



# 2017 / FINANCIAL REPORT





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## KEY FINANCIAL INFORMATION OF HILTI GROUP

| financial amounts in CHF million                                               | 2017   | 2016   | 2015   | 2014   | 2013   |
|--------------------------------------------------------------------------------|--------|--------|--------|--------|--------|
| <b>Results</b>                                                                 |        |        |        |        |        |
| Net sales                                                                      | 5,133  | 4,633  | 4,384  | 4,497  | 4,340  |
| Depreciation and amortization                                                  | 174    | 156    | 157    | 194    | 220    |
| Operating result                                                               | 692    | 604    | 547    | 537    | 421    |
| Net income before tax                                                          | 655    | 573    | 506    | 499    | 354    |
| Net income                                                                     | 530    | 481    | 410    | 426    | 304    |
| Return on capital employed (ROCE) in % (operating result)                      | 21.3   | 21.0   | 19.0   | 16.8   | 12.8   |
| Return on equity (ROE) in % (net income)                                       | 19.5   | 20.1   | 17.4   | 17.1   | 12.5   |
| Return on sales (ROS) in %                                                     | 13.5   | 13.0   | 12.5   | 11.9   | 9.7    |
| Free cash flow*                                                                | 325    | 248    | 335    | 383    | 354    |
| <b>Balance sheet</b>                                                           |        |        |        |        |        |
| Total equity                                                                   | 2,932  | 2,512  | 2,272  | 2,449  | 2,523  |
| Total equity in % Total equity and liabilities                                 | 54     | 53     | 52     | 53     | 53     |
| Total non-current liabilities                                                  | 1,126  | 994    | 1,010  | 1,053  | 872    |
| Total current liabilities                                                      | 1,395  | 1,208  | 1,125  | 1,106  | 1,368  |
| Capital expenditures on intangible assets and on property, plant and equipment | 289    | 289    | 246    | 258    | 209    |
| Intangible assets and property, plant and equipment                            | 1,598  | 1,285  | 1,190  | 1,152  | 1,101  |
| Other non-current assets                                                       | 742    | 660    | 591    | 573    | 504    |
| Total current assets                                                           | 3,112  | 2,770  | 2,626  | 2,884  | 3,158  |
| Total assets                                                                   | 5,453  | 4,714  | 4,407  | 4,609  | 4,763  |
| Dividend**                                                                     | 264    | 243    | 205    | 455    | 393    |
| <b>Employees (as at December 31)</b>                                           | 26,881 | 24,619 | 23,385 | 22,248 | 21,456 |
| <b>Information on bonds (nominal values)</b>                                   |        |        |        |        |        |
| 3.25% bond 09/14 (early call for tax reasons only)                             | –      | –      | –      | –      | 300    |
| 0.875% bond 13/18 (early call for tax reasons only)                            | 100    | 100    | 100    | 100    | 100    |
| 1.875% bond 13/23 (early call for tax reasons only)                            | 100    | 100    | 100    | 100    | 100    |
| 0.2% bond 17/24 (early call for tax reasons only)                              | 100    | –      | –      | –      | –      |
| 0.4% bond 17/27 (early call for tax reasons only)                              | 100    | –      | –      | –      | –      |
| Euro bonds 12/15–19 (variable interest rates***)                               | 12     | 53     | 53     | 79     | 81     |
| Euro bonds 12/15–19 (fixed interest rates****)                                 | 34     | 107    | 108    | 131    | 134    |

\* Before acquisition and disposal of subsidiaries

\*\* As proposed by the Board of Directors; 2013 and 2014 included special dividends

\*\*\* Early call possible; bonds have restricted tradability

\*\*\*\* Bonds have restricted tradability





# MANAGEMENT REPORT



## ACCELERATED SALES GROWTH AND RENEWED RISE IN PROFITABILITY



With a sales increase of 10.8 percent in Swiss francs, a total which exceeded the 5 billion mark for the first time, the Hilti Group appreciably surpassed its growth targets for 2017. A strong portfolio of products and services and a 10-percent-larger sales team played an important part in this success. With an increase of 14.6 percent, the operating result also significantly outpaced the result of the previous year. The positive year-end closing was additional validation of the Champion 2020 corporate strategy, introduced in 2014, which focuses on sustainable value creation through market leadership and differentiation.

In all business regions Hilti again managed to increase sales considerably and improve growth rates. Europe recorded a plus of 9.7 percent in local currencies. With 8.5 percent, North America grew significantly once again. Sales also increased in Latin America (+9.7%), even though the economic situation in the region is generally stabilizing only gradually. In the Asia/Pacific region, business development was lower than expected, with growth of 5.3 percent. In contrast, the Eastern Europe / Middle East / Africa region (+17.4%), led by an extremely strong upwards trend in Russia (+25.1%), was very dynamic. The takeover of the Norwegian Oplaend System Group contributed approximately CHF 38 million (+0.8 percentage points) to the growth of the Group in the last four months of 2017.



**Investment course systematically pursued**

Investment also remained at a high level during the fourth year of implementation of the Champion 2020 corporate strategy. More than 1000 employees were added to the sales team worldwide. Consequently, staff numbers throughout the world reached a new high of 26,881 at the end of the year. At CHF 311 million (+11.1%), R&D spending was once again significantly more than the previous year. In addition to products, investment focused on software and digital applications. With more than 60 new products and the portfolio for offshore customers purchased with Oglaend, Hilti systematically worked on comprehensive and stand-out system solutions.

**Earnings and profitability significantly increased**

The operating result increased 14.6 percent to CHF 692 million (2016: CHF 604 million), and net income was CHF 530 million (2016: CHF 481 million). With 13.5 percent (2016: 13.0%) and 21.3 percent (2016: 21.0%) respectively, return on sales (ROS) and return on capital employed (ROCE) also achieved new record figures. The Hilti Group finished 2017 with a high free cash flow (before acquisition and disposal of subsidiaries) of CHF 325 million (2016: CHF 248 million). The currency situation was once again slightly favorable. Worthy of particular note are the appreciation of the euro in the second half of the year as well as significantly more stable currencies in a number of growth markets, such as the Russian ruble and the Indian rupee. Furthermore, Hilti was able to implement targeted price increases, which had an additional positive effect on gross margin and profitability.

**Healthy balance sheet and continued high liquidity**

At year-end 2017, the equity ratio was at a constant high level of 54 percent (2016: 53%). Cash and cash equivalents reached CHF 1140 million (2016: CHF 1114 million) and financial debt amounted to CHF 595 million (2016: CHF 474 million). These figures include the outflow of funds due to the Oglaend acquisition (CHF -127 million) as well as the repayment (CHF -116 million) and the reissue (CHF +200 million) of corporate bonds. The new bonds were issued in October and allowed the Hilti Group to obtain refinancing on the Swiss capital market for 7 and 10 years at 0.2 and 0.4 percent, respectively. For the 2017 financial year, the Board of Directors proposes a CHF 264 million ordinary dividend payout (2016: CHF 243 million).

**Outlook**

For 2018, Hilti expects the generally positive economic parameters to remain unchanged. However, current political uncertainties in various regions could lead to volatile markets with corresponding impact on the general economic situation. Overall, the Group is aiming for high growth rates similar to those in 2017. Hilti will continue to adhere to its strategic objectives and, given the good financial situation, will further increase investments in sales, products, services and digital solutions. The key financial indicators are expected to remain at their current high level. The IFRS financial reporting changes which will be applied in 2018 (IFRS 9 and IFRS 15) are not likely to have a significant impact on Group results.



# GROUP FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEET

| in CHF million                                        | Note | 31.12.2017     | 31.12.2016     |
|-------------------------------------------------------|------|----------------|----------------|
| <b>ASSETS</b>                                         |      |                |                |
| Intangible assets                                     | 7    | 732.0          | 471.7          |
| Property, plant and equipment                         | 8    | 866.3          | 812.8          |
| Investment property                                   | 9    | 1.9            | 1.9            |
| Investments in associates                             | 10   | 2.6            | –              |
| Deferred income tax assets                            | 11   | 141.1          | 158.3          |
| Other financial investments                           | 12   | 11.5           | 11.0           |
| Trade and other receivables                           | 14   | 579.4          | 481.3          |
| Derivative financial instruments                      | 16   | 5.6            | 7.0            |
| <b>Total non-current assets</b>                       |      | <b>2,340.4</b> | <b>1,944.0</b> |
| Inventories                                           | 13   | 630.9          | 542.5          |
| Trade and other receivables                           | 14   | 1,243.4        | 1,014.2        |
| Current income taxes receivable                       | 26   | 11.6           | 22.4           |
| Accrued income and prepayments                        | 15   | 55.4           | 47.9           |
| Derivative financial instruments                      | 16   | 5.7            | 5.9            |
| Financial assets at fair value through profit or loss | 17   | 25.0           | 23.5           |
| Cash and cash equivalents                             | 18   | 1,140.2        | 1,113.8        |
| <b>Total current assets</b>                           |      | <b>3,112.2</b> | <b>2,770.2</b> |
| <b>TOTAL ASSETS</b>                                   |      | <b>5,452.6</b> | <b>4,714.2</b> |

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



| in CHF million                                      | Note      | 31.12.2017     | 31.12.2016     |
|-----------------------------------------------------|-----------|----------------|----------------|
| <b>EQUITY AND LIABILITIES</b>                       |           |                |                |
| Non-controlling interests                           |           | 6.0            | 4.6            |
| Equity attributable to equity holders of the parent |           | 2,926.0        | 2,507.6        |
| <b>Total equity</b>                                 | <b>20</b> | <b>2,932.0</b> | <b>2,512.2</b> |
| Provisions                                          | 21        | 70.6           | 70.4           |
| Employee benefits                                   | 22        | 550.9          | 582.4          |
| Deferred income tax liabilities                     | 11        | 98.1           | 48.3           |
| Bonds                                               | 23        | 334.4          | 242.4          |
| Long-term bank borrowings                           | 24        | 30.9           | 28.4           |
| Trade and other payables                            | 25        | 40.6           | 21.9           |
| <b>Total non-current liabilities</b>                |           | <b>1,125.5</b> | <b>993.8</b>   |
| Provisions                                          | 21        | 78.0           | 70.1           |
| Employee benefits                                   | 22        | 8.7            | 6.6            |
| Trade and other payables                            | 25        | 479.1          | 377.3          |
| Current income taxes payable                        | 26        | 122.1          | 124.4          |
| Accrued liabilities and deferred income             | 27        | 470.1          | 415.5          |
| Bonds                                               | 23        | 111.7          | 117.1          |
| Short-term bank borrowings                          | 28        | 117.7          | 86.0           |
| Derivative financial instruments                    | 16        | 7.7            | 11.2           |
| <b>Total current liabilities</b>                    |           | <b>1,395.1</b> | <b>1,208.2</b> |
| <b>Total liabilities</b>                            |           | <b>2,520.6</b> | <b>2,202.0</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>                 |           | <b>5,452.6</b> | <b>4,714.2</b> |

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

## CONSOLIDATED INCOME STATEMENT

| in CHF million                              | Note | 2017             | 2016             |
|---------------------------------------------|------|------------------|------------------|
| Net sales                                   | 29   | 5,133.0          | 4,632.9          |
| Other operating revenues                    | 29   | 114.9            | 103.3            |
| <b>Total operating revenues</b>             |      | <b>5,247.9</b>   | <b>4,736.2</b>   |
| Change in inventory                         | 30   | 49.6             | 15.6             |
| Material costs                              | 30   | (1,493.0)        | (1,330.4)        |
| Personnel expenses                          | 31   | (2,109.9)        | (1,886.2)        |
| Depreciation and amortization               | 32   | (173.5)          | (156.4)          |
| Other operating expenses                    | 33   | (829.0)          | (775.0)          |
| <b>Total operating expenses</b>             |      | <b>(4,555.8)</b> | <b>(4,132.4)</b> |
| <b>Operating result</b>                     |      | <b>692.1</b>     | <b>603.8</b>     |
| Other revenues and expenses (net)           | 34   | (9.3)            | (3.3)            |
| Finance costs                               | 35   | (27.6)           | (27.4)           |
| <b>Net income before income tax expense</b> |      | <b>655.2</b>     | <b>573.1</b>     |
| Income tax expense                          | 36   | (125.6)          | (91.7)           |
| <b>Net income</b>                           |      | <b>529.6</b>     | <b>481.4</b>     |
| <b>Attributable to:</b>                     |      |                  |                  |
| Equity holders of the parent                |      | 528.0            | 485.9            |
| Non-controlling interests                   |      | 1.6              | (4.5)            |

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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| in CHF million                                                             | Note | 2017         | 2016          |
|----------------------------------------------------------------------------|------|--------------|---------------|
| <b>Net income</b>                                                          |      | <b>529.6</b> | <b>481.4</b>  |
| Net movement on cash flow hedges                                           | 16   | (4.5)        | 3.2           |
| Deferred tax on net movement on cash flow hedges                           | 20   | 0.6          | (0.4)         |
| Foreign currency translation differences                                   | 20   | 55.5         | (3.0)         |
| Deferred tax on foreign currency translation differences                   | 20   | (0.5)        | 0.2           |
| <b>Items that may be subsequently reclassified to the income statement</b> |      | <b>51.1</b>  | <b>-</b>      |
| Remeasurements on employee benefits                                        | 22   | 96.1         | (43.4)        |
| Deferred tax on remeasurements on employee benefits                        | 20   | (13.7)       | 8.0           |
| <b>Items that will never be reclassified to the income statement</b>       |      | <b>82.4</b>  | <b>(35.4)</b> |
| <b>Other comprehensive income (OCI)</b>                                    |      | <b>133.5</b> | <b>(35.4)</b> |
| <b>Total comprehensive income</b>                                          |      | <b>663.1</b> | <b>446.0</b>  |
| <b>Attributable to:</b>                                                    |      |              |               |
| Equity holders of the parent                                               |      | 661.7        | 450.4         |
| Non-controlling interests                                                  |      | 1.4          | (4.4)         |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| in CHF million                            | Share and participation certificate capital | Capital reserves | Foreign currency translation reserve | Cash flow hedging reserve | Retained earnings | Equity attributable to equity holders of the parent | Non-controlling interests | Total equity   |
|-------------------------------------------|---------------------------------------------|------------------|--------------------------------------|---------------------------|-------------------|-----------------------------------------------------|---------------------------|----------------|
| <b>Equity at January 1, 2017</b>          | <b>126.7</b>                                | <b>17.4</b>      | <b>(430.7)</b>                       | <b>7.3</b>                | <b>2,786.9</b>    | <b>2,507.6</b>                                      | <b>4.6</b>                | <b>2,512.2</b> |
| Net income recognized in income statement | -                                           | -                | -                                    | -                         | 528.0             | 528.0                                               | 1.6                       | 529.6          |
| Cash flow hedges                          | -                                           | -                | -                                    | (3.9)                     | -                 | (3.9)                                               | -                         | (3.9)          |
| Remeasurements on employee benefits       | -                                           | -                | -                                    | -                         | 82.4              | 82.4                                                | -                         | 82.4           |
| Foreign currency translation differences  | -                                           | -                | 55.2                                 | -                         | -                 | 55.2                                                | (0.2)                     | 55.0           |
| <b>Total comprehensive income</b>         | <b>-</b>                                    | <b>-</b>         | <b>55.2</b>                          | <b>(3.9)</b>              | <b>610.4</b>      | <b>661.7</b>                                        | <b>1.4</b>                | <b>663.1</b>   |
| Dividend paid                             | -                                           | -                | -                                    | -                         | (243.3)           | (243.3)                                             | -                         | (243.3)        |
| <b>Equity at December 31, 2017</b>        | <b>126.7</b>                                | <b>17.4</b>      | <b>(375.5)</b>                       | <b>3.4</b>                | <b>3,154.0</b>    | <b>2,926.0</b>                                      | <b>6.0</b>                | <b>2,932.0</b> |

| in CHF million                            | Share and participation certificate capital | Capital reserves | Foreign currency translation reserve | Cash flow hedging reserve | Retained earnings | Equity attributable to equity holders of the parent | Non-controlling interests | Total equity   |
|-------------------------------------------|---------------------------------------------|------------------|--------------------------------------|---------------------------|-------------------|-----------------------------------------------------|---------------------------|----------------|
| <b>Equity at January 1, 2016</b>          | <b>126.7</b>                                | <b>17.4</b>      | <b>(427.8)</b>                       | <b>4.5</b>                | <b>2,541.7</b>    | <b>2,262.5</b>                                      | <b>9.0</b>                | <b>2,271.5</b> |
| Net income recognized in income statement | -                                           | -                | -                                    | -                         | 485.9             | 485.9                                               | (4.5)                     | 481.4          |
| Cash flow hedges                          | -                                           | -                | -                                    | 2.8                       | -                 | 2.8                                                 | -                         | 2.8            |
| Remeasurements on employee benefits       | -                                           | -                | -                                    | -                         | (35.4)            | (35.4)                                              | -                         | (35.4)         |
| Foreign currency translation differences  | -                                           | -                | (2.9)                                | -                         | -                 | (2.9)                                               | 0.1                       | (2.8)          |
| <b>Total comprehensive income</b>         | <b>-</b>                                    | <b>-</b>         | <b>(2.9)</b>                         | <b>2.8</b>                | <b>450.5</b>      | <b>450.4</b>                                        | <b>(4.4)</b>              | <b>446.0</b>   |
| Dividend paid                             | -                                           | -                | -                                    | -                         | (205.3)           | (205.3)                                             | -                         | (205.3)        |
| <b>Equity at December 31, 2016</b>        | <b>126.7</b>                                | <b>17.4</b>      | <b>(430.7)</b>                       | <b>7.3</b>                | <b>2,786.9</b>    | <b>2,507.6</b>                                      | <b>4.6</b>                | <b>2,512.2</b> |

For further details on transactions with non-controlling interests see note (5) and on equity see note (20).

