and compensating members of the Board of Directors and the Executive Group Management and relating to the Group's compensation policy.

The CEO attends the meetings, except if his own performance is being assessed or his own remuneration is being proposed, and if necessary the CHRO (Chief Human Resources Officer). The committee held two half-day meetings in the reporting year.

The Nomination and Compensation Committee has the following main tasks:

- Managing the selection process and applications relating to new Board Members and the CEO
- Checking the selection process of other members of the Executive Group Management and the essential employment conditions
- Preparing the compensation report
- Preparing proposals to the Annual General Meeting for the compensation votes for the attention of the full Board of Directors
- Reviewing and requesting the individual remuneration of the CEO and the other members of the Executive Group Management in the context of the maximum compensation amounts approved by the Annual General Meeting
- Deciding upon the annual salary adjustments within the Group proposed by the CEO
- Informing the Board of Directors about all NCC-related events which are not directly the responsibility of the full Board of Directors

### Audit Committee (AC)

The committee consists of at least two members. The Board of Directors appoints the members and designates the chairman annually. The committee supports the Board of Directors with financial management, supervision of accounting, financial reporting, internal auditing and cooperation with the external auditors. It decides on urgent technical matters. The duties and responsibilities assigned to the Board of Directors as per the Bylaws and the law remain with the Board of Directors as a whole body.

The CFO, CEO, the Head of Corporate Controlling and the external auditors take part in the committee meetings. If necessary, the committee will address certain agenda items alone with the external auditors. The committee held two half-day meetings in the reporting year.

The Audit Committee has the following main tasks:

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

### 3.6 Definition of areas of responsibility

The areas of authority and responsibility of the various bodies are set out in the Bylaws (available under [www.hubersuhner.com/en/Investors/Corporate-Governance](http://www.hubersuhner.com/en/Investors/Corporate-Governance)).

The Board of Directors exercises overall management, supervision and control over the management of the Group. It issues guidelines for business policy and makes decisions about all matters that are not reserved for, or assigned to, the Annual General Meeting or another company body by law, by the articles of association or the Bylaws. The Board of Directors in particular approves the strategy and organisation requested by the Executive Group Management, the budget, medium-term plan and other business that is of strategic importance due to its nature or financial magnitude. Written requests are also made if the Board of Directors has to make a decision about projects.

The Board of Directors completely delegates the Group's operational management to the delegate of the Board of Directors and the Chief Executive Officer (CEO), unless statutory regulations or the Bylaws state otherwise. The Bylaws are periodically reviewed and adapted by the Board of Directors.

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

The Board's main information and control instrument is a management information system based on financial accounting according to IFRS. Comprehensive, Group Financial Statements (income statement, balance sheet, cash flow statement) in comparison with the budget and the previous year and consolidated income statements and key figures for the divisions and regions are created on a monthly basis and distributed to all members of the Board of Directors.

Regular reporting by Executive Group Management to the Board of Directors also consists of a monthly written commentary from the CEO about the progress of business and the Group's result which is sent to all Board Members along with the monthly financial statements, and also of minutes from the monthly Executive Group Management meetings which are submitted to the Chairman.

The attendance of Executive Group Management members (especially by the CEO and CFO) at the Board of Directors' meetings and its committees is described in section 3.5 Internal organisational structure. During the Board of Directors' meetings, the CEO provides information about the current progress of business and about major business transactions; the CFO explains the yearly and half-yearly statements. Each Member of the Board can also ask for information about any HUBER+SUHNER Group matters.

The Board of Directors is also closely involved in the company's planning cycle. It receives the strategic objectives for approval in the third quarter and the results of the medium-term plan, which covers a period of 5 years. A detailed budget for the coming year is approved in the fourth quarter. In addition, the Board of Directors receives a forecast for the expected annual results twice a year.

Internal auditing at HUBER+SUHNER is the responsibility of Corporate Controlling. The Head is subordinate to the CFO, but reports directly to the Audit Committee regarding this activity. This solution tailored to the specific situation and size of HUBER+SUHNER is very cost effective and ensures that the expertise gained in the internal audits can be used by the appropriate employees in Controlling without any loss of information. A plan is prepared annually with the Group companies to be audited based on a financial risk assessment and in consultation with the external auditors. This is then submitted to the Audit Committee for approval. The audit priorities are, in particular, compliance with internal policies, processes and reviews and implementing the internal control system. The results of each audit are discussed in detail by the internal auditors with the relevant companies, and concrete improvement measures are agreed. The internal audit reports for the audits carried out are submitted, together with the suggestions for improvements, to the Audit Committee, the CEO, the CFO, the COO Global Sales, the management of the audited company and the external auditors. Audit reports with key findings are presented to the Audit Committee and discussed. The Audit Committee checks annually that the main complaints and suggestions are processed.

The internal control system (ICS) is assessed annually by the external auditors in a comprehensive report to the Audit Committee and the Board of Directors and its existence confirmed.

Risk management of the HUBER+SUHNER Group and all Group companies is laid down in the Board of Directors risk policy and in the Executive Group Management regulations relating to risk management. In the reporting year, the Executive Group Management checked the progress and effectiveness of the measures

implemented and made a selection and reassessment of the significant financial, operational and strategic risks. This was based on its own top-down estimates and on bottom-up data from divisions and regions. The risks were categorised according to probability of occurrence and financial impact. In addition, mitigating measures were defined for every listed risk, and operational responsibility was regulated. The evaluated risks as well as the on-going and planned measures and activities to adhere to Compliance-principles were presented in the 2016 Risk Report to the entire Board of Directors for review and approval. After extensive discussions, the Board of Directors approved the risk assessment on 5 December 2016, and adopted the 2016 Risk Report (the same information about risk management is also listed in the “Notes to the Group Financial Statements”).

## 4 Executive Group Management

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

Executive Group Management is the highest-level management body; it assists the CEO with his operational management tasks. It deals with all business and decisions that are important for the company. On 31 December 2016, Executive Group Management consisted of the following eight persons:

#### Urs Kaufmann

1962, Swiss citizen, Delegate of the Board of Directors and Chief Executive Officer (CEO)

#### Education and professional background

Dipl. Ing. ETH Zurich. Senior executive program IMD. 1987 to 1993, project, production, and sales manager at Zellweger Uster AG, Uster and USA. With HUBER+SUHNER since 1994, from 1994 to 1997, general manager of Henry Berchtold AG, a former HUBER+SUHNER AG Group company, from 1997 to 2000, divisional head and member of business management; Member since 2001, Chief Executive Officer since 2002 and additionally since 2014 Delegate of the Board of Directors.

#### Other activities and vested interests

Member of the Board SFS Group AG, Heerbrugg, Gurit Holding AG, Wattwil and Müller Martini Holding AG, Hergiswil. Chairman of the Board of Directors at Schaffner Holding AG (since 13 January 2017), Luterach. Executive committee member, SWISSMEM.

#### Reto Bolt

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

#### Education and professional background

Dipl. Ing. ETH Zurich. With HUBER+SUHNER since 1993; from 1993 to 1996, as an operations and production engineer, from 1997 to 1998, as Head Of Procurement Logistics, from 1999 to 2003, Head of Production, Radio Frequency Division with responsibility for the global production network, from 2004 to 2006, Head of Global Management System and, from 2007 to 2011, Head of the Cable Systems Technology unit. Since 2012, Head of the Radio Frequency Division and member of Executive Group Management.

#### Other activities and vested interests

None

#### Drew Nixon

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

#### Education and professional background

Bachelor in Business Administration. 1988 to 2000 acting in various management functions of the american companies Charleswater Products, Inc., Boston Metal Products Corp., Cerplex Mass Inc., and Decibel Instruments Inc.. 2000 to 2004 Head of Finance and Accounting of Zettacom Inc., Santa Clara, USA. With HUBER+SUHNER since 2004 as Finance Director HUBER+SUHNER North America, from 2008 to 2012, Managing Director HUBER+SUHNER North America, from 2012 to 2015 Managing Director of the region North Asia. Since 2015, Head of Global Sales and member of the Executive Group Management.

#### Other activities and vested interests

None

#### Patrick Riederer

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

#### Education and professional background

Chemist HTL Zurich University Winterthur. With HUBER+SUHNER since 1991, from 1991 to 1994 material development engineer, from 1994 to 1998 product manager, from 1998 to 2002 Head of Cable Technology Product Management, from 2002 to 2007 Head of Cable Technology. Since 2008, Head of the Low Frequency Division and member of Executive Group Management.

#### Other activities and vested interests

Member of the Board of Directors at Wolfensberger Beteiligungen AG, Bauma.

**Urs Ryffel**

1967, Swiss citizen, Fiber Optics  
(Chief Operating Officer Fiber Optics)

**Education and professional background**

Dipl. Ing. ETH Zurich. INSEAD executive education, France. 1992 to 1999, at ABB Schweiz in Baden and Zurich as a project manager, manager of the Business Development department of ABB Kraftwerke AG and manager of the global business unit Hydro Power Plant Service. 1999 to 2002, at ALSTOM as a general manager in Lisbon for the Hydro Power segment, then in Paris for Hydro Power Plants and Systems. With HUBER+SUHNER since 2002 as Head of Rollers business unit; from 2004 to 2007, Head of the Cable System Technology unit. Since 2007, Head of Fiber Optics Division; since 2008 member of Executive Group Management.

**Other activities and vested interests**

None

**Dr Ulrich Schaumann**

1957, Swiss citizen, Corporate Operations, IT and Quality Management  
(Chief Operations + IT Officer)

**Education and professional background**

Dr. sc. techn. dipl. Ing. ETH Zurich. 1986 to 1992, various functions in production and logistics including Head of Logistics at Zellweger Uster AG, Uster. 1992 to 2005 various functions in supply chain management and responsible for the parent company in Switzerland at H.A. Schlatter AG, Schlieren, as well as member of management. With HUBER+SUHNER since 2005 as Manager Global Operations with focus on RF Production, from 2011 additionally responsible for strategic sourcing and since 2013 Manager Corporate Operations with responsibility for the global production network and strategic sourcing. Since 2015 Chief Operations + IT Officer and member of Executive Group Management.

**Weitere Tätigkeiten und Interessenbindungen**

Member of Board of Directors at Romay AG, Oberkulm.

**Patricia Stolz**

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

**Education and professional background**

Human Resources Specialist with Swiss Federal certificate. Since 2015 in education for Executive Master of Business Administration at the University of Applied Sciences of St. Gallen. 1990 to 2003 assistant Human Resources at NAW Nutzfahrzeuge AG, Arbon. 2003 to 2007 Head of HR Management at Flawa AG, Flawil. With HUBER+SUHNER since 2008, as Head Human Resources of the Fiber Optics division. Since 2015 Chief Human Resources Officer and member of Executive Group Management.

**Other activities and vested interests**

None

**Ivo Wechsler**

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

**Education and professional background**

Lic. oec. HSG (St. Gallen). 1995 to 1997, Schweizerische Bankgesellschaft (UBS) in Corporate Finance in Zurich/London. 1998 to 2000, Sunrise Communications, Rümlang, controller and from 1999, Head of Controlling & Treasury. 2001 to 2007, Ascom Group, Bern, Head of Corporate Controlling and from 2005 also Head of Corporate Treasury. With HUBER+SUHNER since 2008 as Head of Corporate Controlling; since 2010, HUBER+SUHNER Group CFO and member of Executive Group Management.

**Other activities and vested interests**

None

**Planned changes in the Executive Group Management in 2017**

In order to ensure long-term succession planning, the Board of Directors appointed on 24 February 2016 the Head of the Division Fiber Optics, Urs Ryffel, as CEO as of 1 April 2017. At the same time, the proposal will be made to the Annual General Meeting on 5 April 2017, to elect the long-standing CEO and Delegate of the Board of Directors, Urs Kaufmann, as Chairman of the Board of Directors.

Furthermore, Fritz Landolt, (Head of the Division FO MCI (Mobile Com & Industry)) and Martin Strasser (Head of the Division FO FDC (Fixed Network & Data Center)) are nominated as members of Executive Group Management as of 1 January 2017.

**4.3 Rules in the articles of association on the number of permitted activities pursuant to Art. 12(1) No. 1 OaEC**

As per article 30 of the articles of association, a member of the Executive Group Management may hold up to 3 posts as a member of the management board or administrative body of other listed legal entities. In addition, a member of the Executive Group Management may hold up to 5 posts as a member of the management board or administrative body of non-listed legal entities and 5 posts as a member of the management board of foundations and associations.

**4.4 Management contracts**

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

**5 Compensation, shareholdings and loans**

Information about the compensation, shareholdings and loans of the Board of Directors and Executive Group Management are summarised in the Compensation Report on pages 21 to 25 and in the Financial Report on pages 52 to 55 of this Annual Report.

## 6 Shareholders' participation rights

### 6.1 Voting rights restrictions and representations

Each share equates to one vote. There are no voting power restrictions in the articles of association for the shareholder who acquires proxy voting for other shareholders as long as his own and proxy shares do not make up more than 10 % of the total share capital. Representatives who are not shareholders also cannot represent more than 10 % of the total share capital. Private individuals, legal entities and business partnerships with mutual associations through capital, voting rights, management or in any other way, as well as private individuals, legal entities and business partnerships which form groupings for purposes of circumventing registration limitations, shall be considered as single persons. The restriction does not apply to the independent proxy.

As per the articles of association, it is possible for a delegate, in the form of an independent proxy with written or electronic authorisation or another private individual or legal entity (who does not need to be a shareholder) with written authorisation to represent another shareholder at the Annual General Meeting.

The Board of Directors may decide on exceptions to restrictions on voting rights and representation. The Board of Directors did not grant any exceptions in the reporting year.

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

### 6.2 Quorums required by the articles of association

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

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

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

Convening the Annual General Meeting and placing items on the agenda are done in compliance with articles 699 and 700 OR. Deviating from this, Article 9 of the articles of association stipulates that the represented minimum nominal value for eligible shareholders placing an item on the agenda must be CHF 50 000. The Board of Directors must be informed of the wish to place an item on the agenda and be given the proposals in writing no later than 60 days prior to an Annual General Meeting.

### 6.5 Entries in the share register

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

## 7 Changes of control and defence measures

### 7.1 Duty to make an offer

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

### 7.2 Clauses on changes of control

There are no provisions in the employment contracts with Executive Group Management or other board members that refer to a change of control.

The share blocking periods are not repealed when members of the Board of Directors or Executive Group Management resign. According to the HUBER+SUHNER AG Compensation Policy, the Board of Directors can prematurely repeal existing blocking periods in special circumstances such as a change in control on request by the Nomination and Compensation Committee.

## 8 Auditors

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

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

### 8.2/8.3 Auditing fees/Additional fees

PricewaterhouseCoopers (PwC) charged CHF 413 000 for auditing the Group Financial Statements and the individual financial statements of different Group companies during the reporting year and CHF 65 000 for various additional services from PwC (of which CHF 57 000 for tax advice and CHF 8 000 for other consultations).

### 8.4 Information instruments pertaining to the external audit

The Audit Committee informs the Board of Directors of the external auditors' work and collaboration. Each year, the external auditors create an audit plan, a confirmation of "analytical review" of the half-yearly financial statements and a comprehensive report on the annual financial statements with findings about accounting, the internal control system, the Compensation report (chapter 5) and the audit implementation and results for the attention of the Board of Directors and the Audit Committee. The Audit Committee assesses the annual scope of the audit and the audit plans and discusses the audit findings with the external auditors. The external auditors took part in both Audit Committee meetings in the reporting year.

The Audit Committee annually assesses the external auditors' performance, independence and fees and submits a proposal to the Board of Directors suggesting which external audit company the Annual General Meeting should elect.

The reports and presentations composed by the auditors, the discussions in the meetings, the factual and objective perspectives and the technical and operational expertise form the basis for assessment.

The Audit Committee reviews the appropriateness and the scope of the various additional services provided by the external auditors.

If the planned additional services exceed the maximum amount set by the Audit Committee, the Audit Committee must be informed of this in advance.

## 9 Information policy

As a listed company, HUBER+SUHNER informs its internal and external stakeholders actively, completely and in good time with a view to remaining a credible and sustainable business partner. The SIX Swiss Exchange regulations, legal provisions and internal guidelines are important bases.

The results of operations in accordance with IFRS are published in the yearly report and the half-yearly report and presented at the media and analyst conference and at the Annual General Meeting. Further regular press releases show the development of net sales and orders: At the end of January regarding the past financial year and at the end of October regarding the first three quarters of the current year. The current dates and contact information can be found in the section “Management Report 2016” on page 9 of this Annual Report.

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

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

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

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

Corporate news and ad-hoc announcements  
[www.hubersuhner.com/en/Company/Media/News](http://www.hubersuhner.com/en/Company/Media/News)

Investor information  
[www.hubersuhner.com/en/Investors](http://www.hubersuhner.com/en/Investors)

Articles of Association  
[www.hubersuhner.com/en/Investors/Corporate-Governance](http://www.hubersuhner.com/en/Investors/Corporate-Governance)

Bylaws  
[www.hubersuhner.com/en/Investors/Corporate-Governance](http://www.hubersuhner.com/en/Investors/Corporate-Governance)

# Compensation Report 2016

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# COMPENSATION REPORT

The Compensation Report contains information about the compensation principles, establishment procedures and compensation components for the Members of the Board of Directors and Executive Group Management. Furthermore the Compensation Report discloses all the details of the compensations of the last two years. The Compensation Report fulfills the requirements of the Ordinance against Excessive Compensation in Listed Companies (OaEC), which is in force since 1 January 2014. As a consequence thereof the Compensation Report also fulfills the requirements of the Swiss Code of Obligations and the information guideline on Corporate Governance of the SIX Swiss Exchange.

## 1 Guidelines and responsibilities

### Guidelines

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

Payments are made according to the following principles:

- Performance-based and market-driven compensation
- Contribution towards the success of the company
- Transparency and clarity

The principles for the compensation of Members of the Board of Directors and Executive Group Management are laid down in Articles 23 (Compensation approval), 24 (Compensation of the Board of Directors), 25 (Compensation of the Executive Group Management), 26 (Principles of success and performance-related compensation), 27 (Principles for allocating shares), 28 (Additional amount) and 29 (Activities for Group companies) of the articles of association.

