Annual Report **2018**

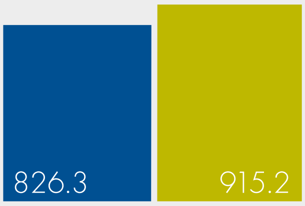
Management Report
Corporate Governance
Compensation Report
Financial Report

HUBER+SUHNER
Excellence in Connectivity Solutions

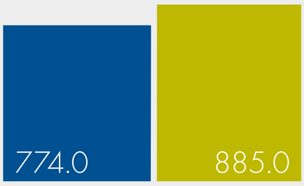
Contents

MANAGEMENT REPORT 2018

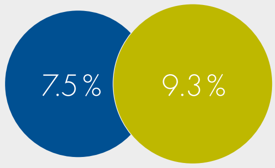
Order intake increases again by more than 10 %



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



Significant increase in profitability – EBIT margin at 9.3 %



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

All three technology segments increase order intake and net sales significantly

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

■ 2017 ■ 2018 in CHF million

HUBER+SUHNER reports strong organic growth – profitability increases significantly

Urs Kaufmann (Chairman) and Urs Ryffel (CEO)

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

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

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

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

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

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

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

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

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

Positive trend in Fiber Optics technology segment

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

Low Frequency technology segment makes significant strides forward

Thanks to good development over the entire reporting period, the Low Frequency technology segment is in an even better position than it was one year ago. This is based on a 16.0 % increase in order intake to CHF 298.2 million and a leap of 28.6 % in net sales to CHF 291.4 million. The EBIT margin also developed impressively, almost doubling to 9.8 %. Despite the high level of orders, supply capability was maintained at a good level, and improved inventory management made a substantial contribution to the Group's increase in cash flow. At the Pfäffikon site, the course was set for the merger of the two cable production plants Dorf and Witzberg. This will also strengthen the technology segment in the medium term. The nomination as a supplier of high-voltage connection solutions for installation in a platform of the latest generation of Geely electric vehicles represents a milestone in the electric vehicle growth initiative.

Risk management

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

Dividend

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

Change to the Board of Directors

The Board of Directors of HUBER+SUHNER AG will propose to the Annual General Meeting on 10 April 2019 to elect Dr. Franz Studer as a new Board member. He holds a doctorate in law and is admitted to the bar. Mr. Studer is Investment Director and Member of the Executive Board of EGS Beteiligungen AG, a core shareholder of HUBER+SUHNER AG.
After his highly commendable work on the Board of Directors since 2013, Dr. Christoph Fässler will not stand for re-election at the forthcoming Annual General Meeting. The Board of Directors of HUBER+SUHNER would like to express its sincere thanks for his dedicated work on the Board, his valuable contributions and the excellent collaboration.

Outlook

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

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

Our sincere thanks

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

Urs Kaufmann Chairman of the Board of Directors	Urs Ryffel CEO

Milestones 2018

Transportation
Growth initiative
EV Automotive

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

Communication
Growth initiative
Small Cells

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

Communication
Growth initiative
Data Centers

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

Industrial
High-tech niche
Medical

Breakthrough with customized radio frequency products in microwave ablation applications

Innovations for demanding and attractive markets

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

Defense

No contradiction: Cables that are both flexible and robust

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

Data centers

Creating order: LISA Double Access for convenient fiber management

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

Industrial applications

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

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

Fiber in the home

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

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

Cell site

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

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

Macro cells and Small cells

Multi-talented: Network densification using existing fibers

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

Electric vehicles

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

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

Microwave energy applications

Unimaginable precision: A connector helps revolutionise cooking

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

Radio Frequency technology segment

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

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

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

Fiber Optics technology segment

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

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

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

Low Frequency technology segment

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

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

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

Reto Bolt
COO Radio Frequency

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

Fritz Landolt
COO Fiber Optics Mobile Communication & Industry

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

Martin Strasser
COO Fiber Optics Fixed Network & Data Centers

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

Patrick Riederer
COO Low Frequency

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

Key Figures and Financial Calendar

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

Data per share in CHF	2018	2017	Change
Stock market price as of 31.12.	65.50	50.85	28.8 %
Net income	3.15	2.17	45.6 %
Dividend	2.50[1]	1.10	127.3 %

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

n/m = not meaningful

Photos: HUBER+SUHNER, Thinkstock

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Financial calendar

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

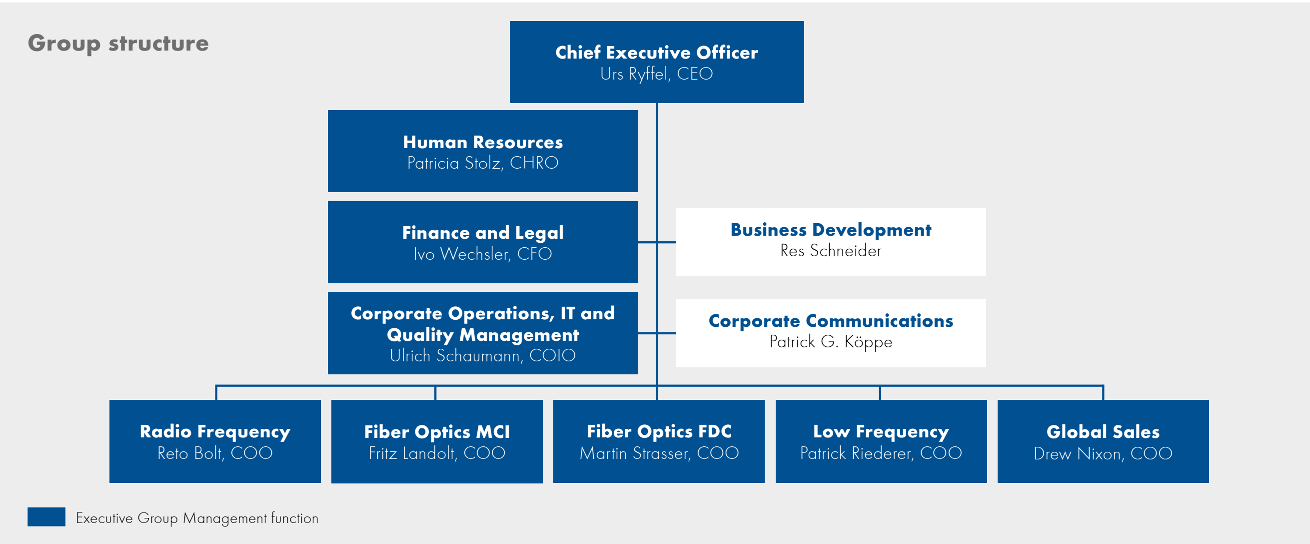
Detailed figures are available online at www.hubersuhner.com
This management report is also available in German. The German version is binding.

Corporate Governance 2018

CORPORATE GOVERNANCE

The term “Corporate Governance” refers to all of the principles and rules aimed at safeguarding shareholder interests. These principles are intended to guarantee transparency and a healthy balance of management and control while maintaining decision-making capability and efficiency at the highest level of a company.
The following Corporate Governance report is structured in accordance with the Directive on Information relating to Corporate Governance (DCG) issued by SIX Swiss Exchange. All information presented reflects the situation on 31 December 2018, unless otherwise stated.

1 Group structure and shareholders



1.1 Group structure

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

Listed Group company

HUBER+SUHNER AG, domiciled in Herisau AR, Switzerland, is the parent company of the HUBER+SUHNER Group. It is incorporated under Swiss law and its shares are listed on the SIX Swiss Exchange in Zurich (Swiss Reporting Standard, VALOR number: 3 038 073; ISIN: CH0030380734). The market capitalisation as per 31 December 2018 amounted to CHF 1 274 million. Further key share data is provided on page 63.

Non-listed Group companies

Information regarding companies in the HUBER+SUHNER AG Group, none of which is listed, is presented in the Notes to the Financial Statements of the Group, under Group Companies on page 47.

1.2 Significant shareholders

Based on the information available to the company, the following shareholders held 3 % or more of HUBER+SUHNER shares at the end of the fiscal year:

Shareholder	Country	% of shares
Metrohm AG	CH	10.62 %
Abegg Holding AG	CH	10.04 %
EGS Beteiligungen AG	CH	7.10 %
S. Hoffmann-Suhner	CH	6.18 %
Huwa Finanz- und Beteiligungs AG	CH	3.19 %
Norges Bank (the Central Bank of Norway)	NO	3.07 %

The company holds 746 640 treasury shares (726 640 treasury stock and 20 000 other treasury shares).

HUBER+SUHNER AG has published two disclosures in connection with shareholder participation in the year under review. Significant shareholder disclosures can be viewed 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 arrangements with significant shareholders concerning the registered shares they hold in HUBER+SUHNER or the exercise of their shareholder rights.

1.3 Cross-shareholdings
The HUBER+SUHNER Group has no cross-shareholdings of capital or other voting rights with any other company.

2 Capital structure

2.1/2.2 Capital/Authorised and conditional capital in particular
The HUBER+SUHNER AG share capital, as on the balance sheet date, is fully paid in and stands at CHF 5 050 000. HUBER+SUHNER AG has no authorised or conditional capital. More information regarding the share capital is presented in the Notes to the Financial Statements of the Group, under Share Capital on page 46.

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

2.4/2.5 Shares and participation certificates/ Dividend-right certificates
The share capital is divided into 20 200 000 registered shares, each with a nominal value of CHF 0.25. Each registered share represents one vote. 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 persons who are registered in the share register shall be deemed to be shareholders or beneficiaries with voting right. The Board of Directors may refuse to recognise an acquirer as a registered shareholder in the company if:

a) the acquirer, as a recognised shareholder, were to directly or indirectly acquire more than 5 % of the total number of registered shares;
b) insofar as, and as long as, the recognition of the acquirer as a shareholder could, on the basis of information available to it, hinder the company from providing shareholder composition information as required by federal law;
c) the acquirer, following a request by the company, fails to expressly declare that he has acquired and will hold the shares in his own name and for his own account.

Natural persons, legal entities and business partnerships which are associated with each other through capital, voting rights, management, or in some other manner, as well as all natural persons, legal entities and groupings coordinated for the purposes of circumventing the registration limitations in any way are to be considered as one single acquirer. These limitations shall also apply in cases where shares are acquired following the exercise of pre-emptive rights, options or conversion rights.
The rescindment of or alterations to the rules regarding registration limitations to registered shares requires a resolution of the Annual General Meeting passed by at least two-thirds of the voting shares present and an absolute majority of the nominal value of the shares represented. In principle, nominees are not recognised as shareholders with voting rights.

In line with the regulations for registering HUBER+SUHNER AG shareholders in the share register, the Board of Directors may, in exceptional cases, waive the 5% limit, in particular to facilitate the tradability of registered shares and in connection with corporate mergers and the increase of shareholder stability through new anchor shareholders. In the year under review, the Board of Directors did not grant any exceptions.

Further, in accordance with the regulations for registering HUBER+SUHNER AG shareholders in the share register the registration of nominee as shareholder with voting rights is not admitted.