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



## CONSOLIDATED CASH FLOW STATEMENT

| in CHF million                                                | Note | 2017           | 2016           |
|---------------------------------------------------------------|------|----------------|----------------|
| <b>Net income</b>                                             |      | <b>529.6</b>   | <b>481.4</b>   |
| Depreciation and amortization                                 |      | 173.5          | 156.4          |
| (Gain)/loss on disposal of subsidiaries                       |      | –              | 1.4            |
| (Increase)/decrease in inventories                            | 30   | (49.6)         | (15.6)         |
| (Increase)/decrease in trade receivables                      |      | (60.1)         | (32.4)         |
| (Increase)/decrease in finance lease receivables              |      | (144.1)        | (102.0)        |
| Increase/(decrease) in trade payables                         |      | 65.6           | 20.3           |
| Change in non-cash items and other net operating assets       |      | 95.8           | (2.8)          |
| <b>Cash flow from operating activities</b>                    |      | <b>610.7</b>   | <b>506.7</b>   |
| Capital expenditure on intangible assets                      | 7    | (157.4)        | (148.8)        |
| Capital expenditure on property, plant and equipment          | 8    | (131.6)        | (140.1)        |
| Acquisition of subsidiaries                                   | 5    | (127.0)        | –              |
| Disposal of subsidiaries                                      |      | –              | 38.5           |
| (Increase)/decrease in financial investments                  |      | (5.9)          | 16.1           |
| Disposal of intangible assets                                 |      | 1.9            | 0.6            |
| Disposal of property, plant and equipment                     |      | 6.9            | 13.7           |
| <b>Cash flow from investing activities</b>                    |      | <b>(413.1)</b> | <b>(220.0)</b> |
| Proceeds from long-term borrowings                            |      | 4.6            | 1.8            |
| Repayment of long-term borrowings                             |      | (3.1)          | (1.4)          |
| Proceeds from/(repayment of) short-term borrowings            |      | (20.8)         | (15.9)         |
| Proceeds from issuance of bonds                               |      | 200.0          | –              |
| Repayment of bonds                                            |      | (116.2)        | –              |
| Increase/(decrease) in liability to shareholder               |      | 0.1            | (0.4)          |
| Dividend paid                                                 | 20   | (243.3)        | (205.3)        |
| <b>Cash flow from financing activities</b>                    |      | <b>(178.7)</b> | <b>(221.2)</b> |
| Exchange differences                                          |      | 7.5            | 2.1            |
| <b>Total increase/(decrease) in cash and cash equivalents</b> |      | <b>26.4</b>    | <b>67.6</b>    |
| Cash and cash equivalents at January 1                        |      | 1,113.8        | 1,046.2        |
| <b>Cash and cash equivalents at December 31</b>               |      | <b>1,140.2</b> | <b>1,113.8</b> |
| <b>Cash flow from operating activities includes</b>           |      |                |                |
| Interest received                                             |      | 4.0            | 3.9            |
| Interest paid                                                 |      | (29.3)         | (27.4)         |
| Income tax paid                                               |      | (89.3)         | (66.4)         |

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

## NET DEBT RECONCILIATION

| in CHF million                                     | January 1,<br>2017 | Cash flow   | Non-cash changes                            |                         |                              | December<br>31, 2017 |
|----------------------------------------------------|--------------------|-------------|---------------------------------------------|-------------------------|------------------------------|----------------------|
|                                                    |                    |             | Change in<br>scope of<br>consolida-<br>tion | Exchange<br>differences | Other<br>non-cash<br>changes |                      |
| Bonds payable                                      | 359.5              | 83.8        | –                                           | 3.0                     | (0.2)                        | 446.1                |
| Long-term bank loans                               | 28.4               | –           | –                                           | 2.5                     | –                            | 30.9                 |
| Financial leasing liabilities                      | 1.2                | 0.2         | 0.1                                         | –                       | 0.1                          | 1.6                  |
| Other long-term loans                              | 4.5                | 1.3         | –                                           | (0.5)                   | 17.0                         | 22.3                 |
| Short-term bank debts                              | 86.0               | (20.8)      | 52.2                                        | 0.4                     | (0.1)                        | 117.7                |
| <b>Total liabilities from financing activities</b> | <b>479.6</b>       | <b>64.5</b> | <b>52.3</b>                                 | <b>5.4</b>              | <b>16.8</b>                  | <b>618.6</b>         |

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

|                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>(1) General information</b>                            | <p>The Hilti Group (the Group) comprises the Hilti Corporation and its domestic and foreign subsidiaries. The Group supplies the worldwide construction industry with technologically leading products, systems and services that provide construction professionals with innovative solutions and superior added value. Its product range includes equipment and systems covering drilling and demolition, direct fastening, diamond and anchoring, fire stop and foam, installation, measuring, screw fastening, and cutting and sanding.</p> <p>The Hilti Corporation is a limited liability company incorporated and domiciled in the Principality of Liechtenstein. The Group's headquarters and the address of its registered office are at Feldkircherstrasse 100, 9494 Schaan, Liechtenstein. The Group's principal production and research and development location is Liechtenstein with further production and research and development locations worldwide. The Group operates in over 120 countries and has over 26,000 employees worldwide.</p> <p>These consolidated financial statements were approved for issue by the Board of Directors on March 14, 2018.</p> |
| <b>(2) Summary of significant accounting policies</b>     | <p>The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>(2.1) Basis of preparation</b>                         | <p>These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Preparation of the financial statements in accordance with IFRS meets the requirements of Liechtenstein's corporations law, the 'Personen- und Gesellschaftsrecht (PGR)'.</p> <p>The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.</p> <p>The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The accounting estimates and judgments reflected in the 2017 consolidated financial statements that are critical in the context of the Group's financial position and financial performance are explained in note (3).</p>                                                                                                        |
| <b>(2.2) Changes in accounting policies and estimates</b> | <p>There have been no significant changes in accounting policies or estimates during the year.</p> <p>With effect from January 1, 2017, the following new IFRS standards/amendments were applied:</p> <ul style="list-style-type: none"> <li>• IAS 7 Statement of Cash Flows (Amendments) and</li> <li>• IAS 12 Income Taxes (Amendments).</li> </ul> <p>The application of these standards had no material impact on the Group's financial position, comprehensive income and cash flows.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

**(2.3) Method of consolidation****Subsidiaries**

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date when control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

The excess of the consideration transferred for the amount of any non-controlling interest in the acquiree and the fair value at the acquisition date of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Intercompany transactions, balances and unrealized gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries are changed, where necessary, to ensure consistency with the policies adopted by the Group.

**Disposal of subsidiaries**

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount being recognized in 'other revenues and expenses (net)' in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in 'other comprehensive income (OCI)' in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in OCI are reclassified to 'other revenues and expenses (net)' in profit or loss.

**Associates**

Associates are all entities over which the Group has significant influence but not control, generally representing a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

**Joint operations**

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

The Group only has joint operations and as a joint operator accounts for the assets, liabilities, revenues and expenses in relation to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

**(2.4) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Board (EB) that makes strategic decisions. With the Group's Multi-Channel-Service (MCS) approach, all products and services are relevant for all customers and the EB steers the business on Group level as one unit. In accordance with IFRS 8 Operating Segments the Group therefore operates in only one single operating segment. The single operating segment disclosure is accordingly set out in the balance sheet, income statement, statement of comprehensive income, statement of changes in equity and the cash flow statement. Breakdown of the segment information in terms of products, services and geographical areas is provided in note (37).

**(2.5) Foreign currency translation****Functional and presentation currency**

Items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Swiss francs, which is the functional and presentation currency of the Hilti Corporation.

**Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, excluding long-term intercompany accounts receivables and payables, are recognized in the income statement. Foreign exchange gains and losses relating to long-term intercompany foreign currency loans are regarded as part of the net investment in the foreign entity and are recognized in OCI.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in OCI.

**Translation on consolidation**

The results and financial position of all the Group's companies that have a functional currency different from the Group's presentation currency are translated on consolidation into the Group's presentation currency as follows:

- assets and liabilities at the closing spot exchange rates at the balance sheet date (closing rate) and
- income and expense items at year-to-date sales-weighted average exchange rates (average rate) (to provide a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates).

Gains and losses arising from the translation of the financial statements of foreign operations are recognized in OCI.

On the foreign operation's disposal, applicable exchange differences are reclassified to the income statement and recognized as part of the gain or loss on disposal. When a foreign operation is acquired, any applicable goodwill and fair value adjustments are treated as assets and liabilities of the foreign entity and are translated at the closing rate.



The following exchange rates of principal currencies were applied for translation into Swiss francs:

| in CHF  | Average rates |       | Closing rates |       |
|---------|---------------|-------|---------------|-------|
|         | 2017          | 2016  | 2017          | 2016  |
| 1 CAD   | 0.759         | 0.744 | 0.778         | 0.757 |
| 1 EUR   | 1.112         | 1.090 | 1.170         | 1.074 |
| 1 GBP   | 1.269         | 1.335 | 1.319         | 1.254 |
| 100 JPY | 0.878         | 0.909 | 0.867         | 0.870 |
| 100 RUB | 1.684         | 1.482 | 1.686         | 1.670 |
| 1 USD   | 0.984         | 0.985 | 0.976         | 1.019 |

## (2.6) Intangible assets

Goodwill is considered to have an indefinite useful life and is accordingly not amortized. Goodwill is tested annually for impairment and recognized at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of any goodwill relating to the entity sold.

Development costs are recognized as an asset only when the prerequisite criteria under IAS 38 Intangible Assets are met. In substance, these criteria include the condition that there will be probable future benefits that are directly attributable to the costs. In practice, only costs on certain product development projects that are subjected to a stringent review process, meet this condition. Such assets are normally amortized on a straight-line basis over a five-year period. All other development costs are recognized directly as an expense when incurred.

Other intangible assets consist of database and application software as well as manufacturing patents, which are recognized at historical cost less accumulated amortization and accumulated impairment losses, if any and of customer contracts, patents, trademark and licenses, which were acquired as part of a business combination and initially recognized at fair value at the date of acquisition. They are amortized on a straight-line basis over their estimated useful lives, which are mostly periods of between three and ten years. Other periods may be used where specific contractual conditions apply.

## (2.7) Property, plant and equipment

Land is valued at historical cost less accumulated impairment losses, if any. Other property, plant and equipment are recognized at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Historical cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of tangible fixed assets.

Depreciation is calculated using the straight-line method to allocate the historical costs of assets over their estimated useful lives. The estimated useful lives of depreciable property, plant and equipment are:

|                        |                |
|------------------------|----------------|
| Buildings              | 20 to 40 years |
| Plant and machinery    | 5 to 15 years  |
| Other operating assets | 2 to 7 years   |

|                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|--------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>(2.8) Financial assets</b>                                | <p>For the purpose of identifying accounting policies applied, financial assets are classified into the following categories:</p> <ul style="list-style-type: none"> <li>• financial assets at fair value through profit or loss,</li> <li>• loans and receivables and</li> <li>• available-for-sale financial assets.</li> </ul> <p>The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Financial assets at fair value through profit or loss</b> | <p>This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Loans and receivables</b>                                 | <p>Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in 'trade and other receivables' (see note (2.10)).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Available-for-sale financial assets</b>                   | <p>Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose the investment within 12 months of the balance sheet date.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Accounting policies applied to financial assets</b>       | <p>The accounting policies applied to financial assets are as follows:</p> <p>For all classes of financial assets, purchases and sales are recognized on the trade date (the date on which the Group commits to purchase or sell the asset). Financial assets at fair value through profit or loss are initially recognized at fair value with applicable transaction costs immediately recognized in the income statement. All other financial assets are initially recognized at fair value plus transaction costs. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.</p> <p>Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently recognized at fair value. Loans and receivables and held-to-maturity investments are recognized at amortized cost determined using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognized in the income statement in the period they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale financial assets are recognized in OCI. When these securities are sold or impaired, the accumulated fair value adjustment is reclassified to the income statement and recognized as part of gains and losses from investment securities.</p> <p>Financial assets and liabilities are offset and the net amount reported in the balance sheet, when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.</p> |

The fair values of quoted investments are based on current bid prices. If current bid prices are not available, fair value is determined using other information such as that derived from the market prices of other similar instruments, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss recognized in OCI (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is reclassified to the income statement.

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**(2.9) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the standard cost method with variances capitalized at acquisition and production and recognized in the income statement together with the standard cost of inventory at time of sale. Standard costs are annually reviewed and updated in light of current conditions. Cost determined under this method approximates cost determined under the FIFO method.

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**(2.10) Trade receivables**

Trade receivables (see the loans and receivables category of financial assets in note (2.8) above) are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less an adjustment for impairment. The amount of the adjustment for impairment is based on both an individual assessment according to known circumstances of specific trade receivables and a collective assessment using an aging calculation applied to all trade receivables, excluding those individually assessed, that are 'past due' more than 31 days.

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**(2.11) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

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**(2.12) Borrowings**

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost with any difference between the amount at initial recognition and the redemption value being recognized in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

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**(2.13) Income taxes**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in OCI or directly in equity. In this case, the tax is also recognized in OCI or directly in equity, respectively.

**Current income taxes** The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**Deferred income taxes** Deferred income taxes are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates that have been legally enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint arrangements except where the timing of the reversal of a temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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**(2.14) Employee benefits**

**Pension obligations** Group companies operate various post-employment schemes, including both defined benefit and defined contribution pension plans. These schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic (every one to three years) actuarial valuations.

**Long-service benefits** Some Group companies provide jubilee and other similar long-service benefits. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans.

**Variable compensation** The Group recognizes a liability and an expense for variable compensation based on changes in key financial results, such as sales, operating profit, net income and capital employed as specified in the employment contracts.

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**(2.15) Provisions**

Major types of provisions recognized by the Group include provisions for warranty service costs, restructuring costs, product liability and legal claims. Provisions for restructuring costs mostly comprise expected lease termination penalties and employee termination benefit payments. Where provisions relate to a number of similar obligations, such as provisions for warranty service costs, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is then recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be low.

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**(2.16) Trade and other payables**

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

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**(2.17) Revenue recognition** Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, the revenue can be reliably measured and the payment is reasonably assured. Revenue from services rendered is recognized by reference to the stage of completion of the transaction at the balance sheet date. Revenue from sales of goods under finance leases is recognized in the periods the leases commence and the applicable interest income is recognized on an actuarial basis over the lease term. All revenues from sales of goods and services rendered are recognized at normal selling price less applicable trade discounts and rebates. Revenue from operating leases is recognized on a straight-line basis over the lease term.

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**(2.18) Dividend distributions** Dividend distributions to the Hilti Corporation's shareholders are recognized as liabilities in the Group's financial statements in the periods in which the dividends are approved by the Corporation's shareholders.

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**(2.19) Financial risk management** The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Corporate Treasury) under policies approved by the Board of Directors. Corporate Treasury identifies, evaluates and hedges certain financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as the use of derivative and non-derivative financial instruments, managing market risk, credit risk and investing excess liquidity.

#### **Market risk**

##### **Currency risk**

The Group operates globally and is exposed to risk arising from various currency exposures. Currency risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Currency risk arising from future operating transactions (sales and purchases of goods and services) and recognized assets and liabilities is managed by Corporate Treasury using hedging instruments, primarily forward contracts. Corporate Treasury's general risk management practice is to hedge between 50% and 100% of the Group's anticipated net cash inflows or outflows in each major foreign currency for the subsequent 12 months. For hedge accounting purposes, forward contracts are designated against the relevant amounts of projected intercompany sales by the parent company and 100% (2016: 100%) of projected sales qualify as 'highly probable' forecast transactions.

Currency risks arising from net investments in foreign operations are only hedged in exceptional cases.

Currency exposures arising from open balances with third parties and/or Group companies in trade and other receivables, trade and other payables, and bonds are reduced through the natural hedging (currency matching) of these items as well as managed using hedging instruments. Currency exposures arising from cash and cash equivalents are reduced by limiting non-Swiss franc denominated investments to the main currencies of the operative business of the Group and by limiting the proportions of investments in these currencies.



At December 31, if the Swiss franc had strengthened/weakened by 10% against the US dollar, euro and all other currencies with all other variables held constant, net income for the year would have been affected as follows:

| in CHF million       | Swiss franc strengthened (+10%) |       | Swiss franc weakened (-10%) |       |
|----------------------|---------------------------------|-------|-----------------------------|-------|
|                      | 2017                            | 2016  | 2017                        | 2016  |
| USD                  | (4.7)                           | (1.8) | 4.7                         | 1.8   |
| EUR                  | 0.3                             | 1.4   | (0.3)                       | (1.4) |
| All other currencies | (5.1)                           | (3.2) | 5.1                         | 3.2   |

These effects result from the translation of monetary asset and liability positions held in foreign currencies and from derivative contracts to hedge these foreign currency risks and do not include any effects of foreign currency transactions during the year.

At December 31, if the Swiss franc had strengthened/weakened by 10% against the US dollar, euro and all other currencies with all other variables held constant, OCI would have been affected as follows:

| in CHF million       | Swiss franc strengthened (+10%) |      | Swiss franc weakened (-10%) |       |
|----------------------|---------------------------------|------|-----------------------------|-------|
|                      | 2017                            | 2016 | 2017                        | 2016  |
| USD                  | 1.5                             | 2.3  | (1.5)                       | (2.3) |
| EUR                  | -                               | -    | -                           | -     |
| All other currencies | 6.2                             | 6.4  | (6.2)                       | (6.4) |

These effects result from changes in the values (due to the respective Swiss franc movements) of CHF derivative contracts held to hedge foreign currency risk.

### Interest rate risk

The Group has investments in interest-bearing assets, mainly deposits and long-term borrowings, mostly consisting of bonds the Group itself has issued. Interest-bearing assets and borrowings subject to variable rates or held for trading expose the Group to cash flow interest rate risk. Interest-bearing assets and borrowings subject to fixed rates and not held for trading expose the Group to fair value interest rate risk.

Virtually all the Group's interest-bearing assets are subject to variable rates or are reported at fair value through profit or loss because they are held for trading. All the Group's bond liabilities are reported at amortized cost. The interest-bearing assets are denominated primarily in Swiss franc and euro investments and the bond liabilities are effectively denominated in a combination of Swiss franc and euro. Interest rate risk arising from long-term financing (banking and capital market) liabilities is managed by Corporate Treasury by using hedging instruments, primarily interest rate swaps. Corporate Treasury's general risk management practice is to hedge between 40% and 60% of the Group's relevant interest exposure.

Based on December 31 levels of borrowings subject to variable rates and interest-bearing assets subject to variable rates or held for trading, an increase/decrease of one hundred basis points would have affected net income as follows:

| in CHF million | Increase of hundred basis points |      | Decrease of hundred basis points |       |
|----------------|----------------------------------|------|----------------------------------|-------|
|                | 2017                             | 2016 | 2017                             | 2016  |
| All currencies | 8.1                              | 8.3  | (8.1)                            | (8.3) |

Separate simulations of the impact of interest rate changes on each of the Swiss franc, euro and US dollar investment holdings have not been completed since an increase/decrease of one hundred basis points is considered reasonably possible for each of the three currencies.

Due to interest rate derivatives, OCI would have been impacted as follows:

| in CHF million | Increase of hundred basis points |       | Decrease of hundred basis points |      |
|----------------|----------------------------------|-------|----------------------------------|------|
|                | 2017                             | 2016  | 2017                             | 2016 |
| CHF            | (5.8)                            | (7.2) | 5.8                              | 7.2  |

#### Credit risk

Credit risk is managed on a Group basis. Virtually all credit risk arises from cash and cash equivalents (which primarily consist of demand deposits with first-class financial institutions) and from trade receivables (which represent credit exposures to customers).

The Group has significant concentrations of credit risk arising from its investments in cash and cash equivalents. These concentrations relate to demand deposits with banking institutions. For all major counterparty banking institutions a minimum credit rating of 'A' is required. The Group regularly reviews the counterparties' creditworthiness based on the ratings issued by Standard & Poor's. Management does not expect any losses from non-performance by these counterparties.

For trade receivables, the Group has policies in place to ensure that credit sales of products are made to customers with appropriate credit histories. In addition, an active credit management focus is maintained in all the Group's market organizations to ensure that the impact of credit risk is minimized. Details of the impairment estimates of trade receivables are given in note (14). The Group has no significant concentrations of corresponding credit risk with trade receivables.

#### Liquidity risk

Cash flow forecasting is performed in the operating companies of the Group and aggregated by Corporate Treasury. Corporate Treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn established borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements – for example currency restrictions.

Surplus cash held by the operating companies over and above the balance required for working capital management is transferred to Corporate Treasury. Corporate Treasury deposits surplus cash in current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the Group held liquid funds of CHF 1,140.2 million (2016: CHF 1,113.8 million) that they are expected to preserve capital while managing liquidity risk.

The table below analyzes the Group's non-derivative financial liabilities into relevant maturity groupings based on the periods from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including future interest payments:

| in CHF million | Less than 1<br>year | Between 1<br>and 2 years | Between 2<br>and 5 years | Over 5 years |
|----------------|---------------------|--------------------------|--------------------------|--------------|
|----------------|---------------------|--------------------------|--------------------------|--------------|

**At December 31, 2017**

|                           |       |      |      |       |
|---------------------------|-------|------|------|-------|
| Borrowings                | 234.0 | 59.0 | 17.6 | 304.3 |
| Finance lease liabilities | 0.1   | 0.8  | 0.5  | –     |
| Trade and other payables  | 479.0 | 8.1  | 26.5 | 4.7   |

| in CHF million | Less than 1<br>year | Between 1<br>and 2 years | Between 2<br>and 5 years | Over 5 years |
|----------------|---------------------|--------------------------|--------------------------|--------------|
|----------------|---------------------|--------------------------|--------------------------|--------------|

**At December 31, 2016**

|                           |       |       |      |       |
|---------------------------|-------|-------|------|-------|
| Borrowings                | 209.4 | 122.9 | 58.6 | 103.8 |
| Finance lease liabilities | 0.1   | 0.5   | 0.6  | –     |
| Trade and other payables  | 377.2 | 3.6   | 4.7  | 12.5  |

Most of the non-trading Group's gross or net settled derivative financial instruments are in hedge relationships and are due to be settled gross or net within 12 months of the balance sheet date. These contracts require undiscounted contractual cash inflows of CHF 714.8 million (2016: CHF 560.8 million) and undiscounted contractual cash outflows of CHF 728.1 million (2016: CHF 577.1 million). All of the non-trading Group's derivative financial instruments are in hedge relationships and are disclosed in note (16).

**(2.20) Capital structure risk management**

The Group's primary objective when managing capital is to add sustainable value for investors while ensuring the independence of the Group. In order to maintain or adjust the capital structure, the Group maintains a flexible dividend policy within the limits of its overall finance policies.