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

### Responsibilities

The Board of Directors is responsible for regulating general questions regarding compensation. The compensation models relevant for the Board of Directors and Executive Group Management are outlined in a compensation policy approved by the Board of Directors. The Board of Directors is supported in its work by the Nomination and Compensation Committee. The committee reviews the principles and prepares all relevant decisions concerning compensation of the members of the Board of Directors and Executive

Group Management. The composition, main tasks and working practices of the Nomination and Compensation Committee are laid down in the Corporate Governance Report on page 14.

## 2 Compensation of the Board of Directors

Compensation for non-executive members of the Board of Directors consists of the following fixed components:

- a) Remuneration
- b) Long-term incentive (in the form of shares)
- c) Social security benefits

### a) Remuneration

Each member of the Board of Directors receives an equal fixed basic remuneration. Additionally, members also receive an extra allowance for taking on a post as Chairman, if applicable as Deputy Chairman of the Board of Directors and for sitting on the permanent committees (Nomination and Compensation Committee and Audit Committee). The responsibility and the increased workload of the various functions are therefore accounted for individually. In addition, each member of the Board of Directors receive a lump sum expense allowance regardless of their function.

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

In addition, the members of the Board of Directors receive a long-term incentive annually in the form of a fixed number of company shares (Chairman 4000 shares, Deputy chairman 2000 shares, other members 1200 shares) with a blocking period of at least three years. The share blocking periods are not revoked on retirement from the Board of Directors.

### c) Social security benefits

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

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

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

### 3 Compensation for Executive Group Management

The total compensation for a member of Executive Group Management essentially reflects the responsibility assigned, qualifications, complexity of the task, achievement of goals and local market conditions in the machinery, electrical and metal industries.

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

Remuneration for the members of the Executive Group Management consists of the following components:

- a) Fixed basic salary
- b) Variable performance components
  - b1) Cash bonus
  - b2) Long-term incentive (in the form of shares)
- c) Pension and other social security benefits

#### a) Fixed basic salary

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

#### b) Variable performance components

##### b1) Cash bonus

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

40 % (50 % for the CEO) of the bonus is contingent upon reaching the weighted Group financial targets determined annually by the Board of Directors (e.g. organic growth in net sales, EBIT-margin, a measurement parameter in the area of net working capital), and 60 % (50 % for the CEO) of the bonus is contingent upon reaching measurable individual divisional and management targets.

These individual targets are set and weighted annually in a structured target-setting process by the Chairman of the Board of Directors and the CEO and the CEO and the members of Executive Group Management. Failure to reach targets means that no bonus is paid. Surpassing all targets may increase the bonus to a maximum of 1.5 times the target bonus.

Payment is made following approval by the Annual General Meeting. The amount of the bonus is fully accrued in accordance with the accrual principle in the financial statements of the corresponding financial year.

##### b2) Long-term incentive (in the form of shares)

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

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

#### c) Pension and other social security benefits

Regulatory contributions to social security and accident insurance schemes, and contributions to pensions from the compensations paid to the members of Executive Group Management are borne by the company.

#### Additional information

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

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

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

#### 4 Determining method

The compensation for the Board of Directors and its committees and the compensation of the CEO and other Executive Group Management members are determined annually by the full Board of Directors at the end of the financial year in February, subject to approval by the Annual General Meeting at the request of the Nomination and Compensation Committee.

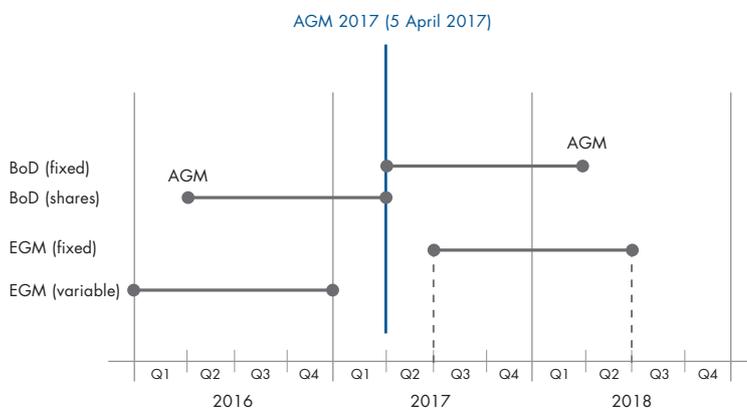
This relates to the amount of the basic fee, post-related allowances and lump sum expense allowances for the members of the Board of Directors for the coming term of office, and the fixed number of shares for the current year. For the Executive Group Management members, this is the amount of the basic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

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

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

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

#### Compensation vote at the 2017 AGM



## 5 Sums paid in remuneration to members of Board of Directors and to members of Executive Group Management for 2016

### Board of Directors' compensation 2016

The members of the Board of Directors received TCHF 449 fixed compensation for the reporting year (previous year TCHF 423). Subject to approval by the Annual General Meeting, share-based compensation amounting to TCHF 597 (previous year TCHF 500) was also awarded. This amount is based on the market value of a total of 10 000 shares (previous year 10 000 shares), divided into 2 500 shares (previous year 2 500 shares) at the share price of CHF 48.55 from 6 April 2016 (previous year CHF 45.70) for the period from 1 January to 31 March 2016 and 7 500 shares (previous year 7 500 shares) at the share price of CHF 56.50 from 30 December 2016 (previous year CHF 46.35) for the period from 1 April 2016 to 31 December 2016. No compensation was paid to former members of the Board of Directors.

The total compensation for the Board of Directors for the reporting year was therefore TCHF 1 046 (previous year TCHF 923). This is up 13 % on the previous year, which is mainly due to the increase in stock market price. For the serving period 2015/2016 the Board of Directors waived 10% of the fixed compensation.

### Compensation for the Board of Directors (BoD)

in CHF 1000		Fixed compensation <sup>1)</sup>		Share-based compensation <sup>2)</sup>		Total compensation		Number of allotted shares	
		2016	2015	2016	2015	2016	2015	2016	2015
B. Kälin <sup>a)</sup>	Chairman of BoD	153	145	242	204	395	350	4 000	4 000
P. Altorfer <sup>b)</sup>	Member of BoD	18	72	16	62	34	134	300	1 200
M. Büttler <sup>c)</sup>	Member of BoD	65	62	73	62	138	123	1 200	1 200
C. Fässler <sup>d)</sup>	Member of BoD	61	46	71	55	132	102	1 200	1 200
U. Kaufmann <sup>e)</sup>	Delegate of BoD/CEO	–	–	–	–	–	–	–	–
G. Müller	Member of BoD	54	51	73	62	127	113	1 200	1 200
R. Seiffert	Member of BoD	49	46	65	55	114	102	1 200	1 200
J. Walther <sup>f)</sup>	Member of BoD	50	–	57	–	106	–	900	–
<b>Total</b>		<b>449</b>	<b>423</b>	<b>597</b>	<b>500</b>	<b>1 046</b>	<b>923</b>	<b>10 000</b>	<b>10 000</b>

<sup>1)</sup> Basic salary and extra allowances including social security contributions and lump sum expense allowances. For the members of the Board of Directors no contributions to the pension fund are made.

<sup>2)</sup> Share-based compensation is calculated at the share price of CHF 48.55 (for the part of the actual allocation from 6 April 2016) (previous year CHF 45.70) and of CHF 56.50 (as of year-end 2016) (previous year CHF 46.35) for the outstanding amount including social security. Outstanding shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

<sup>a)</sup> Chairman and Chairman of the NCC

<sup>b)</sup> Member of the Board of Directors, Chairman of the AC as well as Member of the NCC (each until 6 April 2016)

<sup>c)</sup> Chairman of the AC (from 7 April 2016), before Member of the AC

<sup>d)</sup> Member of the NCC (from 7 April 2016)

<sup>e)</sup> If business management is delegated to a Board member, he is only compensated for his work as CEO.

<sup>f)</sup> Member of the Board of Directors and Member of the AC (from 7 April 2016)

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

An overview of the shareholdings of the members of the Board of Directors at HUBER+SUHNER AG can be found on page 53 of the 2016 Financial Report.

### Executive Group Management compensation 2016

The Executive Group Management members received fixed compensation of TCHF 3 237 for the reporting year (previous year TCHF 3 155). Executive Group Management was – subject to approval by the Annual General Meeting – also awarded variable compensation of TCHF 2 202 (previous year TCHF 1 418). This includes stock-based compensation based on the market value totalling 17 450 shares (previous year 16 994 shares) at a share price of CHF 56.50 on 30 December 2016 (previous year CHF 46.35). No compensation was paid to former Executive Group Management members.

The total compensation for the Executive Group Management for the reporting year was TCHF 5 439 (previous year TCHF 4 573). Compared to the previous year, this is equivalent to an increase of 19 %, which is mainly due to the fact, that in 2015 the target-salary of the Executive Group Management was reduced by 10 %, which was omitted in 2016, as well as the increase in stock market price.

#### Compensation for Executive Group Management

in CHF 1000	Highest individual compensation <sup>1)</sup>		Total Executive Group Management	
	2016	2015	2016	2015
Basic salary <sup>2)</sup>	595	595	2 637	2 555
Contributions to social security and pension funds on fixed compensation	177	176	600	600
<b>Total fixed compensation</b>	<b>772</b>	<b>771</b>	<b>3 237</b>	<b>3 155</b>
Variable compensation	400	223	1 067	529
Share-based compensation <sup>3)</sup>	283	232	986	788
Contributions to social security on variable compensation	41	28	149	101
<b>Total variable compensation</b>	<b>724</b>	<b>483</b>	<b>2 202</b>	<b>1 418</b>
<b>Total compensation</b>	<b>1 496</b>	<b>1 254</b>	<b>5 439</b>	<b>4 573</b>
Number of allotted shares	5 000	5 000	17 450	16 994

<sup>1)</sup> U. Kaufmann (CEO and Delegate of the Board of Directors)

<sup>2)</sup> Including extra allowances

<sup>3)</sup> Based on year-end share price of CHF 56.50 (previous year CHF 46.35). Shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

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

An overview of the shareholdings of Executive Group Management members at HUBER+SUHNER AG can be found on page 54 in the 2016 Financial Report.

## Report of the Statutory Auditors



### HUBER+SUHNER AG Herisau Report of the statutory auditor to the General Meeting on the remuneration report 2016

We have audited the remuneration report of HUBER+SUHNER AG for the year ended 31 December 2016. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables on pages 24 to 25 of the remuneration report.

#### Board of Directors' responsibility

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 of HUBER+SUHNER AG for the year ended 31 December 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Beat Inauen  
Audit expert  
Auditor in charge

Diego J. Alvarez  
Audit expert

St. Gallen, 13 March 2017

# Financial Report 2016

## HUBER+SUHNER Group Financial Statements

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## Key Figures

<b>Gruppe</b> in CHF million	2016	2015	Change
Order intake	746.6	702.8	6.2%
Order backlog as of 31.12.	177.2	169.7	4.4%
Net sales	737.2	706.3	4.4%
Gross margin	36.7%	34.6%	
EBITDA	101.1	86.5	16.9%
as % of net sales	13.7%	12.2%	
EBIT	65.1	52.3	24.4%
as % of net sales	8.8%	7.4%	
Net financial result	2.7	(15.4)	n/a
Net income	49.1	24.7	98.7%
as % of net sales	6.7%	3.5%	
Purchases of PP&E and intangible assets	32.2	23.5	37.0%
Net cash from operating activities	76.9	69.7	10.9%
Free operating cash flow	19.5	47.9	(59.4%)
Net liquidity	157.5	160.0	(1.5%)
Shareholders' equity	658.4	649.6	1.3%
as % of balance sheet total	82.8%	83.5%	
Employees as of 31.12.	4 031	3 649	10.5%
Market capitalisation as of 31.12.	1 099.0	901.6	21.9%
<b>Data per share (in CHF)</b>			
Stock market price as of 31.12.	56.50	46.35	21.9%
Net income	2.52	1.27	98.7%
Dividend	1.25 <sup>1)</sup>	1.00	25.0%

<sup>1)</sup> proposed dividend

<b>Segment information</b> in CHF million		2016	2015	Change
<b>Radio Frequency</b>	Order intake	226.4	201.2	12.5%
	Net sales	219.7	206.6	6.3%
	EBIT	27.5	21.7	26.7%
	as % of net sales	12.5%	10.5%	
<b>Fiber Optics</b>	Order intake	322.3	270.8	19.0%
	Net sales	305.7	280.7	8.9%
	EBIT	38.4	34.4	11.4%
	as % of net sales	12.6%	12.3%	
<b>Low Frequency</b>	Order intake	198.0	230.8	(14.2%)
	Net sales	211.8	219.0	(3.3%)
	EBIT	3.8	2.4	57.7%
	as % of net sales	1.8%	1.1%	

## Consolidated Income Statement

in CHF 1000	Notes	2016	%	2015	%
Net sales	7	737 162	100.0	706 349	100.0
Cost of goods sold		(466 946)		(462 293)	
<b>Gross profit</b>		<b>270 216</b>	<b>36.7</b>	<b>244 056</b>	<b>34.6</b>
Marketing and selling expenses		(121 918)		(109 433)	
General and administrative expenses		(51 406)		(46 297)	
Research and development expenses		(30 294)		(29 409)	
Other operating expenses	8	(5 236)		(8 200)	
Other operating income	8	3 705		1 598	
<b>Operating profit (EBIT)</b>	<b>7</b>	<b>65 067</b>	<b>8.8</b>	<b>52 315</b>	<b>7.4</b>
Financial income	9	4 877		1 477	
Financial expense	10	(2 195)		(16 925)	
<b>Income before taxes</b>		<b>67 749</b>	<b>9.2</b>	<b>36 867</b>	<b>5.2</b>
Income taxes	11	(18 651)		(12 158)	
<b>NET INCOME</b>		<b>49 098</b>	<b>6.7</b>	<b>24 709</b>	<b>3.5</b>

Data per share (in CHF)	Notes	2016	2015
Earnings per share	33	2.52	1.27
Diluted earnings per share	33	2.52	1.27
Dividend		1.25 <sup>1)</sup>	1.00

<sup>1)</sup> proposed dividend

## Statement of Comprehensive Income

in CHF 1000	Notes	2016	2015
<b>Net income</b>		<b>49 098</b>	<b>24 709</b>
Items that may be transferred subsequently to the income statement:			
Currency translation differences		493	(12 217)
Items that will not be transferred subsequently to the income statement:			
Remeasurement of post-employment benefit obligations	14	(25 324)	(11 203)
Income taxes		3 976	1 479
Total other comprehensive income		(20 855)	(21 941)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>28 243</b>	<b>2 768</b>

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

## Consolidated Balance Sheet

in CHF 1000	Notes	31.12.2016	%	31.12.2015	%
<b>Assets</b>					
Cash and cash equivalents	19	157 512		159 989	
Trade receivables	20	132 631		121 945	
Other current assets	21	16 974		18 652	
Inventories	22	142 465		133 142	
Tax assets		6 789		6 620	
Prepaid expenses		1 091		912	
Assets held for sale		219		–	
<b>Total current assets</b>		<b>457 681</b>	<b>57.6</b>	<b>441 260</b>	<b>56.7</b>
Property, plant and equipment	25	187 355		187 227	
Investment property	25	2 080		2 080	
Intangible assets	26, 27	122 156		98 528	
Financial assets	28	12 717		36 264	
Deferred tax assets	11	12 989		12 901	
<b>Total non-current assets</b>		<b>337 297</b>	<b>42.4</b>	<b>337 000</b>	<b>43.3</b>
<b>TOTAL ASSETS</b>	<b>7</b>	<b>794 978</b>	<b>100.0</b>	<b>778 260</b>	<b>100.0</b>
<b>Liabilities and shareholders' equity</b>					
Current other liabilities	30	65 216		58 907	
Current tax liabilities		9 476		6 645	
Current provisions	31	10 694		10 479	
Accrued liabilities		11 100		9 717	
<b>Total current liabilities</b>		<b>96 486</b>	<b>12.1</b>	<b>85 748</b>	<b>11.0</b>
Non-current other liabilities		96		116	
Non-current provisions	31	9 215		10 975	
Deferred tax liabilities	11	30 797		31 789	
<b>Total non-current liabilities</b>		<b>40 108</b>	<b>5.1</b>	<b>42 880</b>	<b>5.5</b>
<b>Total liabilities</b>	<b>7</b>	<b>136 594</b>	<b>17.2</b>	<b>128 628</b>	<b>16.5</b>
Share capital	32	4 863		4 864	
Share premium		31 672		31 832	
Retained earnings		621 849		612 936	
<b>Total shareholders' equity</b>		<b>658 384</b>	<b>82.8</b>	<b>649 632</b>	<b>83.5</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>794 978</b>	<b>100.0</b>	<b>778 260</b>	<b>100.0</b>

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

## Consolidated Cash Flow Statement

in CHF 1000	Notes	2016	2015
<b>Net income</b>		49 098	24 709
Income taxes		18 651	12 158
<b>Net income before taxes</b>		67 749	36 867
Depreciation and impairment of property, plant and equipment and investment property	25	26 112	25 697
Amortisation and impairment of intangible and financial assets	26, 27, 28	9 917	8 478
Other non-cash items		(5 566)	9 647
Gain/loss on disposal of property, plant and equipment	8	(43)	205
Gain/loss on sale of business unit	5, 8	(400)	1 962
Change in trade receivables		(9 380)	2 000
Change in inventories		(6 595)	26 571
Change in other current assets		2 084	2 829
Change in trade payables		2 233	(17 272)
Change in provisions and other liabilities		3 454	(3 544)
Income tax paid		(12 400)	(23 701)
Interest paid		(258)	(78)
<b>Net cash from operating activities</b>		76 907	69 661
Purchases of property, plant and equipment	25	(29 020)	(18 883)
Proceeds/disbursements from disposal of property, plant and equipment	25	171	846
Purchases of intangible assets	26	(4 744)	(3 688)
Purchases/sales of financial assets		(169)	–
Purchases/sales of marketable securities and derivative financial instruments		2 651	8 868
Interest received		842	412
Purchase of subsidiaries less purchased net cash	5, 26	(24 865)	(1 795)
Proceeds from sale of business unit	5	330	1 314
<b>Net cash from investing activities</b>		(54 804)	(12 926)
Payment of dividend		(19 473)	(27 263)
Purchase/sale of treasury shares		(1 420)	(873)
Decrease/increase of short-term debt	5	(3 488)	–
<b>Net cash from financing activities</b>		(24 381)	(28 136)
Effect of exchange rate changes on cash		(199)	(1 896)
<b>Net change in cash and cash equivalents</b>		(2 477)	26 703
Cash and cash equivalents at beginning of year		159 989	133 286
Cash and cash equivalents at end of year	19	157 512	159 989
<b>Net change in cash and cash equivalents</b>		(2 477)	26 703

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

## Consolidated Statement of Shareholders' Equity

in CHF 1000	Share capital <sup>1)</sup>	Share premium	Retained earnings	Translation differences	Total retained earnings	Total shareholders equity
<b>Balance at 31.12.2014</b>	4 861	31 300	648 908	(11 446)	637 462	673 623
Net income	–	–	24 709	–	24 709	24 709
Other comprehensive income	–	–	(9 724)	(12 217)	(21 941)	(21 941)
Dividend paid	–	–	(27 263)	–	(27 263)	(27 263)
Changes in treasury shares <sup>1)</sup>	3	532	(31)	–	(31)	504
<b>Balance at 31.12.2015</b>	4 864	31 832	636 599	(23 663)	612 936	649 632
Net income	–	–	49 098	–	49 098	49 098
Other comprehensive income	–	–	(21 348)	493	(20 855)	(20 855)
Dividend paid	–	–	(19 473)	–	(19 473)	(19 473)
Changes in treasury shares <sup>1)</sup>	(1)	(160)	143	–	143	(18)
<b>Balance at 31.12.2016</b>	4 863	31 672	645 019	(23 170)	621 849	658 384

<sup>1)</sup> see Notes to Group Financial Statements, note 32

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

# Notes to Group Financial Statements

## 1 General

The global HUBER+SUHNER Group develops and manufactures components and system solutions for electrical and optical connectivity. The company serves customers in the communication, transportation and industrial markets with cables, connectors and systems in the three key technologies: radio frequency, fiber optics and low frequency. The products stand out due to their exceptional quality, reliability and durability – even under harsh environmental conditions.