2.7 Convertible bonds and options
HUBER+SUHNER AG does not have any outstanding convertible bonds or any shareholder or employee options on its books.

3 Board of Directors

3.1/3.2 Members of the Board of Directors/ Other activities and vested interests
The Board of Directors of HUBER+SUHNER AG must consist of at least five members. At the Annual General Meeting on 11 April 2018 all seven acting members of the Board of Directors were re-elected.

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

On 31 December 2018 the Board of Directors comprised the following seven members:

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

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

Other activities and vested interests
Chairman of the Board of Directors at Schaffner Holding AG, Luterbach. Member of the Board of Directors at SFS Group AG, Heerbrugg; Gurit Holding AG, Wattwil; Vetropack Holding AG, Bülach as well as Müller Martini Holding AG, Hergiswil. Executive committee member of Swissmem and the Swiss Employers Federation.

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

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

Other activities and vested interests
Chairman of the Board of Sevensense Robotics AG, Zurich and member of the Board of Directors at CabTec Holding AG, Rotkreuz.

Prof. Dr. Monika Bütler
1961, Swiss citizen, Board of Directors since 2014

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

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

Dr. Christoph Fässler
1952, Swiss citizen, Board of Directors since 2013

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

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

*Significant shareholder at HUBER+SUHNER AG

George H. Müller
1951, Swiss citizen, Board of Directors since 2001

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

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

Rolf Seiffert
1958, Swiss citizen, Board of Directors since 2010

Education and professional background
Dipl. Ing. ETH (Swiss Federal Institute of Technology) Zurich. Product development and product management posts with ABB Transportation/Adtranz, Zurich, 1988 to 1998. Various line functions in product development and sales at Siemens Switzerland, Rail Automation, Wallisellen, 1999 to 2010. Vice President Sales at duagon AG, Dietikon, 2011 to 2013. Head of Sales at Ruf Telematik AG, Schlieren, 2013 to 2015. Managing Director at Kummler+Matter AG, Zurich, 2015 to 2017; and Head of Railway Signaling until end of 2018.

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 counsel to various multinational corporations: Danzas Management, Basel, 1991 to 1995. ABB Asea Brown Boveri AG, Baden and Oerlikon, 1995 to 2001. Novartis International AG, Basel, 2001 to 2009. Partner at Schärer Attorneys at Law in Aarau since 2010.

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

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

3.3 Rules in the Articles of Association on the number of permitted activities pursuant to Art. 12 para.1 point 1 OaEC (Ordinance against Excessive Compensation at Listed Joint-Stock Companies)

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

3.4 Elections and terms of office

According to the 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 deviation from these election rules. The term of office of a Member of the Board runs 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. Members of the Board have to resign at the Annual General Meeting in the year in which they turn 70 years of age. The Annual General Meeting also appoints the independent proxy representative each year. The term runs 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 running 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. It may also appoint a Secretary from outside the ranks of the Board.

Working practices of the Board of Directors

The Board of Directors meets as often as business requires, but at least five times a year. The Chairman, or if he is unable to attend, the Deputy Chairman or another Member of the Board, chairs Board meetings. The Chairman convenes Board meetings and sets their agendas. He also ensures that Members receive the agenda at least 10 days in advance of the meeting, and decision material generally one week beforehand. In addition to the CEO, the CFO also attends Board meetings as a representative of Executive Group Management. Depending on the business at hand, other members of Executive Group Management may take part.
Decisions are taken by the Board as a whole. The Board shall constitute a quorum when the majority of its members are present. All decisions require a voting majority. In a tie, the Chairman shall have the casting vote. Voting by proxy is not allowed. All resolutions and agreements are minuted and approved by the Board.

Five regular half-day Board meetings, two telephone conferences as well as a one-day “strategy work-shop”, which was also attended by the entire Executive Group Management, were held during the year under review. The meetings took place at regular intervals during the financial year.

The Chairman of the Board regularly meets with the CEO to discuss current business performance and activities and makes decisions regarding the disclosure of price- sensitive facts or the acceptance of posts outside the company by members of Executive Group Management. In addition, he is responsible for monitoring the implementation of and compliance with resolutions taken by the Annual General Meeting and the Board of Directors and keeps the other members of the Board updated in a regular and timely manner. In addition to his core responsibilities, the Chairman performs additional duties for the HUBER+SUHNER Group, including liaising with key stakeholders and with the representative in the Foundation Committee or other organisations.

Committees – composition and working practices

The areas of responsibility and authority of the Nomination and Compensation Committee and the Audit Committee are defined in the appendix to the HUBER+SUHNER Bylaws. These committees support the Board in its supervisory and control capacities and function mainly as advisory, assessment and preparatory bodies. The members of the committees are as follows:

	Nomination and Compensation Committee	Audit Committee
Urs Kaufmann	Committee Chairman	
Beat Kälin	Member	
Monika Bütler		Committee Chair
Jörg Walther		Member

The committees meet as often as business requires, but 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. At the subsequent Board meeting, the Committee Chair briefs the Board and puts any motions to it.

The Nomination and Compensation Committee (NCC)

The committee consists of at least two non-executive Members of the Board elected annually by the Annual General Meeting, one of which will be designated as Chair by the Board of Directors. If the office of one of the members elected by the Annual General Meeting becomes vacant, the Board appoints one of its members to replace the departing member for the remainder of the term.

The committee prepares all the relevant decisions relating to nominating and compensating members of the Board of Directors and Executive Group Management and the Group’s compensation policy. The CEO attends the meetings, except if his own performance is under review or his own compensation is under discussion. Where necessary, the CHRO (Chief Human Resources Officer) is also present. The committee held two half-day meetings during the year under review.

The main duties of the Nomination and Compensation Committee are:
- managing the selection process and applications relating to new Board Members and the CEO;
- reviewing the selection process and applications relating to other members of Executive Group Management and core conditions of employment;
- drafting the compensation report;
- drafting proposals to be submitted to the Annual General Meeting as regards the remuneration provisions for the Board of Directors.
- reviewing and requesting the individual remuneration of the CEO and the other members of Executive Group Management in relation to the maximum compensation amounts approved by the Annual General Meeting;
- deciding upon the annual salary adjustments within the Group proposed by the CEO;

- briefing the Board of Directors on all NCC-related matters that are not in the immediate purview of the Board.

Audit Committee (AC)
The committee consists of at least two members. The Board of Directors appoints the members and designates the Chair annually. It supports the Board with financial management, supervision of accounting, financial reporting, internal auditing and cooperation with the external auditor. It decides on urgent technical matters. Areas of authority and responsibility assigned to the Board of Directors by law and by the Bylaws remain wholly within the Board.
The Chairman of the Board, the CEO, the CFO, the Head of Corporate Controlling and the external auditor usually attend committee meetings. Where necessary, the committee addresses certain agenda items with the external auditor alone. The committee held two half-day meetings in the year under review.

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 risk management and the effectiveness of the internal control system (ICS);
- verifying the controlling system;
- monitoring compliance with internal regulations and policies, relevant legislation and compliance, in particular with regard the SIX Swiss Exchange;
- verifying performance, independence and payment of the external auditor, and handling audit reports and election recommendations for the attention of the Board of Directors;
- setting the audit plan for internal auditors and dealing with their audit reports;
- briefing the Board of Directors on all Audit Committee-related matters not in the immediate purview of the Board.

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

The Board of Directors issues guidelines for business policy and makes decisions about all matters that are not reserved for, or assigned to, the Annual General Meeting or another company body by law, by the Articles of Association or the Bylaws. In particular, the Board of Directors approves the business strategy and organisation proposed by Executive Group Management, as well as budgets, medium-term plans, acquisitions and other business which, by its nature or financial impact, is considered strategically significant. Written requests are prepared for all projects that require a decision by the Board.
The Board of Directors delegates the Group's operational management to the Chief Executive Officer (CEO), unless statutory regulations or the Bylaws state otherwise. The Bylaws are periodically reviewed and adapted by the Board.

3.7 Information and control instruments vis-à-vis the Executive Group Management
The Board's main information and control instrument is a management information system based on financial accounting according to Swiss GAAP FER. Group financial statements (income statement, balance sheet, cash flow statement) with budget and previous year comparison, consolidated income statements and key management figures for divisions and regions are submitted monthly to all Board members.
Regular reporting to the Board by Executive Group Management consists of a monthly written commentary from the CEO on business activities and the Group's result. It is sent to all Board Members along with the monthly financial statements, as well as the minutes of monthly Executive Group Management meetings, which are also submitted to the Board Chairman.
The attendance of Executive Group Management members (especially the CEO and CFO) at the Board of Directors' meetings and its committees is defined in Section 3.5 (Internal Organisation). During Board meetings, the CEO provides information about the current state of business and major business transactions; the CFO explains the annual and half-year statements as well as the forecasts. Each Member of the Board may also ask for information about all matters pertaining to the HUBER+SUHNER Group.
The Board of Directors is also closely involved in the company's planning cycle. In the third quarter of each year, it receives, for its approval, the results of the strategic mid-term plan, which covers a period of 5 years. In the fourth quarter, the Board approves a detailed budget for the coming year. It also receives a forecast of the 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 these activities. This solution, tailored to the specific situation and size of HUBER+SUHNER, is cost-effective and ensures that internal audit findings are available in their entirety to the Controlling team. Based on financial risk considerations, an annual plan of the companies to be audited is drawn up in cooperation with the external auditor and submitted to the Audit Committee for approval. The main priorities of the audit are compliance with internal policies, processes, reviews and the implementation of the internal control system. The internal auditors discuss the results of each audit in detail with the companies concerned, and concrete measures are agreed upon. Internal audit reports are submitted, together with suggested improvements, to the Audit Committee, the Chairman of the Board, the CEO, the CFO, the COO Global Sales, the management of the audited company as well as the external auditor. Audit reports with significant findings are presented to and discussed in the Audit Committee. The Audit Committee ensures, on an annual basis, that issues and recommendations are dealt with.
The external auditor annually assesses the internal control system (ICS) in a comprehensive report to the Audit Committee and the Board of Directors and confirms its existence.

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's guidelines on the risk management process. In the reporting year, Executive Group Management reviewed the progress and effectiveness of the measures taken and has selected and reassessed the most significant financial, operational and strategic risks at Group level. This was based on its own top-down estimates and on bottom-up data from divisions and corporate functions. The risks were categorised according to their probability of occurrence and potential financial impact. In addition, mitigating measures as well as operational responsibilities were defined for each listed risk. The evaluated risks as well as the ongoing and planned compliance measures were presented in the 2018 Risk Report to the Board of Directors for review and approval. After its review, the Board approved the report on 5 December 2018.

4 Executive Group Management

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

Executive Group Management is the highest management level; it assists the CEO with his operational management tasks. It deals with all business and decisions that are important for the company. On 31 December 2018, Executive Group Management consisted of the following nine members:

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

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

Other activities and vested interests
Member of the Board of Directors of Bergbahnen Scuol AG, Scuol.