The Group monitors capital on the basis of the equity ratio measured as equity in percentage of total equity and liabilities. The Group views a high equity ratio as the basis for ensuring security, capability of taking risk, independence, flexibility and creditworthiness. The Group's objective is to maintain a sufficiently high equity ratio primarily to ensure independence from the influence of external creditors as well as to maintain a high external credit rating to help minimize the cost of debt if and when further debt is issued.

The Group's policy is to maintain a minimum equity ratio of 50% on a mid-term basis. Following is equity ratio information at the balance sheet date:

| in CHF million                                        | 2017         | 2016         |
|-------------------------------------------------------|--------------|--------------|
| Total equity                                          | 2,932.0      | 2,512.2      |
| Total equity and liabilities                          | 5,452.6      | 4,714.2      |
| <b>Total equity in % Total equity and liabilities</b> | <b>53.8%</b> | <b>53.3%</b> |

Based on the Group's credit profile and outlook as assessed by the Credit Suisse Banking Group during 2017 on the basis of the Group's 2016 Financial Report a credit rating of 'High A stable' was assigned (2016: 'High A stable') (see Credit Suisse: Swiss Corporate Credit Handbook September 2017).

**(2.21) Fair value estimation**

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value:

| in CHF million                                         | Level 1 | Level 2 | Level 3 | Total       |
|--------------------------------------------------------|---------|---------|---------|-------------|
| <b>At December 31, 2017</b>                            |         |         |         |             |
| <b>Assets</b>                                          |         |         |         |             |
| Financial assets at fair value through profit and loss | 25.0    | –       | –       | <b>25.0</b> |
| Derivatives used for hedging                           | –       | 11.3    | –       | <b>11.3</b> |
| <b>Liabilities</b>                                     |         |         |         |             |
| Derivatives used for hedging                           | –       | 7.7     | –       | <b>7.7</b>  |

| in CHF million                                         | Level 1 | Level 2 | Level 3 | Total       |
|--------------------------------------------------------|---------|---------|---------|-------------|
| <b>At December 31, 2016</b>                            |         |         |         |             |
| <b>Assets</b>                                          |         |         |         |             |
| Financial assets at fair value through profit and loss | 23.5    | –       | –       | <b>23.5</b> |
| Derivatives used for hedging                           | –       | 12.9    | –       | <b>12.9</b> |
| <b>Liabilities</b>                                     |         |         |         |             |
| Derivatives used for hedging                           | –       | 11.2    | –       | <b>11.2</b> |

There were no transfers between levels 1 and 2 during the year.

**(2.22) Accounting for derivative financial instruments and hedging activities**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as one of:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges);
- hedges of highly probable forecast transactions (cash flow hedges) and
- hedges of net investments in foreign operations (net investment hedges).

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and at each external reporting date, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note (16).

**(3) Critical accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**(3.1) Trade receivables**

Losses on trade receivables are recognized when they are incurred, which requires management's best estimate of probable losses. Such estimates require consideration of historical loss experience, adjusted for current conditions, and judgments about the probable effects of relevant observable data, including financial health of specific customers and market sectors or collateral values. Detailed information concerning trade receivables is given in note (14).

**(3.2) Inventories**

Write-downs of inventories are recognized for particular items when net realizable value falls below cost. The determination of net realizable value is made using a valuation process based on the aging of items with aging parameters set based on estimates of historical loss experience. This process assumes a linear realizable value reduction based on age which might not always be reflective of market behavior. Detailed information concerning inventories is given in note (13).

**(3.3) Impairment of intangible assets; property, plant and equipment; and investment property**

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Other intangible assets; property, plant and equipment; and investment property are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows (cash-generating units).

**(3.4) Employee benefits**

The status of various defined benefit plans depends on long-term actuarial assumptions that may differ from actual future developments. The calculation of the discount rate, future increases in salaries/wages and pensions, and mortality are important assumptions in actuarial valuations. Detailed information concerning the defined benefit plans is given in note (22).

**(3.5) Income taxes**

The measurement of current and deferred income tax liabilities or assets is dependent on the interpretation of income tax laws and regulations in the respective countries. Additionally, in tax audits the judgment made by management and tax consultants is finally checked and adapted. As a consequence deviations between the initial assumptions and the final determination of income taxes may lead to material changes to current or deferred income tax expense of the period in which income tax is definite. Furthermore, the recognition of deferred tax assets on tax loss carryforwards depends on the probability of future taxable profits of Group companies. Several internal and external factors are used in the estimation of such future profits. Detailed information concerning income taxes is given in notes (11) and (36).

**(3.6) Other critical accounting estimates and judgments**

In the ordinary course of business, the company is or may be involved in lawsuits, claims, investigations and proceedings, including product liability, commercial, environmental, health and safety matters, etc. The company is currently not aware of any such matter that either individually or in the aggregate could likely have a material adverse effect on the company's future financial position or results of operations.

**(4) Early adoption of IFRS requirements**

During 2017, the Group has not early adopted the requirements of the following IFRS standards, which at December 31, 2017, have been issued but are not effective for the 2017 Group Financial Statements. The Group intends to adopt these standards, if applicable, when they become effective.

| Standard/<br>Amendment to<br>Standard                                                                          | Effective date                | Content                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Importance for the Group                                                                                                                                                                                                       |
|----------------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| IFRS 15 Revenue from Contracts with Customers                                                                  | January 1, 2018               | This is the converged standard on revenue recognition. It replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue by using a five-step model. Revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.                                                                                                                                                                           | The expected impact of IFRS 15 on equity as of January 1, 2017, is CHF -19.1 million, on net income 2017 CHF -4.2 million and on net sales 2017 CHF -16.4 million.                                                             |
| IFRS 9 Financial Instruments                                                                                   | January 1, 2018               | The final version of IFRS 9 Financial Instruments replaces IAS 39. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss (P&L). For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated at fair value through profit or loss. | Based on the assessments undertaken to date, the group expects a small increase in the impairment adjustment for trade receivables by approximately 5% in relation to the current impairment adjustment for trade receivables. |
| IFRS 16 Leases                                                                                                 | January 1, 2019               | IFRS 16 will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases for lessees has been removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay lease payments are recognized. Short-term and low-value leases may be exempted.                                                                                                                                                                                                                                                                                                  | The Group is currently assessing the impact of IFRS 16. A significant impact on the balance sheet and the cash flow statement is expected.                                                                                     |
| IFRS 17 Insurance Contracts                                                                                    | January 1, 2021               | IFRS 17 defines clear and consistent rules that will increase the comparability of financial statements of insurers. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows and the contractual service margin.                                                                                                                                                                                                                                                                                                                                               | The Group is currently assessing the impact of IFRS 17.                                                                                                                                                                        |
| IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (Amendments) | Date to be determined by IASB | These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | No significant impact is expected.                                                                                                                                                                                             |



**(5) Business combinations and transactions with non-controlling interests****(5.1) Business combinations**

On August 23, 2017, Hilti AG acquired 100% of the share capital of Oplaend System Group, a leading manufacturer of cable management solutions and multidiscipline support systems headquartered in Kleppe, Norway, with a headcount of 400 in 15 subsidiaries around the world. The acquisition further strengthens Hilti's position and differentiation in the offshore market. The acquired business contributed revenues of CHF 38.0 million and a net loss of CHF 4.6 million to the Group for the period from August 23, 2017 to December 31, 2017. This loss includes negative one-time effects mainly due to the market valuation of inventory for the opening balance sheet. If the acquisition had occurred on January 1, 2017, Group revenue would have increased by further CHF 107.4 million and net income would have been increased by CHF 6.9 million.

Details of net assets acquired are as follows:

| in CHF million                      | 2017         |
|-------------------------------------|--------------|
| <b>Purchase consideration</b>       |              |
| Cash paid                           | 154.5        |
| Loan agreement with sellers         | 19.0         |
| <b>Total purchase consideration</b> | <b>173.5</b> |

The instruments for hedging the foreign exchange risks were released on the closing and reflected in the acquisition price.

|                                                                                                                                               |     |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Acquisition-related costs<br>(included in other operating expenses in the consolidated income statement for the year ended December 31, 2017) | 4.9 |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-----|

The assets and liabilities as of August 23, 2017, arising from the acquisition are as follows:

| in CHF million                                     | 2017           |
|----------------------------------------------------|----------------|
| <b>Fair value</b>                                  |                |
| Cash and cash equivalents                          | 27.5           |
| Property, plant and equipment                      | 7.5            |
| Intangible assets                                  | 69.4           |
| Inventories                                        | 34.9           |
| Deferred tax assets                                | 1.4            |
| Trade and other receivables                        | 22.6           |
| Other assets                                       | 6.0            |
| Bank loans                                         | (52.2)         |
| Trade and other payables                           | (18.4)         |
| Other liabilities                                  | (18.0)         |
| Deferred tax liabilities                           | (15.7)         |
| <b>Fair value of net assets</b>                    | <b>65.0</b>    |
| <b>Goodwill</b>                                    | <b>108.5</b>   |
| <b>Total purchase consideration</b>                | <b>173.5</b>   |
| Purchase consideration settled in cash             | (154.5)        |
| Cash and cash equivalents in subsidiaries acquired | 27.5           |
| <b>Cash outflow on acquisition</b>                 | <b>(127.0)</b> |

The goodwill is attributable to the assembled workforce, commercial synergies and access to the offshore market. It will not be deductible for tax purposes. The fair value of acquired trade and other receivables is CHF 22.6 million. The gross contractual amount for trade and other receivables due is CHF 23.8 million, of which CHF 1.2 million is expected to be uncollectible.

**(5.2) Transactions with non-controlling interests**

During 2016 and 2017 there were no transactions with non-controlling interests.

**(6) Financial assets and liabilities**

Financial assets and liabilities listed according to the measurement categories identified under IAS 39 Financial Instruments: Recognition and measurement and the corresponding balance sheet items are as follows:

| in CHF million                                             | Corresponding balance sheet item(s)                                                     | 2017           | 2016           |
|------------------------------------------------------------|-----------------------------------------------------------------------------------------|----------------|----------------|
| <b>Financial assets</b>                                    |                                                                                         |                |                |
| Financial assets at fair value through profit or loss      | Financial assets at fair value through profit or loss, derivative financial instruments | 40.5           | 26.6           |
| Derivatives used for hedging                               | Derivative financial instruments                                                        | 7.3            | 9.8            |
| Loans and receivables                                      | Cash and cash equivalents, other financial investments, trade and other receivables     | 2,963.0        | 2,620.3        |
| <b>Total financial assets</b>                              |                                                                                         | <b>3,010.8</b> | <b>2,656.7</b> |
| <b>Financial liabilities</b>                               |                                                                                         |                |                |
| Financial liabilities at fair value through profit or loss | Derivative financial instruments                                                        | 4.7            | 9.9            |
| Derivatives used for hedging                               | Derivative financial instruments                                                        | 3.0            | 1.3            |
| Financial liabilities measured at amortized cost           | Bonds, long-term bank borrowings, trade and other payables, short-term bank borrowings  | 1,114.4        | 873.1          |
| <b>Total financial liabilities</b>                         |                                                                                         | <b>1,122.1</b> | <b>884.3</b>   |

## (7) Intangible assets

| in CHF million                              | Goodwill     | Develop-<br>ment costs | Other<br>intangible<br>assets | Total          |
|---------------------------------------------|--------------|------------------------|-------------------------------|----------------|
| <b>Cost 2017</b>                            |              |                        |                               |                |
| <b>Opening balance at January 1, 2017</b>   | -            | 751.8                  | 125.8                         | 877.6          |
| Change in scope of consolidation            | 108.5        | 0.6                    | 68.8                          | 177.9          |
| Additions                                   | -            | 144.7                  | 12.7                          | 157.4          |
| Disposals                                   | -            | (19.0)                 | (2.1)                         | (21.1)         |
| Transfer                                    | -            | -                      | -                             | -              |
| Currency translation adjustment             | (2.9)        | -                      | (0.7)                         | (3.6)          |
| <b>Closing balance at December 31, 2017</b> | <b>105.6</b> | <b>878.1</b>           | <b>204.5</b>                  | <b>1,188.2</b> |
| <b>Accumulated amortization 2017</b>        |              |                        |                               |                |
| <b>Opening balance at January 1, 2017</b>   | -            | (297.1)                | (108.8)                       | (405.9)        |
| Change in scope of consolidation            | -            | -                      | -                             | -              |
| Additions                                   | -            | (59.6)                 | (8.7)                         | (68.3)         |
| Impairment losses                           | -            | (0.3)                  | -                             | (0.3)          |
| Disposals                                   | -            | 17.1                   | 2.1                           | 19.2           |
| Currency translation adjustment             | -            | -                      | (0.9)                         | (0.9)          |
| <b>Closing balance at December 31, 2017</b> | <b>-</b>     | <b>(339.9)</b>         | <b>(116.3)</b>                | <b>(456.2)</b> |
| <b>Net book values at December 31, 2017</b> | <b>105.6</b> | <b>538.2</b>           | <b>88.2</b>                   | <b>732.0</b>   |

| in CHF million                              | Goodwill | Develop-<br>ment costs | Other<br>intangible<br>assets | Total          |
|---------------------------------------------|----------|------------------------|-------------------------------|----------------|
| <b>Cost 2016</b>                            |          |                        |                               |                |
| <b>Opening balance at January 1, 2016</b>   | 94.2     | 675.0                  | 164.2                         | 933.4          |
| Change in scope of consolidation            | (91.5)   | -                      | (43.2)                        | (134.7)        |
| Additions                                   | -        | 138.5                  | 10.3                          | 148.8          |
| Disposals                                   | -        | (61.5)                 | (4.6)                         | (66.1)         |
| Transfer                                    | -        | (0.2)                  | 0.2                           | -              |
| Currency translation adjustment             | (2.7)    | -                      | (1.1)                         | (3.8)          |
| <b>Closing balance at December 31, 2016</b> | <b>-</b> | <b>751.8</b>           | <b>125.8</b>                  | <b>877.6</b>   |
| <b>Accumulated amortization 2016</b>        |          |                        |                               |                |
| <b>Opening balance at January 1, 2016</b>   | (77.8)   | (305.5)                | (139.6)                       | (522.9)        |
| Change in scope of consolidation            | 75.4     | -                      | 32.4                          | 107.8          |
| Additions                                   | -        | (51.0)                 | (6.2)                         | (57.2)         |
| Impairment losses                           | -        | (2.1)                  | -                             | (2.1)          |
| Disposals                                   | -        | 61.5                   | 4.0                           | 65.5           |
| Currency translation adjustment             | 2.4      | -                      | 0.6                           | 3.0            |
| <b>Closing balance at December 31, 2016</b> | <b>-</b> | <b>(297.1)</b>         | <b>(108.8)</b>                | <b>(405.9)</b> |
| <b>Net book values at December 31, 2016</b> | <b>-</b> | <b>454.7</b>           | <b>17.0</b>                   | <b>471.7</b>   |

Of intangible assets, only development costs are internally generated, all other intangible assets are acquired. Other intangible assets consist mainly of patents, brands, customer lists and database/application software licenses. Additions to accumulated amortization and impairment losses are included in depreciation and amortization (see note (32)).

As a result of the acquisition of the Oglaend Group intangible assets increased by CHF 177.9 million of which CHF 108.5 million was related to goodwill (see note (5)).

**(8) Property, plant and equipment**

| in CHF million                              | Land and buildings | Plant and machinery | Other operating assets | Assets under construction | Total            |
|---------------------------------------------|--------------------|---------------------|------------------------|---------------------------|------------------|
| <b>Cost 2017</b>                            |                    |                     |                        |                           |                  |
| <b>Opening balance at January 1, 2017</b>   | <b>820.4</b>       | <b>795.7</b>        | <b>539.4</b>           | <b>30.4</b>               | <b>2,185.9</b>   |
| Change in scope of consolidation            | –                  | 4.8                 | 2.4                    | 0.3                       | 7.5              |
| Additions                                   | 12.7               | 26.0                | 53.7                   | 39.2                      | 131.6            |
| Disposals                                   | (17.6)             | (41.2)              | (40.0)                 | –                         | (98.8)           |
| Other transfers                             | 5.0                | 10.7                | 6.3                    | (18.6)                    | 3.4              |
| Currency translation adjustment             | 30.0               | 30.0                | 19.2                   | 2.0                       | 81.2             |
| <b>Closing balance at December 31, 2017</b> | <b>850.5</b>       | <b>826.0</b>        | <b>581.0</b>           | <b>53.3</b>               | <b>2,310.8</b>   |
| <b>Accumulated depreciation 2017</b>        |                    |                     |                        |                           |                  |
| <b>Opening balance at January 1, 2017</b>   | <b>(332.7)</b>     | <b>(643.7)</b>      | <b>(396.7)</b>         | <b>–</b>                  | <b>(1,373.1)</b> |
| Change in scope of consolidation            | –                  | –                   | –                      | –                         | –                |
| Additions                                   | (22.0)             | (38.1)              | (44.8)                 | –                         | (104.9)          |
| Impairment losses                           | –                  | –                   | –                      | –                         | –                |
| Disposals                                   | 12.4               | 40.2                | 37.7                   | –                         | 90.3             |
| Other transfers                             | –                  | (3.7)               | 0.3                    | –                         | (3.4)            |
| Currency translation adjustment             | (13.9)             | (23.6)              | (15.9)                 | –                         | (53.4)           |
| <b>Closing balance at December 31, 2017</b> | <b>(356.2)</b>     | <b>(668.9)</b>      | <b>(419.4)</b>         | <b>–</b>                  | <b>(1,444.5)</b> |
| <b>Net book values at December 31, 2017</b> | <b>494.3</b>       | <b>157.1</b>        | <b>161.6</b>           | <b>53.3</b>               | <b>866.3</b>     |

| in CHF million                              | Land and buildings | Plant and machinery | Other operating assets | Assets under construction | Total            |
|---------------------------------------------|--------------------|---------------------|------------------------|---------------------------|------------------|
| <b>Cost 2016</b>                            |                    |                     |                        |                           |                  |
| <b>Opening balance at January 1, 2016</b>   | <b>852.0</b>       | <b>782.8</b>        | <b>516.1</b>           | <b>31.4</b>               | <b>2,182.3</b>   |
| Change in scope of consolidation            | –                  | (4.7)               | (3.0)                  | –                         | (7.7)            |
| Additions                                   | 26.9               | 30.3                | 46.8                   | 36.1                      | 140.1            |
| Disposals                                   | (62.1)             | (17.1)              | (36.0)                 | –                         | (115.2)          |
| Other transfers                             | 9.6                | 11.4                | 15.9                   | (36.9)                    | –                |
| Currency translation adjustment             | (6.0)              | (7.0)               | (0.4)                  | (0.2)                     | (13.6)           |
| <b>Closing balance at December 31, 2016</b> | <b>820.4</b>       | <b>795.7</b>        | <b>539.4</b>           | <b>30.4</b>               | <b>2,185.9</b>   |
| <b>Accumulated depreciation 2016</b>        |                    |                     |                        |                           |                  |
| <b>Opening balance at January 1, 2016</b>   | <b>(377.3)</b>     | <b>(629.4)</b>      | <b>(396.6)</b>         | <b>–</b>                  | <b>(1,403.3)</b> |
| Change in scope of consolidation            | –                  | 4.0                 | 2.8                    | –                         | 6.8              |
| Additions                                   | (19.8)             | (36.8)              | (40.4)                 | –                         | (97.0)           |
| Impairment losses                           | –                  | (0.1)               | –                      | –                         | (0.1)            |
| Disposals                                   | 61.6               | 15.2                | 34.7                   | –                         | 111.5            |
| Other transfers                             | –                  | (1.8)               | 1.8                    | –                         | –                |
| Currency translation adjustment             | 2.8                | 5.2                 | 1.0                    | –                         | 9.0              |
| <b>Closing balance at December 31, 2016</b> | <b>(332.7)</b>     | <b>(643.7)</b>      | <b>(396.7)</b>         | <b>–</b>                  | <b>(1,373.1)</b> |
| <b>Net book values at December 31, 2016</b> | <b>487.7</b>       | <b>152.0</b>        | <b>142.7</b>           | <b>30.4</b>               | <b>812.8</b>     |

Other operating assets consist mainly of office equipment, testing instruments, leasehold improvements and vehicles.