These consolidated financial statements were approved by the Board of Directors on 13 March 2017 and released for publication on 14 March 2017. They are subject to the approval of the Annual General Meeting on 5 April 2017.

## 2 Summary of significant accounting policies

### 2.1 Basis of preparation

The consolidated financial statements of the HUBER+SUHNER Group are based on the individual financial statements of the Group Companies. They have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historical cost convention unless otherwise mentioned in the following notes and accounting policies.

The financial year-end date for HUBER+SUHNER AG, all subsidiaries and the Group financial statements is 31 December.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement and complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

### Announced application of the accounting standard Swiss GAAP FER

The Board of Directors has decided to change the accounting policy from IFRS to Swiss GAAP FER as of 1 January 2017. Swiss GAAP FER is a generally accepted, understandable and comprehensive accounting standard. Using Swiss GAAP FER enables the Group to still publish transparent financial reports, which give a true and fair view of the financial position.

The change from IFRS to Swiss GAAP FER will have an impact on the following areas of the Group Financial Statements:

- Goodwill and intangible assets from acquisition will be recognized directly through equity. Consequently, intangible assets acquired in the course of a business combination will no longer be amortised.
- According to Swiss GAAP FER 16 “pension benefit obligation”, the real economic impacts (financial assets or defined benefit obligations) in connection with the Swiss pension plans are determined based on the financial statement of the pension fund prepared in accordance with Swiss GAAP FER 26 “Accounting of pension plans”.

Due to the application of Swiss GAAP FER as per 1 January 2017, the retrospective restatements as per 1 January 2016 will be published in the half-year report as per 30 June 2017.

### 2.2 Changes in accounting policy

New standards and interpretations and amendments to published standards whose application is obligatory for financial years beginning 1 January 2016:

- Amendments to IAS 1 Presentation of Financial Statements
- Annual improvements to IFRSs 2012 – 2014 cycles

Group management has evaluated these standards and interpretations together with the annual improvements and has concluded that these are not relevant or would have an immaterial influence on the financial statements of the HUBER+SUHNER Group.

HUBER+SUHNER Group has decided not to adopt early new standards and interpretations and improvements to existing standards, that will become effective for financial years beginning after 1 January 2017.

### 2.3 Scope and principles of consolidation

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

- All subsidiaries which HUBER+SUHNER controls are fully consolidated. Control is usually presumed where the Group directly or indirectly owns 50 % or more of the voting rights of the subsidiaries. All of the assets and liabilities as well as the income and expenses of these companies are fully included. Minority interests in the consolidated equity and net income are shown separately. All intercompany transactions and balances as well as intercompany profits in inventory are eliminated on consolidation.

- Those companies purchased during the reporting year are included in the consolidation as of the date on which control has effectively been transferred. From the date of transfer of control all identifiable assets and liabilities as well as contingent liabilities of the company are valued initially at fair value. Companies which have been divested during the reporting year are included in the consolidated financial statements till the date control ceases.
- The acquisition method of accounting is used to account for the acquisition of subsidiaries by Group.

## 2.4 Segment reporting

Segment reporting is based on reports that are used by the Executive Group Management (Chief Operating Decision Maker, CODM) to run the business segments by regularly assessing performance and allocating resources.

## 2.5 Foreign currency translation

### Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are prepared in Swiss francs (CHF). CHF corresponds to the Group's presentation currency. Unless stated otherwise the information is given in CHF 1000 (TCHF).

### Transactions and balances

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

### Group companies

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

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

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

## 2.6 Financial assets and liabilities

Five categories of financial assets and financial liabilities are distinguished:

- financial assets and liabilities valued at fair value through profit and loss
- loans and receivables
- financial assets held to maturity
- financial assets available for sale
- all other financial assets

In accordance with IAS 39, financial assets and liabilities are initially recognised at fair value. The fair value corresponds in general to the purchase costs. Transaction costs are directly recognised in the income statement when they occur respectively are recognised distributed over the contract period. All sales and disposals are recognised on the trading day.

Financial assets "at fair value through profit and loss" are measured at fair value. Changes in the fair value are recognised in the financial result of the period in which they occur. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term (realised within 12 months) or if so designated by management. Derivatives also fall in this category. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. For the fair value valuation of forward foreign exchange contracts actual market prices are used at the balance sheet date. Changes in the fair value of derivatives are recorded immediately in the income statement. During the year, the HUBER+SUHNER Group did not apply Hedge Accounting.

Trade receivables or payables and other current assets or liabilities are non-derivative financial assets or liabilities with fixed or defined payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor or creditor with no intention of trading the receivables or payables. They are recognised in the balance sheet at their net realisable value. A provision for impairment is recognised if there are objective indications that the receivable amounts due cannot be recovered completely. Reductions in value are recognised in the income statement. The net realisable value corresponds approximately to the fair value. Cash and cash equivalents are stated at nominal value.

With the exception of the financial assets shown under IAS 19, HUBER+SUHNER Group did not have any financial assets in the categories "held to maturity", "available for sale" or "other financial assets" in the reporting year.

## 2.7 Cash and cash equivalents

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

## 2.8 Trade receivables

Trade receivables are measured at amortised cost less allowances. Indications for impairment are: substantial financial problems of the customer, a declaration of bankruptcy or a material delay in payment.

## 2.9 Inventories

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

## 2.10 Property, plant and equipment

Property, plant and equipment are stated on the balance sheet at the purchased or manufactured cost less accumulated depreciation. Depreciation is charged using the straight-line method over the estimated useful lives of the related assets. Land is not depreciated.

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

Gains and losses on disposals of property, plant and equipment are included in other operating revenue and expenses in the income statement. Purchases of minor value are immediately expensed in the income statement.

## 2.11 Leasing

Payments made under operating lease are charged to the income statement on a straight-line basis over the period of the lease. The HUBER+SUHNER Group has no finance leasing.

## 2.12 Investment property

Investment properties are held to earn rental income and capital gains. They are valued at purchase cost less accumulated depreciation and impairments. Investment properties are depreciated using the straight-line method over their estimated useful life (20 to 40 years).

In accordance with IAS 40, the fair value is shown in the notes for comparison. It is calculated based on internal net present value or DCF method.

## 2.13 Intangible assets

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the amount of non-controlled shares at the acquired company as well as the fair value of all prior held shares at the date of acquisition over the net assets valued at fair value. If the costs of an acquisition are lower than the net assets valued at fair value of the acquired company the difference is directly recognised in profit and loss.

### Trademarks, technology and customer relations

The valuation of intangible assets obtained by acquisition of a subsidiary, such as trademarks, technology and customer relations, is at fair value and based on an external appraisal report. These

intangible assets are amortised over their estimated economic useful life, which is for trademarks seven years, for technology eight and for customer relations ten years.

### Software

Acquired computer software and further intangible assets are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life (3 to 10 years). Internal costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Software is only capitalised if and in as far as the capitalised amount can be covered through corresponding future cash flows. Development costs for software are capitalised under the condition that the asset leads to future economic benefits such as revenues or owner-utilisation and costs of the asset can be identified reliably.

### Other intangible assets

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

## 2.14 Impairment of assets

Goodwill and other intangible assets with an indefinite useful life are reviewed annually for impairment. Property, plant and equipment and other long-term assets, including intangible assets with a definite useful life, are reviewed for impairment if events or changes in circumstances have occurred that indicate that the book value can no longer be realised. Assets with book values above the recoverable amount are impaired to the recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. In order to determine the reduction in value, assets are allocated to specific cash-generating units for which separate cash flows can be determined.

If there is an indication that the impairment loss in prior periods no longer exists or may have decreased, the carrying amount is with the exception of goodwill increased to its recoverable amount and is recognised immediately in the income statement.

## 2.15 Provisions

Provisions are made for warranties, personnel expenses, restructuring costs, legal and miscellaneous other operational risks that meet the recognition criteria. They are recognised when the Group has a present legal or constructive obligation as a result of past events and if it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Warranty provisions are generally measured and recognised based on experience values. The amount of the provision is determined as the present value of the expected cash outflows in as far as the cash outflow substantially underlies interest effects.

## 2.16 Employee benefits

### Pension obligations

According to IAS 19 the Projected Unit Credit Method must be applied for the calculation of the present value of the defined benefit obligation (DBO). This is a so-called "accrued benefit valuation method": a retrospective method, which takes into account past service years, future service years as well as future contributions for the calculation of the DBO.

The DBO for insured, active employees equals the present value of the acquired defined benefits at the balance sheet date including future salary and pension increases and probability of withdrawal. The DBO for pensioners equals the present value of current pensions, taking into account future pension increases.

The total DBO is compared with the fair value of the plan assets. After considering the asset ceiling, a surplus or deficit is recognised as an asset or liability in the balance sheet.

Unrecognised actuarial gains or losses are shown outside the income statement under other comprehensive income in the period in which they arise in accordance with IAS 19.

The annual defined benefit cost consist of the following components:

- Service cost: cost of newly acquired claims by insured, active employees during the year (Current service cost), cost of newly implemented or subsequently amended plans as well as curtailments (Past service cost) and gains or losses on settlements.
- Net interest on the net defined benefit liability/asset, based on applying the interest rate on the net balance sheet position of obligation and plan assets, after adjustment to the asset ceiling.
- Remeasurements of the net defined benefit liability/asset: this includes all actuarial gains and losses on the DBO and changes in fair value of the plan assets (including changes in the so-called “Asset ceiling”) incurred during the year, in as far as they are not an obligatory part of the interest component.

Service costs and the net interest on the net defined benefit liability/asset are to be recognised in the income statement; remeasurements must be shown under other comprehensive income.

In the Swiss Group Company the employee benefit obligations are covered by legally autonomous pension funds, which are in accordance with Swiss pension law accounted for as defined contribution plans. These funds are financed by formal, agreed-upon contributions from the employer and the employees. The Group may have legal or constructive obligations to pay further contributions if the fund does not hold sufficient plan assets to pay the post-employment benefits of all employees relating to employee service in the current and prior periods. Therefore, they are considered as defined benefit plans according to IFRS.

The basic assumptions of the pension fund obligations are determined every two years by independent actuaries and together with the updated actuarial values and the yearly adjustments of the actuarial assumptions carried forward until the next valuation. In addition, it is assessed annually, if the basic assumptions have changed significantly compared to the previous year.

Outside Switzerland, obligations are mainly covered by insurance companies or are recognised as a liability in the balance sheet on the basis of independent actuarial valuations.

### Other post-employment obligations

The HUBER+SUHNER Group does not grant any further benefits after the termination of the employment.

### Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange of these benefits. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

### Benefits based on the period of employment with the company (seniority gifts)

Benefits based on the period of employment with the company are generally assigned after an employment period of five years and recognised at present value.

### Share-based payments

Part of the compensation for members of the Board of Directors and Executive Group Management is paid in HUBER+SUHNER AG shares, which are valued at market price and have a lock-in period with a minimum of three and a maximum of ten years. These shares are transferred for the financial year after approval by the Annual General Meeting in the following year. The market value of the shares is fully accrued in accordance with the accrual principle and the yearlong vesting period in the accounts of the respective year under review.

### 2.17 Shareholders' equity

Ordinary shares are classified as equity. Where a Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### 2.18 Order intake

An order is recognised as order intake when a legally binding customer order has been received. Frame contracts as such are not considered as order intake. Legally binding volume delivery obligations, within a frame contract, are considered as order intake.

### 2.19 Revenue recognition

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

### 2.20 Research and development expenses

Research and development costs are recognised as an expense in the period in which they are incurred. Development costs are capitalised only and in as far as future economic benefits are expected to flow from the capitalised amount and the costs can be measured reliably. Conditions such as technical feasibility, the intention and ability to complete the development as well as the availability of adequate resources need to be fulfilled. Development costs for new products are not capitalised, since experience shows that future economic benefits can only be proven when the products are successfully launched in the market.

### 2.21 Income taxes

Income taxes are accounted for on the basis of the income of the reporting year, less the utilisation of tax losses carried forward, using expected actual (local) tax rates.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### 3 Risk management

#### 3.1 Risk assessment and risk policy

The risk management system of the HUBER+SUHNER Group and the Group companies is defined in the Board of Directors' risk policy and in the Executive Group Management's guidelines on the risk management process.

Risk management is a structured, continuous process, which prescribes the systematic monitoring of essential business risks. As a global industrial corporation with its own development, manufacturing and sales operations in several countries, HUBER+SUHNER is exposed to various financial, market and credit risks of strategic, operational and financial nature. In this process risks are identified, analysed on probability and financial impact and valued. Measures to control the risk are defined. Based on its own assessment (top-down) and on information provided by the Divisions and regions (bottom-up), Executive Group Management on the one hand selects and reassesses the most significant financial, operational and strategic risks and on the other hand reviews the status and the result of previously decided actions. Every member of Executive Group Management is responsible for implementation of measures in his own area of responsibility. Every year the Board of Directors is informed about essential changes in the risk assessment and the conducted risk management activities. The permanent monitoring and control of risks resides with Executive Group Management, which strives to minimize negative impacts on the Group, particularly on the Group's financial result. The assessed risks as well as the on-going and new actions as well as the activities to adhere to Compliance principles have been submitted in the Risk Report 2016 for discussion and approval to the Board of Directors. After an intensive review the Board of Directors has agreed on 5 December 2016 on the risk assessment and approved the Risk Report 2016.

For risks in the area of accounting and financial reporting HUBER+SUHNER carries out comprehensive analyses for the purpose of risk management. Substantial financial risks are incorporated in the processes of the internal control system (ICS) and thereby are monitored periodically and systematically.

#### 3.2 Exchange rate risks

Because of its international business activities HUBER+SUHNER generates revenues and profits in Switzerland and abroad. The foreign exchange risk arises from investments in foreign subsidiaries (translation risk) and from business transactions or assets and liabilities in a currency different from the functional currency of the company concerned (transaction risk). Foreign exchange rate fluctuations therefore affect the consolidated result. In order to limit these risks the concept of natural hedging is applied as a primary hedging strategy. Within this concept the foreign exchange risk on money inflows in a certain currency is neutralised by money outflows in the same currency.

Furthermore the remaining foreign exchange risk is actively managed. For this purpose HUBER+SUHNER has centralised the exchange rate risk mainly in Switzerland. To manage foreign exchange risks arising from expected incoming and outgoing cash flows of the following 12 months, Corporate Treasury also uses derivative financial instruments. According to the individual risk evaluation, 25 % to 75 % of anticipated net cash flows per currency are hedged. Neither net investments in foreign subsidiaries nor Group loans in foreign currency are hedged.

The table below analyses the Group's forward foreign exchange contracts. The amounts disclosed are the contractual undiscounted cash flows.

As of 31 December 2016	Less than 1 year	1–5 years	After 5 years	Total cash flows
Economical cash flow hedge outflow	65 923	–	–	65 923
Economical cash flow hedge inflow	64 984	–	–	64 984

As of 31 December 2015	Less than 1 year	1–5 years	After 5 years	Total cash flows
Economical cash flow hedge outflow	76 853	–	–	76 853
Economical cash flow hedge inflow	75 351	–	–	75 351

Due to the high value creation in Switzerland and balance sheet positions in foreign currency HUBER+SUHNER Group is primarily exposed to foreign exchange risks of the Swiss franc against USD, EUR, GBP and AUD as well as the currency pair USD / CNY due to the production site in China.

The following sensitivity analysis calculates the foreign currency risks of these most important currencies. The forward contracts which have not been settled before balance sheet date are included in the calculations.

A fluctuation of  $\pm 10\%$  (previous year,  $\pm 10\%$ ) of the underlying currency as at 31 December, assuming all other parameters had remained unchanged, would have had the following effect on comprehensive income (converted into Swiss francs at the closing rate for the reporting period):

in CHF million	Financial result $\pm 10\%$	2016 Other comprehensive income	Financial result $\pm 10\%$	2015 Other comprehensive income
USD / CHF	$\pm 1.6$	$\pm 8.0$	$\pm 1.1$	$\pm 4.7$
EUR / CHF	$\pm 0.4$	$\pm 2.8$	$\pm 0.7$	$\pm 2.8$
GBP / CHF	$\pm 0.7$	–	$\pm 0.0$	–
AUD / CHF	$\pm 0.6$	–	$\pm 0.5$	–
USD / CNY	$\pm 0.9$	–	$\pm 0.0$	–

Exchange rate changes on current business transactions (transaction risk) which are outside the scope of IFRS 7 may have a substantially bigger impact on the income statement.