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

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

Other activities and vested interests
None

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

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

Other activities and vested interests
None

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

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

Other activities and vested interests
None

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

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

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

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

Education and professional background
Dipl. Masch-Ing. ETH Zurich (Swiss Federal Institute of Technology), postdoctoral degree to Dr. sc. techn. ETH Zurich. 1986 to 1992 different functions in production and logistics as well as Head of Logistics at Zellweger Uster AG, Uster. 1992 to 2005 different functions in supply management, engineering and responsibility for the head office in Switzerland, as well as member of the board at H.A. Schlatter AG, Schlieren. Joined HUBER+SUHNER in 2005 as a Manager Global Operations, 2013 to 2015 Manager Corporate Operations. Since 2015 Chief Corporate Operations + IT Officer and member of the Executive Group Management.
Mr. Schaumann has decided to retire early and to leave HUBER+SUHNER at the end of 2019.

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

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

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

Other activities and vested interests
None

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

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

Other activities and vested interests
None

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

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

Other activities and vested interests
None

4.3 Rules in the Articles of Association on the number of permitted activities pursuant to Art. 12 para. 1 point 1 OaEC
As per article 30 of the Articles of Association, a member of 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 Executive Group Management may hold up to 5 posts as a member of the management board or administrative body of non-listed legal entities and up to 5 posts as a member of the management board of foundations and associations.

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

5 Compensation, shareholdings and loans

The principles and elements of compensation and shareholding program for the members of the Board of Directors and the Executive Group Management are laid down in Articles 24 to 29 of the Articles of Association and specified in the compensation regulations issued by the Board of Directors.
More detailed information about the compensation, shareholding programs as well as loans and the approval procedure by the Shareholder Meeting is set forth in the Compensation report (see pages 21–25). Information about the shareholdings of the Board of Directors and Executive Group Management are shown in the Financial Statements HUBER+SUHNER AG (see page 57).

6 Shareholders' participation rights

6.1 Voting rights restrictions and representation
One share represents one vote. Each shareholder may be represented either by the independent proxy, a representative authorised by written or electronic power of attorney, or by another individual or legal entity by a power of attorney in writing. Proxy holders do not need to be shareholders.
When exercising voting rights, no shareholder representing another shareholder may, with his own shares and the shares he represents, control more than 10 % of the entire share capital. Proxy holders who are not shareholders may not control more than 10 % of the total

share capital. Individuals, legal entities and groups with joint legal status which are bound by capital or voting rights, by consolidated management or in another manner, or individuals, legal entities and legal communities which coordinate their action to circumvent the above restrictions are to be considered as one single shareholder. The limitation does not apply to the independent proxy.
The Board of Directors may decide on exceptions to restrictions on voting rights and representation. The Board of Directors has granted two exceptions in the reporting year.
According to Article 13 of the Article of Association a resolution for abolishing voting rights restrictions requires the relative majority of the casted votes.
Powers of representation and voting instructions are granted to the independent proxy representative 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 setting the agenda are governed by Articles 699 and 700 of the Swiss Code of Obligations. However, Article 9 of the Articles of Association stipulates that shareholders entitled to vote may only place an item of the agenda if they hold shares with a minimum nominal value of CHF 50 000. The Board must be notified of a request to place an item on the agenda and be given the proposals in writing no later than 60 days prior to the Annual General Meeting.

6.5 Entries in the share register

As a general rule, no entries of registered shareholders are made in the share register in the five working days before the Annual General Meeting. 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 to this rule in the year under review.

7 Changes of control and defence measures

7.1 Duty to make an offer

No statutory rules governing opting-up or opting-out exist as per the Financial Market Infrastructure Act (FMIA).

7.2 Clauses on changes of control

No contractual clauses governing changes in control exist in the employment contracts with members of either the Board or Executive Group Management.
The share blocking periods are not revoked when members of the Board or Executive Group Management resign. According to the HUBER+SUHNER AG Compensation Policy, the Board may prematurely revoke existing blocking periods only under special circumstances, such as a change of control requested by the Nomination and Compensation Committee.

8 Auditors

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

Ernst & Young AG, Zurich, have been the independent auditor of HUBER+SUHNER AG and various Group companies since 2018. The current lead auditor, Mr. Willy Hofstetter, has been in charge since 12 April 2018. As per article 730a(2) Swiss Code of Obligations, his tenure as lead auditor may not exceed seven years. The auditors are elected by the Annual General Meeting for a term of one year.

8.2 /8.3 Auditing fees/Additional fees

Ernst & Young (EY) charged CHF 465 000 for auditing the Group Financial Statements and the individual financial statements of different Group companies during the reporting year, and CHF 37 000 for various additional EY services (of which CHF 18 000 for tax advice and CHF 19 000 for other consulting services).

8.4 Information instruments pertaining to the external audit

The Audit Committee informs the Board of the work performed by and working relationship with the external auditor. Each year, the external auditor submits an audit plan, a “confirmation of analytical review” of the half-year and a comprehensive report on the annual financial statements with conclusions on financial accounting, the internal control system, the Compensation Report (Chapter 5) and the audit results for the attention of the Board of Directors and the Audit Committee. The Audit Committee also assesses the scope of the annual audit and the audit plans, and discusses the audit findings with the external auditor. In the year under review, the external auditor was present at both Audit Committee meetings.
The Audit Committee annually assesses the external auditors’ performance, independence and fees and recommends to the Board the external auditing company to be nominated by the Annual General Meeting.
This evaluation is based on the reports and presentations provided by the external auditors, the discussions held in the meetings, their objectivity as well as their technical and operational expertise. The Audit Committee reviews the suitability and scope of the additional services rendered by the external auditor. If the planned additional services exceed the monetary limit set by the Audit Committee, the Audit Committee must be informed in advance.

9 Information policy

As a listed company and as a credible and sustainable business partner, HUBER+SUHNER (H+S) informs its internal and external stakeholders actively, transparently and in good time. Its communication policy is guided by the SIX Swiss Exchange regulations, legal provisions and internal guidelines.
H+S communicates regularly with its shareholders, the capital market and the public. In accordance with Swiss GAAP FER, H+S discloses its business and financial performance on a half-yearly basis in form of an interim report and an annual report which are published electronically in English (https://www.hubersuhner.com/en/company/investors/publications). Additionally, shareholders receive half-yearly a short printed version of the management letter in German or English. Also, at the end of January of any given year, H+S announces sales and order intake figures for the past year. Sales and order intake figures for the first nine months from January to September are published at the end of October of any given year. The exact dates and more contact information can be found under the section "Management Report 2018" on page 9 of the current report.

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

The CEO is responsible for corporate communications. He is assisted in his investor relations activities by the CFO.

Website: www.hubersuhner.com/en
An important source of current in-depth information on the Group, including products and contact details is the H+S website.
Important dates and all the latest news are listed on the website under Investors, as are the Bylaws and the Articles of Association. Press releases are available on subscription under Company/Investors/Publications.

Corporate news and ad-hoc announcements
www.hubersuhner.com/en/company/media/news

Investor information
www.hubersuhner.com/en/company/investors

Articles of Association
www.hubersuhner.com/en/company/investors/corporate-governance

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

Compensation Report 2018

COMPENSATION REPORT

The Compensation Report provides an overview of the remuneration principles and compensation systems of the HUBER+SUHNER Group. It describes how compensation is determined and contains detailed information on the compensation of the Members of the Board of Directors and Executive Group Management in the fiscal year 2017 and 2018.
The Compensation Report fulfils the requirements of the Ordinance against Excessive Compensation in Listed Companies (OaEC), which has been in effect since January 2014. Furthermore, the Compensation Report fulfils the requirements of the Swiss Code of Obligations and the provisions set forth in the Directive on Information relating to Corporate Governance issued by SIX Swiss Exchange.

1 Guidelines and responsibilities

Guidelines

The HUBER+SUHNER Group's success heavily depends 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 remuneration with market-competitive fixed and variable components;
– the variable component is based on predefined targets and maximum thresholds;
– contribution towards the sustainable success of the company;
– transparency and clarity

The principles governing the compensation of Members of the Board of Directors and Executive Group Management are laid down in the following Articles of Association: Article 23 (Compensation Approval); 24 (Compensation of the Board of Directors); 25 (Compensation of 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). For more details, please refer to
http://www.hubersuhner.com/en/company/investors/corporate-governance.

In accordance with Article 12(2) No. 1 OaEC, credit and loans, as well as benefits outside of the occupational pension scheme may only be granted if a provision to this end is included in the Articles of Association. During the year under review and as per its previous practice, HUBER+SUHNER did not add any such provision in its Articles of Association.

Responsibilities

The Board of Directors is responsible for regulating general questions regarding compensation. The compensation models applicable to the Board of Directors and Executive Group Management are outlined in a compensation policy approved by the Board. 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 members of both the Board of Directors and Executive Group Management. The composition, main tasks and working practices of the Nomination and Compensation Committee are laid down in the Corporate Governance Report on page 14.

2 Compensation system for the Board of Directors

2.1 Chairman of the Board of Directors

The compensation of the Chairman has changed since April 2017 and consists of the following three components:

a) remuneration;
b) long-term incentive (in the form of shares);
c) pension and other social security benefits

a) Remuneration

The Chairman receives a fixed fee of CHF 240 000 per annum. This includes the remuneration for serving in Board Committees.

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

In addition, the Chairman annually receives a long-term incentive in the form of a fixed number of company shares (3 000), with a blocking period of at least three years. The share blocking periods are not rescinded on his retirement from the Board.

c) Pension and other social security benefits

The employer's obligatory contributions to social security and accident insurance schemes, and regulatory contributions to pensions from the compensations paid to the Chairman are borne by the company.

Remuneration payments and share allocations to the Chairman require the approval of the Annual General Meeting, as does all compensation for Board members. The basic remuneration is paid out on a monthly basis, but the shares are allocated only at the end of the Chairman's year in office. The total market value of the shares is accrued in accordance with the accrual principle in the financial statements of the given financial year.

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

2.2 Other Board Members

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

a) remuneration;
b) long-term incentive (in the form of shares);
c) Social security benefits

a) Remuneration

Each member of the Board receives an equal fixed basic fee of CHF 40 000 per annum. Additionally, members receive an extra allowance for taking on a post as Deputy Chairman (CHF 20 000) or for serving on the Nomination and Compensation Committee or Audit Committee (CHF 10 000). The responsibility and the increased workload of the various functions are therefore accounted for individually. Also, each Board member receives a lump sum expense allowance of CHF 10 000 regardless of their function.

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

In addition, Board members each receive a long-term incentive annually in the form of a fixed number of company shares (Deputy Chairman: 2 000 shares; other members: 1 200 shares) with a blocking period of at least three years. The share blocking periods are not rescinded on retirement from the Board.

c) Social security benefits

The obligatory contributions towards social security out of the remuneration paid to Board members are also covered by the company. However, no pension fund contributions are made.

Remuneration payments and share allocations require the approval of the Annual General Meeting, as does all compensation for Board members. The basic remuneration including a post-related allowance and lump sum expense allowance as well as the shares are paid out or allocated accordingly at the end of the year in office. In the event of early termination of office, the Board member concerned will receive pro rata compensation. The amount of the remuneration and market value of the shares are accrued in accordance with the accrual principle in the financial statements of the given financial year.

