DEAR SHAREHOLDER

In 2017, the Komax Group further expanded its position as market and technology leader. The financial year was characterized by strong growth in order intake and revenues, numerous successful product launches, two acquisitions, significant investment in research and development as well as digitalization, a number of projects to expand production capacity, and the breakthrough in the aerospace market segment. Komax considers itself to be on track with implementation of its 2017–2021 strategy, and is confident about business development in 2018.

The sharp rise in both order intake and revenues underlines the point: Komax once again grew more strongly than the market in 2017. While revenues increased by 9.6% to CHF 408.5 million (2016: CHF 372.7 million), the order intake rose by as much as 21.5% to CHF 449.7 million (2016: CHF 370.2 million). The growth in revenues comprises internal growth (+6.0%) and acquisition-driven growth (+2.2%), as well as the positive foreign currency influence (+1.4%). In 2017, Komax changed its accounting standard from IFRS to Swiss GAAP FER, and revised the prior-year figures accordingly. These prior-year figures now exclude both the revenues (CHF 19.1 million) and the order intake (CHF 9.3 million) of the Medtech business unit, which was sold in April 2016.

Europe (+8.0%), Asia (+10.3%), and Africa (+47.1%) all contributed to the strong revenue growth. By contrast, Komax recorded a slight decline in revenues in North/South America (–2.1%). However, following a sharp decline in the first half of the year (–5.8%), North/South America then recovered in the second half, almost reaching the prior-year level. In the US in particular, investment activity picked up as the year progressed, with the result that the decline in revenues in the earlier part of the year was partly reversed. The new Alpha 530/550 machine platform for the core business of Komax (crimp to crimp) penetrated the market in all regions in 2017, making a significant contribution to growth. In addition, our customers responded to the various new solutions we launched in 2017 – which cover the entire value chain – very rapidly and positively.

26% rise in R&D expenditure

In order to further expand its leading position over the next few years, Komax invested CHF 36.7 million in research and development (R&D). This equates to 9.0% of revenues (2016: 7.4%), and an increase of CHF 7.6 million on the previous year. The two acquisitions executed in 2017 (Laselec and Practical Solution) also contributed to this increase. Issues such as electro-mobility and autonomous driving give Komax further opportunities to develop unique selling features. Komax is keen to grasp these opportunities, which is why it intends to channel some 8%–9% of revenues into research and development over the coming years too.

Despite this significant rise in proactive investment to ensure a sustainably successful future, Komax nonetheless generated operating profit (EBIT) of CHF 55.1 million, thereby essentially matching the prior-year figure (CHF 55.4 million). The additional R&D expenditure had the effect of reducing the EBIT margin by 1.8 percentage points. Yet despite this, Komax was still able to report an EBIT margin of 13.5% in 2017 (2016: 14.1%). Another drag on profitability was the strong increase in inventories to CHF 92.0 million (2016: CHF 70.4 million). Around half of this increase relates to machinery that is now either complete or nearly complete, but has yet to be converted into revenues.

Long delivery times of customer-specific systems

This delayed conversion into revenue is one of the reasons for the Group's high book-to-bill ratio of 1.10 (2016: 0.99). Another contributory factor was the large number of customer-specific systems ordered in 2017. Orders of this type tend to have longer delivery times than serial production machines. A good example of this is the large order received by Komax at the end of 2017 from the aerospace industry. The delivery of the corresponding systems to automate wire processing for this customer will extend over the years 2018 to 2020. This large order represents a milestone both for Komax and for the aerospace industry. For Komax, this is the first order worth millions from this market segment, while for the aerospace industry the degree of automation in wire processing that will be achieved through the ordered systems represents a pioneering development.

Financial base remains strong

Group profit after taxes (EAT) rose by 8.8% to CHF 42.1 million (2016: CHF 38.7 million). This result was reduced by the sum of CHF 3.6 million as a result of a value adjustment on a loan to an associated company. By making this value adjustment, Komax has drawn a line under the participation that dates back to the Komax Solar era. Basic earnings per share increased to CHF 11.05 (2016: CHF 10.34). Komax continues to be very robustly financed. As at 31 December 2017, shareholders' equity totaled CHF 258.2 million (2016: CHF 246.2 million) while the equity ratio stood at 62.3% (2016: 68.9%). Free cash flow amounted to CHF –7.6 million (2016: CHF 0.4 million), while net debt stood at CHF 10.5 million (2016: net cash of CHF 17.0 million).

Investment in capacity expansion

Both the two acquisitions made in 2017 and the investment in capacity expansion had an impact on free cash flow. Thanks to the takeover of the assets of Practical Solution (as per 3 March 2017), Komax has strengthened its position in the growing market in Asia, acquiring a third Asian development site in Singapore to join its existing sites in Shanghai and Tokyo. To strengthen its presence in the aerospace market segment, Komax acquired Laselec SA as per 1 October 2017; this French company develops laser-supported solutions for the stripping and marking of wires and intelligent assembly boards for wire harness production.

In order to deliver the growth it has planned for the coming years, Komax is investing in the expansion of its production capacity in a targeted way. In 2017, work began on a new building at the Group's headquarters in Switzerland, and three further construction projects are planned for 2018 – two in Germany, and one in Hungary. In total, Komax will be investing more than CHF 90 million in new infrastructure between 2017 and 2019. The new building in Switzerland should be ready for occupation in the second half of 2019, while the three other buildings are expected to be ready towards the end of 2018.

High payout ratio

The Board of Directors is proposing to the Annual General Meeting an unchanged distribution of CHF 6.50 per share. This represents a substantial payout ratio of 59.2%. Due to the strong result and the positive outlook, the proposed distribution is at the upper end of the strategic bandwidth of 50%–60%, and this despite the significant investment in the expansion of capacity. The distribution comprises a dividend of CHF 5.00 and a distribution from capital contribution reserves of CHF 1.50. The latter is tax-free for persons domiciled in Switzerland who hold shares as part of their private assets. The dividend yield (calculated on the basis of the 2017 year-end closing price of the Komax share) amounts to 2.0%.

Outlook

The Komax Group remains very well positioned, and considers itself to be on track with the implementation of its 2017–2021 strategy. For the 2018 financial year, Komax is confident of delivering a result that will support the attainment of its ambitious medium-term targets. Komax expects to grow more strongly than the market and to increase profitability slightly – despite continuing to invest heavily in research and development. Demand for automation solutions in the area of wire processing continues to rise. Thanks to its innovative strength and broad spectrum of solutions, Komax is ideally placed to seize the growth opportunities that present themselves.

Yours sincerely,

Dr. Beat Kälin **Chairman of the Board of Directors**	**Matijas Meyer** **CEO**

8 March 2018