### 3.3 Credit risks

Credit risks can arise from cash and cash equivalents, deposits with banks and financial institutions, as well as from trade receivables. Financial instruments are traded exclusively with banks with high creditworthiness, whereby various financial institutions are taken into account. The maximum credit risk is the market value of the available financial assets at the balance sheet date. The Group invests its short-term assets with institutions with a good rating. For financial instruments only marketable securities with a high credit rating of generally a minimum of "A" (Standard and Poor's) are allowed.

The credit risk for trade receivables is limited by the wide product and geographical distribution of customers. In addition, these risks are reduced to a minimum by regular checks of creditworthiness, advance payments, letters of credit or other instruments. In the context of large projects however a temporary concentration of trade receivables may arise. For anticipated losses of trade receivables allowances are recognised.

In the reporting year, the effective losses on trade receivables are below 0.2% of net sales per annum (previous year, below 0.1% of net sales per annum).

### 3.4 Liquidity risks

Permanent financial solvency is the highest aim of the liquidity policy of HUBER+SUHNER. The liquidity risk is therefore monitored by Corporate Treasury with a cautious and future-oriented cash management. With this the Group pursues the principle of ensuring enough liquid reserves. This includes the possibility of financing by means of available lines of credit and the ability to obtain capital due to an issue on the capital markets.

The actual and the planned cash flows and liquidity reserves of all Group companies are recorded monthly in a rolling liquidity forecast and reported to the CFO.

in CHF million	31.12.2016	31.12.2015
Cash and cash equivalents	157.5	160.0
= Liquidity reserves	157.5	160.0

In addition to the liquidity reserves consisting of cash and cash equivalents and marketable securities, the Group has access to not-committed lines of credit with different banks, which are only occasionally used for bank guarantees. Furthermore, HUBER+SUHNER has additional financing potential due to the strong income and balance sheet position.

The table below shows cash flows from financial liabilities and derivative financial instruments:

As of 31 December 2016	Total balance sheet position	Less than 1 year	1–5 years	After 5 years	Cashflows Total cash flows
Trade payables and other liabilities	61 870	61 870	–	–	61 870
Derivative financial instruments	1 102	1 102	–	–	1 102

As of 31 December 2015	Total balance sheet position	Less than 1 year	1–5 years	After 5 years	Cashflows Total cash flows
Trade payables and other liabilities	54 038	54 038	–	–	54 038
Derivative financial instruments	2 010	2 010	–	–	2 010

### 3.5 Capital risks

The capital managed by the Group is related to the consolidated shareholders' equity. The Group's objectives when managing capital are especially to safeguard HUBER+SUHNER's ability to continue as a going concern, to provide adequate returns for shareholders and to partially finance the Group's growth with its own means. In order to fulfil those objectives, HUBER+SUHNER can adjust the amount of the dividend and return capital to shareholders, issue new shares or sell assets.

The Group monitors and manages return on equity, equity ratio and net liquidity based on the following ratios:

Ratios	Definition	Target
Return on equity	Net income as percentage of average equity	Risk-free interest rate (10-year government bond rate) + risk premium of 5%
Equity ratio	Equity as percentage of balance sheet total	> 50%
Net liquidity	Cash and cash equivalents and marketable securities less short- and long-term debt	Entrepreneurial freedom of action and guarantee of unrestricted solvency

All amounts are in CHF 1000

At the balance sheet date, the ratios were the following:

in CHF million	31.12.2016	31.12.2015
Return on equity	7.5 %	3.7 %
Equity ratio	82.8%	83.5 %
Net liquidity	157.5	160.0

### 3.6 Market price risks

Market price risks mainly result from raw materials. Copper sales are basically hedged through adequate copper acquisition (back-to-back deals). No financial instruments are used for the hedging of the acquisition of raw material.

### 3.7 Interest risks

On the balance sheet date the HUBER+SUHNER Group neither had financial liabilities nor held bonds in the portfolio. A sensitivity analysis of the influence of interest rate changes is therefore not necessary.

### 3.8 Fair value estimation

The fair value of financial instruments traded in active markets (e.g. listed shares) is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives such as forward foreign exchange contracts or options) is determined by using valuation techniques. The carrying value less impairment provision of trade receivables and payables or other current assets or liabilities are assumed to approximate their fair values due to the short-term nature at the balance sheet date.

### 3.9 Fair value hierarchy

The following table shows the allocation of the fair values of the financial assets and liabilities to the three levels of the fair value hierarchy:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, and

Level 3 – inputs for the asset or liability that are not based on observable market data.

Financial assets as of 31 December 2016	Level 1	Level 2	Level 3	Total
Derivative financial instruments	–	515	–	515

Financial liabilities as of 31 December 2016	Level 1	Level 2	Level 3	Total
Derivative financial instruments	–	1 102	–	1 102

Financial assets as of 31 December 2015	Level 1	Level 2	Level 3	Total
Derivative financial instruments	–	284	–	284

Financial liabilities as of 31 December 2015	Level 1	Level 2	Level 3	Total
Derivative financial instruments	–	2 010	–	2 010

All amounts are in CHF 1000

## 4 Critical accounting estimates and judgements

Preparation of the consolidated financial statements in conformity with IFRS requires the Board of Directors and Executive Group Management to make estimates and assumptions, whereby such estimates and assumptions have an effect on the amounts stated under assets, liabilities, income and expenses. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations and judgements of future events that are believed to be reasonable under the circumstances. These form the basis for reporting those assets and liabilities that cannot be measured directly from other sources and will not always correspond to the later actualities of the situation.

The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

### Inventories

When assessing inventories, estimates for their recoverability that arise from the expected consumption of the corresponding items are necessary. The adjustments for the inventories are calculated for each item using a systematic stock turnover analysis. The individual parameters are checked annually and modified if necessary. A decline in market demand or decreasing selling prices could require additional adjustments. For further information on inventories see note 22.

### Goodwill and intangible assets

In accordance with the accounting policies, goodwill is tested annually for impairment by the Group. The recoverable amount of cash-generating units has been determined based on the value in use calculations. For these calculations assumptions are made, such as future cash flows, margins, discount rates and growth rates. These assumptions may change respectively they may differ materially from actual results and require the recognition of an additional impairment. For further details of goodwill see note 27.

The value and the economic useful life of acquired intangible assets, which are tested annually for impairment by the Group, are assessed based on external appraisal reports, that require estimations and assumptions for future sales and revenue development, royalty rates or weighted average cost of capital (WACC). If future developments differ from these assumptions, material adjustments of intangible assets could result with an impact on profit and loss.

### Pension liabilities

Liabilities and costs for defined benefit plans and other post-employment benefits are determined based on actuarial calculations. For these projections assumptions must be made regarding discount rate, salary and pension increases, staff fluctuations, etc. The assumptions are considered each year on the balance sheet date based on observed market data. These are the interest rates of bonds in the relevant currency with high creditworthiness as well as asset studies. Changing the assumptions mentioned could lead to significant deviations because of the long-term nature of these calculations. For further details of pension liabilities see note 14.

### Provisions

In relation to the operational business of the Group liabilities can occur out of warranty and damage claims, restructuring, employee related payments and legal disputes. Provisions for such liabilities are recognised based on the realistically anticipated outflow of funds at net present value on the balance sheet date. Depending on the changes and settlements in the corresponding businesses, the actual payments may be higher or lower than the recognised provision and may not or only be partially covered through a corresponding insurance benefit. Therefore the effective payments may differ from these estimates. For further information of provisions see note 31.

### Income taxes and tax accruals

The Group is subject to income taxes in numerous jurisdictions. Therefore, significant judgement is required in determining the worldwide accrual for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such a determination is made.

The related tax assets on losses carried forward are valued based on business plans. The capitalisation of usable tax losses carried forward is assessed on a yearly base. The tax losses carried forward are recognised considering country-specific fiscal regulations and the likelihood that they can be used during the next one to two years depending on the profit situation of the corresponding subsidiary. In countries respectively subsidiaries where the usage of tax losses carried forward is not foreseeable no tax loss is capitalised. For further information of income taxes and tax accruals see note 11.

## 5 Changes in the scope of consolidation and other changes

On 8 June 2016 HUBER+SUHNER acquired the American/British company Polatis with headquarters in Bedford, MA (USA) and Cambridge (UK). The purchase price was CHF 25.7 million (USD 26.7 million). On 8 June 2016, Polatis had short-term bank borrowings of CHF 3.5 million, which was repaid completely immediately by HUBER+SUHNER. Polatis is the most technologically advanced provider of purely optical switches which, in contrast to conventional electrical/optical switches, do not convert the signals but control them purely optically and offer much higher performance. Polatis switches allow for faster switching speeds, outstanding reliability and the industry's lowest optical loss. These innovative solutions are unique in the market and promise a large potential for the future. The products allow the efficient management of ever-increasing data volumes and support are a key building block in the evolution towards software defined networks. The Polatis product portfolio thus represents a perfect addition to the existing product range of HUBER+SUHNER. Polatis will be part of the Fiber Optics division. Founded in the year 2000, Polatis has at the date of acquisition some 110 employees at its sites in Bedford/USA, Cambridge/UK and Krakow/Poland. Product management, research, development, prototyping and low-volume production are all performed in England whilst high volume production takes place in Poland. The arm of the company based in the USA concentrates on sales. In 2016 the acquired company contributed net sales of CHF 8.8 million to HUBER+SUHNER Group's net sales and CHF –1.9 million of EBIT (acquisition date was 8 June 2016). The total acquisition costs of CHF 0.5 million have been recognised in the reporting year 2016 under administrative expenses in the Corporate segment. For the reported year-end closing the preliminary values of net assets, intangible assets and resulting goodwill are as follows:

Effect of acquisition	Book value	Fair value adjustment	Fair Value
Cash and cash equivalents	810	–	810
Trade receivables	2 223	–	2 223
Other current assets	1 659	–	1 659
Inventories	2 064	(39)	2 025
Property, plant and equipment	626	84	710
Intangible assets	5	–	5
Financial assets	286	–	286
Deferred tax assets	–	2 092	2 092
Current financial debts	(3 488)	–	(3 488)
Current other liabilities	(1 727)	–	(1 727)
Current tax liabilities	(16)	–	(16)
Current provisions	(108)	–	(108)
Accrued liabilities	(2 228)	(51)	(2 279)
Deferred tax liabilities	–	(2 279)	(2 279)
Intangible assets from acquisition	–	11 395	11 395
<b>Acquired net assets</b>	<b>106</b>	<b>11 202</b>	<b>11 308</b>
Goodwill			14 345
<b>Total purchase price</b>			<b>25 653</b>
<b>Cash flow view</b>			
Consideration in cash			25 653
Reduction for purchased net cash			(810)
<b>Net cash outflow</b>			<b>24 843</b>

From the acquisition a goodwill results of CHF 14.3 million, which represents the strategic benefits out of the business combination. These include future growth potential of the complementary product portfolios and synergies for example in the area of research and development. The acquired intangible assets of CHF 11.4 million include trademark and technology of Polatis. They are amortised over a period of seven (trademark) and eight years (technology) and will lead to an additional amortisation of CHF 1.5 million per annum.

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

On 5 February 2015 the Danish subsidiary, HUBER+SUHNER A/S, was liquidated. The company was wholly owned by HUBER+SUHNER AG and was deconsolidated. The financial impact of the liquidation was immaterial.

On 24 March 2015 the Chinese subsidiary, HUBER+SUHNER Electrical Equipment Manufacture (Shanghai) Co. Ltd., was liquidated. The company was wholly owned by HUBER+SUHNER (Hong Kong) Ltd. and was deconsolidated. The financial impact of the liquidation was immaterial.

With a view to ensuring consistent alignment to the 3x3 strategy, the HUBER+SUHNER Group sold the last non-strategic business unit Composites in Fehrltorf to the company Connova AG on 7 December 2015. The date of execution was 23 December 2015. The sales price amounted to CHF 1.8 million, the cash flow was CHF 1.3 million. There is a conditional purchase price payment of CHF 0.5 million maximum. Furthermore provisions for lease of buildings, warranty and personnel, as well as allowances in the amount of CHF 2.5 million were built. The net result of the transaction in the financial year 2015 was CHF –2.0 million. The divested business unit contributed CHF 3.4 million to net sales in the financial year 2015 and CHF –1.6 million to EBIT. The operating result as well as the transactional loss were allocated to the Low Frequency division. In the financial year 2016, the provision for building lease was released by CHF 0.4 million, as part of the building – which was still bound by a rental agreement – was subleased to a 3rd party.

A complete list of all Group companies can be found on page 70.

## 6 Exchange rates for currency translation

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

Spot rates for the consolidated balance sheet	31.12.2016	31.12.2015
1 EUR	1.07	1.08
1 USD	1.03	0.99
100 CNY	14.80	15.26
1 GBP	1.26	1.47
1 AUD	0.74	0.72
1 BRL	0.31	0.26
100 INR	1.51	1.49

Average rates for the consolidated income and cash flow statement	2016	2015
1 EUR	1.09	1.06
1 USD	0.99	0.96
100 CNY	14.89	15.29
1 GBP	1.33	1.47
1 AUD	0.74	0.72
1 BRL	0.29	0.29
100 INR	1.47	1.50

## 7 Segment information

The segment reporting of HUBER+SUHNER consists of three operational Divisions and Corporate.

**Radio Frequency:** HUBER+SUHNER develops and manufactures radio frequency and microwave products for the most diverse of requirements. The wide product range encompasses all passive components like cables, connectors, cable assemblies, antennas, lightning protection and resistive components. HUBER+SUHNER is constantly applying its distinctive knowledge – of radio frequency and microwave technologies, sophisticated simulation processes and the most modern test methods – to make components even smaller, to expand their operating frequencies continuously and minimise losses in signal quality. Thanks to the own state-of-the-art electroplating processes HUBER+SUHNER has a sound knowledge of surface-coating that is vital when developing modern radio frequency components.

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

**Low Frequency:** HUBER+SUHNER develops and manufactures low frequency products for challenging applications. The wide portfolio here includes single cores, cables, cable assemblies, hybrid cables and cable systems. Thanks to the high vertical manufacturing integration, high levels of automation and market-specific know-how, HUBER+SUHNER is able to meet the various demands of the customers. HUBER+SUHNER specializes in polymer compounds for high-quality cable insulation that is produced using self-developed formulations. Another HUBER+SUHNER core competency is electron beam cross-linking, which allows to produce space-saving, lighter and longer-life cables that function reliably, even under extreme conditions. Until its sale per end 2015 the business unit Composites was also part of this division.

**Corporate:** Includes corporate functions and all activities that cannot be allocated to one of the three operational Divisions.

Net sales	2016	2015
Radio Frequency	219 738	206 659
Fiber Optics	305 673	280 682
Low Frequency	211 751	219 008
<b>Total net sales</b>	<b>737 162</b>	<b>706 349</b>

Operating profit (EBIT)	2016	2015
Radio Frequency	27 475	21 686
in % of net sales	12.5%	10.5%
Fiber Optics	38 389	34 446
in % of net sales	12.6%	12.3%
Low Frequency	3 833	2 431
in % of net sales	1.8%	1.1%
Corporate	(4 630)	(6 248)
<b>Total operating profit (EBIT)</b>	<b>65 067</b>	<b>52 315</b>
Financial income	4 877	1 477
Financial expense	(2 195)	(16 925)
<b>Net income before taxes</b>	<b>67 749</b>	<b>36 867</b>

Depreciation and amortisation	2016	2015
Radio Frequency	(10 962)	(11 626)
Fiber Optics	(9 650)	(8 323)
Low Frequency	(15 417)	(14 226)
<b>Total depreciation and amortisation</b>	<b>(36 029)</b>	<b>(34 175)</b>

In the reporting year as well as the previous year HUBER+SUHNER did not have any impairments on property, plant and equipment, investment property or intangible assets.

Assets	31.12.2016	31.12.2015
Radio Frequency	170 226	157 480
Fiber Optics	211 342	164 896
Low Frequency	220 797	237 708
Corporate	192 613	218 176
<b>Total assets</b>	<b>794 978</b>	<b>778 260</b>

Liabilities	31.12.2016	31.12.2015
Radio Frequency	28 405	25 108
Fiber Optics	37 200	27 792
Low Frequency	22 212	25 925
Corporate	48 777	49 803
<b>Total liabilities</b>	<b>136 594</b>	<b>128 628</b>

Investments in property, plant and equipment and intangible assets	2016	2015
Radio Frequency	11 902	4 960
Fiber Optics	10 526	5 709
Low Frequency	9 807	12 865
<b>Total investments in property, plant and equipment and intangible assets</b>	<b>32 235</b>	<b>23 534</b>

Net sales by region (sales area)	2016	2015
Switzerland	59 148	53 188
EMEA (Europe, Middle East and Africa [excl. CH])	280 795	270 688
<i>of which Germany</i>	85 859	92 336
APAC (Asia-Pacific)	249 092	238 220
<i>of which China</i>	97 623	90 703
Americas (North and South America)	148 127	144 253
<i>of which USA</i>	105 509	100 767
<b>Total net sales</b>	<b>737 162</b>	<b>706 349</b>

In the reporting year, as in the previous year, with no customer more than 10 % of total net sales were achieved.

Property, plant and equipment, investment property and intangible assets	31.12.2016	31.12.2015
Switzerland	135 164	138 742
EMEA (Europe, Middle East and Africa [excl. CH])	77 165	49 233
<i>of which Germany</i>	41 857	43 110
APAC (Asia-Pacific)	53 480	54 782
<i>of which China</i>	50 232	51 692
Americas (North and South America)	45 782	45 078
<i>of which USA</i>	41 965	41 731
<b>Total property, plant and equipment, investment property and intangible assets</b>	<b>311 591</b>	<b>287 835</b>

Investments in property, plant and equipment and intangible assets	2016	2015
Switzerland	17 886	12 960
EMEA (Europe, Middle East and Africa [excl. CH])	6 739	3 445
APAC (Asia-Pacific)	5 161	6 280
Americas (North and South America)	2 449	849
<b>Total investments in property, plant and equipment and intangible assets</b>	<b>32 235</b>	<b>23 534</b>

All amounts are in CHF 1000

## 8 Other operating expenses and income

	2016	2015
Other operating expenses	(5 236)	(8 200)
Other operating income	3 705	1 598
<b>Total other operating expenses and income</b>	<b>(1 531)</b>	<b>(6 602)</b>
Of which gain from sales of PP&E and investment property	76	247

Other operating expenses include amongst others the amortisation of acquired intangible assets for trademarks, technology and customer relations as well as the net expenses of IAS 19 charged through profit and loss. In prior year the transaction loss on the sale of business unit Composites is also recognised under other operating expenses (see note 5).