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

3 Compensation system for the Executive Group Management

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

Remuneration for the members of 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 role and responsibilities of the given Executive Group Management member. It also includes allowances such as child or education allowances, work anniversary compensation and other compensation in connection with relocation for the purposes of conducting business on behalf of HUBER+SUHNER outside the member's 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, which also applies to the entire Group. Performance-related compensation is defined based on a set target bonus (this corresponds to 100 % target achievement). The target bonus for Executive Group Management members, which is defined on an individual basis based on the ratio to the fixed basic salary, is between 40 % and 60 % for the CEO, and between 20 % and 50 % for all other Executive Group Management members.
The weighting of the variable compensation is set as follows:

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

Every year, the Board sets in advance three weighted Group financial targets which are applicable for a one-year period. For the years 2018 and 2017 the Group financial targets were: net sales, EBIT-margin and inventory turn.
The individual targets are three to five division- or function-specific measurable management targets. These are set and weighted annually in a structured target-setting process by the Chairman of the Board for the CEO, and by the CEO for members of Executive Group Management.
A leadership factor (leadership, cooperation and conduct) is also included in the calculation of the cash bonus. The leadership performance review is conducted by the Chairman of the Board for the CEO, and by the CEO for members of Executive Group Management.

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

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

As long-term compensation, members of Executive Group Management receive a variable number of HUBER+SUHNER shares each year. The annual number of target shares for the CEO is 4 000, and between 800 and 2 000 shares for other Executive Group Management members. The number of shares effectively allotted annually (number of target shares multiplied by a factor of 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 blocking period of at least 3 years applies for the allocated shares. The share blocking periods are not rescinded on the resignation of the member concerned.

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

c) Pension and other social security benefits

The employer's obligatory contributions to social security and accident insurance schemes, and regulatory contributions to pensions from the compensations paid to the members of Executive Group Management are borne by the company.

Additional information

The Executive Group Management members' employment contracts provide for a notice period of 6 months; under certain circumstances, this may be extended to a maximum of 12 months by the employer. If the employment relationship is terminated by notice, the person entitled to compensation loses his eligibility for share allocation for the current financial year, except if otherwise allocated by the Board of Directors. All other entitlements remain in force on a pro rata basis.

Executive Group Management members receive an expense allowance for effective minor expenses 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 the Annual General Meeting has approved 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, and by 40 % if a new CEO is elected.

4 Determining method

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

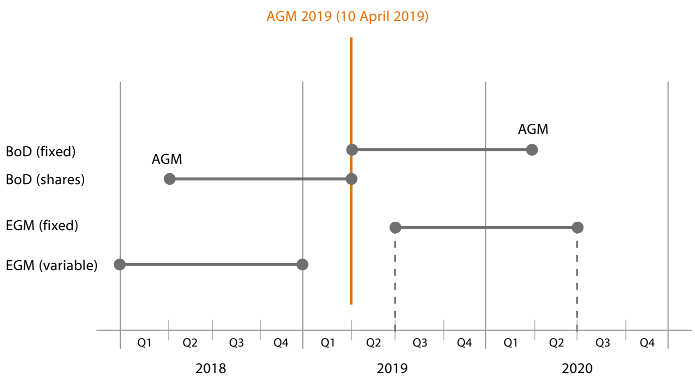
This relates to the amount of the fixed fee, post-related allowances and lump sum expense allowances for the members of the Board for the coming term of office, and the fixed number of shares for the current term of office. For Executive Group Management members, this is the amount of the basic salary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

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

The Annual General Meeting grants 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 2019 AGM



5 Compensation for the members of the Board of Directors and Executive Group Management for fiscal year 2018

Board of Directors' compensation 2018

Members of the Board of Directors received TCHF 676 in fixed compensation for the year under review (previous year: TCHF 619). Share-based compensation amounting to TCHF 757 (previous year TCHF 640) was also awarded. This amount is based on the market value of a total of 11 000 shares (previous year: 10 750 shares) divided into 2 750 shares (previous year: 2 500 shares) at a share price of CHF 53.90 from 11 April 2018 (previous year: CHF 65.00) for the period from 1 January to 31 March 2018, and 8 250 shares (previous year: 8 250 shares) at a share price of CHF 65.50 from 28 December 2018 (previous year: CHF 50.85) for the period from 1 April 2018 to 31 December 2018. No compensation was paid to former Board members.

Total compensation for members of the Board of Directors for the reporting year amounted to TCHF 1 433 (previous year: TCHF 1 258). This rise of 14% on the previous year is due to the increased share price as well as the full year impact of the changed compensation structure for the Chairman of the Board and the appointment of a Deputy Chairman.

Compensation for the Board of Directors (BoD)		Fixed compensation [1]		Share-based compensation [2]		Total compensation		Number of allotted shares	
		2018	2017	2018	2017	2018	2017	2018	2017
U. Kaufmann [a]	Chairman	298	221	209	127	507	348	3 000	2 250
B. Kälin [b]	Deputy Chairman	89	106	139	157	228	263	2 000	2 500
M. Bütler [c]	Member	67	67	83	73	150	139	1 200	1 200
C. Fässler [d]	Member	53	55	83	73	136	128	1 200	1 200
G. Müller	Member	53	53	83	73	136	125	1 200	1 200
R. Seiffert	Member	50	50	75	65	125	115	1 200	1 200
J. Walther [e]	Member	67	67	83	73	150	139	1 200	1 200
Total		676	619	757	640	1 433	1 258	11 000	10 750

[1] The Chairman receives a fixed contractual amount including social security/accident insurance scheme/pension fund contributions. All other members receive a basic remuneration, extra post-allowance (if applicable) including social security contributions and a lump sum expense allowance. A maximum fixed compensation has been approved in previous Annual General Meetings.

[2] Share-based compensation is calculated at a share price of CHF 53.90 (for the part of the allocation approved by the Annual General Meeting 2018) (previous year 65.00) and at CHF 65.50 (as of year-end 2018) (previous year 50.85) for the outstanding amount including social security. Outstanding shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

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

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

[c] AC Committee Chair

[d] NCC member (until 5 April 2017)

[e] AC member

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

An overview of the shareholdings of members of the Board of Directors at HUBER+SUHNER AG can be found on page 57 of the 2018 Financial Report.

All amounts are in CHF 1000

Executive Group Management compensation 2018

The Executive Group Management members received fixed compensation of TCHF 3 292 for the year under review (previous year: TCHF 3 407). Subject to approval by the Annual General Meeting, Executive Group Management was awarded variable compensation of TCHF 2 641 (previous year: TCHF 1 790). This includes share-based compensation based on the market value totaling 18 950 shares (previous year: 18 825 shares) at a share price of CHF 65.50 on 28 December 2018 (previous year: CHF 50.85). No compensation was paid to former Executive Group Management members.

Total compensation for the Executive Group Management for the year under review was TCHF 5 933 (previous year: TCHF 5 197). This 14 % increase on previous year figures is due to higher variable compensation (higher bonus achievement and higher share price).

Compensation for Executive Group Management	Highest individual compensation [1]		Total Executive Group Management [2]	
	2018	2017	2018	2017
Basic salary [3]	479	449	2 676	2 785
Contributions to social security and pension funds on fixed compensation	139	127	616	622
Total fixed compensation	618	576	3 292	3 407
Variable compensation	310	128	1 208	698
Share-based compensation [4]	328	254	1 241	957
Contributions to social security on variable compensation	50	33	192	135
Total variable compensation	688	415	2 641	1 790
Total compensation	1 306	991	5 933	5 197
Number of allotted shares	5 000	5 000	18 950	18 825

[1] U. Ryffel (CEO since 1 April 2017, former COO FO)
[2] The Executive Group Management consists of 9 members in 2018 and 2017. In 2017 the compensation of U. Kaufmann as CEO until 31 March 2017 was part of the Executive Group Management compensation.
[3] Including allowances
[4] Based on the year-end share price of CHF 65.50 (previous year: CHF 50.85). Shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

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

An overview of the shareholdings of members of Executive Group Management at HUBER+SUHNER AG can be found on page 57 of the 2018 Financial Report.

Building a better working world

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Zurich, 15 March 2019

Report of the statutory auditor on the compensation report

We have audited the compensation report of HUBER+SUHNER AG for the year ended 31 December 2018. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables on pages 24 to 25 of the compensation report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the compensation report for the year ended 31 December 2018 of HUBER+SUHNER AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

Willy Hofstetter (Qualified Signature)	Marc Rüegsegger (Qualified Signature)
Licensed audit expert (Auditor in charge)	Licensed audit expert

Financial Report 2018

HUBER+SUHNER
Group Financial Statements

Key Figures

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

Data per share in CHF	2018	2017	Change
Stock market price as of 31.12.	65.50	50.85	28.8 %
Net income	3.15	2.17	45.6 %
Dividend	2.50[1]	1.10	127.3 %

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

Segment information in CHF million		2018	2017	Change
Radio Frequency	Order intake	269.1	239.9	12.1 %
	Net sales	255.4	231.2	10.5 %
	EBIT	40.8	31.5	29.4 %
	as % of net sales	16.0 %	13.6 %	
Fiber Optics	Order intake	347.9	329.2	5.7 %
	Net sales	338.2	316.2	6.9 %
	EBIT	20.0	17.7	12.9 %
	as % of net sales	5.9 %	5.6 %	
Low Frequency	Order intake	298.2	257.2	16.0 %
	Net sales	291.4	226.6	28.6 %
	EBIT	28.7	11.6	147.7 %
	as % of net sales	9.8 %	5.1 %	

n/m = not meaningful

Consolidated Income Statement

in CHF 1000	Notes	2018	%	2017	%
Net sales	5	885 037	100.0	774 037	100.0
Cost of goods sold		(579 083)		(507 352)	
Gross profit		305 954	34.6	266 685	34.5
Selling expense		(129 674)		(126 199)	
Administrative expense		(59 539)		(53 309)	
Research and development expense		(36 582)		(34 212)	
Other operating expense		(1 826)		(1 654)	
Other operating income		4 147		6 812	
Operating profit (EBIT)	5	82 480	9.3	58 123	7.5
Financial result	6	(2 764)		(689)	
Income before taxes		79 716	9.0	57 434	7.4
Income taxes	7	(18 362)		(15 288)	
Net income		61 354	6.9	42 146	5.4

Data per share in CHF	Notes	2018		2017	
Undiluted / diluted earnings per share	27	3.15		2.17	
Dividend		2.50 [1]		1.10	