Capital expenditure, shown as additions to cost, relates primarily to manufacturing facilities enhancements and extensions of sales organizations. Additions to accumulated depreciation are included in 'depreciation and amortization' (see note (32)).

#### (9) Investment property

The Group has no material investment property.

#### (10) Investments in associates

In 2017, the Group has acquired 37% of the shares of nLink AS and holds 51,355 shares, each with a par value of NOK 10. nLink AS, a robotics company founded in 2012 and based in Sogndal, Norway, has developed a mobile drilling robot whose purpose is to drill holes into concrete ceilings.

**(11) Deferred income taxes**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net book values are as follows:

| in CHF million                                  | 2017        | 2016         |
|-------------------------------------------------|-------------|--------------|
| <b>Recovery of deferred tax balances</b>        |             |              |
| More than 1 year                                | (54.2)      | 7.0          |
| Less than 1 year                                | 97.2        | 103.0        |
| <b>Total</b>                                    | <b>43.0</b> | <b>110.0</b> |
| <b>Components of deferred tax balances</b>      |             |              |
| Inventories                                     | 56.3        | 58.8         |
| Fixed and intangible assets                     | 3.2         | 16.6         |
| Provisions and employee benefits                | 95.9        | 105.8        |
| Receivables                                     | (148.8)     | (114.8)      |
| Tax losses                                      | 9.1         | 12.8         |
| Other                                           | 27.3        | 30.8         |
| <b>Total</b>                                    | <b>43.0</b> | <b>110.0</b> |
| of which recognized as deferred tax assets      | 141.1       | 158.3        |
| of which recognized as deferred tax liabilities | (98.1)      | (48.3)       |

The movements in net deferred tax assets (liabilities) during the reporting period are as follows:

| in CHF million                                      | Inventories | Fixed and<br>intangible<br>assets | Provisions<br>and<br>employee<br>benefits | Receivables    | Tax<br>losses | Other       | <b>Total</b> |
|-----------------------------------------------------|-------------|-----------------------------------|-------------------------------------------|----------------|---------------|-------------|--------------|
| <b>Net deferred income tax assets/(liabilities)</b> |             |                                   |                                           |                |               |             |              |
| <b>Opening balance at January 1, 2017</b>           | <b>58.8</b> | <b>16.6</b>                       | <b>105.8</b>                              | <b>(114.8)</b> | <b>12.8</b>   | <b>30.8</b> | <b>110.0</b> |
| Changes in scope of consolidation                   | 0.2         | (15.7)                            | 0.6                                       | 0.3            | –             | 0.3         | (14.3)       |
| (Charged)/credited to income statement              | (3.1)       | (4.0)                             | 0.4                                       | (22.0)         | (3.8)         | (3.4)       | (35.9)       |
| (Charged)/credited to OCI                           | –           | –                                 | (13.7)                                    | –              | –             | –           | (13.7)       |
| Currency translation adjustment                     | 0.4         | 6.3                               | 2.8                                       | (12.3)         | 0.1           | (0.4)       | (3.1)        |
| <b>Closing balance at December 31, 2017</b>         | <b>56.3</b> | <b>3.2</b>                        | <b>95.9</b>                               | <b>(148.8)</b> | <b>9.1</b>    | <b>27.3</b> | <b>43.0</b>  |
| <b>Opening balance at January 1, 2016</b>           | <b>60.1</b> | <b>18.4</b>                       | <b>98.5</b>                               | <b>(99.4)</b>  | <b>5.4</b>    | <b>30.9</b> | <b>113.9</b> |
| Changes in scope of consolidation                   | –           | 4.4                               | –                                         | –              | –             | (1.6)       | 2.8          |
| (Charged)/credited to income statement              | (2.4)       | (5.6)                             | (0.2)                                     | (16.5)         | 7.1           | 0.9         | (16.7)       |
| (Charged)/credited to OCI                           | –           | –                                 | 8.0                                       | –              | –             | –           | 8.0          |
| Currency translation adjustment                     | 1.1         | (0.6)                             | (0.5)                                     | 1.1            | 0.3           | 0.6         | 2.0          |
| <b>Closing balance at December 31, 2016</b>         | <b>58.8</b> | <b>16.6</b>                       | <b>105.8</b>                              | <b>(114.8)</b> | <b>12.8</b>   | <b>30.8</b> | <b>110.0</b> |



The category inventories includes the tax effects of temporary differences arising on unrealized intercompany profits, as well as those arising on differences between tax and accounting treatment regarding inventory measurements at the legal entity. The category fixed and intangible assets includes the tax effects of temporary differences arising both on intangible assets and property, plant and equipment. The category provisions and employee benefits includes items charged/credited to OCI which are tax effects of temporary differences arising on remeasurements on defined benefit pension plans. The category receivables includes tax effects on temporary differences arising on fleet management sales/receivables due to the different treatment in some tax legislations (operating lease) and IFRS (finance lease), as well as on differences between tax and accounting treatment regarding receivable measurements at the legal entity. The category 'other' mainly includes tax effects on temporary differences arising on accruals and financial instruments.

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. Details are as follows:

| in CHF million                                                | 2017        | 2016         |
|---------------------------------------------------------------|-------------|--------------|
| Tax loss carryforwards recognized in deferred tax             | 46.9        | 53.4         |
| Unused tax loss carryforwards                                 | 34.7        | 77.3         |
| <b>Total tax loss carryforwards</b>                           | <b>81.6</b> | <b>130.7</b> |
| <b>Expiration of unused tax loss carryforwards:</b>           |             |              |
| Expiration < 1 year                                           | 4.5         | 2.4          |
| Expiration > 1 year or no expiration date                     | 30.2        | 74.9         |
| Tax effect of unused tax loss carryforwards                   | 10.4        | 24.2         |
| Unremitted earnings subject to withholding tax or other taxes | 113.0       | 132.6        |

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries totaling CHF 113.0 million (2016: CHF 132.6 million). Such amounts are permanently reinvested.

## (12) Other financial investments

Other financial investments are recognized at fair value through profit and loss. These comprise mainly other investments in equities.

In 2017 the fair value of other financial investments with a maturity < 5 years is CHF 1.7 million (2016: CHF 3.0 million) and > 5 years is CHF 9.8 million (2016: CHF 8.1 million).

## (13) Inventories

| in CHF million           | 2017         | 2016         |
|--------------------------|--------------|--------------|
| Raw materials            | 55.6         | 47.0         |
| Work in progress         | 8.8          | 8.2          |
| Finished goods           | 566.5        | 487.3        |
| <b>Total inventories</b> | <b>630.9</b> | <b>542.5</b> |

The change in inventories includes a currency translation adjustment which increases the inventories by CHF 3.6 million in 2017. This is due to the change in closing rates in 2017 compared to those in 2016.

The allowance made for possible inventory losses due to age and obsolescence totals CHF 45.9 million (2016: CHF 39.9 million). The change in the allowance recognized in the income statement is CHF -5.5 million (2016: CHF -0.9 million). This change is included in the line 'change in inventory'.

Inventories totaling CHF 169.5 million (2016: CHF 0.0 million) serve as security for bank borrowings of CHF 12.7 million (2016: CHF 0.0 million) (see note (28)).

**(14) Trade and other receivables**

| in CHF million                                                                       | 2017           | 2016           |
|--------------------------------------------------------------------------------------|----------------|----------------|
| Trade receivables                                                                    | 1,803.6        | 1,502.1        |
| Less adjustment for impairment of trade receivables                                  | (115.6)        | (105.8)        |
| <b>Trade receivables net</b>                                                         | <b>1,688.0</b> | <b>1,396.3</b> |
| Other receivables                                                                    | 134.8          | 99.2           |
| <b>Total trade and other receivables</b>                                             | <b>1,822.8</b> | <b>1,495.5</b> |
| Current portion                                                                      | 1,243.4        | 1,014.2        |
| Non-current portion                                                                  | 579.4          | 481.3          |
| <b>Total trade and other receivables</b>                                             | <b>1,822.8</b> | <b>1,495.5</b> |
| <b>Maturity of non-current portion</b>                                               |                |                |
| 1 to < 2 years                                                                       | 290.9          | 243.2          |
| 2 to < 3 years                                                                       | 175.8          | 149.8          |
| 3 to < 4 years                                                                       | 80.0           | 63.8           |
| 4 to < 5 years                                                                       | 19.4           | 13.0           |
| >= 5 years                                                                           | 13.3           | 11.5           |
| <b>Total non-current trade and other receivables</b>                                 | <b>579.4</b>   | <b>481.3</b>   |
| <b>Past due aging of gross trade receivables not determined to be impaired</b>       |                |                |
| Past due 1–31 days                                                                   | 108.2          | 97.5           |
| <b>Aging of gross trade receivables individually determined to be impaired</b>       |                |                |
| Not due                                                                              | 2.6            | 3.1            |
| Past due 1–90 days                                                                   | 4.7            | 4.5            |
| Past due 91–180 days                                                                 | 6.6            | 5.8            |
| Past due 181–360 days                                                                | 10.0           | 9.4            |
| Past due > 360 days                                                                  | 49.3           | 41.0           |
| Uncollectible notes                                                                  | 2.6            | 0.6            |
| <b>Total aging of gross trade receivables individually determined to be impaired</b> | <b>75.8</b>    | <b>64.4</b>    |

| in CHF million                                                                              | 2017           | 2016           |
|---------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Movements in the adjustment for the impairment of trade receivables</b>                  |                |                |
| <b>Opening balance of adjustment for the impairment of trade receivables at January 1</b>   | <b>105.8</b>   | <b>100.1</b>   |
| Additional impairment adjustment charged to income statement during year                    | 33.0           | 35.3           |
| Write-offs of trade receivables charged to impairment adjustment account during year        | (23.2)         | (29.6)         |
| <b>Closing balance of adjustment for the impairment of trade receivables at December 31</b> | <b>115.6</b>   | <b>105.8</b>   |
| <b>Currency denominations of the carrying amounts of trade and other receivables</b>        |                |                |
| EUR                                                                                         | 874.1          | 699.8          |
| USD                                                                                         | 218.0          | 191.6          |
| Other                                                                                       | 730.7          | 604.1          |
| <b>Total trade and other receivables</b>                                                    | <b>1,822.8</b> | <b>1,495.5</b> |

The change in trade and other receivables includes a currency translation adjustment which increases the trade and other receivables by CHF 68.9 million in 2017 (2016: decreases by CHF 5.4 million). This is due to the change in closing rates in 2017 compared to those in 2016.

The net change in the adjustment for the impairment of trade receivables is recognized in the income statement in the line 'other operating expenses'.

Receivables totaling CHF 179.9 million (2016: CHF 166.9 million) serve as security for bank borrowings of CHF 77.8 million (2016: CHF 59.8 million) (see notes (24) and (28)).

Other receivables primarily consist of VAT and tax refunds receivables totaling CHF 56.0 million (2016: CHF 38.3 million), deposits totaling CHF 24.9 million (2016: CHF 21.4 million), advances totaling CHF 17.6 million (2016: CHF 7.2 million) and vendors with debit balances totaling CHF 15.9 million (2016: CHF 8.9 million).

Details of the finance lease receivables included in trade receivables are as follows:

| in CHF million                                                    | 2017                          |                         |                             | 2016                          |                         |                             |
|-------------------------------------------------------------------|-------------------------------|-------------------------|-----------------------------|-------------------------------|-------------------------|-----------------------------|
|                                                                   | Gross investment in the lease | Unearned finance income | Net investment in the lease | Gross investment in the lease | Unearned finance income | Net investment in the lease |
| < 1 year                                                          | 510.6                         | 66.1                    | 444.5                       | 399.3                         | 56.8                    | 342.5                       |
| 1 to < 5 years                                                    | 619.4                         | 54.9                    | 564.5                       | 513.0                         | 47.0                    | 466.0                       |
| >= 5 years                                                        | 1.5                           | –                       | 1.5                         | 0.1                           | –                       | 0.1                         |
| <b>Total at December 31</b>                                       | <b>1,131.5</b>                | <b>121.0</b>            | <b>1,010.5</b>              | <b>912.4</b>                  | <b>103.8</b>            | <b>808.6</b>                |
| Accumulated allowance for uncollectible finance lease receivables |                               |                         | (29.3)                      |                               |                         | (24.9)                      |

#### (15) Accrued income and prepayments

Accrued income and prepayments cover mainly prepayments for property, plant and equipment and prepaid operating expenditure to be allocated as expense in the next accounting period.

**(16) Derivative financial instruments****(16.1) Derivative contracts to hedge the foreign currency risks**

The Group enters into derivative contracts to hedge the foreign currency risks arising from forecasted foreign currency sales and purchases transactions and foreign currency investment positions. The applicable derivative contracts are designated as cash flow, fair value and net investment hedges, respectively. The accounting treatment is described in the accounting policies, notes (2.21) and (2.22). Details of derivative contracts outstanding at the balance sheet date are as follows:

| in CHF million                                                                               | USD          | EUR          | Other        | Total        |
|----------------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| <b>2017</b>                                                                                  |              |              |              |              |
| <b>Contract face amounts</b>                                                                 |              |              |              |              |
| Foreign currency forward contracts                                                           | 374.8        | 1.9          | 348.9        | 725.6        |
| <b>Contract values</b>                                                                       |              |              |              |              |
| Foreign currency forward contracts                                                           | 1.7          | (0.1)        | (3.6)        | (2.0)        |
| <b>Recognition of contract values</b>                                                        |              |              |              |              |
| Contract values recognized in income statement during current and prior years                | 0.9          | (0.1)        | (1.9)        | (1.1)        |
| Contract values recognized in the cash flow hedging reserve in equity                        | -            | -            | (1.7)        | (1.7)        |
| Contract values from net investment hedge recognized in foreign currency translation reserve | 0.8          | -            | -            | 0.8          |
| <b>Total</b>                                                                                 | <b>1.7</b>   | <b>(0.1)</b> | <b>(3.6)</b> | <b>(2.0)</b> |
| <b>Movements of contract values recognized in the cash flow hedging reserve in equity</b>    |              |              |              |              |
| <b>Opening balance at January 1</b>                                                          | <b>(0.8)</b> | <b>-</b>     | <b>2.2</b>   | <b>1.4</b>   |
| Gains/(losses) on cash flow hedges taken to equity                                           | -            | -            | (1.7)        | (1.7)        |
| (Gains)/losses on cash flow hedges reclassified from equity to income statement              | 0.8          | -            | (2.2)        | (1.4)        |
| <b>Closing balance at December 31</b>                                                        | <b>-</b>     | <b>-</b>     | <b>(1.7)</b> | <b>(1.7)</b> |
| <b>Movements of contract values recognized in the net investment hedge (CTA)</b>             |              |              |              |              |
| <b>Opening balance at January 1</b>                                                          | <b>(1.5)</b> | <b>-</b>     | <b>-</b>     | <b>(1.5)</b> |
| Gains/(losses) on net investment hedge taken to equity (CTA)                                 | 1.0          | -            | -            | 1.0          |
| <b>Closing balance at December 31</b>                                                        | <b>(0.5)</b> | <b>-</b>     | <b>-</b>     | <b>(0.5)</b> |

| in CHF million                                                                               | USD          | EUR        | Other        | Total        |
|----------------------------------------------------------------------------------------------|--------------|------------|--------------|--------------|
| <b>2016</b>                                                                                  |              |            |              |              |
| <b>Contract face amounts</b>                                                                 |              |            |              |              |
| Foreign currency forward contracts                                                           | 290.8        | 10.7       | 244.9        | 546.4        |
| <b>Contract values</b>                                                                       |              |            |              |              |
| Foreign currency forward contracts                                                           | (9.4)        | 0.1        | 4.0          | (5.3)        |
| <b>Recognition of contract values</b>                                                        |              |            |              |              |
| Contract values recognized in income statement during current and prior years                | (8.9)        | 0.1        | 1.8          | (7.0)        |
| Contract values recognized in the cash flow hedging reserve in equity                        | (0.8)        | –          | 2.2          | 1.4          |
| Contract values from net investment hedge recognized in foreign currency translation reserve | 0.3          | –          | –            | 0.3          |
| <b>Total</b>                                                                                 | <b>(9.4)</b> | <b>0.1</b> | <b>4.0</b>   | <b>(5.3)</b> |
| <b>Movements of contract values recognized in the cash flow hedging reserve in equity</b>    |              |            |              |              |
| <b>Opening balance at January 1</b>                                                          | <b>(0.5)</b> | <b>–</b>   | <b>(1.5)</b> | <b>(2.0)</b> |
| Gains/(losses) on cash flow hedges taken to equity                                           | (0.8)        | –          | 2.2          | 1.4          |
| (Gains)/losses on cash flow hedges reclassified from equity to income statement              | 0.5          | –          | 1.5          | 2.0          |
| <b>Closing balance at December 31</b>                                                        | <b>(0.8)</b> | <b>–</b>   | <b>2.2</b>   | <b>1.4</b>   |
| <b>Movements of contract values recognized in the net investment hedge (CTA)</b>             |              |            |              |              |
| <b>Opening balance at January 1</b>                                                          | <b>–</b>     | <b>–</b>   | <b>–</b>     | <b>–</b>     |
| Gains/(losses) on net investment hedge taken to equity (CTA)                                 | (1.5)        | –          | –            | (1.5)        |
| <b>Closing balance at December 31</b>                                                        | <b>(1.5)</b> | <b>–</b>   | <b>–</b>     | <b>(1.5)</b> |

There was no ineffectiveness to be recognized in the income statement.

All contracts have a maturity of less than 12 months.

**(16.2) Derivative contracts to hedge interest rate risks**

The Group enters into derivative contracts to hedge the interest rate risks arising from loans with variable interest rates. The applicable derivative contracts are designated as cash flow hedges. Gains and losses recognized in the cash flow hedging reserve in equity on interest rate swap contracts will be continuously released to the income statement until the repayment of the bank borrowings. The accounting treatment is described in the accounting policies, notes (2.21) and (2.22). Details of the contract outstanding at balance sheet date is as follows:

| in CHF million                                                                            | CHF        | USD      | EUR      | Total      |
|-------------------------------------------------------------------------------------------|------------|----------|----------|------------|
| <b>2017</b>                                                                               |            |          |          |            |
| <b>Outstanding interest rate swaps</b>                                                    |            |          |          |            |
| Contract face amounts                                                                     | 60.0       | -        | -        | 60.0       |
| <b>Recognition of contract values</b>                                                     |            |          |          |            |
| Contract values recognized in the cash flow hedging reserve in equity                     | 5.6        | -        | -        | 5.6        |
| <b>Movements of contract values recognized in the cash flow hedging reserve in equity</b> |            |          |          |            |
| <b>Opening balance at January 1</b>                                                       | <b>7.0</b> | <b>-</b> | <b>-</b> | <b>7.0</b> |
| Gains/(losses) on cash flow hedges taken to equity                                        | 0.1        | -        | -        | 0.1        |
| (Gains)/losses on cash flow hedges reclassified from equity to income statement           | (1.5)      | -        | -        | (1.5)      |
| <b>Closing balance at December 31</b>                                                     | <b>5.6</b> | <b>-</b> | <b>-</b> | <b>5.6</b> |

| in CHF million                                                                            | CHF        | USD      | EUR      | Total      |
|-------------------------------------------------------------------------------------------|------------|----------|----------|------------|
| <b>2016</b>                                                                               |            |          |          |            |
| <b>Outstanding interest rate swaps</b>                                                    |            |          |          |            |
| Contract face amounts                                                                     | 60.0       | -        | -        | 60.0       |
| <b>Recognition of contract values</b>                                                     |            |          |          |            |
| Contract values recognized in the cash flow hedging reserve in equity                     | 7.0        | -        | -        | 7.0        |
| <b>Movements of contract values recognized in the cash flow hedging reserve in equity</b> |            |          |          |            |
| <b>Opening balance at January 1</b>                                                       | <b>7.2</b> | <b>-</b> | <b>-</b> | <b>7.2</b> |
| Gains/(losses) on cash flow hedges taken to equity                                        | 1.3        | -        | -        | 1.3        |
| (Gains)/losses on cash flow hedges reclassified from equity to income statement           | (1.5)      | -        | -        | (1.5)      |
| <b>Closing balance at December 31</b>                                                     | <b>7.0</b> | <b>-</b> | <b>-</b> | <b>7.0</b> |

The fixed interest rate is 1.9% (2016: 1.9%) and the floating rate is LIBOR.