Other operating income includes amongst others the net income of IAS 19 charged through profit and loss, gains from the sale of property, plant and equipment, one-time income from a former divestment as well as licence fee income from third parties and refunds of withholding tax.

## 9 Financial income

	2016	2015
Interest income	768	413
Foreign exchange gains	–	773
Gains from derivative financial instruments (incl. change in fair value)	3 784	–
Other financial income	325	291
<b>Total financial income</b>	<b>4 877</b>	<b>1 477</b>

## 10 Financial expense

	2016	2015
Interest expense	(248)	(76)
Foreign exchange losses	(961)	(15 151)
Losses from derivative financial instruments (incl. change in fair value)	–	(729)
Other financial expense	(986)	(969)
<b>Total financial expense</b>	<b>(2 195)</b>	<b>(16 925)</b>

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

## 11 Income taxes

	2016	2015
Current income taxes	(15 876)	(13 892)
Deferred income taxes	(2 775)	1 734
<b>Total income taxes</b>	<b>(18 651)</b>	<b>(12 158)</b>

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

	2016	2015
Net income before taxes	67 749	36 867
<b>Expected income tax rate</b>	<b>26.9%</b>	<b>28.5%</b>
Expected income tax expense	(18 256)	(10 499)
Effect of utilisation of non-recognised tax loss carry-forward	308	247
Effect of non-tax-deductible expenses and non-taxable income	(254)	(80)
Effect of non-recognition of current tax losses	(43)	(814)
Effect of increased/reduced allowance on deferred tax balances	(148)	(22)
Effect of changes in tax rates on deferred tax balances	14	(1 251)
Effect of tax credits/debits from prior years and other effects	(272)	261
<b>Effective income taxes</b>	<b>(18 651)</b>	<b>(12 158)</b>
<b>Effective income tax rate</b>	<b>27.5%</b>	<b>33.0%</b>

The expected Group tax rate corresponds to the weighted average tax rate based on the income/(loss) before taxes and the tax rate of each individual Group company. The decrease in the reporting year compared to the previous year is attributable to the different composition of the net income: in the financial year 2016 Switzerland reports again a gain before taxes, whereas Switzerland reported in the previous year a loss (IFRS) as a result of the abolishment of the Euro-minimum foreign exchange rate. The share of the consolidated net income in India and Germany remains unchanged high in the reporting period as well in the previous period.

Unrecognised tax loss carry-forward	31.12.2016	31.12.2015
Expiring within 1 year	1 157	742
Expiring within 2 years	1 157	1 112
Expiring within 3 years	3 982	1 112
Expiring within 4 years	–	3 828
Expiring within 5 years	–	–
Expiring thereafter	29 219	14 520
<b>Total unrecognised tax loss carry-forward</b>	<b>35 515</b>	<b>21 314</b>

The unrecognised tax loss carry-forward was CHF 35.5 million (previous year, CHF 21.3 million). This corresponds to a potential tax asset of CHF 9.9 million (previous year, CHF 7.4 million). In 2016 a deferred tax asset was recognised in three Group companies, whereas in five Group companies a deferred tax asset was used.

In 2016 tax losses carry-forward of CHF 0.7 million expired (previous year, CHF 0.3 million).

The deferred tax assets and liabilities related to temporary valuation differences were:

	31.12.2016 Assets	31.12.2016 Liabilities	31.12.2015 Assets	31.12.2015 Liabilities
Trade receivables	251	1 474	445	1 363
Inventories	5 966	3 439	6 766	2 250
Other current assets	–	31	–	–
Property, plant and equipment	446	4 962	267	5 391
Financial assets	7	7 229	–	10 458
Intangible assets	–	8 342	–	6 743
Current liabilities	1 439	–	1 603	–
Current provisions	937	–	775	290
Non-current provisions	936	7 182	793	7 037
<b>Total deferred taxes</b>	<b>9 982</b>	<b>32 659</b>	<b>10 649</b>	<b>33 532</b>
Netting	(1 862)	(1 862)	(1 743)	(1 743)
<b>Deferred taxes after netting</b>	<b>8 120</b>	<b>30 797</b>	<b>8 906</b>	<b>31 789</b>
Capitalised loss carry-forward	4 869	–	3 995	–
<b>Amounts recognised in the balance sheet</b>	<b>12 989</b>	<b>30 797</b>	<b>12 901</b>	<b>31 789</b>

Temporary differences relating to investments in subsidiaries, on which no deferred tax liabilities were provided, amounted to CHF 125.5 million on 31 December 2016 (previous year, CHF 125.7 million).

## 12 Material expenses

Included in the cost of goods sold are the following material expenses:

	2016	2015
<b>Total material expenses</b>	<b>274 534</b>	<b>263 627</b>
as % of net sales	37.2%	37.3%

## 13 Employee benefit expenses

Employee benefit expenses included in the income statement amount to:

	2016	2015
Wages and salaries	188 892	178 967
Social security costs	21 779	20 201
Pension costs – defined benefit plans	6 313	8 878
Pension costs – defined contribution plans	2 650	1 647
Other employee benefit expenses	18 857	15 682
<b>Total employee benefit expenses</b>	<b>238 491</b>	<b>225 375</b>
as % of net sales	32.4 %	31.9 %

The costs for defined benefit plans consist of: cost of newly acquired claims by insured, active employees during the year (Current service cost), cost of newly implemented or subsequently amended plans as well as curtailments (Past service cost) and gains or losses on settlements.

Employee benefit expenses include the total compensation to the Board of Directors and the Executive Group Management (see note 15). Other employee benefit expenses include amongst others cost for temporary employees, education and recruitment.

Employees by segment at 31.12.	2016	2015
Radio Frequency	1 342	1 241
Fiber Optics	1 531	1 313
Low Frequency	1 158	1 095
<b>Total employees by segment</b>	<b>4 031</b>	<b>3 649</b>

Employees by geographical split at 31.12.	2016	2015
Switzerland	1 250	1 271
EMEA (Europe, Middle East and Africa [excl. CH])	1 374	1 006
APAC (Asia-Pacific)	1 083	1 078
Americas (North and South America)	324	294
<b>Total employees by geographical split</b>	<b>4 031</b>	<b>3 649</b>

The number of employees are related to permanent employees (without temporary employees).

#### 14 Post-employment benefits

According to IAS 19 Swiss pension schemes are to be classified as defined benefit plans. From a legal point of view autonomous pension funds carry the risks of the defined benefits. An obligation beyond the payment of contribution exists for the employer in the event of restructuring measures.

HUBER+SUHNER AG performs the professional pension for its employees against economic consequences of age, invalidity and death at the pension fund of HUBER+SUHNER AG.

Leading body is the Board of Foundation, that consists of the same number of employees' and employers' representatives. The Board of Foundation determines an Investment Committee, which is responsible for the investments of the funds based on the investment regulations defined by the Board of Foundation. Each insured person can obtain the pension or part of the pension in capital form or retirement pension payments.

Additionally two paternal foundations exist.

For the actuarial calculation the following assumptions have been used:

	2016	2015
Discount rate per 31.12	0.62%	1.00%
Expected future salary increases	0.50%	0.50%
Mortality tables	BVG2015 GT	BVG2010 GT
Weighted average duration of the obligations in years	14.5	13.9
Date of the last actuarial calculation		
– prepared per	31.12.2015	31.12.2015
– carried forward to	31.12.2016	–

Reconciliation of defined benefit positions recognised in the balance sheet	31.12.2016	31.12.2015
Present value of defined benefit obligation	(563 511)	(534 843)
Fair value of plan assets	656 245	643 025
<b>Surplus</b>	<b>92 734</b>	<b>108 182</b>
Adjustment to asset ceiling	(84 019)	(74 945)
<b>In the balance sheet recognised surplus as financial assets</b>	<b>8 715</b>	<b>33 237</b>

Changes in the present value of the defined benefit obligations	2016	2015
Present value of defined benefit obligation at 1.1.	(534 843)	(527 897)
Interest cost on defined benefit obligation	(5 327)	(6 907)
Current service cost (employer)	(8 753)	(9 154)
Employee contributions	(5 530)	(5 855)
Benefits paid	18 768	32 126
Past service (cost)/income	2 438	–
Administration cost (excl. cost for managing plan assets)	(267)	(264)
Net actuarial gains/(losses) recognised on obligation	(29 997)	(16 892)
Present value of defined benefit obligation at 31.12.	(563 511)	(534 843)
Thereof defined benefit obligation at 31.12. for active members	(254 676)	(242 493)
Thereof defined benefit obligation at 31.12. for pensioners	(308 835)	(292 350)

Components of actuarial gains/losses on the defined benefit obligations	2016	2015
Actuarial gain/(loss) arising from changes in financial assumptions	(24 518)	(18 444)
Actuarial gain/(loss) arising from changes in demographic assumptions	(5 578)	–
Actuarial gain/(loss) arising from experience adjustments	99	1 552
Actuarial gain/(loss) on defined benefit obligation	(29 997)	(16 892)

Changes in the fair value of plan assets	2016	2015
Fair value of plan assets at 1.1.	643 025	653 954
Interest income on plan assets	6 399	8 572
Employer contributions	7 061	7 453
Employee contributions	5 530	5 855
Benefits paid	(18 768)	(32 126)
Return on plan assets excl. interest income	12 998	(683)
Fair value of plan assets at 31.12.	656 245	643 025
Effective return on plan assets	19 397	7 889

Allocation of plan assets	31.12.2016	31.12.2015
Quoted plan assets		
Cash and cash equivalents	3.0 %	7.3 %
Shares	25.7 %	24.9 %
Bonds	28.8 %	28.5 %
Real estate	39.1 %	35.8 %
Other investments	3.0 %	3.1 %
Total quoted plan assets	99.6 %	99.6 %
Plan assets not quoted		
Cash and cash equivalents	–	–
Bonds	0.1 %	0.1 %
Real estate	0.3 %	0.3 %
Total plan assets not quoted	0.4 %	0.4 %
Total plan assets	100 %	100 %

Reconciliation of effect of asset ceiling	31.12.2016	31.12.2015
Adjustment to asset ceiling at 1.1.	74 945	80 250
Interest (expense)/income on effect of asset ceiling	749	1 067
Change in effect of asset ceiling excluding interest expense/income	8 325	(6 372)
Adjustment to asset ceiling at 31.12.	84 019	74 945

All amounts are in CHF 1000

Defined benefit cost in income statement	2016	2015
Current service cost (employer)	(8 753)	(9 154)
Past service (cost)/income	2 438	–
Interest cost on defined benefit obligation	(5 327)	(6 907)
Interest income on plan assets	6 399	8 572
Interest cost on effect of asset ceiling	(749)	(1 067)
Administration cost (excl. cost for managing plan assets)	(267)	(264)
<b>Total expense in the income statement</b>	<b>(6 259)</b>	<b>(8 820)</b>
thereof service cost and administration cost	(6 582)	(9 418)
thereof net interest (expense)/income on net defined benefit (liability)/asset	323	598

The reduction of the conversion rate, which was decided on 22 November 2016 by the board of foundation of the pension fund of HUBER+SUHNER AG, for the supplementary retirement savings by 0.7 percentage points, beginning as from 1 January 2018 until 31 December 2019, led to a past service income in the amount of CHF 2.4 million (previous year, 0).

Of the total employer's contribution CHF 2.7 million (previous year, CHF 3.7 million) was included in cost of goods sold and CHF 3.6 million (previous year, CHF 5.1 million) in operating expenses.

For 2017, employer's contributions of CHF 7.1 million are expected.

Defined benefit cost in other comprehensive income (OCI)	2016	2015
Actuarial (gain)/loss on defined benefit obligation	29 997	16 892
Return on plan assets excl. interest income	(12 998)	683
Change in effect of asset ceiling excl. interest cost/income	8 325	(6 372)
<b>Defined benefit cost recognised in other comprehensive income</b>	<b>25 324</b>	<b>11 203</b>

The asset recognised in the balance sheet shows the following development:

	2016	2015
<b>Balance at 1.1. (asset)</b>	<b>33 237</b>	<b>45 807</b>
Defined benefit cost recognised in the income statement	(6 259)	(8 820)
Defined benefit income recognised in other comprehensive income	(25 324)	(11 203)
Employer contributions	7 061	7 453
<b>Balance at 31.12. (asset)</b>	<b>8 715</b>	<b>33 237</b>

The following sensitivity analysis shows the consequences of changes in major assumptions with regards to the defined benefit obligation:

Impact on the defined benefit obligations	Change of assumption	Increase of assumption	Decrease of assumption
Discount rate	± 0.25 %	Reduction of 3.5 %	Increase by 3.8 %
Interest rate on retirement savings capital	± 0.25 %	Increase by 0.7 %	Reduction of 0.7 %
Salary increase	± 0.25 %	Increase by 0.2 %	Reduction of 0.2 %
Life expectancy	± 1 Jahr	Increase by 3.6 %	Reduction of 3.7 %

The sensitivity analysis is based on the change of one assumption, while the other assumptions remain unchanged.

## 15 Compensation Board of Directors and Executive Group Management and related-party transactions sowie Geschäftsvorfälle

According to the Ordinance against Excessive Compensation in Listed Companies (OaEC) which is in force since 1 January 2014, all details of the compensation paid to members of the Board of Directors and the Executive Group Management are presented in a separate Compensation Report (see Compensation Report pages 21 to 25).

The statements in note 15 are made in accordance with the requirements of IAS 24 and the Swiss Code of Obligations.

### Compensation of Board of Directors (BoD)

The compensation of members of the Board of Directors represents the total actual cost for the company. The allotted shares have a lock-in period with a minimum of three years. No compensation has been paid to related parties of Board members. For the serving period 2015/2016 the Board of Directors waived 10 % of the fixed compensation.

#### Compensation for the Board of Directors (BoD)

in CHF 1000		Fixed compensation <sup>1)</sup>		Share-based compensation <sup>2)</sup>		Total compensation		Number of allotted shares	
		2016	2015	2016	2015	2016	2015	2016	2015
B. Kälin <sup>a)</sup>	Chairman of BoD	153	145	242	204	395	350	4 000	4 000
P. Altorfer <sup>b)</sup>	Member of BoD	18	72	16	62	34	134	300	1 200
M. Bütler <sup>c)</sup>	Member of BoD	65	62	73	62	138	123	1 200	1 200
C. Fässler <sup>d)</sup>	Member of BoD	61	46	71	55	132	102	1 200	1 200
U. Kaufmann <sup>e)</sup>	Delegate of BoD/CEO	–	–	–	–	–	–	–	–
G. Müller	Member of BoD	54	51	73	62	127	113	1 200	1 200
R. Seiffert	Member of BoD	49	46	65	55	114	102	1 200	1 200
J. Walther <sup>f)</sup>	Member of BoD	50	–	57	–	106	–	900	–
<b>Total</b>		<b>449</b>	<b>423</b>	<b>597</b>	<b>500</b>	<b>1 046</b>	<b>923</b>	<b>10 000</b>	<b>10 000</b>

<sup>1)</sup> Basic salary and extra allowances including social security contributions and lump sum expense allowances. For the members of the Board of Directors no contributions to the pension fund are made.

<sup>2)</sup> Share-based compensation is calculated at the share price of CHF 48.55 (for the part of the actual allocation from 6 April 2016) (previous year CHF 45.70) and of CHF 56.50 (as of year-end 2016) (previous year CHF 46.35) for the outstanding amount including social security. Outstanding shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

<sup>a)</sup> Chairman and Chairman of the NCC

<sup>b)</sup> Member of the Board of Directors, Chairman of the AC as well as Member of the NCC (each until 6 April 2016)

<sup>c)</sup> Chairman of the AC (from 7 April 2016), before Member of the AC

<sup>d)</sup> Member of the NCC (from 7 April 2016)

<sup>e)</sup> If business management is delegated to a Board member, he is only compensated for his work as CEO.

<sup>f)</sup> Member of the Board of Directors and Member of the AC (from 7 April 2016)

All amounts are in CHF 1000

## Shareholdings of BoD

(Number of shares at 31 December 2016)

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

## Shareholdings of BoD

(Number of shares at 31 December 2015)

		Own shares	Shares of close family members	Total shares	Of which non-restricted shares	Of which restricted shares <sup>1)</sup>	Total share of votes <sup>2)</sup>
B. Kälin	Chairman of BoD	8 500	–	8 500	3 600	4 900	< 0.10 %
P. Altorfer	Member of BoD	22 640	–	22 640	17 840	4 800	0.12 %
M. Bütler	Member of BoD	1 200	–	1 200	–	1 200	< 0.10 %
C. Fässler	Member of BoD	2 900	–	2 900	500	2 400	< 0.10 %
U. Kaufmann	Delegate of BoD / CEO	66 400	400	66 800	12 600	54 200	0.34 %
G. Müller	Member of BoD	15 200	184 986	200 186	196 586	3 600	1.03 %
R. Seiffert	Member of BoD	6 233	–	6 233	2 633	3 600	< 0.10 %
<b>Total shareholdings BoD 2015</b>		<b>123 073</b>	<b>185 386</b>	<b>308 459</b>	<b>233 759</b>	<b>74 700</b>	<b>1.59 %</b>

<sup>1)</sup> shares with remaining lock-in periods of up to 10 years<sup>2)</sup> shares in % of shares entitled to a dividend

## Compensation of Executive Group Management (EGM)

The compensation of Executive Group Management represents the total cost for the company, i.e. including all employer contributions for social security, pension funds and illness/unemployment insurance. The allotted shares have a lock-in period with a minimum of three years. No compensation has been paid to close family members of EGM members. Concerning the structure of the Executive Group Management and their functions see pages 16 and 17 in the Corporate Governance Report. Executive Group Management waived 10 % of the target-salary in reporting year 2015.