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

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

Consolidated Balance Sheet

in CHF 1000	Notes	31.12.2018	%	31.12.2017	%
Assets					
Cash and cash equivalents	14	198 826		152 605	
Trade receivables	15	147 907		146 942	
Other short-term receivables	16	26 106		33 485	
Inventories	17	156 543		164 966	
Accrued income		1 159		1 701	
Current assets		530 541	68.9	499 699	66.4
Property, plant and equipment	19	186 803		196 576	
Intangible assets	20	21 375		23 352	
Financial assets	21	20 030		19 933	
Deferred tax assets	25	10 859		12 542	
Non-current assets		239 067	31.1	252 403	33.6
Assets		769 608	100.0	752 102	100.0
Liabilities and equity					
Trade payables		33 543		46 202	
Other short-term liabilities	23	52 265		53 842	
Short-term provisions	24	13 520		10 495	
Accrued liabilities		13 333		11 395	
Current liabilities		112 661	14.6	121 934	16.2
Other long-term liabilities		2 185		1 388	
Long-term provisions	24	9 368		9 904	
Deferred tax liabilities	25	24 642		25 417	
Non-current liabilities		36 195	4.7	36 709	4.9
Liabilities		148 856	19.3	158 643	21.1
Share capital	26	5 050		5 050	
Capital reserves		32 713		32 695	
Treasury shares		(1 402)		(937)	
Retained earnings		584 391		556 651	
Equity		620 752	80.7	593 459	78.9
Liabilities and equity		769 608	100.0	752 102	100.0

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

Consolidated Cash Flow Statement

in CHF 1000	Notes	2018	2017
Net income		61 354	42 146
Income taxes		18 362	15 288
Depreciation of property, plant and equipment and intangible assets	19, 20	33 908	32 378
Other non-cash items		5 195	1 335
Loss/profit from the disposal of property, plant and equipment		43	(3 734)
Change in trade receivables		(7 182)	(11 221)
Change in inventories		3 687	(21 048)
Change in other receivables and accrued income		1 430	(5 416)
Change in trade payables		(11 133)	13 877
Change in other liabilities and accrued liabilities		8 790	5 157
Change in provisions		3 388	394
Income tax paid		(18 224)	(16 145)
Interest paid		(67)	(72)
Cash flow from operating activities		99 551	52 939
Purchases of property, plant and equipment	19	(25 091)	(32 833)
Proceeds from sale of property, plant and equipment	19	400	5 352
Purchases of intangible assets	20	(3 606)	(4 207)
Purchases of financial assets		(193)	(110)
Interest received		680	573
Purchase of subsidiaries less purchased net cash	3	(14)	(1 748)
Cash flow from investing activities		(27 824)	(32 973)
Payment of dividend		(21 416)	(24 342)
Purchase of treasury shares		(2 210)	(1 313)
Cash flow from financing activities		(23 626)	(25 655)
Effect of exchange rate changes on cash		(1 880)	782
Net change in cash and cash equivalents		46 221	(4 907)
Cash and cash equivalents at beginning of year		152 605	157 512
Cash and cash equivalents at end of year	14	198 826	152 605
Net change in cash and cash equivalents		46 221	(4 907)

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

Consolidated Statement of Equity

in CHF 1000	Share capital[1]	Capital reserves	Treasury shares	Other retained earnings	Goodwill offset	Translation differences	Retained earnings	Equity
Balance at 1.1.2017	5 050	32 744	(1 259)	633 048	(94 284)	(1 972)	536 792	573 327
Net income	–	–	–	42 146	–	–	42 146	42 146
Dividend paid	–	–	–	(24 342)	–	–	(24 342)	(24 342)
Purchase of treasury shares	–	–	(1 264)	–	–	–	–	(1 264)
Disposal of treasury shares[2]	–	–	–	–	–	–	–	–
Share-based payment[2]	–	(49)	1 586	326	–	–	326	1 863
Goodwill offset	–	–	–	–	(3 228)	–	(3 228)	(3 228)
Currency translation differences	–	–	–	–	–	4 957	4 957	4 957
Balance at 31.12.2017	5 050	32 695	(937)	651 178	(97 512)	2 985	556 651	593 459
Net income	–	–	–	61 354	–	–	61 354	61 354
Dividend paid	–	–	–	(21 416)	–	–	(21 416)	(21 416)
Purchase of treasury shares	–	–	(2 210)	–	–	–	–	(2 210)
Disposal of treasury shares[2]	–	–	–	–	–	–	–	–
Share-based payment[2]	–	18	1 745	483	–	–	483	2 246
Goodwill offset	–	–	–	–	–	–	–	–
Currency translation differences	–	–	–	–	–	(12 681)	(12 681)	(12 681)
Balance at 31.12.2018	5 050	32 713	(1 402)	691 599	(97 512)	(9 696)	584 391	620 752

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

[2] The presentation of share-based payment in the Statement of Equity has been amended in order to present share-based payment on one line.

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

Notes to Group Financial Statements

1 General

These consolidated financial statements were approved by the Board of Directors on 15 March 2019 and released for publication on 19 March 2019. They are subject to the approval of the shareholders at the Annual General Meeting on 10 April 2019.

2 Accounting policies

2.1 Basis of preparation

The consolidated financial statements of the HUBER+SUHNER Group are based on the individual financial statements of the Group companies and were prepared in accordance with the existing guidelines of Swiss GAAP FER (Swiss Accounting and Reporting Recommendations). The consolidated financial statements have been prepared under the historical cost convention unless otherwise stated in the following consolidation and accounting policies.
Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and deltas are calculated using the underlying amount rather than the presented rounded amount.
The financial year-end date for HUBER+SUHNER AG, all subsidiaries and the Group financial statements is 31 December.

2.2 Scope and principles of consolidation

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

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

2.3 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- assets and liabilities, for each balance sheet, are translated at the closing rate on the balance sheet date;
- income and expenses, for each income statement, are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

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

2.4 Cash and cash equivalents

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

2.5 Trade receivables and other short-term receivables

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

2.6 Inventories

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

2.7 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. Investment properties (including undeveloped property) are held to earn rental income and capital gains. They are valued at purchase cost less accumulated depreciation and impairment and are depreciated using the straight-line method over their estimated useful life (20 to 40 years). Land is not depreciated.

Land	not depreciated
Buildings	20–40 years
Technical equipment and machinery	5–15 years
Leasehold improvements	5–10 years
Office furniture and fixtures	3–5 years
IT hardware	3–5 years
Other equipment	3–7 years

2.8 Intangible assets

Software

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

Other intangible assets

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

2.9 Impairment of assets

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

2.10 Financial assets

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

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

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

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

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

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

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

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

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

3 Changes in the scope of consolidation and other changes

During 2018, there were no changes in consolidation scope.

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

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

The goodwill from the acquisition of Inwave which was offset with equity is CHF 3.2 million. The total purchase price (including acquisition costs) is CHF 3.5 million. After the deduction for purchased net cash (CHF 0.1 million) and the remaining payment of CHF 1.7 million, the net cash outflow was CHF 1.7 million in 2017. In 2018 CHF 0.01 million was paid out of the remaining payment.

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

A complete list of all Group companies can be found on page 47.

4 Exchange rates for currency translation

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

	Spot rates for the consolidated balance sheet		Average rates for the consolidated income and cash flow statement	
	31.12.2018	31.12.2017	2018	2017
1 EUR	1.13	1.18	1.15	1.12
1 USD	0.99	0.99	0.98	0.98
100 CNY	14.44	15.10	14.75	14.55
1 GBP	1.25	1.33	1.30	1.27
100 INR	1.41	1.54	1.43	1.51

5 Segment information

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

Radio Frequency

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

Fiber Optics

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

Low Frequency

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

Corporate

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

Net sales by segment	2018	2017
Radio Frequency	255 435	231 203
Fiber Optics	338 157	316 187
Low Frequency	291 445	226 647
Total net sales	885 037	774 037

Net sales by region (sales area)	2018	2017
Switzerland	56 496	55 331
EMEA (Europe, Middle East and Africa [excl. CH])	334 239	295 634
APAC (Asia-Pacific)	325 519	279 975
Americas (North and South America)	168 783	143 097
Total net sales	885 037	774 037

Operating profit (EBIT)	2018	2017
Radio Frequency	40 800	31 541
Fiber Optics	19 982	17 693
Low Frequency	28 659	11 571
Corporate	(6 961)	(2 682)
Total operating profit (EBIT)	82 480	58 123

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

All amounts are in CHF 1000

6 Financial result

	2018	2017
Interest income	1 223	1 071
Foreign exchange gains incl. derivative financial instruments	1 687	3 733
Other financial income	–	61
Total financial income	2 910	4 865
Interest expense	(68)	(74)
Foreign exchange losses incl. derivative financial instruments	(4 439)	(4 497)
Other financial expense	(1 167)	(983)
Total financial expense	(5 674)	(5 554)
Total financial result	(2 764)	(689)

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

7 Income taxes

	2018	2017
Current income taxes	(18 097)	(14 801)
Deferred income taxes	(265)	(487)
Total income taxes	(18 362)	(15 288)

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

	2018	2017
Net income before taxes	79 716	57 434
Expected income tax rate	24.0 %	23.5 %
Expected income taxes	(19 103)	(13 515)
Effect of utilisation of non-recognised tax losses carry-forward	1 281	1 176
Effect of non-tax-deductible expenses and non-taxable income	(664)	(461)
Effect of non-recognition of current tax losses	(125)	(472)
Effect of increased/reduced allowance on deferred tax balances	62	116
Effect of changes in tax rates on deferred tax balances	179	(1 348)
Effect of tax credits/debits from prior years and other effects	8	(784)
Effective income taxes	(18 362)	(15 288)
Effective income tax rate	23.0 %	26.6 %

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

The capitalised deferred tax assets on losses carry-forward amounts to CHF 1.9 million (previous year, CHF 3.1 million). The unrecognised tax loss carry-forward was CHF 26.5 million (previous year, CHF 35.1 million). This corresponds to a potential tax asset of CHF 6.8 million (previous year, CHF 8.8 million). In 2018 tax losses carry-forward of CHF 1.1 million expired (previous year, CHF 1.1 million).

The related tax assets on losses carried forward are valued based on business plans. The capitalisation of usable tax losses carried forward is assessed on a yearly basis. Tax losses carried forward are recognised only to the extent it is probable that future taxable profits will be available which will allow the assets to be utilised. In countries and for subsidiaries where the usage of tax losses carried forward is not foreseeable no tax loss is capitalised.

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

8 Personnel expenses

Personnel expenses included in the income statement amount to:

	2018	2017
Total personnel expenses	271 985	257 144

9 Post-employment benefits

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

Employer contribution reserves (ECR)

	Nominal value	Waiver of use	Accumulation	Balance sheet		Income statement impact from ECR	
	31.12.2018	2018	2018	31.12.2018	31.12.2017	2018	2017
Paternal fund [1]	16 100	–	509	16 100	15 591	509	464
Total	16 100	–	509	16 100	15 591	509	464

[1] The employer contribution reserves are based on annual reports of the corresponding institutions of the prior year. The assessment of economic benefits / economic obligations is performed at each balance sheet date. Interest on the paternal fund of the employer contribution reserve is recognised as financial income.