**(16.3) Reconciliations**

| in CHF million                                                                   | Foreign<br>currency<br>risks | Interest<br>rate risks | Total        |
|----------------------------------------------------------------------------------|------------------------------|------------------------|--------------|
| <b>2017</b>                                                                      |                              |                        |              |
| Current assets                                                                   | 5.7                          | –                      | 5.7          |
| Non-current assets                                                               | –                            | 5.6                    | 5.6          |
| Current liabilities                                                              | (7.7)                        | –                      | (7.7)        |
| Non-current liabilities                                                          | –                            | –                      | –            |
| <b>Total net book value derivative financial instruments at December 31</b>      | <b>(2.0)</b>                 | <b>5.6</b>             | <b>3.6</b>   |
| Cash flow hedging reserve in equity                                              | (1.7)                        | 5.6                    | 3.9          |
| Gains/(losses) on cash flow hedges taken to equity                               | (1.7)                        | 0.1                    | (1.6)        |
| (Gains)/losses on cash flow hedges reclassified from equity to income statement  | (1.4)                        | (1.5)                  | (2.9)        |
| <b>Movements of contract values recognized in the net investment hedge (CTA)</b> |                              |                        |              |
| <b>Opening balance at January 1</b>                                              | <b>(1.5)</b>                 | <b>–</b>               | <b>(1.5)</b> |
| Gains/(losses) on net investment hedge taken to equity (CTA)                     | 1.0                          | –                      | 1.0          |
| <b>Closing balance at December 31</b>                                            | <b>(0.5)</b>                 | <b>–</b>               | <b>(0.5)</b> |

| in CHF million                                                                   | Foreign<br>currency<br>risks | Interest<br>rate risks | Total        |
|----------------------------------------------------------------------------------|------------------------------|------------------------|--------------|
| <b>2016</b>                                                                      |                              |                        |              |
| Current assets                                                                   | 5.9                          | –                      | 5.9          |
| Non-current assets                                                               | –                            | 7.0                    | 7.0          |
| Current liabilities                                                              | (11.2)                       | –                      | (11.2)       |
| Non-current liabilities                                                          | –                            | –                      | –            |
| <b>Total net book value derivative financial instruments at December 31</b>      | <b>(5.3)</b>                 | <b>7.0</b>             | <b>1.7</b>   |
| Cash flow hedging reserve in equity                                              | 1.4                          | 7.0                    | 8.4          |
| Gains/(losses) on cash flow hedges taken to equity                               | 1.4                          | 1.3                    | 2.7          |
| (Gains)/losses on cash flow hedges reclassified from equity to income statement  | 2.0                          | (1.5)                  | 0.5          |
| <b>Movements of contract values recognized in the net investment hedge (CTA)</b> |                              |                        |              |
| <b>Opening balance at January 1</b>                                              | <b>–</b>                     | <b>–</b>               | <b>–</b>     |
| Gains/(losses) on net investment hedge taken to equity (CTA)                     | (1.5)                        | –                      | (1.5)        |
| <b>Closing balance at December 31</b>                                            | <b>(1.5)</b>                 | <b>–</b>               | <b>(1.5)</b> |

The cash flow hedging reserve in equity net of tax amounts to CHF 3.4 million (2016: CHF 7.8 million).

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings of at least A according to Standard & Poor's.



**(17) Financial assets at fair value through profit or loss**

All financial assets at fair value through profit or loss are classified as held for trading. Financial assets under this heading comprise:

- investments in deposits and equities restricted to (1) the funding of losses arising from damages to assets and losses arising from product-related obligations and (2) the funding of a deferred compensation plan for employees and
- other investments in equities.

These financial assets are all classified as current assets because they are expected to be traded within 12 months of the balance sheet date. However, their contractual maturities mostly differ from this position.

**(18) Cash and cash equivalents**

Cash includes cash on hand and demand deposits. The movement in cash and cash equivalents is shown in detail in the cash flow statement.

The Group has legal or economic restrictions on CHF 7.4 million (2016: CHF 5.2 million).

**(19) Assets classified as held for sale**

At the 2017 and 2016 balance sheet dates no assets are classified as held for sale.

**(20) Equity**

As per year ending 2016 and 2017 the share capital consists of 176,000 registered shares with a par value of CHF 500 each and the participation capital consists of 774,400 participation certificates with a par value of CHF 50 each. The participation capital has no voting rights.

The extraordinary general meeting held at March 6, 2018 resolved to convert the participation capital of Hilti Corporation into share capital. The 774,400 participation certificates with a par value of CHF 50 each are converted to 77,440 registered shares with a par value of CHF 500 each. The share capital now consists of 253,440 registered shares with a par value of CHF 500 each. The total capital has not changed and continues to amount to CHF 126.7 million. All the capital is fully paid in and is entitled to dividends.

The capital reserve contains the share premium from capital increases and capital accruing from merges in previous years.

A dividend in respect of the year ended December 31, 2017, of CHF 1,040 per share, amounting to a total of CHF 263.6 million (financial year 2016: CHF 243.3 million), is to be proposed at the annual general meeting. This future proposed dividend is not recognized in these financial statements.

The disaggregation of changes of OCI by each type of reserve in equity is shown below:

| in CHF million                                                                                | Foreign<br>currency<br>translation<br>reserve | Cash flow<br>hedging<br>reserve | Retained<br>earnings | Non-<br>controlling<br>interests | Total        |
|-----------------------------------------------------------------------------------------------|-----------------------------------------------|---------------------------------|----------------------|----------------------------------|--------------|
| <b>2017</b>                                                                                   |                                               |                                 |                      |                                  |              |
| Gains/(losses) on cash flow hedges taken to equity                                            | -                                             | (1.6)                           | -                    | -                                | (1.6)        |
| Deferred tax on gains/losses on cash flow hedges taken to equity                              | -                                             | 0.2                             | -                    | -                                | 0.2          |
| (Gains)/losses on cash flow hedges reclassified from equity to income statement               | -                                             | (2.9)                           | -                    | -                                | (2.9)        |
| Deferred tax on gains/losses on cash flow hedges reclassified from equity to income statement | -                                             | 0.4                             | -                    | -                                | 0.4          |
| Foreign currency translation differences                                                      | 55.7                                          | -                               | -                    | (0.2)                            | 55.5         |
| Deferred tax on foreign currency translation differences                                      | (0.5)                                         | -                               | -                    | -                                | (0.5)        |
| <b>Items that may be subsequently reclassified to the income statement</b>                    | <b>55.2</b>                                   | <b>(3.9)</b>                    | <b>-</b>             | <b>(0.2)</b>                     | <b>51.1</b>  |
| Remeasurements on employee benefits                                                           | -                                             | -                               | 96.1                 | -                                | 96.1         |
| Deferred tax on remeasurements on employee benefits                                           | -                                             | -                               | (13.7)               | -                                | (13.7)       |
| <b>Items that will never be reclassified to the income statement</b>                          | <b>-</b>                                      | <b>-</b>                        | <b>82.4</b>          | <b>-</b>                         | <b>82.4</b>  |
| <b>Total other comprehensive income 2017</b>                                                  | <b>55.2</b>                                   | <b>(3.9)</b>                    | <b>82.4</b>          | <b>(0.2)</b>                     | <b>133.5</b> |

| in CHF million                                                                                | Foreign<br>currency<br>translation<br>reserve | Cash flow<br>hedging<br>reserve | Retained<br>earnings | Non-<br>controlling<br>interests | Total         |
|-----------------------------------------------------------------------------------------------|-----------------------------------------------|---------------------------------|----------------------|----------------------------------|---------------|
| <b>2016</b>                                                                                   |                                               |                                 |                      |                                  |               |
| Gains/(losses) on cash flow hedges taken to equity                                            | -                                             | 2.7                             | -                    | -                                | 2.7           |
| Deferred tax on gains/losses on cash flow hedges taken to equity                              | -                                             | (0.3)                           | -                    | -                                | (0.3)         |
| (Gains)/losses on cash flow hedges reclassified from equity to income statement               | -                                             | 0.5                             | -                    | -                                | 0.5           |
| Deferred tax on gains/losses on cash flow hedges reclassified from equity to income statement | -                                             | (0.1)                           | -                    | -                                | (0.1)         |
| Foreign currency translation differences                                                      | (3.1)                                         | -                               | -                    | 0.1                              | (3.0)         |
| Reclassification adjustments relating to disposals of foreign operations                      | 0.2                                           | -                               | -                    | -                                | 0.2           |
| <b>Items that may be subsequently reclassified to the income statement</b>                    | <b>(2.9)</b>                                  | <b>2.8</b>                      | <b>-</b>             | <b>0.1</b>                       | <b>-</b>      |
| Remeasurements on employee benefits                                                           | -                                             | -                               | (43.4)               | -                                | (43.4)        |
| Deferred tax on remeasurements on employee benefits                                           | -                                             | -                               | 8.0                  | -                                | 8.0           |
| <b>Items that will never be reclassified to the income statement</b>                          | <b>-</b>                                      | <b>-</b>                        | <b>(35.4)</b>        | <b>-</b>                         | <b>(35.4)</b> |
| <b>Total other comprehensive income 2016</b>                                                  | <b>(2.9)</b>                                  | <b>2.8</b>                      | <b>(35.4)</b>        | <b>0.1</b>                       | <b>(35.4)</b> |

**(21) Provisions**

| in CHF million                              | Warranty     | Other       | Total        |
|---------------------------------------------|--------------|-------------|--------------|
| <b>Opening balance at January 1, 2017</b>   | <b>112.0</b> | <b>28.5</b> | <b>140.5</b> |
| Change in scope of consolidation            | –            | 0.7         | 0.7          |
| Additions                                   | 95.9         | 11.1        | 107.0        |
| Amounts used                                | (82.0)       | (15.8)      | (97.8)       |
| Unused reversals                            | (5.5)        | (2.4)       | (7.9)        |
| Currency translation adjustment             | 5.9          | 0.2         | 6.1          |
| <b>Closing balance at December 31, 2017</b> | <b>126.3</b> | <b>22.3</b> | <b>148.6</b> |

| in CHF million                              | Warranty     | Other       | Total        |
|---------------------------------------------|--------------|-------------|--------------|
| <b>Opening balance at January 1, 2016</b>   | <b>100.1</b> | <b>23.4</b> | <b>123.5</b> |
| Additions                                   | 89.2         | 14.5        | 103.7        |
| Amounts used                                | (74.8)       | (6.7)       | (81.5)       |
| Unused reversals                            | (2.2)        | (2.6)       | (4.8)        |
| Currency translation adjustment             | (0.3)        | (0.1)       | (0.4)        |
| <b>Closing balance at December 31, 2016</b> | <b>112.0</b> | <b>28.5</b> | <b>140.5</b> |

| in CHF million                          | 2017         | 2016         |
|-----------------------------------------|--------------|--------------|
| Current portion of total provisions     | 78.0         | 70.1         |
| Non-current portion of total provisions | 70.6         | 70.4         |
| <b>Total provisions at December 31</b>  | <b>148.6</b> | <b>140.5</b> |

Warranty provisions cover normal and extended service warranties on sold products. Outlays in respect of such warranties are expected on an ongoing basis. Additions to this provision follow the sales development and the amounts are used with a time lag of around one to two years.

Other provisions are amongst others built up for obligations regarding legal claims, product liability, restructuring and job accidents, which are individually immaterial.

## (22) Employee benefits

Employee benefits creating obligations of the Group to its employees comprise defined benefit plans, other long-term employee benefits and short-term employee benefits. The Group also provides employee benefits through defined contribution plans.

### Defined benefit plans

#### *Swiss pension plan*

The Group's largest defined benefit pension plan is located in Switzerland: It covers employees of the parent company as well as of the Swiss and other Liechtenstein-based Group companies (the 'Swiss pension plan'). The Swiss pension plan accounts for 77.8% (2016: 79.5%) of the Group's total defined benefit obligation and 87.2% (2016: 87.6%) of the Group's plan assets.

The Swiss pension plan is funded through a legally separate trustee-administered pension fund. The pension plan is overseen by a regulator as well as by a state supervisory body. The pension plan's most senior governing body (Board of Trustees) must be composed of equal numbers of employee and employer representatives. The Board of Trustees is responsible for the investment of the assets. When defining the investment strategy, it takes into account the pension fund's objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target asset structure (investment policy). The Board of Trustees delegates the implementation of the investment policy – in accordance with the investment strategy – to an Investment Committee. The cash funding of the plan is designed to ensure that present and future contributions should be sufficient to meet future liabilities. Further on, the Board of Trustees is able to adapt the contributions and benefits. There is a stop-loss insurance which covers the risk from a certain excess amount (e.g. for disability or death).

The Swiss pension plan contains a cash balance benefit formula and is therefore accounted for as a defined benefit plan. Employer and employee contributions are defined in the pension fund rules in terms of an age-related sliding scale of percentages of remuneration. Under Swiss law, the pension fund guarantees the vested benefit amount as confirmed annually to members. Interest may be added to member balances at the discretion of the Board of Trustees (i.e. 2.0% in 2017 and 1.25% in 2016). At retirement date, members have the right to take their retirement benefit as a lump sum, an annuity or part as a lump sum with the remaining balance converted to a fixed annuity at the rates defined in the fund rules. The Board of Trustees may change the conversion rate at their discretion subject to the plan's funded status and the requirements of the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG).

#### *Other defined benefit plans*

The remaining defined benefit plans are located in Austria, Germany, Great Britain, Italy, Taiwan, Korea, Norway, the Philippines, France, and Japan. Only the last two plans listed are still open for new plan participants.

### Other long-term employee benefits

Other long-term employee benefits comprise jubilee and other long-service benefits, a long-term incentive and other long-term employee benefits. The relevant period for the long-term incentive is 2016–2018 with payment to be made in 2019. Historically the level of outflows concerning other long-term employee benefits (excluding the long-term incentive) has been constant each year.

### Short-term employee benefits

Short-term employee benefits such as short-term variable compensation are included in 'accrued liabilities and deferred income' (see note (27)).

### Defined contribution plans

The employer's contribution totals CHF 35.4 million (2016: CHF 31.2 million).

**(22.1) Employee benefit obligations (defined benefit plans and other long-term benefits)**

| in CHF million                                               | 2017           |                |                | 2016           |                |                |
|--------------------------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                                              | Funded         | Unfunded       | Total          | Funded         | Unfunded       | Total          |
| <b>Switzerland</b>                                           |                |                |                |                |                |                |
| Fair value of plan assets                                    | 871.5          | –              | 871.5          | 819.6          | –              | 819.6          |
| Present value of defined benefit obligation                  | (1,111.8)      | –              | (1,111.8)      | (1,142.4)      | –              | (1,142.4)      |
| <b>Net defined benefit (liability)/asset at December 31</b>  | <b>(240.3)</b> | <b>–</b>       | <b>(240.3)</b> | <b>(322.8)</b> | <b>–</b>       | <b>(322.8)</b> |
| <b>Other plans</b>                                           |                |                |                |                |                |                |
| Fair value of plan assets                                    | 128.0          | –              | 128.0          | 115.5          | –              | 115.5          |
| Present value of defined benefit obligation                  | (260.2)        | (57.3)         | (317.5)        | (239.8)        | (55.0)         | (294.8)        |
| <b>Net defined benefit (liability)/asset at December 31</b>  | <b>(132.2)</b> | <b>(57.3)</b>  | <b>(189.5)</b> | <b>(124.3)</b> | <b>(55.0)</b>  | <b>(179.3)</b> |
| <b>Total</b>                                                 |                |                |                |                |                |                |
| Fair value of plan assets                                    | 999.5          | –              | 999.5          | 935.1          | –              | 935.1          |
| Present value of defined benefit obligation                  | (1,372.0)      | (57.3)         | (1,429.3)      | (1,382.2)      | (55.0)         | (1,437.2)      |
| <b>Net defined benefit (liability)/asset at December 31</b>  | <b>(372.5)</b> | <b>(57.3)</b>  | <b>(429.8)</b> | <b>(447.1)</b> | <b>(55.0)</b>  | <b>(502.1)</b> |
| Present value of other employee benefits                     | –              | (129.8)        | (129.8)        | –              | (86.9)         | (86.9)         |
| <b>Total net book value employee benefits at December 31</b> | <b>(372.5)</b> | <b>(187.1)</b> | <b>(559.6)</b> | <b>(447.1)</b> | <b>(141.9)</b> | <b>(589.0)</b> |

| in CHF million                                                | 2017           | 2016           |
|---------------------------------------------------------------|----------------|----------------|
| Current portion of total net book value employee benefits     | (8.7)          | (6.6)          |
| Non-current portion of total net book value employee benefits | (550.9)        | (582.4)        |
| <b>Total net book value employee benefits</b>                 | <b>(559.6)</b> | <b>(589.0)</b> |

**(22.2) Reconciliation of fair value of plan assets**

| in CHF million                                  | 2017         |              |              | 2016         |              |              |
|-------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                                 | Switzerland  | Other plans  | Total        | Switzerland  | Other plans  | Total        |
| <b>Opening balance at January 1</b>             | <b>819.6</b> | <b>115.5</b> | <b>935.1</b> | <b>797.9</b> | <b>123.5</b> | <b>921.4</b> |
| Interest income on plan assets                  | 6.1          | 3.0          | 9.1          | 7.9          | 4.0          | 11.9         |
| Return on plan assets excluding interest income | 37.2         | 4.0          | 41.2         | 16.0         | 1.5          | 17.5         |
| Contributions by employer                       | 23.4         | 4.4          | 27.8         | 22.5         | 5.3          | 27.8         |
| Contributions by plan participants              | 15.2         | 0.1          | 15.3         | 14.9         | 0.1          | 15.0         |
| Benefits paid                                   | (30.0)       | (6.1)        | (36.1)       | (39.6)       | (4.4)        | (44.0)       |
| Settlements                                     | –            | (0.3)        | (0.3)        | –            | (0.1)        | (0.1)        |
| Currency translation adjustment                 | –            | 7.4          | 7.4          | –            | (14.4)       | (14.4)       |
| <b>Closing balance at December 31</b>           | <b>871.5</b> | <b>128.0</b> | <b>999.5</b> | <b>819.6</b> | <b>115.5</b> | <b>935.1</b> |

**(22.3) Reconciliation of present value of defined benefit obligation**

| in CHF million                                 | 2017             |                |                  | 2016             |                |                  |
|------------------------------------------------|------------------|----------------|------------------|------------------|----------------|------------------|
|                                                | Switzerland      | Other plans    | Total            | Switzerland      | Other plans    | Total            |
| <b>Opening balance at January 1</b>            | <b>(1,142.4)</b> | <b>(294.8)</b> | <b>(1,437.2)</b> | <b>(1,120.8)</b> | <b>(267.6)</b> | <b>(1,388.4)</b> |
| Change in scope of consolidation               | –                | (1.2)          | (1.2)            | –                | –              | –                |
| Current service cost                           | (28.5)           | (8.1)          | (36.6)           | (30.9)           | (8.0)          | (38.9)           |
| Interest expense on defined benefit obligation | (8.6)            | (6.5)          | (15.1)           | (11.2)           | (7.4)          | (18.6)           |
| Actuarial gains/(losses)                       | 55.1             | (0.2)          | 54.9             | (21.1)           | (39.8)         | (60.9)           |
| Contributions by plan participants             | (15.2)           | –              | (15.2)           | (14.9)           | –              | (14.9)           |
| Benefits paid                                  | 30.0             | 10.3           | 40.3             | 39.6             | 5.9            | 45.5             |
| Past service cost                              | (2.2)            | 1.1            | (1.1)            | 16.9             | 1.1            | 18.0             |
| Settlements                                    | –                | 0.7            | 0.7              | –                | –              | –                |
| Currency translation adjustment                | –                | (18.8)         | (18.8)           | –                | 21.0           | 21.0             |
| <b>Closing balance at December 31</b>          | <b>(1,111.8)</b> | <b>(317.5)</b> | <b>(1,429.3)</b> | <b>(1,142.4)</b> | <b>(294.8)</b> | <b>(1,437.2)</b> |

**(22.4) Components of defined benefit costs recognized in the income statement**

| in CHF million                                                        | 2017          |               |               | 2016          |               |               |
|-----------------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                                                                       | Switzerland   | Other plans   | Total         | Switzerland   | Other plans   | Total         |
| Current service cost                                                  | (28.5)        | (8.1)         | (36.6)        | (30.9)        | (8.0)         | (38.9)        |
| Past service cost                                                     | (2.2)         | 1.1           | (1.1)         | 16.9          | 1.1           | 18.0          |
| Gains/(losses) on settlements                                         | –             | 0.4           | 0.4           | –             | (0.1)         | (0.1)         |
| <b>Total service cost</b>                                             | <b>(30.7)</b> | <b>(6.6)</b>  | <b>(37.3)</b> | <b>(14.0)</b> | <b>(7.0)</b>  | <b>(21.0)</b> |
| Interest income on plan assets                                        | 6.1           | 3.0           | 9.1           | 7.9           | 4.0           | 11.9          |
| Interest expense on defined benefit obligation                        | (8.6)         | (6.5)         | (15.1)        | (11.2)        | (7.4)         | (18.6)        |
| <b>Net interest income/(expense) on defined benefit plans</b>         | <b>(2.5)</b>  | <b>(3.5)</b>  | <b>(6.0)</b>  | <b>(3.3)</b>  | <b>(3.4)</b>  | <b>(6.7)</b>  |
| <b>Total defined benefit costs recognized in the income statement</b> | <b>(33.2)</b> | <b>(10.1)</b> | <b>(43.3)</b> | <b>(17.3)</b> | <b>(10.4)</b> | <b>(27.7)</b> |

In the income statement, the various components of the defined benefit costs are included as follows:

- Total service cost – in ‘personnel expenses’ (see note (31)) and
- Interest income and expense – in ‘other revenues and expenses (net)’ (see note (34)).