### Compensation for Executive Group Management

in CHF 1000	Highest individual compensation <sup>1)</sup>		Total Executive Group Management	
	2016	2015	2016	2015
Basic salary <sup>2)</sup>	595	595	2 637	2 555
Contributions to social security and pension funds on fixed compensation	177	176	600	600
<b>Total fixed compensation</b>	<b>772</b>	<b>771</b>	<b>3 237</b>	<b>3 155</b>
Variable compensation	400	223	1 067	529
Share-based compensation <sup>3)</sup>	283	232	986	788
Contributions to social security on variable compensation	41	28	149	101
<b>Total variable compensation</b>	<b>724</b>	<b>483</b>	<b>2 202</b>	<b>1 418</b>
<b>Total compensation</b>	<b>1 496</b>	<b>1 254</b>	<b>5 439</b>	<b>4 573</b>
Number of allotted shares	5 000	5 000	17 450	16 994

<sup>1)</sup> U. Kaufmann (CEO and Delegate of the Board of Directors)

<sup>2)</sup> Including extra allowances

<sup>3)</sup> Based on year-end share price of CHF 56.50 (previous year CHF 46.35). Shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

### EGM shareholdings

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

### EGM shareholdings

(Number of shares at 31 December 2015)		Own shares	Shares of close family members	Total shares	Of which non-restricted shares	Of which restricted shares <sup>1)</sup>	Total share of votes <sup>2)</sup>
U. Kaufmann	Delegate of BoD / CEO	66 400	400	66 800	12 600	54 200	0.34%
R. Bolt	Member EGM	5 470	–	5 470	470	5 000	< 0.10%
D. Nixon	Member EGM	1 470	–	1 470	510	960	< 0.10%
P. Riederer	Member EGM	10 000	–	10 000	4 000	6 000	< 0.10%
U. Ryffel	Member EGM	11 100	–	11 100	5 100	6 000	< 0.10%
U. Schaumann	Member EGM	1 930	–	1 930	1 080	850	< 0.10%
P. Stolz	Member EGM	70	–	70	70	–	< 0.10%
I. Wechsler	Member EGM	10 600	–	10 600	1 000	9 600	< 0.10%
<b>Total EGM shareholdings 2015</b>		<b>107 040</b>	<b>400</b>	<b>107 440</b>	<b>24 830</b>	<b>82 610</b>	<b>0.55%</b>

<sup>1)</sup> shares with remaining lock-in periods of up to 10 years

<sup>2)</sup> shares in % of shares entitled to a dividend

All amounts are in CHF 1000

Members of the Board of Directors and the Executive Group Management as well as persons closely related to them are not and were not related to HUBER+SUHNER AG or any of its subsidiaries.

During 2016 HUBER+SUHNER AG and its subsidiaries had no guarantees or outstanding loans, advances or credits to members of the Board of Directors or the Executive Group Management or to parties closely related to them.

#### Compensation of former directors and executives

No compensation was paid to former directors and executives in the actual and in the prior year.

#### Relationship with pension fund/paternal foundations

HUBER+SUHNER AG did neither charge in the previous year nor in the current year any services to the pension fund and the paternal foundation. At the reporting dates 2016 and 2015, HUBER+SUHNER AG has no receivables and liabilities with the pension fund and the paternal foundation.

#### Purchased services

In 2016 the HUBER+SUHNER Group has purchased services (mainly airfares from Cosa Travel Ltd.) for CHF 2.1 million (prior year, CHF 1.5 million) from companies in which members of the Board of Directors perform an executive role.

### 16 Depreciation, amortisation and impairment

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

	2016	2015
Depreciation on PP&E and investment property	26 112	25 697
Impairment/(reversal impairment) on PP&E	–	–
<b>Total depreciation and impairment on PP&amp;E and investment property</b>	<b>26 112</b>	<b>25 697</b>
Amortisation of intangible assets	9 917	8 478
<b>Total depreciation, amortisation and impairment</b>	<b>36 029</b>	<b>34 175</b>
as % of net sales	4.9%	4.8%

### 17 EBITDA

	2016	2015
EBIT	65 067	52 315
+ Depreciation on PP&E and investment property	26 112	25 697
+ Amortisation of intangible assets	9 917	8 478
<b>EBITDA</b>	<b>101 096</b>	<b>86 490</b>
as % of net sales	13.7%	12.2%

## 18 Liabilities from operating lease

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

Liabilities from operating lease	31.12.2016	31.12.2015
Less than 1 year	5 030	4 811
Between 1 and 5 years	9 243	8 945
After 5 years	3 278	1 298
<b>Total liabilities from operating lease</b>	<b>17 551</b>	<b>15 054</b>

## 19 Cash and cash equivalents

	31.12.2016	31.12.2015
Cash at bank and on hand	95 509	112 654
Term deposits < 3 months term in CHF	54 999	45 000
Term deposits < 3 months term in other currency	7 004	2 335
<b>Total cash and cash equivalents</b>	<b>157 512</b>	<b>159 989</b>

## 20 Trade receivables

Trade receivables can be classified into current and overdue trade receivables depending on the individually agreed conditions with customers. The following table shows the aging structure at the balance sheet date:

	31.12.2016	31.12.2015
Current	109 213	92 856
Overdue for 1–30 days	16 763	20 577
Overdue for 31–60 days	4 347	6 226
Overdue for 61–90 days	1 459	2 304
Overdue for 91–120 days	415	616
Overdue over 120 days	2 444	1 965
<b>Total trade receivables, gross</b>	<b>134 641</b>	<b>124 544</b>
Provision for doubtful debts	(2 010)	(2 599)
<b>Total trade receivables, net</b>	<b>132 631</b>	<b>121 945</b>

At year-end 2016 the overdue trade receivables amount to CHF 25.4 million (previous year, CHF 31.7 million), of which CHF 2.0 million (7.9 %) have a provision for doubtful debts (previous year, CHF 2.6 million or 8.2 %).

The provisions for doubtful debts are based on the aging structure and recent history of default.

	2016	2015
Balance at 1.1.	(2 599)	(3 114)
Provisions for doubtful debts on trade receivables	(1 371)	(1 299)
Utilisation of provisions	1 532	547
Releases of provisions	481	1 147
Currency translation differences	(53)	120
Balance at 31.12.	(2 010)	(2 599)

In the reporting year actual losses on doubtful debts are below 0.2% of net sales (previous year below 0.1% of net sales).

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	31.12.2016	31.12.2015
CHF	11 044	10 324
EUR	36 597	33 228
USD	36 876	23 854
CNY	19 788	21 385
INR	14 019	20 823
GBP	4 236	4 265
AUD	4 111	1 344
BRL	3 203	3 007
Other	2 757	3 715
Total trade receivables, net	132 631	121 945

At 31 December 2016, the three customers with the largest amounts of open invoices represented together 21.6% (previous year, 24.3%) of total trade receivables gross:

	31.12.2016	%	31.12.2015	%
Customer A	9 929	7.4	11 130	8.9
Customer B	9 850	7.3	9 996	8.0
Customer C	9 339	6.9	9 164	7.4
Total	29 118	21.6	30 290	24.3

No trade receivables have been pledged (see note 29).

## 21 Other current assets

	31.12.2016	31.12.2015
Other current assets	16 459	18 368
Derivative financial instruments	515	284
Total other current assets	16 974	18 652

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

There are no provisions for other current assets, neither in the reporting year nor in the prior year.

## 22 Inventories

	31.12.2016	31.12.2015
Raw materials and supplies	68 761	58 113
Work in progress	11 920	7 925
Finished goods	98 835	106 144
<b>Total inventories, gross</b>	<b>179 516</b>	<b>172 182</b>
Inventory provision	(37 051)	(39 040)
<b>Total inventories, net</b>	<b>142 465</b>	<b>133 142</b>

Changes in inventory provision 2016	Raw materials and supplies	Work in progress	Finished goods	Total inventory provision
Balance at 1.1.	(15 913)	–	(23 127)	(39 040)
Additions	(5 337)	–	(4 781)	(10 118)
Disposals	1 243	–	2 689	3 932
Scrapped	4 372	–	5 019	9 391
Change in consolidation scope	(879)	–	–	(879)
Reclassifications	(12)	–	12	–
Currency translation differences	(219)	–	(118)	(337)
<b>Balance at 31.12.</b>	<b>(16 745)</b>	<b>–</b>	<b>(20 306)</b>	<b>(37 051)</b>

Changes in inventory provision 2015	Raw materials and supplies	Work in progress	Finished goods	Total inventory provision
Balance at 1.1.	(12 916)	–	(24 598)	(37 514)
Additions	(10 281)	–	(8 133)	(18 414)
Disposals	2 462	–	1 616	4 078
Scrapped	4 493	–	6 777	11 270
Change in consolidation scope	125	–	193	318
Reclassifications	(268)	–	268	–
Currency translation differences	472	–	750	1 222
<b>Balance at 31.12.</b>	<b>(15 913)</b>	<b>–</b>	<b>(23 127)</b>	<b>(39 040)</b>

## 23 Valuation categories of financial instruments

Financial assets as of 31 December 2016	Notes	At fair value through profit and loss	Loans and receivables	Total
Cash and cash equivalents	19	–	157 512	157 512
Derivative financial instruments	21	515	–	515
Trade receivables	20	–	132 631	132 631
Other current assets (excluding prepayments)	21	–	14 734	14 734
Financial assets (non-current)	28	–	12 717	12 717
<b>Total financial assets</b>		<b>515</b>	<b>317 594</b>	<b>318 109</b>

All amounts are in CHF 1000

Financial liabilities as of 31 December 2016	Notes	At fair value through profit and loss	Other liabilities	Total
Trade payables	30	–	31 585	31 585
Other current liabilities	30	–	6 654	6 654
Derivative financial instruments	30	1 102	–	1 102
<b>Total financial liabilities</b>		<b>1 102</b>	<b>38 239</b>	<b>39 341</b>

Financial assets as of 31 December 2015	Notes	At fair value through profit and loss	Loans and receivables	Total
Cash and cash equivalents	19	–	159 989	159 989
Derivative financial instruments	21	284	–	284
Trade receivables	20	–	121 945	121 945
Other current assets (excluding prepayments)	21	–	17 306	17 306
Financial assets (non-current)	28	–	36 264	36 264
<b>Total financial assets</b>		<b>284</b>	<b>335 504</b>	<b>335 788</b>

Financial liabilities as of 31 December 2015	Notes	At fair value through profit and loss	Other liabilities	Total
Trade payables	30	–	28 064	28 064
Other current liabilities	30	–	7 122	7 122
Derivative financial instruments	30	2 010	–	2 010
<b>Total financial liabilities</b>		<b>2 010</b>	<b>35 186</b>	<b>37 196</b>

## 24 Derivative financial instruments

To hedge future exposure to fluctuation in foreign currency, the Group is using derivative financial instruments, especially for forward exchange transactions. At the balance sheet date, the financial instruments have the following values:

	31.12.2016	31.12.2015
Contract value	78 481	90 758
Contracts with positive fair values	515	284
Contracts with negative fair values	(1 102)	(2 010)

## 25 Property, plant and equipment

Property, plant and equipment 2016	Investment property	Land and buildings	Technical equipment and machinery	Other equipment <sup>1)</sup>	Assets under construction	Total
<b>Initial cost</b>						
Balance at 1.1.	2 080	185 593	299 714	65 255	19 389	569 951
Additions	–	1 585	6 636	2 682	16 413	27 316
Disposals	–	(2 237)	(4 073)	(1 826)	–	(8 136)
Reclassifications	–	3 925	19 070	3 451	(26 446)	–
Change in consolidation scope	–	44	643	23	–	710
Currency translation differences	–	(1 296)	(64)	(147)	(323)	(1 830)
<b>Balance at 31.12.</b>	<b>2 080</b>	<b>187 614</b>	<b>321 926</b>	<b>69 438</b>	<b>9 033</b>	<b>588 011</b>
<b>Accumulated depreciation</b>						
Balance at 1.1.	–	(102 826)	(224 850)	(54 891)	–	(382 567)
Additions	–	(4 219)	(17 294)	(4 599)	–	(26 112)
Disposals	–	1 987	3 995	1 798	–	7 780
Reclassifications	–	(82)	262	(180)	–	–
Change in consolidation scope	–	–	–	–	–	–
Currency translation differences	–	364	(108)	139	–	395
<b>Balance at 31.12.</b>	<b>–</b>	<b>(104 776)</b>	<b>(237 995)</b>	<b>(57 733)</b>	<b>–</b>	<b>(400 504)</b>
<b>Accumulated impairment</b>						
Balance at 1.1.	–	–	(155)	(2)	–	(157)
Additions	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Reversal impairments	–	–	–	–	–	–
Currency translation differences	–	–	5	–	–	5
<b>Balance at 31.12.</b>	<b>–</b>	<b>–</b>	<b>(150)</b>	<b>(2)</b>	<b>–</b>	<b>(152)</b>
<b>Carrying amount</b>						
At 1.1.	2 080	82 767	74 709	10 362	19 389	187 227
<b>At 31.12.</b>	<b>2 080</b>	<b>82 838</b>	<b>83 781</b>	<b>11 703</b>	<b>9 033</b>	<b>187 355</b>

<sup>1)</sup> Other equipment includes IT-equipment, measurement equipment, testing equipment and vehicles.

The fair value of investment property amounts to CHF 10.0 million (previous year, CHF 10.0 million). There are no contractual obligations for future repairs and maintenance, investment property consists mainly of freehold land.

<b>Property, plant and equipment 2015</b>	Investment property	Land and buildings	Technical equipment and machinery	Other equipment <sup>1)</sup>	Assets under construction	Total
<b>Initial cost</b>						
Balance at 1.1.	2 080	188 877	323 607	86 374	18 177	617 035
Additions	–	238	3 392	1 878	14 302	19 810
Disposals	–	(2 767)	(27 304)	(23 775)	–	(53 846)
Reclassifications	–	1 403	8 054	3 191	(12 648)	–
Change in consolidation scope	–	(68)	(4 100)	(1 055)	–	(5 223)
Currency translation differences	–	(2 090)	(3 935)	(1 358)	(442)	(7 825)
<b>Balance at 31.12.</b>	<b>2 080</b>	<b>185 593</b>	<b>299 714</b>	<b>65 255</b>	<b>19 389</b>	<b>569 951</b>
<b>Accumulated depreciation</b>						
Balance at 1.1.	–	(102 317)	(239 591)	(75 961)	–	(417 869)
Additions	–	(4 085)	(16 996)	(4 616)	–	(25 697)
Disposals	–	2 752	26 355	23 912	–	53 019
Reclassifications	–	(21)	105	(84)	–	–
Change in consolidation scope	–	68	3 842	1 025	–	4 935
Currency translation differences	–	777	1 435	833	–	3 045
<b>Balance at 31.12.</b>	<b>–</b>	<b>(102 826)</b>	<b>(224 850)</b>	<b>(54 891)</b>	<b>–</b>	<b>(382 567)</b>
<b>Accumulated impairment</b>						
Balance at 1.1.	–	–	(161)	(2)	–	(163)
Additions	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Reversal impairments	–	–	–	–	–	–
Currency translation differences	–	–	6	–	–	6
<b>Balance at 31.12.</b>	<b>–</b>	<b>–</b>	<b>(155)</b>	<b>(2)</b>	<b>–</b>	<b>(157)</b>
<b>Carrying amount</b>						
At 1.1.	2 080	86 560	83 855	10 411	18 177	199 003
<b>At 31.12.</b>	<b>2 080</b>	<b>82 767</b>	<b>74 709</b>	<b>10 362</b>	<b>19 389</b>	<b>187 227</b>

<sup>1)</sup> Other equipment includes IT-equipment, measurement equipment, testing equipment and vehicles.

The disposals disclosed under initial cost and accumulated depreciation mainly relate to the disposal of items of zero carrying value as part of a validation of the assets accounting (in Switzerland, USA and Germany).

## 26 Intangible assets

Intangible assets 2016	Goodwill	Trademarks, technology and customer relations	Software	Other	Total
<i>Initial cost</i>					
Balance at 1.1.	50 107	33 651	58 949	1 532	144 239
Additions	–	–	4 919	–	4 919
Disposals	–	–	(897)	–	(897)
Change in consolidation scope	14 345	11 395	5	–	25 745
Currency translation differences	1 791	1 454	95	(46)	3 294
Balance at 31.12.	66 243	46 500	63 071	1 486	177 300
<i>Accumulated amortisation</i>					
Balance at 1.1.	–	(8 882)	(36 704)	(125)	(45 711)
Additions	–	(4 952)	(4 935)	(30)	(9 917)
Disposals	–	–	897	–	897
Change in consolidation scope	–	–	–	–	–
Currency translation differences	–	(335)	(82)	4	(413)
Balance at 31.12.	–	(14 169)	(40 824)	(151)	(55 144)
<i>Carrying amount</i>					
At 1.1.	50 107	24 769	22 245	1 407	98 528
At 31.12.	66 243	32 331	22 247	1 335	122 156

The acquisition of Polatis in 2016 resulted in a Goodwill of CHF 14.3 million. Additionally, Intangible assets for trademarks and technology were acquired in the course of the acquisition in the amount of CHF 11.4 million from Polatis. Other intangible assets include the acquired rights of land use in Changzhou, China.

**Intangible assets 2015**

	Goodwill	Trademarks, technology and customer relations	Software	Other	Total
<i>Initial cost</i>					
Balance at 1.1.	52 671	35 109	61 602	1 590	150 972
Additions	–	–	3 724	–	3 724
Disposals	–	–	(5 996)	–	(5 996)
Change in consolidation scope	–	–	(14)	–	(14)
Currency translation differences	(2 564)	(1 458)	(367)	(58)	(4 447)
Balance at 31.12.	50 107	33 651	58 949	1 532	144 239
<i>Accumulated amortisation</i>					
Balance at 1.1.	–	(4 832)	(38 523)	(98)	(43 453)
Additions	–	(3 964)	(4 483)	(31)	(8 478)
Disposals	–	–	5 993	–	5 993
Change in consolidation scope	–	–	14	–	14
Currency translation differences	–	(86)	295	4	213
Balance at 31.12.	–	(8 882)	(36 704)	(125)	(45 711)
<i>Carrying amount</i>					
At 1.1.	52 671	30 277	23 079	1 492	107 519
At 31.12.	50 107	24 769	22 245	1 407	98 528

The disposals disclosed under initial cost and accumulated depreciation mainly relate to the disposal of items of zero carrying value as part of a validation of the assets accounting (in Switzerland, USA and Germany).