Economic benefit / economic obligation and pension benefit expenses

	Funding surplus	Economic part of the organisation		Change from prior year with income statement impact	Change from prior year with no income statement impact	Contributions for the period	Pension costs within personnel expenses	
	31.12.2018	31.12.2018	31.12.2017	2018	2018	2018	2018	2017
Paternal fund [1]	61 229	–	–	–	–	–	–	–
Pension plans with surplus [1]	36 726	–	–	–	–	(7 286)	(7 286)	(7 172)
Pension plans without own assets	–	2 322	2 980	251	407	–	87	(117)
Total	97 955	2 322	2 980	251	407	(7 286)	(7 199)	(7 289)

[1] The paternal fund and the funding surplus of the pension plan of HUBER+SUHNER AG are based on annual reports of the corresponding institutions of the prior year. The assessment of economic benefits / economic obligations is performed at each balance sheet date.

10 Share-based payment

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

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

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

Share-based compensation is calculated based on the year-end share price of CHF 65.50 (previous year CHF 50.85). In the year under review, 33 125 shares (prior year: 32 500 shares) were allotted. Expenses including social security in the amount of CHF 2.4 million (prior year: CHF 1.9 million) are recognised accordingly in the income statement. Shares are transferred in the following financial year, subject to approval by the Annual General Meeting.

11 Related party transactions

In 2018, services (for air travel) totalling CHF 1.7 million (previous year CHF 1.6 million) were purchased from companies which are controlled by members of the Board of Directors and, corresponding trade payables per end of December 2018 are CHF 0.1 million (previous year: CHF 0.03 million).

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

12 Depreciation and amortisation

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

	2018	2017
Depreciation of property, plant and equipment	28 547	27 880
Amortisation of intangible assets	5 361	4 498
Total depreciation and amortisation	33 908	32 378

13 Liabilities from operating lease

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

Liabilities from operating lease	31.12.2018	31.12.2017
Less than 1 year	4 624	4 528
Between 1 and 5 years	7 927	7 916
More than 5 years	2 776	2 990
Total liabilities from operating lease	15 327	15 434

14 Cash and cash equivalents

	31.12.2018	31.12.2017
Cash at bank and on hand	132 412	87 441
Term deposits < 3 months term in CHF	54 999	54 999
Term deposits < 3 months term in other currency	11 415	10 165
Total cash and cash equivalents	198 826	152 605

15 Trade receivables

	31.12.2018	31.12.2017
Trade receivables from third parties	150 224	149 672
Provision for doubtful trade receivables	(2 317)	(2 730)
Total trade receivables, net	147 907	146 942

16 Other short-term receivables

	31.12.2018	31.12.2017
Other short-term receivables	24 952	32 804
Derivative financial instruments	1 154	681
Total other short-term receivables	26 106	33 485

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

17 Inventories

	31.12.2018	31.12.2017
Raw materials and supplies	72 694	83 252
Work in progress	10 647	12 685
Finished goods	115 924	111 311
Total inventories, gross	199 265	207 248
Inventory provision	(42 722)	(42 282)
Total inventories, net	156 543	164 966

18 Derivative financial instruments

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

Derivative financial instruments	Positive market value	Negative market value	Purpose	Positive market value	Negative market value	Purpose
	31.12.2018			31.12.2017		
Foreign exchange	1 154	567	Hedging	681	1 881	Hedging
Total	1 154	567		681	1 881	

All amounts are in CHF 1000

19 Property, plant and equipment

	Undeveloped property	Land and buildings	Technical equipment and machinery	Other equipment [1]	Assets under construction	Total
Cost at 1.1.2017	2 080	187 614	321 926	69 438	9 033	590 091
Additions	–	6 112	5 656	3 114	18 692	33 574
Disposals	–	(2 295)	(7 853)	(4 801)	(2)	(14 951)
Reclassifications	–	8 736	6 196	2 787	(17 719)	–
Change in consolidation scope	–	–	40	33	–	73
Currency translation differences	–	2 159	1 768	810	33	4 770
Cost at 31.12.2017	2 080	202 326	327 733	71 381	10 037	613 557
Additions	–	931	4 253	2 732	15 659	23 575
Disposals	–	–	(4 987)	(1 450)	–	(6 437)
Reclassifications	–	2 479	10 151	2 382	(15 012)	–
Change in consolidation scope	–	–	–	–	–	–
Currency translation differences	–	(2 238)	(4 074)	(1 208)	(92)	(7 612)
Cost at 31.12.2018	2 080	203 498	333 076	73 837	10 592	623 083

Accumulated depreciation and impairment at 1.1.2017	–	(104 776)	(238 145)	(57 735)	–	(400 656)
Additions	–	(4 781)	(18 244)	(4 855)	–	(27 880)
Impairments	–	–	–	–	–	–
Disposals	–	2 096	7 312	4 250	–	13 658
Reclassifications	–	(125)	372	(247)	–	–
Currency translation differences	–	(816)	(765)	(522)	–	(2 103)
Accumulated depreciation and impairment at 31.12.2017	–	(108 402)	(249 470)	(59 109)	–	(416 981)
Additions	–	(6 160)	(17 174)	(5 213)	–	(28 547)
Impairments	–	–	–	–	–	–
Disposals	–	–	4 634	1 360	–	5 994
Reclassifications	–	(4)	330	(326)	–	–
Currency translation differences	–	619	1 898	737	–	3 254
Accumulated depreciation and impairment at 31.12.2018	–	(113 947)	(259 782)	(62 551)	–	(436 280)

Net book value at 1.1.2017	2 080	82 838	83 781	11 703	9 033	189 435
Net book value at 31.12.2017	2 080	93 924	78 263	12 272	10 037	196 576
Net book value at 31.12.2018	2 080	89 551	73 294	11 286	10 592	186 803

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

20 Intangible assets

	Software	Other	Total
Cost at 1.1.2017	63 071	1 486	64 557
Additions	4 236	–	4 236
Disposals	(302)	–	(302)
Change in consolidation scope	–	–	–
Currency translation differences	63	30	93
Cost at 31.12.2017	67 068	1 516	68 584
Additions	3 464	–	3 464
Disposals	(250)	–	(250)
Change in consolidation scope	–	–	–
Currency translation differences	(154)	(66)	(220)
Cost at 31.12.2018	70 128	1 450	71 578
Accumulated amortisation and impairment at 1.1.2017	(40 824)	(153)	(40 977)
Additions	(4 469)	(29)	(4 498)
Disposals	300	–	300
Impairments	–	–	–
Currency translation differences	(56)	(1)	(57)
Accumulated amortisation and impairment at 31.12.2017	(45 049)	(183)	(45 232)
Additions	(5 331)	(30)	(5 361)
Disposals	250	–	250
Impairments	–	–	–
Currency translation differences	131	9	140
Accumulated amortisation and impairment at 31.12.2018	(49 999)	(204)	(50 203)
Net book value at 1.1.2017	22 247	1 333	23 580
Net book value at 31.12.2017	22 019	1 333	23 352
Net book value at 31.12.2018	20 129	1 246	21 375

Other intangible assets include the land use right in Changzhou, China.

Theoretical movement schedule for goodwill

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

Cost	2018	2017
Balance at 1.1.	97 512	94 284
Additions from acquisitions	–	3 228
Balance at 31.12.	97 512	97 512
Accumulated amortisation		
Balance at 1.1.	(66 127)	(47 162)
Amortisation expense	(11 958)	(18 965)
Balance at 31.12.	(78 085)	(66 127)
Theoretical net book value at 31.12.	19 427	31 385

Impact on balance sheet

	31.12.2018	31.12.2017
Equity according to the balance sheet	620 752	593 459
Theoretical capitalisation of goodwill	19 427	31 385
Theoretical equity incl. net book value of goodwill	640 179	624 844

Impact on income statement

	2018	2017
Net income	61 354	42 146
Amortisation of goodwill	(11 958)	(18 965)
Theoretical net income	49 396	23 181

21 Financial assets

	31.12.2018	31.12.2017
Assets from employer contribution reserves	16 100	15 591
Others	3 930	4 342
Total financial assets	20 030	19 933

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

22 Restrictions on the title to assets

No assets were pledged or assigned as collateral to secure own obligations in the years 2018 and 2017.

23 Other short-term liabilities

	31.12.2018	31.12.2017
Accrual for personnel expenses	30 682	25 547
Advance payments from customers	2 822	2 557
Derivative financial instruments	567	1 881
Current income tax liabilities	9 695	15 155
Other liabilities	8 499	8 702
Total other short-term liabilities	52 265	53 842

24 Provisions

	Retirement plan obligations	Restructuring provisions	Employee-related provisions	Order-related provisions	Other provisions	Total
Balance at 1.1.2017	3 027	606	4 318	7 713	4 245	19 909
Additions	135	–	1 064	1 412	377	2 988
Releases	(18)	–	(59)	(233)	–	(310)
Utilisation	(88)	(475)	(864)	(1 004)	(24)	(2 455)
Reclassifications	(201)	–	201	–	–	–
Change in consolidation scope	–	–	–	13	–	13
Currency translation differences	125	–	71	79	(21)	254
Balance at 31.12.2017	2 980	131	4 731	7 980	4 577	20 399
Additions	6	–	1 638	4 604	830	7 078
Releases	(340)	–	(403)	(817)	(200)	(1 760)
Utilisation	(91)	(131)	(585)	(1 054)	(651)	(2 512)
Reclassifications	(158)	–	158	–	–	–
Change in consolidation scope	–	–	–	–	–	–
Currency translation differences	(75)	–	(73)	(86)	(83)	(317)
Balance at 31.12.2018	2 322	–	5 466	10 627	4 473	22 888
Short-term provisions	–	131	1 147	7 272	1 945	10 495
Long-term provisions	2 980	–	3 584	708	2 632	9 904
Total provisions at 31.12.2017	2 980	131	4 731	7 980	4 577	20 399
Short-term provisions	–	–	1 954	9 407	2 159	13 520
Long-term provisions	2 322	–	3 512	1 220	2 314	9 368
Total provisions at 31.12.2018	2 322	–	5 466	10 627	4 473	22 888

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

25 Deferred tax assets and liabilities

	Deferred tax assets	Deferred tax liabilities
Balance at 1.1.2017	13 390	25 929
Additions	1 925	218
Releases / utilisation	(2 650)	(456)
Reclassifications	(292)	(292)
Currency translation differences	169	18
Balance at 31.12.2017	12 542	25 417
Additions	1 078	361
Releases / utilisation	(2 108)	(1 126)
Reclassifications	(260)	–
Currency translation differences	(393)	(10)
Balance at 31.12.2018	10 859	24 642

26 Share capital

As at 31.12.2018 20 200 000 (previous year: 20 200 000) registered shares were outstanding with a nominal value of CHF 0.25. The Company has no authorised or conditional capital. The reserves which are not disposable respectively distributable amount to CHF 2.5 million as of 31 December 2018 (previous year: CHF 2.5 million).

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

	Quantity	Transaction price (Ø) in CHF	Purchase cost	Quantity	Transaction price (Ø) in CHF	Purchase cost
	2018			2017		
Balance at 1.1.	741 140		937	748 640		1 259
Purchases of treasury shares	38 250	57.78	2 210	23 275	54.31	1 264
Disposals of treasury shares	(32 750)	53.31	(1 746)	(30 775)	51.54	(1 586)
Balance at 31.12.	746 640		1 401	741 140		937

As at the balance sheet date, foundations related to the HUBER+SUHNER Group hold 198 660 shares of HUBER+SUHNER AG (previous year: 210 025). Pension funds related to the HUBER+SUHNER Group hold no shares of HUBER+SUHNER AG.