**(22.5) Remeasurements of the net defined benefit (liability)/asset**

| in CHF million                                                           | 2017        |              |             | 2016          |               |               |
|--------------------------------------------------------------------------|-------------|--------------|-------------|---------------|---------------|---------------|
|                                                                          | Switzerland | Other plans  | Total       | Switzerland   | Other plans   | Total         |
| Actuarial gains/(losses) arising from changes in demographic assumptions | –           | 0.2          | 0.2         | 11.0          | (0.4)         | 10.6          |
| Actuarial gains/(losses) arising from changes in financial assumptions   | –           | (3.8)        | (3.8)       | (32.1)        | (40.1)        | (72.2)        |
| Actuarial gains/(losses) arising from experience adjustments             | 55.1        | 3.4          | 58.5        | –             | 0.7           | 0.7           |
| <b>Total actuarial gains/(losses) on defined benefit obligation</b>      | <b>55.1</b> | <b>(0.2)</b> | <b>54.9</b> | <b>(21.1)</b> | <b>(39.8)</b> | <b>(60.9)</b> |
| Return on plan assets excluding interest income                          | 37.2        | 4.0          | 41.2        | 16.0          | 1.5           | 17.5          |
| <b>Total remeasurements recorded in other comprehensive income</b>       | <b>92.3</b> | <b>3.8</b>   | <b>96.1</b> | <b>(5.1)</b>  | <b>(38.3)</b> | <b>(43.4)</b> |

**(22.6) Plan asset classes at December 31**

| in CHF million                         | 2017                |                         |              |               | 2016                |                         |              |               |
|----------------------------------------|---------------------|-------------------------|--------------|---------------|---------------------|-------------------------|--------------|---------------|
|                                        | Quoted market price | Non-quoted market price | Total        | %             | Quoted market price | Non-quoted market price | Total        | %             |
| Cash and cash equivalents              | 82.3                | –                       | 82.3         | 8.2%          | 88.2                | –                       | 88.2         | 9.4%          |
| Equity instruments                     | 286.2               | –                       | 286.2        | 28.6%         | 251.3               | –                       | 251.3        | 26.9%         |
| Debt instruments (e.g. bonds)          | 217.4               | –                       | 217.4        | 21.8%         | 224.2               | –                       | 224.2        | 24.0%         |
| Real estate                            | 11.5                | 158.1                   | 169.6        | 17.0%         | 9.3                 | 146.1                   | 155.4        | 16.6%         |
| Investment funds                       | 98.9                | 44.2                    | 143.1        | 14.3%         | 84.0                | 54.2                    | 138.2        | 14.8%         |
| Others                                 | –                   | 100.9                   | 100.9        | 10.1%         | –                   | 77.8                    | 77.8         | 8.3%          |
| <b>Total plan assets at fair value</b> | <b>696.3</b>        | <b>303.2</b>            | <b>999.5</b> | <b>100.0%</b> | <b>657.0</b>        | <b>278.1</b>            | <b>935.1</b> | <b>100.0%</b> |

The Group does not make use of any assets held by pension plans.

Cash and cash equivalents are primarily invested in money market funds and current accounts with financial institutions that mostly have at least an 'A' rating. The allocation to cash and cash equivalents of the Swiss pension plan is 9.2% (2016: 10.7%).

Equity instruments represent investments in equity funds and direct investments. They generally have quoted market prices in an active market. The allocation to equities of the Swiss pension plan is 30.4% (2016: 27.4%). The pension plans' assets do not include any shares or participation certificates of Hilti Corporation.

Debt instruments (e.g. bonds) generally have a credit rating that is no lower than 'BBB', have quoted market prices in an active market and are primarily direct investments. The allocation to debt instruments of the Swiss pension plan is 24.9% (2016: 27.3%).

Real estate represents indirect and direct investments in residential and commercial properties. Indirect investments comprise listed and unlisted real estate funds, investment foundations and unlisted real estate fund of funds. Direct investments are primarily held in residential properties in Liechtenstein. Directly held real estate is periodically valued by an independent expert. The allocation to real estate of the Swiss pension plan is 19.5% (2016: 19.0%).

Investment funds represent investments with an insurance company and a mandate with a bank which invests in alternative asset classes (e.g. hedge funds and commodities). In case of investment funds, no quoted market prices in an active market are usually available. The allocation to investment funds of the Swiss pension plan is 4.4% (2016: 6.1%).

The position 'others' primarily includes private equity investments, mezzanine investments and insurance-linked securities, among others. Leveraging and short selling is prohibited. No quoted market prices in an active market are usually available. The allocation to 'others' of the Swiss pension plan is 11.6% (2016: 9.5%).



**(22.7) Plan members at December 31**

| financial amounts in CHF million   | 2017    |          |         |                  | 2016    |          |         |                  |
|------------------------------------|---------|----------|---------|------------------|---------|----------|---------|------------------|
|                                    | Active  | Deferred | Retired | Total            | Active  | Deferred | Retired | Total            |
| Plan members                       | 5,810   | 891      | 1,590   | <b>8,291</b>     | 6,065   | 910      | 1,564   | <b>8,539</b>     |
| Defined benefit obligation         | (674.7) | (125.7)  | (628.9) | <b>(1,429.3)</b> | (717.0) | (116.8)  | (603.4) | <b>(1,437.2)</b> |
| Share in %                         | 47.2%   | 8.8%     | 44.0%   | <b>100.0%</b>    | 49.9%   | 8.1%     | 42.0%   | <b>100.0%</b>    |
| Average weighted duration in years | 20.6    | 22.7     | 13.1    | <b>17.5</b>      | 20.8    | 23.0     | 12.8    | <b>17.6</b>      |

The employer's best estimate of contributions expected to be paid to defined benefit plans for the financial year 2018 is CHF 23.1 million.

**(22.8) Actuarial assumptions**

Actuarial assumptions are based on long-term economic factors in the respective countries. Each item of 'other plans' is a weighted average in relation to the relevant underlying component. The significant assumptions are as follows:

| in %                    | 2017        |             |              | 2016        |             |              |
|-------------------------|-------------|-------------|--------------|-------------|-------------|--------------|
|                         | Switzerland | Other plans | Total        | Switzerland | Other plans | Total        |
| Discount rate           | 0.75%       | 2.16%       | <b>1.06%</b> | 0.75%       | 2.21%       | <b>1.05%</b> |
| Future salary increase  | 1.50%       | 1.38%       | <b>1.47%</b> | 1.50%       | 1.40%       | <b>1.48%</b> |
| Future pension increase | 0.00%       | 2.22%       | <b>0.49%</b> | 0.00%       | 2.20%       | <b>0.45%</b> |

Life expectancy is reflected in the defined benefit obligations by using mortality tables of the country in which the plan is located. The generational tables BVG/LPP 2015 (2016: BVG/LPP 2015) have been used for Switzerland.

In general, the present value of the defined benefit obligations is determined annually by independent actuaries using the projected unit credit method. Actuarial assumptions are required for this purpose.

The discount rate, future salary increase and life expectancy were identified as significant actuarial assumptions. The following impacts on the defined benefit obligation are to be expected:

- A 0.25% increase/decrease in the discount rate would lead to a decrease/increase of 4.32% in the defined benefit obligation.
- A 0.25% increase/decrease in expected future salaries would lead to an increase/decrease of 0.51% in the defined benefit obligation.
- A one year increase/decrease in life expectancy would lead to an increase/decrease of 2.52% in the defined benefit obligation.

The sensitivity analysis is based on realistically possible changes as of the end of the reporting period. Each change in a significant actuarial assumption was analyzed separately as part of the test. Interdependencies were not taken into account.

**(23) Bonds**

The bonds were issued by Hilti Corporation. Further details of the individual bonds are included in the key figures (see page 3).

| in CHF million                          | 2017         | 2016         |
|-----------------------------------------|--------------|--------------|
| <b>Maturity</b>                         |              |              |
| < 1 year                                | 111.7        | 117.1        |
| 1 to < 2 years                          | 34.5         | 100.0        |
| 2 to < 3 years                          | –            | 42.4         |
| 3 to < 4 years                          | –            | –            |
| 4 to < 5 years                          | –            | –            |
| >= 5 years                              | 299.9        | 100.0        |
| <b>Total bonds</b>                      | <b>446.1</b> | <b>359.5</b> |
| <b>Currency</b>                         |              |              |
| CHF                                     | 399.9        | 200.0        |
| EUR                                     | 46.2         | 159.5        |
| <b>Total bonds</b>                      | <b>446.1</b> | <b>359.5</b> |
| <b>Further information</b>              |              |              |
| Fair values                             | 460.5        | 375.3        |
| Average effective interest rates (in %) | 1.0          | 1.7          |

The euro bonds ('Schuldscheindarlehen') are not tradable on any recognized stock exchange. The Group opted for an early redemption in 2018 of a nominal value of EUR 10.0 million.

The fair values of Swiss franc bonds totaling CHF 412.8 million (2016: CHF 213.2 million) are based on the quoted market prices and are within level 1 of the fair value hierarchy. The fair values of the euro bonds totaling CHF 47.7 million (2016: CHF 162.1 million) are based on the discounted cash flows using a market-based discount rate and within level 2 of the fair value hierarchy.

**(24) Long-term bank borrowings**

| in CHF million                         | 2017        | 2016        |
|----------------------------------------|-------------|-------------|
| <b>Maturity</b>                        |             |             |
| 1 to < 2 years                         | 20.8        | 19.0        |
| 2 to < 5 years                         | 10.1        | 9.4         |
| >= 5 years                             | –           | –           |
| <b>Total long-term bank borrowings</b> | <b>30.9</b> | <b>28.4</b> |

All of the total long-term bank borrowings are denominated in euro and secured by receivables in the same amount (see note (14)).

**(25) Trade and other payables**

| in CHF million                                                                    | 2017         | 2016         |
|-----------------------------------------------------------------------------------|--------------|--------------|
| Trade payables                                                                    | 309.8        | 230.4        |
| Other payables                                                                    | 209.9        | 168.8        |
| <b>Total trade and other payables</b>                                             | <b>519.7</b> | <b>399.2</b> |
| Current portion                                                                   | 479.1        | 377.3        |
| Non-current portion                                                               | 40.6         | 21.9         |
| <b>Total trade and other payables</b>                                             | <b>519.7</b> | <b>399.2</b> |
| <b>Maturity of non-current portion</b>                                            |              |              |
| 1 to < 2 years                                                                    | 8.9          | 4.1          |
| 2 to < 5 years                                                                    | 27.0         | 5.3          |
| >= 5 years                                                                        | 4.7          | 12.5         |
| <b>Total non-current trade and other payables</b>                                 | <b>40.6</b>  | <b>21.9</b>  |
| <b>Currency denominations of the carrying amounts of trade and other payables</b> |              |              |
| EUR                                                                               | 204.6        | 157.7        |
| CHF                                                                               | 36.8         | 77.1         |
| USD                                                                               | 65.1         | 51.1         |
| Other                                                                             | 213.2        | 113.3        |
| <b>Total trade and other payables</b>                                             | <b>519.7</b> | <b>399.2</b> |

The change in trade and other payables includes a currency translation adjustment which increases trade and other payables by CHF 10.2 million in 2017. This is due to the change in closing rates in 2017 compared to those in 2016.

Other payables primarily consist of liabilities for personnel expenses totaling CHF 7.8 million (2016: CHF 6.1 million), liabilities for social contributions totaling CHF 24.9 million (2016: CHF 39.1 million), liabilities for source-deducted taxes and VAT totaling CHF 99.0 million (2016: CHF 72.8 million) and customers with credit balances totaling CHF 30.7 million (2016: CHF 24.9 million).

**(26) Current income taxes payable and receivable**

Current income taxes payable and receivable consist of income taxes payable and refundable relating to the current or prior years. Details concerning deferred income tax liabilities and assets are shown in note (11).

**(27) Accrued liabilities and deferred income**

Accrued liabilities and deferred income comprise short-term liabilities, which include estimates, short-term expense accruals and deferrals of income already received but attributable to subsequent accounting periods.

**(28) Short-term bank borrowings**

| in CHF million                          | 2017         | 2016        |
|-----------------------------------------|--------------|-------------|
| <b>Currency</b>                         |              |             |
| EUR                                     | 35.3         | 31.9        |
| RUB                                     | 28.9         | 15.0        |
| USD                                     | 14.6         | 2.5         |
| TRY                                     | 14.3         | 10.9        |
| COP                                     | 6.4          | 2.0         |
| Other                                   | 18.2         | 23.7        |
| <b>Total short-term bank borrowings</b> | <b>117.7</b> | <b>86.0</b> |

CHF 12.7 million (2016: CHF 0.0 million) of the total short-term bank borrowings are secured by inventories totaling CHF 169.5 million (2016: CHF 0.0 million) and receivables totaling CHF 114.8 million (2016: CHF 0.0 million), in addition CHF 34.2 million (2016: CHF 31.4 million) of the total short-term bank borrowings are secured by receivables in the same amount (see note (13) and (14)).

**(29) Operating revenues**

Categories of operating revenues are as follows:

| in CHF million                  | 2017           | 2016           |
|---------------------------------|----------------|----------------|
| Net sales of goods              | 4,910.6        | 4,444.5        |
| Net sales of services           | 222.4          | 188.4          |
| <b>Total net sales</b>          | <b>5,133.0</b> | <b>4,632.9</b> |
| Other operating revenues        | 114.9          | 103.3          |
| <b>Total operating revenues</b> | <b>5,247.9</b> | <b>4,736.2</b> |

The above categories 'net sales of goods' and 'net sales of services' in terms of IAS 18 Revenue represent, respectively, revenue from sales of goods and revenue from rendering of services. Other operating revenues, amongst others, consist of finance lease interests including related risk premiums.

A breakdown of net sales by geographical areas and by major countries is given in note (37).

**(30) Material costs**

| in CHF million                                            | 2017             | 2016             |
|-----------------------------------------------------------|------------------|------------------|
| Materials                                                 | (1,475.0)        | (1,314.0)        |
| Outsourced manufacturing                                  | (18.0)           | (16.4)           |
| <b>Total material costs</b>                               | <b>(1,493.0)</b> | <b>(1,330.4)</b> |
| Change in inventory                                       | 49.6             | 15.6             |
| <b>Total material costs including change in inventory</b> | <b>(1,443.4)</b> | <b>(1,314.8)</b> |

**(31) Personnel expenses**

Personnel expenses comprise wages and salaries and social contributions. Social contributions include expenses for pensions and similar liabilities in addition to social security contributions.

| in CHF million                  | 2017             | 2016             |
|---------------------------------|------------------|------------------|
| Salaries and wages              | (1,721.2)        | (1,541.5)        |
| Social contributions            | (388.7)          | (344.7)          |
| <b>Total personnel expenses</b> | <b>(2,109.9)</b> | <b>(1,886.2)</b> |

The breakdown of the number of employees of Group companies by function is as follows:

|                                            | 2017          | 2016          |
|--------------------------------------------|---------------|---------------|
| Sales                                      | 21,010        | 19,267        |
| Research and development                   | 1,494         | 1,411         |
| Production                                 | 3,271         | 2,924         |
| Administration                             | 1,106         | 1,017         |
| <b>Total employees (as at December 31)</b> | <b>26,881</b> | <b>24,619</b> |

**(32) Depreciation and amortization**

This position comprises depreciation, amortization and impairment losses on intangible assets as well as property, plant and equipment.

**(33) Other operating expenses**

Major items included in other operating expenses are expenditures for rent, travel, outward freight, maintenance and legal & consulting.

**(34) Other revenues and expenses (net)**

Other revenues and expenses (net) comprise:

| in CHF million                                                                                       | 2017         | 2016         |
|------------------------------------------------------------------------------------------------------|--------------|--------------|
| Gains/(losses) on disposal of foreign operations and investments                                     | –            | (1.4)        |
| Interest and dividend revenues                                                                       | 4.1          | 4.0          |
| Gains/(losses) arising from valuation changes on financial assets and fair value hedging instruments | (0.2)        | 3.3          |
| Gains/(losses) on foreign currency hedging instruments                                               | (1.6)        | (9.7)        |
| Gains/(losses) on foreign currencies                                                                 | (5.6)        | 7.2          |
| Net interest income/(expense) on defined benefit plans                                               | (6.0)        | (6.7)        |
| <b>Total other revenues and (expenses) (net)</b>                                                     | <b>(9.3)</b> | <b>(3.3)</b> |

**(35) Finance costs**

Finance costs are reported at the gross interest expense amount. Interest expense on financial liabilities measured at amortized cost represents the total interest expense on financial liabilities not at fair value through profit or loss. Interest income from investments is separately included in 'other revenues and expenses (net)'.

**(36) Income tax expense**

| in CHF million                  | 2017           | 2016          |
|---------------------------------|----------------|---------------|
| Current tax                     | (89.7)         | (75.5)        |
| Deferred tax                    | (35.9)         | (16.2)        |
| <b>Total income tax expense</b> | <b>(125.6)</b> | <b>(91.7)</b> |

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

| in CHF million                                                                         | 2017           | 2016          |
|----------------------------------------------------------------------------------------|----------------|---------------|
| <b>Net income before income tax</b>                                                    | <b>655.2</b>   | <b>573.1</b>  |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | (108.7)        | (92.1)        |
| Income not subject to tax                                                              | 4.1            | 4.7           |
| Expenses not deductible for tax purposes                                               | (9.5)          | (12.0)        |
| Utilization of previously unrecognized tax losses                                      | 11.3           | 0.9           |
| Tax losses for which no deferred tax asset has been recognized                         | (0.2)          | (3.2)         |
| Tax attributable to prior years                                                        | 8.7            | (10.1)        |
| Other effects                                                                          | (31.3)         | 20.1          |
| <b>Income tax expense</b>                                                              | <b>(125.6)</b> | <b>(91.7)</b> |
| Weighted average applicable tax rate                                                   | 16.6%          | 16.1%         |

The line 'Other effects' includes the effects of changes in tax rates and expenses or incomes subject to different tax rates. In 2017, the effect of the change in tax rates in the Group's US companies resulted in a reduction of deferred tax assets of CHF 25.3 million. In 2016, the line 'Other effects' includes the reversal of the tax effect of non-tax deductible goodwill impairments totaling CHF 72.0 million that were recognized in 2013 and 2014 due to the sale of Unirac Inc.