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

## 27 Impairment test

The goodwill acquired in 2012 on the acquisition of Astrolab, the goodwill acquired in 2014 on the acquisition of Cube Optics and the goodwill acquired in 2016 on the acquisition of Polatis were tested for impairment in reporting year 2016 using the “Discounted Cash Flow” method (DCF). Future cash flows, discount rates and other parameters relating to the smallest identifiable cash generating unit are determined using various assumptions. The calculation is based on the forecast for the reporting year and the medium term plan for the following five years, which has been approved by the Board of Directors. Cash-inflows beyond the medium term planning period are based on a sustainable result, extrapolated to a terminal value.

The discount rate is basically the weighted average cost of capital before taxes and reflects the specific risks.

The goodwill position was tested for impairment in the fourth quarter based on the value in use.

### 27.1 Acquisition Astrolab

The following assumptions have been used for the impairment test calculations on Astrolab:

	2016	2015
Average net sales growth rate medium term plan 2017–2021 (previous year 2016–2020)	8.5 %	8.1 %
Average EBIT growth rate medium term plan 2017–2021 (previous year 2016–2020)	12.0 %	9.5 %
Weighted cost of capital (before income taxes)	10.4 %	7.7 %
Goodwill Astrolab as of 31.12.	26 616	25 587

As in the previous year a terminal growth rate of 1 % has been assumed in the impairment model.

The result from the impairment test was, that no impairment was needed in reporting year 2016.

The recoverable amount of the cash generating unit is significantly higher than the net book value. By changing the base assumptions, such as a stagnating net sales performance at constant balance sheet and cost structure, no impairment of goodwill would result. Only an increase in the weighted cost of capital by over two percentage points or a reduction of net sales in the underlying business plan by over 13 % would lead to an impairment of the cash generating unit.

### 27.2 Acquisition Cube Optics

The following assumptions have been used for the impairment test calculations on Cube Optic:

	2016	2015
Average net sales growth rate medium term plan 2017–2021 (previous year 2016–2020)	7.5 %	7.2 %
Average EBIT growth rate medium term plan 2017–2021 (previous year 2016–2020)	3.9 %	4.7 %
Weighted cost of capital (before income taxes)	8.3 %	7.5 %
Goodwill Cube Optics as of 31.12.	24 221	24 520

As in the previous year a terminal growth rate of 1 % has been assumed in the impairment model.

The result from the impairment test was, that no impairment was needed in reporting year 2016.

The recoverable amount of the cash generating unit is significantly higher than the net book value. By changing the base assumptions, such as a stagnating net sales performance at constant balance sheet and cost structure, no impairment of goodwill would result. Only an increase in the weighted cost of capital by over twenty-six percentage points or a reduction of net sales in the underlying business plan by over 57 % would lead to an impairment of the cash generating unit.

### 27.3 Acquisition Polatis

The following assumptions have been used for the impairment test calculations on Polatis:

	2016
Average net sales growth rate medium term plan 2017–2021	14.9%
Average EBIT growth rate medium term plan 2017–2021	n/a
Weighted cost of capital (before income taxes)	10.7%
Goodwill Polatis as of 31.12.	15 406

Polatis is in the start-up phase. A positive profit contribution is expected in the next two years.

A terminal growth rate of 1 % has been assumed in the impairment model.

The result from the impairment test was, that no impairment was needed in reporting year 2016.

The recoverable amount of the cash generating unit is significantly higher than the net book value. By changing the base assumptions, such as a stagnating net sales performance on the base of 2019 at constant balance sheet and cost structure, no impairment of goodwill would result. Only an increase in the weighted cost of capital by over two percentage points or a reduction of net sales in the underlying business plan by over 11 % would lead to an impairment of the cash generating unit.

## 28 Financial assets

### Financial assets 2016

	Loans to third parties	Other financial assets	Total
<b>Initial cost</b>			
Balance at 1.1.	–	36 264	36 264
Additions	–	625	625
Disposals	–	(24 544)	(24 544)
Change in consolidation scope	–	286	286
Currency translation differences	–	86	86
Balance at 31.12.	–	12 717	12 717
<b>Accumulated impairment</b>			
Balance at 1.1.	–	–	–
Additions	–	–	–
Disposals	–	–	–
Currency translation differences	–	–	–
Balance at 31.12.	–	–	–
<b>Carrying amount</b>			
At 1.1.	–	36 264	36 264
At 31.12.	–	12 717	12 717

Other financial assets include primarily the recognised surplus, according to IAS 19 of CHF 8.7 million (previous year, CHF 33.2 million) of which the employer's contribution reserve was CHF 15.1 million (previous year, CHF 14.8 million). For further details see note 14.

**Financial assets 2015**

	Loans to third parties	Other financial assets	Total
<i>Initial cost</i>			
Balance at 1.1.	–	48 373	48 373
Additions	–	531	531
Disposals	–	(12 571)	(12 571)
Change in consolidation scope	–	–	–
Currency translation differences	–	(69)	(69)
Balance at 31.12.	–	36 264	36 264
<i>Accumulated impairment</i>			
Balance at 1.1.	–	–	–
Additions	–	–	–
Disposals	–	–	–
Currency translation differences	–	–	–
Balance at 31.12.	–	–	–
<i>Carrying amount</i>			
At 1.1.	–	48 373	48 373
At 31.12.	–	36 264	36 264

All amounts are in CHF 1000

## 29 Restrictions on the title to assets

No assets were pledged or assigned as collateral to secure own obligations in the years 2016 and 2015.

## 30 Current other liabilities

	31.12.2016	31.12.2015
Trade payables	31 585	28 064
Accrual for personnel expenses	23 631	18 852
Advance payments from customers	2 244	2 859
Derivative financial instruments	1 102	2 010
Other liabilities	6 654	7 122
<b>Total current other liabilities</b>	<b>65 216</b>	<b>58 907</b>

Other liabilities include liabilities arising from value-added and withholding tax as well as liabilities for other duties.

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	31.12.2016	31.12.2015
CHF	2 757	4 986
CNY	8 294	7 508
USD	8 658	6 871
EUR	4 484	4 622
INR	4 126	2 391
Other	3 266	1 686
<b>Total trade payables</b>	<b>31 585</b>	<b>28 064</b>

### 31 Provisions

<b>Provisions 2016</b>	Retirement plan obligations	Restructuring provisions	Employee- related provisions	Order-related provisions	Other provisions	Total
Balance at 1.1.	3 109	2 557	3 615	6 980	5 193	21 454
Additions	181	–	876	2 305	1	3 363
Releases	–	(465)	(150)	(577)	(1 000)	(2 192)
Utilisation	(85)	(1 487)	(244)	(1 063)	(56)	(2 935)
Reclassifications	(203)	–	203	–	–	–
Change in consolidation scope	–	–	–	108	–	108
Currency translation differences	25	1	18	(40)	107	111
<b>Balance at 31.12.</b>	<b>3 027</b>	<b>606</b>	<b>4 318</b>	<b>7 713</b>	<b>4 245</b>	<b>19 909</b>
Of which short-term	–	454	1 558	6 722	1 960	10 694
Of which long-term	3 027	152	2 760	991	2 285	9 215

<b>Provisions 2015</b>	Retirement plan obligations	Restructuring provisions	Employee- related provisions	Order-related provisions	Other provisions	Total
Balance at 1.1.	3 572	539	4 941	6 572	4 548	20 172
Additions	52	2 550	69	2 279	1 065	6 015
Releases	(29)	(165)	(203)	(1 390)	(79)	(1 866)
Utilisation	(83)	(320)	(1 337)	(356)	(93)	(2 189)
Reclassifications	(197)	–	197	–	–	–
Change in consolidation scope	–	–	–	(16)	–	(16)
Currency translation differences	(206)	(47)	(52)	(109)	(248)	(662)
<b>Balance at 31.12.</b>	<b>3 109</b>	<b>2 557</b>	<b>3 615</b>	<b>6 980</b>	<b>5 193</b>	<b>21 454</b>
Of which short-term	–	919	600	5 956	3 004	10 479
Of which long-term	3 109	1 638	3 015	1 024	2 189	10 975

The retirement plan obligations include liabilities in connection with defined contribution plans mainly for individual former employees. The restructuring provisions include liabilities to third parties that are related to a detailed restructuring program. Employee-related provisions include mainly length-of-service rewards and other obligations to employees. Order-related provisions are directly related to services arising from product deliveries and projects and are based on experience and estimation of the single projects. Order-related provisions concern warranties, customer claims, penalties and other guarantees. Other provisions include obligations which do not fit into the aforementioned categories such as current or possible litigations arising from divestments, licence agreements or duties as well as other constructive or legal obligations. The major part of the non-current order related provisions are expected to be used within one to two years. Due to the nature of the non-current other provisions the timing of the cash outflows is uncertain whereas a partial cash outflow is expected between two to three years on average.

### 32 Share capital

Nominal value per registered share: CHF 0.25

	Total issued shares		Treasury stock		Other treasury shares		Shares outstanding/ net share capital	
	Number	CHF 1000	Number	CHF 1000	Number	CHF 1000	Number	CHF 1000
Balance at 31.12.2013	20 200 000	5 050	726 640	182	12 000	3	19 461 360	4 865
Purchase of treasury shares	–	–	–	–	18 000	4	(18 000)	(4)
Balance at 31.12.2014	20 200 000	5 050	726 640	182	30 000	7	19 443 360	4 861
Sale of treasury shares	–	–	–	–	(8 486)	(3)	8 486	3
Balance at 31.12.2015	20 200 000	5 050	726 640	182	21 514	4	19 451 846	4 864
Purchase of treasury shares	–	–	–	–	486	1	(486)	(1)
Balance at 31.12.2016	20 200 000	5 050	726 640	182	22 000	5	19 451 360	4 863

The voting and dividend rights of the 748 640 treasury shares, thereof 726 640 treasury stock and 22 000 other treasury shares (previous year, 726 640 treasury stock and 21 514 other treasury shares) cannot be exercised. The Company has no authorised or conditional capital. For information about changes of treasury shares see page 82. For information on significant shareholders see page 83.

### 33 Earnings per share

	2016	2015
Net income	49 098	24 709
Average number of outstanding shares	19 452 158	19 460 192
Earnings per share (CHF)	2.52	1.27
Diluted earnings per share (CHF)	2.52	1.27

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

### 34 Free cash flow

Free cash flow is calculated based on the net cash from operating activities, less net cash from investing activities (excluding changes of marketable securities and derivative financial instruments), less payments to shareholders and considering purchase or sale of treasury shares.

Free cash flow	2016	2015
Net cash from operating activities	76 907	69 661
Net cash from investing activities (excluding changes of marketable securities and derivative financial instruments)	(57 455)	(21 794)
Free operating cash flow	19 452	47 867
Dividend paid	(19 473)	(27 263)
Sale/(purchase) of treasury shares	(1 420)	(873)
Free cash flow	(1 441)	19 731

### 35 Future commitments

The Group companies have committed to various capital expenditures essential to the ordinary conduct of their business. At year-end there were commitments for the purchase of property, plant and equipment and intangible assets of CHF 11.3 million (previous year, CHF 3.8 million).

### 36 Events after the balance sheet date

There were no events after the balance sheet date which affect the annual results or require any adjustments to the Group's assets and liabilities.

All amounts are in CHF 1000

## Group Companies

Companies at 31.12.2016 (all fully consolidated)		Domicile	Capital stock in 1000	Ownership	Purpose
Switzerland	HUBER+SUHNER AG	Herisau	CHF 5 050	Stammhaus	▲ ■
	HUBER+SUHNER Finance AG	Herisau	CHF 2 800	100%	◆
Australia	HUBER+SUHNER (Australia) Pty Ltd.	Frenchs Forest, New South Wales	AUD 1 000	100%	▲ ■
Brazil	HUBER+SUHNER América Latina Ltda.	Caçapava	BRL 39 197	100%	▲ ■
Canada	HUBER+SUHNER (Canada) Ltd.	Ottawa	CAD 2 350	100%	—
China	HUBER+SUHNER (Hong Kong) Ltd.	Hongkong	HKD 12 325	100%	◆ ■
	HUBER+SUHNER (Shanghai) Co. Ltd. <sup>1)</sup>	Shanghai	CNY 4 139	100%	■
	HUBER+SUHNER T&C (Shanghai) Co. Ltd. <sup>1)</sup>	Shanghai	CNY 27 854	100%	■
	HUBER+SUHNER CCM (Changzhou) Co. Ltd. <sup>1)</sup>	Changzhou	CNY 126 246	100%	▲
Costa Rica	HUBER+SUHNER Astrolab Costa Rica S.r.l. <sup>2)</sup>	San José	USD 0	100%	▲
France	HUBER+SUHNER (France) SAS	Voisins-le-Bretonneux	EUR 200	100%	■
Germany	HUBER+SUHNER GmbH	Taufkirchen	EUR 3 068	100%	◆ ■
	HUBER+SUHNER Cube Optics AG <sup>3)</sup>	Mainz	EUR 590	100%	▲ ■
India	HUBER+SUHNER Electronics Pvt. Ltd. <sup>4)</sup>	New Delhi	INR 170 000	100%	▲ ■
Malaysia	HUBER+SUHNER (Malaysia) Sdn Bhd <sup>5)</sup>	Kuala Lumpur	MYR 502	100%	▲ ■
Netherlands	HUBER+SUHNER B.V.	Rosmalen	EUR 200	100%	—
Poland	HUBER+SUHNER Sp. z o.o.	Tczew	PLN 3 500	100%	▲
Singapore	HUBER+SUHNER (Singapore) Pte Ltd.	Singapore	SGD 3 000	100%	◆ ■
Tunisia	HUBER+SUHNER (Tunisie) SARL	Sousse	TND 100	100%	▲
United Kingdom	HUBER+SUHNER (UK) Ltd.	Bicester	GBP 4 000	100%	▲ ■
	HUBER+SUHNER Polatis Ltd. <sup>7)</sup>	Cambridge	GBP 700	100%	▲ ■
USA	HUBER+SUHNER (North America) Corp.	Charlotte, North Carolina	USD 1	100%	◆
	HUBER+SUHNER, Inc. <sup>6)</sup>	Charlotte, North Carolina	USD 50	100%	▲ ■
	HUBER+SUHNER Astrolab, Inc. <sup>6)</sup>	Warren, New Jersey	USD 12 000	100%	▲ ■
	HUBER+SUHNER Polatis, Inc. <sup>6)</sup>	Delaware	USD 1	100%	◆
	HUBER+SUHNER Polatis Photonics, Inc. <sup>7)</sup>	Bedford, Massachusetts	USD 52 959	100%	■

<sup>1)</sup> subsidiaries of HUBER+SUHNER (Hong Kong) Ltd.

<sup>2)</sup> subsidiary of HUBER+SUHNER Astrolab, Inc.

<sup>3)</sup> subsidiary of HUBER+SUHNER GmbH

<sup>4)</sup> subsidiary of HUBER+SUHNER Finance AG and of HUBER+SUHNER B.V.

<sup>5)</sup> subsidiary of HUBER+SUHNER (Singapore) Pte Ltd.

<sup>6)</sup> subsidiary of HUBER+SUHNER (North America) Corp.

<sup>7)</sup> subsidiary of HUBER+SUHNER Polatis, Inc.

◆ Holding/Finance companies

▲ Production and assembly plants

■ Sales organisations

— Dormant or in liquidation

## Report of the Statutory Auditors



HUBER+SUHNER AG Herisau

Report of the statutory auditor to the General Meeting  
on the consolidated financial statements 2016

### Report on the audit of the consolidated financial statements

#### Opinion

We have audited the consolidated financial statements of HUBER+SUHNER AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 28 to 70) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

#### Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) 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, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Our audit approach

#### Overview

Overall Group materiality: CHF 3,350,000



- We concluded full scope audit work at twelve reporting units in seven countries.
- At one reporting unit, we performed an audit of specific accounts.
- Our audit scope (full scope audit and audit of specific accounts) addressed over 90% of the net sales of the Group.
- In addition, reviews were performed on a further seven reporting units in seven countries.