27 Earnings per share

	2018	2017
Net income	61 354	42 146
Average number of outstanding shares	19 460 883	19 465 765
Undiluted / diluted earnings per share (CHF)	3.15	2.17

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

28 Future commitments

The Group companies have committed to various capital expenditures essential to the day to day running of their businesses. At the year-end there were commitments for the purchase of property, plant and equipment and intangible assets amounting to CHF 9.6 million (previous year, CHF 5.3 million).

29 Events after the balance sheet date

There were no events between the balance sheet date and the date these consolidated financial statements were approved by the Board of Directors (15 March 2019) which affect the annual results or require any adjustments to the Group's assets and liabilities.

Group Companies

Companies at 31.12.2018 (all fully consolidated)		Domicile		Capital stock in 1000	Ownership	Purpose
Switzerland	HUBER+SUHNER AG	Herisau	CHF	5 050	parent company	▲■
	HUBER+SUHNER Finance AG	Herisau	CHF	2 800	100%	◆
Australia	HUBER+SUHNER (Australia) Pty Ltd.	Frenchs Forest, New South Wales	AUD	5 000	100%	▲■
Brazil	HUBER+SUHNER América Latina Ltda.	Caçapava	BRL	39 197	100%	▲■
Canada	HUBER+SUHNER (Canada) Ltd.	Ottawa	CAD	2 350	100%	–
China	HUBER+SUHNER (Hong Kong) Ltd.	Hong Kong	HKD	12 325	100%	◆■
	HUBER+SUHNER (Shanghai) Co. Ltd. [1]	Shanghai	CNY	19 970	100%	■
	HUBER+SUHNER CCT (Shanghai) Co. Ltd. [1][2]	Shanghai	CNY	27 854	100%	■
	HUBER+SUHNER CCM (Changzhou) Co. Ltd. [1]	Changzhou	CNY	126 246	100%	▲
Costa Rica	HUBER+SUHNER Astrolab Costa Rica S.r.l. [3]	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 [4]	Mainz	EUR	590	100%	▲■
India	HUBER+SUHNER Electronics Pvt. Ltd. [5]	New Delhi	INR	170 000	100%	▲■
Malaysia	HUBER+SUHNER (Malaysia) Sdn Bhd [6]	Kuala Lumpur	MYR	502	100%	▲■
Netherlands	HUBER+SUHNER B.V.	Rosmalen	EUR	200	100%	–
Poland	HUBER+SUHNER Sp. z o.o.	Tczew	PLN	5 600	100%	▲
Singapore	HUBER+SUHNER (Singapore) Pte Ltd.	Singapore	SGD	3 000	100%	◆■
Spain	HUBER&SUHNER (Spain) [7]	Madrid	EUR	3	100%	▲
Tunisia	HUBER+SUHNER (Tunisie) SARL	Sousse	TND	100	100%	▲
United Kingdom	HUBER+SUHNER (UK) Ltd.	Bicester	GBP	4 000	100%	▲■
	HUBER+SUHNER Polatis Ltd. [8]	Cambridge	GBP	700	100%	▲■
USA	HUBER+SUHNER (North America) Corp.	Charlotte, North Carolina	USD	1	100%	◆
	HUBER+SUHNER, Inc. [9]	Charlotte, North Carolina	USD	50	100%	▲■
	HUBER+SUHNER Astrolab, Inc. [9]	Warren, New Jersey	USD	12 000	100%	▲■
	HUBER+SUHNER Polatis, Inc. [9]	Delaware	USD	1	100%	◆
	HUBER+SUHNER Polatis Photonics, Inc. [8]	Bedford, Massachusetts	USD	52 959	100%	■

1) Subsidiaries of HUBER+SUHNER (Hong Kong) Ltd.
2) H+S T&C (Transmission & Communication Manufacturing) was renamed in H+S CCT (Cable & Connector Trading)
3) Subsidiary of HUBER+SUHNER Astrolab, Inc.
4) Subsidiary of HUBER+SUHNER GmbH
5) Subsidiary of HUBER+SUHNER Finance AG and of HUBER+SUHNER B.V.
6) Subsidiary of HUBER+SUHNER (Singapore) Pte Ltd.
7) Subsidiary of HUBER+SUHNER Cube Optics AG
8) Subsidiary of HUBER+SUHNER Polatis, Inc.
9) Subsidiary of HUBER+SUHNER (North America) Corp.

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

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Zurich, 15 March 2019

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the financial statements of HUBER+SUHNER AG, which comprise the consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of equity and notes to the group financial statements including a summary of significant accounting policies (pages 29 to 47), for the year ended 31 December 2018.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with Swiss GAAP FER and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2018 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

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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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibility section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Valuation of inventories

Area of focus

As of 31 December 2018, inventories amounted to CHF 156.5 million, representing 20 % of the Group's total assets.
As indicated in Note 2.6 to the consolidated financial statements, inventories are valued at the lower of cost and net realisable value. Cost is determined according to the standard costing method. For slow-moving and obsolete stock the Group recognizes an inventory allowance based on the inventory turnover.
Due to the significance of the carrying values of inventories and the degree of management judgment involved in determining production costs, write-downs and fair value less cost of sales, this matter was considered significant to our audit.

Our audit response

Our audit procedures included, amongst other:

- We gained an understanding of the inventory valuation process, the valuation method, as well as the underlying assumptions applied.
- On a sample basis we analysed the standard cost calculations and verified the differences between the standard and actual costs.
- We challenged the estimates made by management regarding write-downs by assessing whether there are in line with historical experience.
- We reviewed inventory rations and audited underlying data of the inventory ageing list.
- We verified compliance with the principle of net realisable value for finished goods by comparing production costs with the expected net sale proceeds.

Our audit procedures did not lead to any reservations regarding to the valuation of inventories.

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Other matter

The consolidated financial statements of HUBER+SUHNER for the year ended 31 December 2017 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 8 March 2018.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 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.

Ernst & Young Ltd

Willy Hofstetter (Qualified Signature)	Marc Rüegsegger (Qualified Signature)
Licensed audit expert (Auditor in charge)	Licensed audit expert

Five-Year Financial Summary

in CHF million	2014 (IFRS)	2015 (IFRS)	2016 (Swiss GAAP FER)	2017 (Swiss GAAP FER)	2018 (Swiss GAAP FER)
Order intake	768.1	702.8	746.6	826.3	915.2
change in % over prior year	12.4	(8.5)	6.2	10.7	10.8
Order backlog as of 31.12.	186.2	169.7	177.2	230.5	246.9
change in % over prior year	24.8	(8.8)	4.4	30.1	7.1
Net sales	748.5	706.3	737.2	774.0	885.0
change in % over prior year	4.0	(5.6)	4.4	5.0	14.3
Gross margin	35.8 %	34.6 %	36.7 %	34.5 %	34.6 %
EBITDA	101.1	86.5	100.8	90.5	116.4
as % of net sales	13.5	12.2	13.7	11.7	13.2
EBIT	69.0	52.3	69.7	58.1	82.5
as % of net sales	9.2	7.4	9.5	7.5	9.3
change in % over prior year	33.7	(24.2)	n/a[1]	(16.6)	41.9
Financial result	4.8	(15.4)	3.0	(0.7)	(2.8)
Net income	59.2	24.7	53.2	42.1	61.4
as % of net sales	7.9	3.5	7.2	5.4	6.9
change in % over prior year	82.2	(58.3)	n/a[1]	(20.8)	45.6
Purchases of PP&E and intangible assets	42.5	23.5	32.2	37.8	27.0
change in % over prior year	65.0	(44.6)	37.0	17.3	(28.5)
Cash flow from operating activities	78.0	69.7	79.6	52.9	99.6
change in % over prior year	(32.7)	(10.7)	n/a[1]	(33.5)	88.0
Free operating cash flow	(11.9)	47.9	22.1	20.0	71.7
change in % over prior year	n/a	n/a	n/a[1]	(9.7)	259.2
Net liquidity as of 31.12.	143.3	160.0	157.5	152.6	198.8
change in % over prior year	(15.6)	11.7	(1.5)	(3.1)	30.3
Equity as of 31.12.	673.6	649.6	573.3	593.5	620.8
as % of balance sheet total	80.5	83.5	81.5	78.9	80.7
Employees at year-end (permanent employees)	3 891	3 649	4 031	4 200	4 456
change in % over prior year	11.1	(6.2)	10.5	4.2	6.1
Employees, yearly average (permanent employees)	3 789	3 584	3 866	4 198	4 352

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

Financial Report 2018

Financial Statements HUBER+SUHNER AG

Income Statement

in CHF 1000	Notes	2018	2017
Net Sales		455 273	398 959
Other operating income	3.1	28 811	28 046
Change in semi-finished and finished goods		1 696	9 051
Total operating income		485 780	436 056
Material expenses		(225 594)	(197 767)
Personnel expenses		(151 205)	(142 297)
Other operating expenses		(68 779)	(69 123)
Depreciation and amortisation		(19 070)	(13 632)
Total operating expenses		(464 648)	(422 819)
Operating profit (EBIT)		21 132	13 237
Financial income		7 073	5 486
Financial expense		(2 078)	(170)
Income from investments	3.2	15 347	6 143
Non-operating income		1 181	1 343
Non-operating expenses		(731)	(772)
Income before taxes		41 924	25 267
Income taxes		(4 753)	(3 516)
Net Income		37 171	21 751

Balance Sheet

in CHF 1000	Notes	31.12.2018	%	31.12.2017	%
Assets					
Cash and cash equivalents		149 972		120 574	
Trade receivables third party		18 350		14 079	
Trade receivables group companies		26 556		38 552	
Other short-term receivables third party		9 569		9 282	
Other short-term receivables group companies		2 437		2 471	
Inventories	3.3	43 833		41 669	
Accrued income		159		697	
Current assets		250 876	50.5	227 324	47.2
Property, plant, equipment and intangible assets	3.4	98 286		102 361	
Investments in subsidiaries	3.5	55 997		53 094	
Long-term loans group companies		91 920		98 933	
Non-current assets		246 203	49.5	254 388	52.8
Assets		497 079	100.0	481 712	100.0
Liabilities and equity					
Trade payables third party		10 742		18 329	
Trade payables group companies		10 529		13 484	
Other short-term liabilities third party		21 165		21 003	
Short-term provisions		1 723		652	
Accrued liabilities		4 171		2 920	
Current liabilities		48 330		56 388	
Long-term loans group companies		7 072		2 392	
Long-term provisions		55 676		53 069	
Other long-term liabilities		2 185		1 354	
Non-current liabilities		64 933		56 815	
Liabilities		113 263	22.8	113 203	23.5
Share capital	3.6	5 050		5 050	
Legal reserves		40 271		40 271	
General reserves		90 226		90 209	
Retained earnings		249 676		233 921	
Treasury shares	3.7	(1 407)		(942)	
Equity		383 816	77.2	368 509	76.5
Liabilities and equity		497 079	100.0	481 712	100.0

Notes to Financial Statements

1 General

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

2 Accounting policies

2.1 General
These financial statements were prepared in accordance with the provisions of the commercial accounting of the Swiss Code of Obligations. The accounting of major balance sheet and income statement 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. 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 are initially recognized at cost. On an annual basis the investments are assessed individually. In exceptional cases, where an assessment from individual investment basis is not reasonable, the carrying amount of the investment is evaluated based on interconnectedness.