**(37) Segment information**

In accordance with IFRS 8 Operating Segments the Group operates in only one single operating segment. Additional information concerning products, services and geographical areas is as follows:

**(37.1) Net sales information about products and services**

| in CHF million                                  |          | 2017           | 2016           |
|-------------------------------------------------|----------|----------------|----------------|
| Electric Tools & Accessories                    | Products | 2,331.2        | 2,098.6        |
| Electric Tools & Accessories                    | Services | 189.7          | 159.9          |
| <b>Total Electric Tools &amp; Accessories</b>   |          | <b>2,520.9</b> | <b>2,258.5</b> |
| Fastening & Protection Systems                  | Products | 2,579.4        | 2,345.9        |
| Fastening & Protection Systems                  | Services | 32.7           | 28.5           |
| <b>Total Fastening &amp; Protection Systems</b> |          | <b>2,612.1</b> | <b>2,374.4</b> |
| <b>Total Group</b>                              |          | <b>5,133.0</b> | <b>4,632.9</b> |

**(37.2) Net sales information about geographical areas**

| in CHF million                    | 2017           | 2016           | Change in CHF (%) | Change in local currencies (%) |
|-----------------------------------|----------------|----------------|-------------------|--------------------------------|
| Europe excl. Eastern Europe       | 2,468.7        | 2,221.9        | 11.1              | 9.7                            |
| North America                     | 1,217.9        | 1,120.0        | 8.7               | 8.5                            |
| Latin America                     | 128.4          | 117.0          | 9.7               | 9.7                            |
| Asia/Pacific                      | 699.9          | 662.0          | 5.7               | 5.3                            |
| Eastern Europe/Middle East/Africa | 618.1          | 512.0          | 20.7              | 17.4                           |
| <b>Total Group</b>                | <b>5,133.0</b> | <b>4,632.9</b> | <b>10.8</b>       | <b>9.6</b>                     |

Net sales information by geographical areas is based on the country of the third-party customer.

**(37.3) Net sales information for major countries**

| in CHF million                      | 2017           | 2016           |
|-------------------------------------|----------------|----------------|
| USA                                 | 1,028.8        | 948.3          |
| Germany                             | 690.8          | 624.1          |
| France                              | 402.9          | 370.5          |
| Liechtenstein (country of domicile) | 72.9           | 69.2           |
| Other countries                     | 2,937.6        | 2,620.8        |
| <b>Total Group</b>                  | <b>5,133.0</b> | <b>4,632.9</b> |

Net sales by major countries are based on the country of domicile of the respective Group companies.

The Group has no customer exceeding the threshold of 10% of the Group's revenue.



**(37.4) Selected non-current assets information for major countries\***

| in CHF million                      | 2017           | 2016           |
|-------------------------------------|----------------|----------------|
| Liechtenstein (country of domicile) | 910.7          | 811.3          |
| Germany                             | 185.7          | 164.4          |
| Norway                              | 174.1          | –              |
| Austria                             | 80.1           | 77.6           |
| Other countries                     | 249.6          | 233.1          |
| <b>Total Group</b>                  | <b>1,600.2</b> | <b>1,286.4</b> |

\* Excluding non-current financial assets and deferred taxes

**(38) Contingent liabilities**

| in CHF million                      | 2017       | 2016       |
|-------------------------------------|------------|------------|
| Guarantees                          | 7.0        | 6.9        |
| Other contingent liabilities        | 2.0        | 1.7        |
| <b>Total contingent liabilities</b> | <b>9.0</b> | <b>8.6</b> |

Management considers the possibility of any outflow in settlement to be remote.

**(39) Other commitments**

Payment commitments arising from non-cancelable operating lease contracts are as follows:

| in CHF million              | 2017         | 2016         |
|-----------------------------|--------------|--------------|
| < 1 year                    | 118.2        | 103.5        |
| 1 to < 5 years              | 218.1        | 205.4        |
| >= 5 years                  | 65.2         | 70.7         |
| <b>Total at December 31</b> | <b>401.5</b> | <b>379.6</b> |

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

| in CHF million                | 2017        | 2016        |
|-------------------------------|-------------|-------------|
| Intangible assets             | 5.8         | 0.1         |
| Property, plant and equipment | 15.8        | 14.0        |
| <b>Total at December 31</b>   | <b>21.6</b> | <b>14.1</b> |

**(40) Financial assets pledged as collateral**

Details of receivables pledged as collateral for recognized liabilities are given in note (14). There are no other financial assets pledged as collateral for recognized liabilities or for contingent liabilities.

**(41) Research and development expenditure**

Expenditure on research and development in the reporting period amounted to CHF 310.6 million (2016: CHF 279.5 million), thereof CHF 144.7 million (2016: CHF 138.5 million) were recognized as intangible assets (see development costs in note (7)).

**(42) Related party disclosures****(42.1) Key management personnel compensation**

Details of compensation of key management personnel are as follows:

| financial amounts in CHF million                                     | 2017              |               | 2016              |               |
|----------------------------------------------------------------------|-------------------|---------------|-------------------|---------------|
|                                                                      | Number of members | Re-muneration | Number of members | Re-muneration |
| Board of Directors                                                   | 7                 | 3.4           | 8                 | 3.8           |
| Corporate Management (Executive Board and Executive Management Team) | 27                | 54.8          | 27                | 45.8          |
| <b>Total</b>                                                         | <b>34</b>         | <b>58.2</b>   | <b>35</b>         | <b>49.6</b>   |
| Salaries and other short-term employee benefits                      |                   | 38.0          |                   | 32.7          |
| Post-employment benefits                                             |                   | 3.9           |                   | 6.1           |
| Other employee benefits, mainly related to long-term incentive       |                   | 16.3          |                   | 10.8          |
| <b>Total employee benefits to key management</b>                     |                   | <b>58.2</b>   |                   | <b>49.6</b>   |

Employee benefits to key management include both fixed and variable components. The variable components are performance-linked and include a long-term incentive which is payable only if certain predetermined specific financial targets linked to the sustainable development and growth of the Group's business are achieved. In accordance with IAS 19 Employee Benefits, the 2017 portion of the estimated ultimate amount payable has been recognized as an obligation at December 31, 2017, under the heading of other employee benefits (see note (22)).

**(42.2) Ownership of parent**

100% of the registered shares of the Hilti Corporation are owned by the Martin Hilti Family Trust.

**(42.3) Other transactions and balances with shareholder**

The Hilti Corporation rendered accounting, administration, rental and other support services to the Martin Hilti Family Trust. The amount invoiced was CHF 1.1 million (2016: CHF 1.0 million). These services were charged at cost. Additionally, the Hilti Corporation has a current liability to the Martin Hilti Family Trust of CHF 0.4 million (2016: CHF 0.3 million).

**(43) Events after the reporting period**

The extraordinary general meeting held at March 6, 2018 resolved to convert the participation capital of Hilti Corporation into share capital. The 774,400 participation certificates with a par value of CHF 50 each are converted to 77,440 registered shares with a par value of CHF 500 each. The share capital now consists of 253,440 registered shares with a par value of CHF 500 each. The total capital has not changed and continues to amount to CHF 126.7 million.

**(44) Group companies and joint arrangements**

| Country | Company name and location | Activity        |
|---------|---------------------------|-----------------|
|         |                           | S = sales       |
|         |                           | R = research    |
|         |                           | D = development |
|         |                           | P = production  |
|         |                           | Se = services   |
|         |                           | H = holding     |

**Parent company**

|               |                                                                                                              |                   |
|---------------|--------------------------------------------------------------------------------------------------------------|-------------------|
| Liechtenstein | Hilti Corporation, Feldkircherstrasse 100, P.O. Box 333, 9494 Schaan,<br>Tel. +423 234 2111, www.hilti.group | S, R, D, P, Se, H |
|---------------|--------------------------------------------------------------------------------------------------------------|-------------------|

**100% owned consolidated Group companies (subsidiaries – including production plants and market organizations)**

|                    |                                                                                 |      |
|--------------------|---------------------------------------------------------------------------------|------|
| Albania            | Hilti Albania sh.p.k., Tirana                                                   | S    |
| Algeria            | Hilti Construction Equipements EURL, Alger                                      | S    |
| Argentina          | Hilti Argentina S.R.L., Buenos Aires                                            | S    |
| Australia          | Hilti (Aust.) Pty. Ltd., Rhodes New South Wales                                 | S    |
|                    | Oglaend System Australia Pty. Ltd., Perth                                       | S    |
| Austria            | Hilti Austria Gesellschaft m.b.H., Vienna                                       | S    |
|                    | Hilti Holding GmbH, Vienna                                                      | H    |
|                    | Hilti Aktiengesellschaft Zweigniederlassung Thüringen, Thüringen                | P    |
|                    | Eurofox GmbH, Lanzenkirchen                                                     | P, D |
|                    |                                                                                 |      |
| Belarus            | Hilti BY FLLC, Minsk                                                            | S    |
| Belgium            | Hilti Belgium N.V., Brussels                                                    | S    |
|                    | Hilti Belgium Finance CVBA, Brussels                                            | Se   |
| Bosnia-Herzegovina | Hilti Systems BH d.o.o. Sarajevo, Sarajevo                                      | S    |
| Brazil             | Hilti do Brasil Comercial Ltda., São Paulo                                      | S    |
| Bulgaria           | Hilti (Bulgaria) EOOD, Sofia                                                    | S    |
| Canada             | Hilti (Canada) Corporation, Mississauga, Ontario                                | S    |
| Chile              | Hilti Chile Limitada, Santiago de Chile                                         | S    |
| China              | Hilti (China) Ltd., Zhanjiang                                                   | P, D |
|                    | Hilti (China) Distribution Ltd., Shanghai                                       | S    |
|                    | Hilti (PEC Suzhou) Ltd., Suzhou                                                 | P    |
|                    | Hilti (Shanghai) Ltd., Shanghai                                                 | P, D |
|                    | Oglaend Industries (Suzhou) Co., Ltd., Suzhou                                   | P    |
|                    | Oglaend System (Suzhou) Trading Co., Ltd., Suzhou                               | S    |
| Colombia           | Hilti Colombia S A S, Bogota D.C.                                               | S    |
| Croatia            | Hilti Croatia d.o.o., Sesvete                                                   | S    |
| Czech Republic     | Hilti ČR spol. s r.o., Průhonice                                                | S    |
| Denmark            | Hilti Danmark A/S, Rødovre-Copenhagen                                           | S    |
|                    | Øglænd System A/S, Haderslev                                                    | S    |
| Estonia            | Hilti Eesti OÜ, Tallinn                                                         | S    |
| Finland            | Hilti (Suomi) OY, Vantaa                                                        | S    |
| France             | Hilti France S.A., Magny-les-Hameaux                                            | S    |
| Germany            | Hilti Deutschland AG (Liechtenstein), Zweigniederlassung Deutschland, Kaufering | S    |
|                    | Hilti GmbH Industriegesellschaft für Befestigungstechnik, Kaufering             | P    |
|                    | Hilti Entwicklungsgesellschaft mbH, Kaufering                                   | D    |

|               |                                                         |         |
|---------------|---------------------------------------------------------|---------|
|               | Hilti Kunststofftechnik GmbH, Nersingen                 | P       |
|               | Hilti Deutschland Logistik GmbH, Oberhausen             | Se      |
|               | PEC Europe GmbH, Duisburg                               | S, D    |
| Great Britain | Hilti (Gt. Britain) Ltd., Manchester                    | S       |
|               | Oglaend System UK Limited, Wednesbury                   | S       |
| Greece        | Hilti Hellas S.A., Maroussi                             | S       |
| Hong Kong     | Hilti Asia Ltd., Kowloon, Hong Kong                     | H, Se   |
|               | Hilti (Hong Kong) Ltd., Kowloon, Hong Kong              | S       |
| Hungary       | Hilti (Hungária) Szolgáltató Kft., Budapest             | S       |
|               | Hilti Szerszám Kft., Kecskemét                          | P, D    |
| India         | Hilti India Private Ltd., Gurgaon                       | S       |
|               | Hilti Manufacturing India Private Limited, Mumbai       | P, D    |
| Indonesia     | PT Hilti Nusantara, Jakarta                             | S       |
| Ireland       | Hilti (Fastening Systems) Ltd., Dublin                  | S       |
| Israel        | Hilti (Israel) Ltd., Petach Tiqva                       | S       |
| Italy         | Hilti Italia S.p.A., Sesto San Giovanni                 | S       |
| Japan         | Hilti (Japan) Ltd., Yokohama                            | S       |
| Kazakhstan    | Hilti Kazakhstan LLP, Almaty                            | S       |
| Korea         | Hilti (Korea) Ltd., Seoul                               | S       |
|               | Oglaend System Korea Co., Ltd., Busan                   | S       |
| Latvia        | Hilti Services Limited, Riga                            | S       |
| Liechtenstein | Hilti Deutschland AG, Schaan                            | S       |
|               | Hilti Equipment Corporation, Schaan                     | H       |
|               | Hilti Finanz AG, Schaan (in Liquidation)                | Se      |
|               | Hilti (International) Services, Ltd., Schaan            | Se      |
|               | Hilti Service Corporation, Schaan                       | Se      |
|               | Hilti (Schweiz) AG, Zweigniederlassung Schaan           | S       |
| Lithuania     | Hilti Complete Systems UAB, Vilnius                     | S       |
| Luxembourg    | Hilti Belgium S.A. 'Succursale', Luxembourg             | S       |
|               | Hilti Luxembourg Holding S.à.r.l., Luxembourg           | H       |
| Macao         | Hilti (Hong Kong) Ltd. Macao Branch, Macao              | S       |
| Malaysia      | Hilti (Malaysia) Sdn. Bhd., Petaling Jaya               | S       |
|               | Hilti Asia IT Services Sdn. Bhd., Petaling Jaya         | Se      |
|               | Oglaend Industries Sdn Bhd, Petaling Jaya               | P, D    |
| Mexico        | Hilti Mexicana, S.A. de C.V., Mexico City, Tlalnepantla | S       |
|               | Hilti Operaciones de Mexico, S.A. de C.V., Matamoros    | P       |
| Montenegro    | Hilti Montenegro d.o.o. Podgorica, Podgorica            | S       |
| Morocco       | Hilti Maroc S.A., Casablanca                            | S       |
| Netherlands   | Hilti Nederland B.V., Berkel en Rodenrijs               | S       |
|               | Hilti International Finance B.V., Berkel en Rodenrijs   | H, Se   |
|               | Oglaend System BV, Ridderkerk                           | S       |
| New Zealand   | Hilti (New Zealand) Limited, Auckland                   | S       |
| Norway        | Øglænd Group Holding AS, Kleppe                         | H       |
|               | Øglænd Industrier AS, Kleppe                            | H, Se   |
|               | Øglænd System AS, Kleppe                                | S, P, D |
| Panama        | Hilti Latin America S.A., Panama                        | S, Se   |
|               | Transportes Continentales S.A., Panama                  | Se      |
| Philippines   | Hilti (Philippines) Inc., Metropolitan Manila           | S       |
| Poland        | Hilti (Poland) Sp. z o.o., Warsaw                       | S       |

|                      |                                                       |       |
|----------------------|-------------------------------------------------------|-------|
| Portugal             | Hilti (Portugal) – Produtos e Serviços Lda., Porto    | S     |
| Puerto Rico          | Hilti Caribe LLC, San Juan, Hato Rey                  | S     |
| Romania              | Hilti Romania SRL, Bucharest                          | S     |
| Russian Federation   | Hilti Distribution Ltd., Moscow                       | S     |
|                      | Oglaend System Russia LLC, Saint Petersburg           | S     |
| Serbia               | Hilti SMN d.o.o. Beograd, Zemun                       | S     |
| Singapore            | Hilti Far East Private Ltd., Singapore                | S     |
|                      | Oglaend System Singapore Pte Ltd., Singapore          | S     |
| Slovakia             | Hilti Slovakia spol. s r.o., Bratislava               | S     |
| Slovenia             | Hilti Slovenija d.o.o., Ljubljana                     | S     |
| South Africa         | Hilti (South Africa) (Pty) Ltd., Johannesburg/Midrand | S     |
| Spain                | Hilti Española, S.A., Madrid                          | S     |
| Sweden               | Hilti Svenska AB, Arlöv-Malmö                         | S     |
|                      | Öglaend System AB, Höllviken                          | S     |
| Switzerland          | Hilti (Schweiz) AG, Adliswil                          | S     |
|                      | Hilti Befestigungstechnik AG, Buchs                   | Se    |
|                      | Hilti-Finanz GmbH, Buchs                              | H, Se |
| Taiwan               | Hilti Taiwan Co., Ltd., Taipei                        | S     |
| Thailand             | Hilti (Thailand) Ltd., Bangkok                        | S     |
| Turkey               | Hilti İnşaat Malzemeleri Ticaret A.Ş., Istanbul       | S     |
| Ukraine              | Hilti (Ukraine) Ltd., Kiev                            | S     |
| United Arab Emirates | Hilti Middle East FZE, Jebel Ali-Free Zone, Dubai     | S, Se |
| USA                  | Hilti Inc., Plano, Texas                              | S     |
|                      | Hilti of America, Inc., Delaware                      | H     |
|                      | Hilti Holdings Limited, Delaware                      | H     |
|                      | Hilti US Manufacturing, Inc., California              | P     |
|                      | Oglaend System US LLC, Houston                        | S     |
| Venezuela            | Hilti Venezuela S.A., Caracas                         | S     |
| Vietnam              | Hilti Vietnam Company Limited, Ho Chi Minh City       | S     |

Unirac Inc., Albuquerque was sold during 2016.

#### Less than 100% owned consolidated Group companies (subsidiaries)

|                      |                                                             |   |
|----------------------|-------------------------------------------------------------|---|
| Bahrain              | Hilti Bahrain Co. W.L.L., Manama (49%)                      | S |
| Qatar                | Hilti Qatar W.L.L., Doha (49%)                              | S |
| Saudi Arabia         | Hilti Saudi Arabia for Construction Tools LLC, Riyadh (75%) | S |
| United Arab Emirates | Hilti Emirates LLC, Abu Dhabi (49%)                         | S |
|                      | Oglaend Industries Middle East LLC, Dubai (49%)             | S |

Although the Group owns less than half of the voting rights of Hilti Bahrain Co. W.L.L., Hilti Qatar W.L.L., Hilti Emirates LLC and Oglaend Industries Middle East LLC, management has determined that the Group controls these four companies. The Group has control, as contractual agreements grant the Group the right to appoint and remove management responsible for directing the relevant activities. In addition, the Group is entitled to appoint, remove and substitute a majority of members of the Companies' Board of Directors.

#### Joint operations

|         |                                                                      |      |
|---------|----------------------------------------------------------------------|------|
| China   | Panasonic Eco Solutions Power Tools (Shanghai) Company Limited (49%) | P    |
| Germany | HILLOS GmbH, Jena (50%)                                              | P    |
|         | Hilti Seuffer Electronics GmbH, Calw (50%)                           | P, D |
| Taiwan  | Racing Point Industry Co., Ltd., Taipei (49%)                        | P    |
| USA     | Intelligent Construction Tools LLC, Delaware (50%)                   | P, D |

## REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF HILTI AKTIENGESELLSCHAFT, SCHAAN

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

#### Opinion

We have audited the consolidated financial statements of Hilti Aktiengesellschaft and its subsidiaries (the Group), which comprise the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes, including a summary of significant accounting policies (pages 10 to 62), and the consolidated management report (pages 6 to 7) for the year ended December 31, 2017.

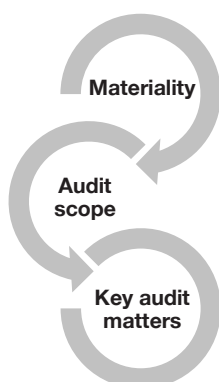
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Liechtenstein law.

#### Basis for opinion

We conducted our audit in accordance with Liechtenstein law and International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Liechtenstein law and the requirements of the Liechtenstein audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Our audit approach



- Overall Group materiality: CHF 32 million
- We concluded full scope audit work at 19 reporting units in 18 countries.
- Our audit scope addressed over 77% of the Group's revenue and 71% of the Group's total assets.
- In addition, specified procedures were performed on a further 4 reporting units in 4 countries, representing a further 3% of the Group's revenue and 6% of the Group's total assets.
- Further, we performed additional procedures to address any residual risk at other locations as deemed appropriate.