As key audit matters, the following areas of focus were identified:

- Impairment testing of goodwill
- Acquisition of the Polatis Group

### Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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

### Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 3,350,000
How we determined it	5% of income before taxes
Rationale for the materiality benchmark applied	We chose income before taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 335,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Impairment testing of goodwill

Key audit matter	How our audit addressed the key audit matter
<p>Goodwill is a significant asset category on the balance sheet (CHF 66.2 million). Impairment testing of goodwill by Management involves significant judgement, in particular to determine the assumptions concerning future business results and the discount rate to be applied to the forecasted cash flows. Management adhered to a documented process in forecasting cash flows. The Board of Directors monitored compliance with this process and whether the assumptions corresponded to those approved by the Board of Directors for use in medium-term planning.</p> <p>Please refer to page 35 (Summary of significant accounting policies – Goodwill), page 41 (Critical accounting estimates and judgements) and pages 64–65 (Impairment test) of the Notes to Group Financial Statements.</p>	<p>In our audit of goodwill, we performed the following main audit procedures:</p> <ul style="list-style-type: none"> <li>• We compared the actual business results of the cash-generating units that recorded goodwill with the estimates made in the prior year based on Management’s assumptions. This allowed us to assess with hindsight the accuracy of Management’s assumptions.</li> <li>• Further, we checked for plausibility the key assumptions applied by Management for the multi-year planning (revenue and margin growth). In addition, we performed a plausibility check on the change in net working capital.</li> <li>• In order to assess the valuation model used, we involved our internal valuation experts, who compared in addition the components of each of the applied discount rates to data from analogous companies and to market data. Further, we assessed the technical and arithmetical correctness of the valuation model.</li> <li>• We re-performed the sensitivity analyses carried out by Management. Additionally, we performed our own sensitivity analyses using different discount rates, revenues and margins. These analyses enabled us to assess any potential impairment of goodwill.</li> </ul> <p>We consider the valuation process and the assumptions applied by Management to be an appropriate and adequate basis for the impairment testing of the goodwill as at 31 December 2016.</p>

## Acquisition of the Polatis Group

Key audit matter	How our audit addressed the key audit matter
<p>On 8 June 2016, HUBER+SUHNER AG acquired a 100% share of the Polatis Group, headquartered in Bedford, MA (USA) and Cambridge (UK).</p> <p>The acquisition of the Polatis Group was deemed a key audit matter because of the critical estimates made by Management concerning the opening balance sheet. In particular, the identification and valuation of intangible assets and goodwill involved significant scope for judgement.</p> <p>Please refer to page 35 (Summary of significant accounting policies – Intangible assets) and page 42 (Changes in the scope of consolidation and other changes) of the Notes to Group Financial Statements.</p>	<p>We assessed whether amounts reported on the opening balance sheet as at 8 June 2016 had been identified in line with the purchase agreement and recognised according to the provisions of IFRS 3 'Business Combinations'. The main audit procedures we performed were as follows:</p> <ul style="list-style-type: none"> <li>• We assessed the qualification and independence of the experts mandated to provide the valuation reports.</li> <li>• We checked for plausibility the most significant assumptions (sales and margin growth) used in preparing the multi-year cash flow forecasts.</li> <li>• Additionally, to assess the valuation models, we involved our internal valuation experts, who also compared the discount rate and the royalty rates used to value trademarks and technology with those of analogous transactions and with market data. Further, we assessed the technical and arithmetical correctness of the valuation reports.</li> <li>• We checked whether the transaction was accounted for and disclosed in the financial report in accordance with the provisions of IFRS 3 'Business Combinations'.</li> </ul> <p>Our audit results corroborate Management's allocation of the purchase price to the identifiable assets and liabilities measured at fair value and Management's disclosure of the purchase of the Polatis Group in the 2016 consolidated financial statements.</p>

### Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of HUBER+SUHNER AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Board of Directors for the consolidated financial statements**

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS 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 intends either 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, ISAs 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, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism 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 communicate to 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 paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Beat Inauen  
Audit expert  
Auditor in charge



Diego J. Alvarez  
Audit expert

St. Gallen, 13 March 2017

## Five-Year Financial Summary

in CHF million	2012	2013	2014	2015	2016
<b>Order intake</b>	747.9	683.4	768.1	702.8	746.6
change in % over prior year	1.8	(8.6)	12.4	(8.5)	6.2
<b>Net sales</b>	698.1	719.7	748.5	706.3	737.2
change in % over prior year	(8.0)	3.1	4.0	(5.6)	4.4
<b>Gross profit</b>	214.6	246.6	267.7	244.1	270.2
as % of net sales	30.7	34.3	35.8	34.6	36.7
<b>EBIT</b>	24.0	51.6	69.0	52.3	65.1
as % of net sales	3.4	7.2	9.2	7.4	8.8
change in % over prior year	(63.7)	115.5	33.7	(24.2)	24.4
<b>EBITDA</b>	51.1	83.9	101.1	86.5	101.1
as % of net sales	7.3	11.7	13.5	12.2	13.7
<b>Net financial result</b>	(3.3)	(3.6)	4.8	(15.4)	2.7
<b>Income tax</b>	0.7	(15.5)	(14.6)	(12.2)	(18.7)
as % of income before taxes	(3.4)	32.3	19.8	33.0	27.5
<b>Net income</b>	21.4	32.5	59.2	24.7	49.1
as % of net sales	3.1	4.5	7.9	3.5	6.7
change in % over prior year	(57.0)	51.9	82.2	(58.3)	98.7
<b>Purchases of PP&amp;E and intangible assets</b>	64.6	25.8	42.5	23.5	32.2
change in % over prior year	33.0	(60.1)	65.0	(44.6)	37.0
<b>Net cash from operating activities</b>	39.2	115.9	78.0	69.7	76.9
change in % over prior year	34.2	195.6	(32.7)	(10.7)	10.9
<b>Free cash flow</b>	(93.6)	85.7	(28.9)	19.7	(1.4)
change in % over prior year	(259.5)	191.5	(133.7)	168.3	(107.3)
<b>Net liquidity</b>	84.8	169.8	143.3	160.0	157.5
change in % over prior year	(52.4)	100.1	(15.6)	11.7	(1.5)
<b>Current assets</b>	430.1	441.6	466.4	441.3	457.7
as % of balance sheet total	61.0	58.8	55.7	56.7	57.6
<b>Non-current assets</b>	275.2	309.1	370.6	337.0	337.3
as % of balance sheet total	39.0	41.2	44.3	43.3	42.4
<b>Liabilities</b>	143.8	127.9	163.4	128.6	136.6
as % of balance sheet total	20.4	17.0	19.5	16.5	17.2
<b>Shareholders' equity</b>	561.4	622.8	673.6	649.6	658.4
as % of balance sheet total	79.6	83.0	80.5	83.5	82.8
<b>Balance sheet total</b>	705.3	750.7	837.0	778.3	795.0
change in % over prior year	(0.3)	6.4	11.5	(7.0)	2.1
<b>Employees at year-end (permanent employees)</b>	3 879	3 503	3 891	3 649	4 031
change in % over prior year	0.3	(9.7)	11.1	(6.2)	10.5
in Switzerland	1 419	1 378	1 367	1 271	1 250
in EMEA (Europe, Middle East and Africa [excl. CH])	791	793	1 052	1 006	1 374
in APAC (Asia-Pacific)	1 344	1 026	1 164	1 078	1 083
in Americas (North and South America)	325	306	308	294	324
<b>Employees, yearly average</b>	3 808	3 739	3 789	3 584	3 866

# Financial Report 2016

## Financial Statements HUBER+SUHNER AG

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## Income Statement

in CHF 1000	Notes	2016	2015
Net Sales		391 088	393 577
Other operating revenues	3.1	28 693	31 462
Change in semi-finished and finished goods		(109)	(8 040)
<b>Total operating revenues</b>		<b>419 672</b>	<b>416 999</b>
Material expenses		(180 256)	(165 166)
Personnel expenses		(139 470)	(140 635)
Other operating expenses		(72 025)	(65 444)
Depreciation and amortisation		(14 130)	(15 772)
<b>Total operating expenses</b>		<b>(405 881)</b>	<b>(387 017)</b>
<b>Operating profit (EBIT)</b>		<b>13 791</b>	<b>29 982</b>
Financial income		30 569	19 136
Financial expense		(26 603)	(33 445)
Income from investments	3.2	7 113	22 927
Expense from investments	3.2	–	(19 231)
Non-operating income		1 801	1 737
Non-operating expenses		(1 088)	(1 395)
Extraordinary income	3.3	400	–
Extraordinary expenses	3.3	–	(1 962)
<b>Income before taxes</b>		<b>25 983</b>	<b>17 749</b>
Income taxes		(2 382)	(2 451)
<b>NET INCOME</b>		<b>23 601</b>	<b>15 298</b>

## Balance Sheet

in CHF 1000	Notes	31.12.2016	%	31.12.2015	%
<b>Assets</b>					
Cash and cash equivalents		123 261		129 968	
Trade receivables third party		14 565		16 130	
Trade receivables intercompany		30 166		45 382	
Other current receivables third party		9 237		8 261	
Other current receivables intercompany		2 700		2 829	
Inventories	3.4	36 474		35 160	
Prepaid expenses		597		129	
Short-term loans intercompany		252		868	
<b>Total current assets</b>		<b>217 252</b>	<b>46.7</b>	<b>238 727</b>	<b>51.5</b>
Property, plant, equipment and intangible assets	3.5	97 252		93 637	
Investments in subsidiaries	3.6	49 590		50 112	
Long-term loans intercompany		100 930		81 268	
<b>Total non-current assets</b>		<b>247 772</b>	<b>53.3</b>	<b>225 017</b>	<b>48.5</b>
<b>TOTAL ASSETS</b>		<b>465 024</b>	<b>100.0</b>	<b>463 744</b>	<b>100.0</b>
<b>Liabilities and shareholders' equity</b>					
Trade payables third party		6 832		9 106	
Trade payables intercompany		10 712		10 803	
Other current liabilities third party		15 393		12 702	
Other current liabilities intercompany		–		1 967	
Current provisions		1 907		1 128	
Accrued liabilities		3 615		4 014	
<b>Total current liabilities</b>		<b>38 459</b>		<b>39 720</b>	
Long-term loans intercompany		2 819		1 987	
Non-current provisions		50 040		52 440	
<b>Total non-current liabilities</b>		<b>52 859</b>		<b>54 427</b>	
<b>Total liabilities</b>		<b>91 318</b>	<b>19.6</b>	<b>94 147</b>	<b>20.3</b>
Share capital	3.7	5 050		5 050	
Legal reserves		40 271		40 271	
General reserves		89 860		89 719	
Retained earnings		239 740		235 612	
Treasury shares	3.8	(1 215)		(1 055)	
<b>Total shareholders' equity</b>		<b>373 706</b>	<b>80.4</b>	<b>369 597</b>	<b>79.7</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>465 024</b>	<b>100.0</b>	<b>463 744</b>	<b>100.0</b>

# Notes to Financial Statements

## 1 General

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

## 2 Significant accounting principles

### 2.1 General

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

### 2.2 Foreign currency translation

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

### 2.3 Revenue recognition

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

### 2.4 Trade receivables

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

### 2.5 Inventories

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

### 2.6 Property, plant, equipment and intangible assets

Property, plant, equipment and intangible assets are stated at the purchased or manufactured cost less fiscally permitted accumulated depreciation. If there are indications that the carrying amount is overstated, property, plant, equipment and intangible assets

are reviewed for impairment and written down to the recoverable amount if necessary.

### 2.7 Investments in subsidiaries

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

### 2.8 Provisions

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

### 2.9 Treasury shares

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

## 3 Details to individual positions

### 3.1 Other operating revenues

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

### 3.2 Income and expense from investments

Income from investments includes dividend payments from subsidiaries in the amount of TCHF 6 650 (previous year, TCHF 3 263). Previous impairments of investments have been reversed for an amount of TCHF 369 (previous year, TCHF 19 664). Furthermore, a gain out of the liquidated swedish subsidiary have been recognised in the amount of TCHF 94 (previous year, TCHF 19 231 for new write-offs and a depreciation of the liquidated danish subsidiary).

### 3.3 Extraordinary expenses

In the financial year 2015 the last non-strategic business unit Composites has been sold to the company Connova AG. Further details are disclosed in the Group Financial Statements on page 43.

### 3.4 Inventories

in CHF 1000	31.12.2016	31.12.2015
Raw materials and supplies	12 283	8 706
Work in progress	7 169	5 575
Semi-finished and finished goods	76 568	76 677
Inventory provision	(59 546)	(55 798)
<b>Total</b>	<b>36 474</b>	<b>35 160</b>

### 3.5 Property, plant, equipment and intangible assets

in CHF 1000	31.12.2016	31.12.2015
Land	6 226	6 226
Buildings	40 511	40 544
Technical equipment and machinery	30 826	31 101
Other equipment	988	1 011
Assets under construction	7 421	5 789
Investment property	2 080	2 080
Intangible assets (Software)	9 200	6 886
<b>Total</b>	<b>97 252</b>	<b>93 637</b>

### 3.6 Investments in subsidiaries

Directly and indirectly held subsidiaries are listed on page 70 of the Group Financial Statements.

### 3.7 Shareholders' equity

Both at 31 December 2016 and at 31 December 2015 the shareholders' equity is composed of 20 20 000 registered shares at CHF 0.25 nominal value each.

The composition of capital stock is disclosed in the Notes to the Group Financial Statements (see note 32).

### 3.8 Treasury shares

The company holds 748 640 treasury shares (726 640 treasury stock and 22 000 other treasury shares).

	2016	2015
Number at 1.1.	748 154	756 640
Purchases	29 886	26 614
Sales	–	–
Allotment	(29 400)	(35 100)
Number at 31.12.	748 640	748 154

## 4 Contingent liabilities

in CHF million	31.12.2016	31.12.2015
Guarantees for loans with promissory notes and other loans to Group companies	–	–

## 5 Liabilities to pension funds

in CHF million	31.12.2016	31.12.2015
Total liabilities to pension funds	–	–

## 6 Net release of undisclosed reserves

in CHF million	2016	2015
Total net release of undisclosed reserves	4.1	12.1

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

Shares of votes and capital	31.12.2016	31.12.2015
Metrohm AG	10.62 %	10.62 %
Abegg Holding AG	10.04 %	10.04 %
S. Hoffmann-Suhner	6.18 %	6.18 %
EGS Beteiligungen AG	4.95 %	4.95 %
Huwa Finanz- und Beteiligungs AG	3.17 %	3.17 %

Information about published disclosure notices following article 20 BEHG are included in Corporate Governance clause 1.2 Significant shareholders. Shareholdings in the company by members of Board of Directors and by members of Executive Group Management, in accordance with Swiss Code of Obligations (OR) article 663c, are listed in the Notes to Group Financial Statements (see note 15).

Allotted number of shares to:	2016	2015
Board of Directors	10 000	10 000
Executive Group Management	17 450	16 994
Employees	3 325	2 406

Allotted shares in CHF 1000	2016	2015
Expensed amount in Income Statement	1 739	1 363

Outstanding shares are actually transferred in the following year – for members of Board of Directors and Executive Group Management subject to approval by the Annual General Meeting. The expensed amount in the Income Statement is based on the year-end 2016 share price of CHF 56.50 (previous year, CHF 46.35).

## 8 Full-time positions

As in the previous year, HUBER+SUHNER AG employed over 250 full-time positions in 2016. More information on head count can be found in the Five-Year Financial Summary on page 77.

## 9 Leasing obligations not recorded in the balance sheet

Per balance sheet date there are short-term obligations with a duration of less than one year of TCHF 687 (previous year, TCHF 687) and obligations with a duration of one to five years amounting to TCHF 172 (previous year, TCHF 859).

## 10 Events after the balance sheet date

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

## 11 Additional disclosures, cash flow statement and management report

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

## Recommendation for Appropriation of Earnings

The Board of Directors of HUBER+SUHNER AG recommends to the Annual General Meeting of Shareholders the following appropriation of available earnings for the year 2016:

in CHF 1000	2016	2015
Prior-year retained earnings	216 139	220 314
Net income for the year	23 601	15 298
<b>Total retained earnings</b>	<b>239 740</b>	<b>235 612</b>
Dividend	24 314	19 473
<b>Total appropriation</b>	<b>24 314</b>	<b>19 473</b>
<b>Retained earnings carried forward</b>	<b>215 426</b>	<b>216 139</b>
If this proposal is accepted the following amounts would be valid for each registered share at CHF 0.25 nominal value	CHF	CHF
Gross dividend	1.25	1.00
Less 35% withholding tax	0.4375	0.3500
<b>Net dividend</b>	<b>0.8125</b>	<b>0.6500</b>

# Report of the Statutory Auditors



## HUBER+SUHNER AG Herisau Report of the statutory auditor to the General Meeting on the financial statements 2016

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of HUBER+SUHNER AG, which comprise the balance sheet as at 31 December 2016, income statement for the year then ended and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 79 to 84) as at 31 December 2016 comply with Swiss law and the articles of incorporation.

#### Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Our audit approach

#### Overview

Overall materiality: CHF 1,700,000



We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As a key audit matter, the following area of focus was identified:  
Impairment testing of investments in subsidiaries

### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 1,700,000
How we determined it	5% of the average income before taxes of the last three years
Rationale for the materiality benchmark applied	We chose income before taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations. Income from investments, impairments and currency effects mean that income before taxes is volatile from year to year. Therefore, we consider it appropriate to use the average value of income before taxes for the last three years for the materiality calculation.

We agreed with the Audit Committee that we would report to them misstatements above CHF 170,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

### Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Impairment testing of investments in subsidiaries

Key audit matter Key audit matter	How our audit addressed the key audit matter
<p>Investments in subsidiaries is a significant asset category on the balance sheet (CHF 49.6 million). Impairment testing of investments whose book value is greater than the book value of the underlying net assets requires Management to consider capitalised earnings or valuations at the company level. Doing so involves significant scope for judgement, particularly to determine the assumptions to use concerning future business results and the average weighted cost of capital to apply to the expected cash flows.</p> <p>In identifying the potential need for impairment of investments in subsidiaries, Management uses a predefined impairment testing process.</p> <p>Please refer to pages 81 and 82 (Investments in subsidiaries) of the Notes to Financial Statements.</p>	<p>In our audit of investments in subsidiaries, we performed the following main audit procedures:</p> <ul style="list-style-type: none"> <li>• We compared the book value of the investments in the year under review with their prorata share of the respective company's equity or the company's valuation, based on capitalised earnings.</li> <li>• We checked for plausibility the key assumptions applied by Management (revenue and margin growth).</li> </ul> <p>We consider the valuation process and the assumptions used to be an appropriate and adequate basis for the impairment testing of the goodwill as at 31 December 2016.</p>

### Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either 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 judgement and maintain professional scepticism 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- 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 entity's internal control.
- 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 communicate to 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 paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Beat Inauen  
Audit expert  
Auditor in charge



Diego J. Alvarez  
Audit expert

St. Gallen, 13 March 2017

## Share Data

HUBER+SUHNER AG is a Swiss stock company. The registered share are listed on the main board of the SIX Swiss Exchange:

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

Registered shares at 31.12. (nominal value CHF 0.25)	2012	2013	2014	2015	2016
Number of issued shares	20 200 000	20 200 000	20 200 000	20 200 000	20 200 000
Number of shares entitled to a dividend	19 473 360	19 461 360	19 443 360	19 451 846	19 451 360
Number of shareholders at 31.12.	4 043	3 869	3 689	3 694	3 530
<b>Stock market price (in CHF)</b>					
– high	48.80	51.10	50.75	52.00	65.60
– low	35.85	41.80	41.50	38.60	40.60
– year-end	43.50	46.90	47.40	46.35	56.50
<b>Amounts per registered share<sup>1)</sup> (in CHF)</b>					
– Net income	1.10	1.67	3.05	1.27	2.52
– Dividend	0.50	0.80	1.40	1.00	1.25 <sup>3)</sup>
– Pay-out ratio	45%	48%	46%	79%	50%
– P/E ratio (year-end stock price)	39.5	28.1	15.6	36.5	22.4
– Shareholders' equity	28.83	32.00	34.65	33.40	33.85
<b>Market capitalisation<sup>2)</sup></b>					
– in CHF million	847	913	922	902	1 099
– as % of net sales	121	127	123	128	149
– as % of shareholders' equity	151	147	137	139	167

<sup>1)</sup> based on the outstanding shares (average resp. spot rate)

<sup>2)</sup> stock market price at year-end × number of shares entitled to a dividend

<sup>3)</sup> proposed dividend

For further information on the HUBER+SUHNER Group, please visit [www.hubersuhner.com](http://www.hubersuhner.com). This annual report is also available in German. The German version is binding.

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## **Publishing information**

### **Concept and Editorial**

Corporate Finance  
HUBER+SUHNER, CH-8330 Pfäffikon

### **Design and Type**

plusgestaltung, CH-8032 Zürich

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