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

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

3 Details to individual positions

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

3.2 Income from investments
Income from investments includes dividend payments from subsidiaries in the amount of TCHF 15 347 (previous year, TCHF 6 143). No impairments of investments have been recognised or reversed (previous year no reversal).

3.3 Inventories

in CHF 1000	31.12.2018	31.12.2017
Raw materials and supplies	12 407	11 753
Work in progress	5 939	7 715
Semi-finished and finished goods	87 315	85 619
Inventory provision	(61 828)	(63 418)
Total	43 833	41 669

3.4 Property, plant, equipment and intangible assets

in CHF 1000	31.12.2018	31.12.2017
Land	6 225	6 226
Buildings	41 057	43 979
Technical equipment and machinery	27 513	29 835
Other equipment	896	976
Assets under construction	9 257	8 089
Investment property	2 080	2 080
Intangible assets	11 258	11 176
Total	98 286	102 361

3.5 Investments in subsidiaries

Directly and indirectly held subsidiaries are listed on page 47 of the Group Financial Statements.

3.6 Share capital

Both at 31 December 2018 and at 31 December 2017 the share capital is composed of 20 200 000 registered shares at CHF 0.25 nominal value each.
The composition of capital stock is disclosed in the Notes to the Group Financial Statements (see note 26).

3.7 Treasury shares

The company holds 746 640 treasury shares, thereof 726 640 treasury stock and 20 000 other treasury shares (previous year: 741 140 treasury shares, thereof 726 640 treasury stock and 14 500 other treasury shares).

in CHF 1000	2018	2017
Number at 1.1.	741 140	748 640
Purchases	38 250	23 275
Sales	–	–
Allotment	(32 750)	(30 775)
Number at 31.12.	746 640	741 140

4 Contingent liabilities

in CHF 1000	31.12.2018	31.12.2017
Guarantees for loans with promissory notes and other loans to Group companies	–	–

5 Liabilities to pension funds

in CHF 1000	31.12.2018	31.12.2017
Total liabilities to pension funds	–	–

6 Net release of undisclosed reserves

in CHF 1000	2018	2017
Total net release of undisclosed reserves	3 901	–

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

Shares of votes and capital	31.12.2018	31.12.2017
Metrohm AG	10.62 %	10.62 %
Abegg Holding AG	10.04 %	10.04 %
EGS Beteiligungen AG	7.10 %	5.72 %
S. Hoffmann-Suhner	6.18 %	6.18 %
Huwa Finanz- und Beteiligungs AG	3.19 %	3.19 %
Norges Bank (the Central Bank of Norway)	3.07 %	3.07 %

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

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

Shareholdings of Board of Directors (Number of shares at 31 December 2018)		Own shares	Shares of close family members	Total shares	Of which non-restricted shares	Of which restricted shares [1]	Total share of votes [2]
U. Kaufmann	Chairman	80 200	600	80 800	33 800	47 000	0.42 %
B. Kälin	Deputy Chairman	18 500	–	18 500	8 500	10 000	< 0.10 %
M. Bütler	Member	4 800	–	4 800	1 200	3 600	< 0.10 %
C. Fässler	Member	6 500	–	6 500	2 900	3 600	< 0.10 %
G. Müller	Member	18 800	184 586	203 386	199 786	3 600	1.05 %
R. Seiffert	Member	9 833	–	9 833	6 233	3 600	< 0.10 %
J. Walther	Member	2 400	–	2 400	–	2 400	< 0.10 %
Total shareholdings BoD 2018		141 033	185 186	326 219	252 419	73 800	1.68 %

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

Shareholdings of Executive Group Management (Number of shares at 31 December 2018)		Own shares	Shares of close family members	Total shares	Of which non-restricted shares	Of which restricted shares [1]	Total share of votes [2]
U. Ryffel	CEO	20 100	–	20 100	11 100	9 000	0.10 %
R. Bolt	Member	11 470	–	11 470	3 070	8 400	< 0.10 %
F. Landolt	Member	1 240	–	1 240	40	1 200	< 0.10 %
D. Nixon	Member	5 250	–	5 250	300	4 950	< 0.10 %
P. Riederer	Member	5 600	–	5 600	–	5 600	< 0.10 %
U. Schaumann	Member	4 925	–	4 925	–	4 925	< 0.10 %
P. Stolz	Member	3 545	–	3 545	70	3 475	< 0.10 %
M. Strasser	Member	1 200	–	1 200	–	1 200	< 0.10 %
I. Wechsler	Member	12 000	–	12 000	2 000	10 000	< 0.10 %
Total shareholdings EGM 2018		65 330	–	65 330	16 580	48 750	0.34%

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

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

Allotted number of shares to:	2018	2017
Board of Directors	11 000	10 750
Executive Group Management	18 950	18 825
Employees	3 175	2 925

Allotted shares in CHF 1000	2018	2017
Expensed amount in Income Statement	2 170	1 653

Outstanding shares are actually assigned in the following year – for members of Board of Directors and Executive Group Management subject to approval by the Annual General Meeting. The expensed amount in the Income Statement is based on the year-end 2018 share price of CHF 65.50 (previous year, CHF 50.85).

8 Full-time positions

As in the previous year, HUBER+SUHNER AG employed over 250 full-time positions in 2018.

9 Leasing obligations not recorded in the balance sheet

Per balance sheet date there are neither short-term obligations with a duration of less than one year (previous year, TCHF 182) nor obligations in excess of one year (previous year, no obligations in excess of one year).

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 no additional disclosures are made, as HUBER+SUHNER AG prepares Group Financial Statements in accordance with generally accepted accounting principles (Swiss GAAP FER).

Recommendation for Appropriation of Earnings

The Board of Directors of HUBER+SUHNER AG proposes to the Annual General Meeting the following appropriation of available earnings for the year 2018:

in CHF 1000	2018	2017
Prior-year retained earnings	212 505	215 398
Goodwill from merger – direct netting with equity	–	(3 228)
Net income for the year	37 171	21 751
Total retained earnings	249 676	233 921
Dividend	(48 633)	(21 416)
Total appropriation	(48 633)	(21 416)
Retained earnings carried forward	201 043	212 505

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

	CHF	CHF
Ordinary dividend	1.50	1.10
Anniversary dividend	1.00	–
Gross dividend	2.50	1.10
Less 35 % withholding tax	0.875	0.385
Net dividend	1.625	0.715

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Zurich, 15 March 2019

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of HUBER+SUHNER AG, which comprise the income statement, balance sheet and notes to the financial statements including a summary of significant accounting policies (pages 53 to 59), for the year ended 31 December 2018.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Building a better working world

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 judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibility section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Valuation of inventories

Area of focus

As of 31 December 2018, inventories amounted to CHF 43.8 million, representing 9 % of HUBER+SUHNER AG's total assets.

As indicated in Note 2.5 of the notes to the stand-alone financial statements of HUBER+SUHNER AG, inventories are valued at the lower of cost and net realisable value. Cost is determined according to the standard costing method. For slow-moving and obsolete stock the Group recognizes an inventory allowance based on the inventory turnover.

Due to the significance of the carrying values of inventories and the degree of management judgment involved in determining production costs, write-downs and fair value less cost of sales, this matter was considered significant to our audit.

Our audit response

Our audit procedures included, amongst other:

- We gained an understanding of the inventory valuation process, the valuation method, as well as the underlying assumptions applied.
- On a sample basis we analysed the standard cost calculations and verified the differences between the standard and actual costs.
- We challenged the estimates made by management regarding write-downs by assessing whether there are in line with historical experience.
- We reviewed inventory rations and audited underlying data of the inventory ageing list.
- We verified compliance with the principle of net realisable value for finished goods by comparing production costs with the expected net sale proceeds.

Our audit procedures did not lead to any reservations regarding to the valuation of inventories.

Building a better working world

Valuation of investments to subsidiaries and loans to group companies

Area of focus

As of 31 December 2018, the HUBER+SUHNER AG holds investments to subsidiaries of CHF 56.0 million and loans to group companies of CHF 91.9 million, which corresponds to 11 % respectively 18 % of total assets.

The investments in subsidiaries are disclosed in the note “Group Companies” of the consolidated financial statements of HUBER+SUHNER AG.
Investments to subsidiaries and loans to group companies are material to the entity and may be subject to changes in value. Accordingly, Management performs regular impairment considerations and calculations to determine the value of each single investment in subsidiaries as wells as loan to group company.
The investments in subsidiaries and the loans to group companies were considered significant to our audit as the amounts concerned are material and the assessments involve judgment in preparing the underlying key assumptions for the valuation.

Our audit response

Our audit work for the valuation of the investments in subsidiaries and loans to group companies consisted of auditing Management’s valuation assessment and the underlying key assumptions. We also assessed the historical accuracy of the Company’s estimates and long-term business plans.
Our audit procedures did not lead to any reservations regarding to the valuation of investments in subsidiaries and loans to group companies.

Other matter

The financial statements of HUBER+SUHNER AG for the year ended 31 December 2017 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 8 March 2018.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 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.

Ernst & Young Ltd

Willy Hofstetter (Qualified Signature)	Marc Rüegsegger (Qualified Signature)
Licensed audit expert (Auditor in charge)	Licensed audit expert

Share Data

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

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

Registered shares at 31.12. (nominal value CHF 0.25)	2014 (IFRS)	2015 (IFRS)	2016 (Swiss GAAP FER)	2017 (Swiss GAAP FER)	2018 (Swiss GAAP FER)
Number of issued shares	20 200 000	20 200 000	20 200 000	20 200 000	20 200 000
Number of shares entitled to a dividend	19 443 360	19 451 846	19 451 360	19 458 860	19 453 360
Number of shareholders at 31.12.	3 689	3 694	3 530	4 523	4 116
Stock market price (in CHF)					
– high	50.75	52.00	65.60	73.80	74.90
– low	41.50	38.60	40.60	50.55	50.90
– year-end	47.40	46.35	56.50	50.85	65.50
Amounts per registered share[1] (in CHF)					
– Net income	3.05	1.27	2.73	2.17	3.15
– Dividend	1.40	1.00	1.25	1.10	2.50[3]
– Pay-out ratio	46 %	79 %	46 %	51 %	79 %
Market capitalisation[2]					
– in CHF million	922	902	1 099	989	1 274
– as % of net sales	123	128	149	128	144
– as % of shareholders’ equity	137	139	192	167	205

[1] Based on the average outstanding shares
[2] Stock market price at year-end × number of shares entitled to a dividend
[3] Proposed dividend (of which CHF 1.50 ordinary dividend and CHF 1.00 anniversary dividend)

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

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