As key audit matter the following area of focus has been identified:

- Capitalization of internal development costs
- Accounting for the acquisition of the Oglaend System Group

#### Audit scope

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

The Group consolidated financial statements are a consolidation of over 100 reporting units, comprising the Group's operating businesses and market organizations, production plants, research and development centers, and centralized functions.

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

Subsequently, we determined the type and level of audit work required from component auditors, from PwC network firms and component auditors from other firms, in order that sufficient appropriate audit evidence had been obtained for our opinion on the Group consolidated financial statements as a whole. At the largest reporting units (market organizations) in the USA and Germany we were directly involved in the audits. Further, in the current year the lead audit partner visited the reporting units and the respective PwC component auditor in India. Moreover, with all relevant component auditors we were in regular contact.

The Group's reporting units vary significantly in size. We identified 19 reporting units where we require an audit of their complete financial information. These accounted for 77% of the Group's revenue and 71% of the Group's total assets. Specific audit procedures on certain balances and transactions were performed at a further 4 reporting units, representing a further 3% of the Group's revenue and 6% of the Group's total assets.

### Materiality

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

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

|                                                        |                                                                                                                                                                               |
|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Overall Group materiality</b>                       | CHF 32 million                                                                                                                                                                |
| <b>How we determined it</b>                            | 5% of profit before tax                                                                                                                                                       |
| <b>Rationale for the materiality benchmark applied</b> | We chose profit before tax because, this is the most commonly used performance measure for the industry in which the Group operates and it is a generally accepted benchmark. |

### Key audit matters

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

### Capitalization of internal development costs

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>As set out in note 7, CHF 144.7 million of internal development costs have been capitalized under 'Intangible assets' in 2017.</p> <p>We focused on this area due to the high amount of capitalized internal development costs (CHF 538.2 million as of December 31, 2017) and because significant judgement is involved in assessing whether costs are research or development in nature and whether the criteria set out in the accounting standards (as per IAS 38) for the capitalization of such costs have been met, particularly:</p> <ul style="list-style-type: none"> <li>• Generation of probable future economic benefit;</li> <li>• Reliable measure of the attributable expenditure; and</li> <li>• Technical feasibility of the project.</li> </ul> | <p>We assessed and tested the design and operating effectiveness of the key controls relating to the capitalization process, particularly those that:</p> <ul style="list-style-type: none"> <li>• Address whether costs are research or development in nature.</li> <li>• Address the risks relating to the 'probable future economic benefit' and 'technical feasibility'.</li> <li>• Ensure the correct, timely and complete capitalization of the internal employee costs and any other project-related costs.</li> </ul> <p>We held interviews with the business unit controllers and project managers, in particular to:</p> <ul style="list-style-type: none"> <li>• Gain an understanding of their development projects and why specific projects were considered to meet the requirements of the relevant accounting standards.</li> <li>• Discuss specific project topics and risks and critically assess the responses.</li> </ul> <p>Our work also included substantive audit procedures (e.g. reading the project documentation, evaluating the project's key assumptions, testing a sample of standard hourly rates).</p> <p>Overall, we could confirm that the capitalized costs meet the capitalization criteria set out in the accounting standards and we identified no significant findings in relation to this matter.</p> |

### Accounting for the acquisition of the Ogleand System Group

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>On August 23, 2017, Hilti Aktiengesellschaft acquired a 100% share of the Ogleand System Group, headquartered in Kleppe Norway. The purchase considerations amounted to CHF 173.5 million and the fair value of the net assets acquired to CHF 65.0 million.</p> <p>The acquisition of Ogleand System Group was deemed a key audit matter because of the critical estimates made by management concerning the purchase price allocation of the consideration in the opening balance sheet. In particular, the identification and valuation of intangible assets involved significant scope for judgement.</p> <p>Please refer to page 20 (Summary of significant accounting policies – Intangible assets) and page 31 (business combinations) of the Notes to Group Financial Statements.</p> | <p>We assessed whether amounts reported on the opening balance sheet as at August 23, 2017, had been identified in line with the purchase agreement and recognized according to the provisions of IFRS 3 'Business Combinations'. The main audit procedures we performed were as follows:</p> <ul style="list-style-type: none"> <li>• We assessed the qualification and independence of the experts engaged by the Group to provide the valuation report.</li> <li>• We assessed the completeness of identifiable net assets, including intangible assets, and liabilities against our own expectations, formed from discussions with the Management as well as the industry expertise of our valuation team.</li> <li>• To assess the valuation models included in the valuation report, we involved our internal valuation experts, who specifically performed the following: <ul style="list-style-type: none"> <li>• Review of the purchase price consideration.</li> <li>• Assessment of the reasonableness of the most significant assumptions (revenue growth and margin) used in preparing the valuation models.</li> <li>• Assessment of the reasonableness of the discount rate.</li> <li>• Comparison with analogous transactions and available market data of the royalty rates used to value customer relationships, brand and technology.</li> <li>• Assessment of the technical and arithmetical correctness of the valuation report.</li> <li>• Assessment of the consistency of the logic applied in the valuation report.</li> </ul> </li> <li>• We further assessed whether the transaction was accounted for and disclosed in the financial report in accordance with the provisions of IFRS 3 'Business Combinations'.</li> </ul> <p>As a result of our audit procedures, we determined that the conclusions reached by Management for the allocation of the purchase price to the identifiable intangible assets and Goodwill, as well as the disclosures of the purchase of Ogleand System Group in the 2017 consolidated financial statements were reasonable and supportable.</p> |



### Other information in the annual report

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

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

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

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

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Liechtenstein law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Liechtenstein law and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

#### Report on other legal and regulatory requirements

The consolidated management report is in accordance with the consolidated financial statements.

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



PricewaterhouseCoopers AG



René Rausenberger

Auditors in charge



Gianluca Galasso

St. Gallen, March 14, 2018



# FINANCIAL STATEMENTS HILTI CORPORATION

(INCLUDING BRANCHES)



## BALANCE SHEET

| in CHF million                             | Note | 31.12.2017     | 31.12.2016     |
|--------------------------------------------|------|----------------|----------------|
| <b>ASSETS</b>                              |      |                |                |
| Intangible assets                          | 4    | 25.0           | 19.5           |
| Property, plant and equipment              | 5    | 401.5          | 412.8          |
| Financial investments                      | 6    | 1,852.7        | 1,666.4        |
| <b>Total non-current assets</b>            |      | <b>2,279.2</b> | <b>2,098.7</b> |
| Inventories                                | 7    | 126.2          | 112.4          |
| Trade and other receivables                | 8    | 833.6          | 621.1          |
| Accrued income and prepayments             |      | 30.8           | 28.5           |
| Cash and cash equivalents                  |      | 466.2          | 537.0          |
| <b>Total current assets</b>                |      | <b>1,456.8</b> | <b>1,299.0</b> |
| <b>TOTAL ASSETS</b>                        |      | <b>3,736.0</b> | <b>3,397.7</b> |
| <b>EQUITY AND LIABILITIES</b>              |      |                |                |
| Share capital                              |      | 88.0           | 88.0           |
| Participation capital                      |      | 38.7           | 38.7           |
| Legal reserves                             |      | 108.4          | 108.4          |
| Foreign currency translation reserve       |      | (12.5)         | (17.4)         |
| Retained earnings brought forward          |      | 1,947.5        | 1,906.8        |
| Net income                                 |      | 392.7          | 284.0          |
| <b>Total equity</b>                        | 9    | <b>2,562.8</b> | <b>2,408.5</b> |
| Provisions                                 | 10   | 74.9           | 73.5           |
| Borrowings, payables and other liabilities | 11   | 990.2          | 809.6          |
| Accrued liabilities and deferred income    |      | 108.1          | 106.1          |
| <b>Total liabilities</b>                   |      | <b>1,173.2</b> | <b>989.2</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>        |      | <b>3,736.0</b> | <b>3,397.7</b> |

## INCOME STATEMENT

| in CHF million                                             | Note | 2017             | 2016             |
|------------------------------------------------------------|------|------------------|------------------|
| Net sales                                                  |      | 2,731.2          | 2,465.6          |
| Change in inventory of finished goods and work in progress |      | 0.2              | (0.4)            |
| Capitalized own production                                 |      | 1.6              | 2.2              |
| Other operating revenues                                   |      | 14.4             | 14.3             |
| <b>Total operating revenues</b>                            |      | <b>2,747.4</b>   | <b>2,481.7</b>   |
| Material costs                                             | 12   | (1,355.3)        | (1,245.5)        |
| Personnel expenses                                         | 13   | (320.2)          | (299.5)          |
| Depreciation and amortization                              | 14   | (69.8)           | (39.4)           |
| Other operating expenses                                   |      | (679.3)          | (616.0)          |
| <b>Total operating expenses</b>                            |      | <b>(2,424.6)</b> | <b>(2,200.4)</b> |
| <b>Operating result</b>                                    |      | <b>322.8</b>     | <b>281.3</b>     |
| Financial revenues                                         | 15   | 142.0            | 53.4             |
| Financial expenses                                         | 16   | (36.5)           | (17.0)           |
| <b>Financial result</b>                                    |      | <b>105.5</b>     | <b>36.4</b>      |
| <b>Net income before income tax expense</b>                |      | <b>428.3</b>     | <b>317.7</b>     |
| Tax expense                                                |      | (35.6)           | (33.7)           |
| <b>Net income</b>                                          |      | <b>392.7</b>     | <b>284.0</b>     |

**(1) General information**

Hilti Corporation is a limited liability company incorporated and domiciled in the Principality of Liechtenstein. Its registered office is at Feldkircherstrasse 100, 9494 Schaan, Liechtenstein. Hilti Corporation is the parent and main operating company of the Hilti Group. The shareholders and holders of participation certificates have an interest in the Group through their interest in Hilti Corporation. The accompanying Group's consolidated financial statements are the most significant indicator of the Group's financial position and financial performance.

**(2) Accounting policies****(2.1) Overview**

In contrast to the Group's consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS), the financial statements of Hilti Corporation have been prepared in accordance with Liechtenstein's corporations law, the 'Personen- und Gesellschaftsrecht (PGR)'. As a result, there are significant differences between the accounting treatments in the financial statements of Hilti Corporation and the accounting treatments in the Group's consolidated financial statements. The significant measurement, recognition and presentation differences are listed below. Apart from these differences, the accounting policies adopted for the measurement, recognition and presentation of financial statement items in both sets of financial statements are substantially the same.

**(2.2) Differences in accounting policies to those of the Group**

The following table identifies the relevant financial statement items and the corresponding treatments where the accounting policies adopted for the measurement and recognition of items in the financial statements of Hilti Corporation are significantly different from those adopted in the Group's consolidated financial statements.

| Relevant financial statement item                                                                            | Treatment in financial statements of Hilti Corporation                                 | Treatment in Group financial statements                                                                                                                                                                        |
|--------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Valuation of property, plant and equipment and inventories.                                                  | In accordance with taxation rules pursuant to Article 1086 of the PGR.                 | At lower of market value and historical cost subject to adjustment for depreciation or obsolescence based on economic estimates.                                                                               |
| Valuation of investments in associated companies and joint ventures.                                         | At historical cost.                                                                    | In accordance with the equity method of accounting.                                                                                                                                                            |
| Valuation of provisions.                                                                                     | Based on business risk criteria.                                                       | In accordance with the best estimate of the amounts required to satisfy existing obligations.                                                                                                                  |
| Reporting of derivative financial instruments hedging anticipated operating transactions (cash flow hedges). | Recognized at fair value with value changes reported directly in the income statement. | Recognized at fair value with value changes reported as part of equity and reclassified to the income statement when the anticipated operating transactions occur.                                             |
| Reporting of development costs.                                                                              | All immediately expensed.                                                              | For qualifying new product developments, capitalized during the development phases and subsequently amortized over the sales lives of the new products while other development costs are immediately expensed. |
| Measurement of pension plan obligation.                                                                      | Treated as defined contribution plan.                                                  | Treated as defined benefit plan with cumulative remeasurements recognized directly in equity.                                                                                                                  |

The following table identifies the significant presentation differences relating to items in the financial statements of Hilti Corporation and the corresponding items in the Group's consolidated financial statements.

| Relevant financial statement item                                                                                                                                   | Presentation in financial statements of Hilti Corporation                                                | Presentation in Group financial statements                                                                                                      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| Investments in deposits, bonds and equities restricted to the funding of losses arising from damages to assets and losses arising from product-related obligations. | Included in 'financial investments'.                                                                     | Included in 'financial assets at fair value through profit or loss' under current assets heading.                                               |
| Recognized values of derivative financial instruments.                                                                                                              | Included in 'accrued income and prepayments' or 'accrued liabilities and deferred income' as applicable. | Presented as a separate line item 'derivative financial instruments' under each of the current and non-current assets and liabilities headings. |
| Short-term tax obligations.                                                                                                                                         | Included in 'provisions'.                                                                                | Presented as a separate line item 'current income taxes payable' under current liabilities heading.                                             |

### (2.3) Changes in accounting policies

There have been no material changes in accounting policies in the 2017 financial statements of Hilti Corporation from those adopted in 2016.

### (3) Exchange rates

For details of foreign exchange rates of principal currencies that have been applied for translation into Swiss francs, see note (2.5) of the Group's consolidated financial statements.

### (4) Intangible assets

| in CHF million                              | Rights        | Other intangible assets | Prepayments or assets under development | Total         |
|---------------------------------------------|---------------|-------------------------|-----------------------------------------|---------------|
| <b>Cost 2017</b>                            |               |                         |                                         |               |
| <b>Opening balance at January 1, 2017</b>   | <b>12.5</b>   | <b>86.0</b>             | <b>-</b>                                | <b>98.5</b>   |
| Currency translation adjustment             | -             | 0.1                     | -                                       | 0.1           |
| Additions                                   | -             | 11.5                    | -                                       | 11.5          |
| Disposals                                   | -             | (0.2)                   | -                                       | (0.2)         |
| <b>Closing balance at December 31, 2017</b> | <b>12.5</b>   | <b>97.4</b>             | <b>-</b>                                | <b>109.9</b>  |
| <b>Accumulated amortization 2017</b>        |               |                         |                                         |               |
| <b>Opening balance at January 1, 2017</b>   | <b>(11.1)</b> | <b>(67.9)</b>           | <b>-</b>                                | <b>(79.0)</b> |
| Currency translation adjustment             | -             | (0.1)                   | -                                       | (0.1)         |
| Additions                                   | (0.4)         | (5.5)                   | -                                       | (5.9)         |
| Disposals                                   | -             | 0.1                     | -                                       | 0.1           |
| <b>Closing balance at December 31, 2017</b> | <b>(11.5)</b> | <b>(73.4)</b>           | <b>-</b>                                | <b>(84.9)</b> |
| <b>Net book values at December 31, 2017</b> | <b>1.0</b>    | <b>24.0</b>             | <b>-</b>                                | <b>25.0</b>   |
| Net book values at December 31, 2016        | 1.4           | 18.1                    | -                                       | 19.5          |



**(5) Property, plant and equipment**

| in CHF million                              | Land and<br>buildings | Plant and<br>machinery | Other<br>operating<br>equipment | Prepayments<br>or assets<br>under<br>construction | <b>Total</b>   |
|---------------------------------------------|-----------------------|------------------------|---------------------------------|---------------------------------------------------|----------------|
| <b>Cost 2017</b>                            |                       |                        |                                 |                                                   |                |
| <b>Opening balance at January 1, 2017</b>   | <b>457.4</b>          | <b>477.1</b>           | <b>134.1</b>                    | <b>13.5</b>                                       | <b>1,082.1</b> |
| Currency translation adjustment             | 4.9                   | 7.7                    | 1.8                             | 0.3                                               | 14.7           |
| Additions                                   | 1.8                   | 14.7                   | 10.7                            | 21.6                                              | 48.8           |
| Disposals                                   | (0.2)                 | (35.3)                 | (0.6)                           | –                                                 | (36.1)         |
| Transfers                                   | 3.9                   | 1.5                    | –                               | (5.4)                                             | –              |
| <b>Closing balance at December 31, 2017</b> | <b>467.8</b>          | <b>465.7</b>           | <b>146.0</b>                    | <b>30.0</b>                                       | <b>1,109.5</b> |
| <b>Accumulated depreciation 2017</b>        |                       |                        |                                 |                                                   |                |
| <b>Opening balance at January 1, 2017</b>   | <b>(119.4)</b>        | <b>(438.7)</b>         | <b>(111.2)</b>                  | <b>–</b>                                          | <b>(669.3)</b> |
| Currency translation adjustment             | (2.5)                 | (6.0)                  | (1.5)                           | –                                                 | (10.0)         |
| Additions                                   | (37.6)                | (17.8)                 | (8.5)                           | –                                                 | (63.9)         |
| Disposals                                   | –                     | 34.8                   | 0.4                             | –                                                 | 35.2           |
| Transfers                                   | –                     | –                      | –                               | –                                                 | –              |
| <b>Closing balance at December 31, 2017</b> | <b>(159.5)</b>        | <b>(427.7)</b>         | <b>(120.8)</b>                  | <b>–</b>                                          | <b>(708.0)</b> |
| <b>Net book values at December 31, 2017</b> | <b>308.3</b>          | <b>38.0</b>            | <b>25.2</b>                     | <b>30.0</b>                                       | <b>401.5</b>   |
| Net book values at December 31, 2016        | 338.0                 | 38.4                   | 22.9                            | 13.5                                              | 412.8          |

**(6) Financial investments**

| in CHF million                              | Share-<br>holdings | Loans to<br>Group<br>companies | Other<br>financial<br>investments | <b>Total</b>   |
|---------------------------------------------|--------------------|--------------------------------|-----------------------------------|----------------|
| <b>Cost 2017</b>                            |                    |                                |                                   |                |
| <b>Opening balance at January 1, 2017</b>   | <b>1,680.4</b>     | <b>18.7</b>                    | <b>16.3</b>                       | <b>1,715.4</b> |
| Currency translation adjustment             | –                  | (0.4)                          | –                                 | (0.4)          |
| Additions                                   | 172.1              | 14.5                           | 5.6                               | 192.2          |
| Disposals                                   | –                  | –                              | (1.0)                             | (1.0)          |
| <b>Closing balance at December 31, 2017</b> | <b>1,852.5</b>     | <b>32.8</b>                    | <b>20.9</b>                       | <b>1,906.2</b> |
| <b>Accumulated valuation allowance 2017</b> |                    |                                |                                   |                |
| <b>Opening balance at January 1, 2017</b>   | <b>(49.0)</b>      | <b>–</b>                       | <b>–</b>                          | <b>(49.0)</b>  |
| Currency translation adjustment             | –                  | –                              | –                                 | –              |
| Additions                                   | (4.5)              | –                              | –                                 | (4.5)          |
| Disposals                                   | –                  | –                              | –                                 | –              |
| <b>Closing balance at December 31, 2017</b> | <b>(53.5)</b>      | <b>–</b>                       | <b>–</b>                          | <b>(53.5)</b>  |
| <b>Net book values at December 31, 2017</b> | <b>1,799.0</b>     | <b>32.8</b>                    | <b>20.9</b>                       | <b>1,852.7</b> |
| Net book values at December 31, 2016        | 1,631.4            | 18.7                           | 16.3                              | 1,666.4        |

A list of Group companies, directly or indirectly held by Hilti Corporation, is included in note (44) of this Financial Report. Pursuant to Article 1094 (3) of the PGR, some details relating to investments in Group companies have not been disclosed in this list.

**(7) Inventories**

| in CHF million                              | 2017         | 2016         |
|---------------------------------------------|--------------|--------------|
| Raw materials                               | 19.1         | 18.3         |
| Consumables                                 | 8.5          | 8.5          |
| Production in progress                      | 6.1          | 5.8          |
| Finished products and goods held for resale | 92.5         | 79.8         |
| <b>Total inventories</b>                    | <b>126.2</b> | <b>112.4</b> |

The increase in 'Total inventories' includes an increase in the provision for inventories of CHF 6.8 million (2016: CHF 15.5 million), which is optional under PGR and tax rules. The total amount for this provision amounts to CHF 62.3 million (2016: CHF 55.5 million).

**(8) Trade and other receivables**

| in CHF million                                  | 2017         |           |              | 2016         |           |              |
|-------------------------------------------------|--------------|-----------|--------------|--------------|-----------|--------------|
|                                                 | Short-term   | Long-term | Total        | Short-term   | Long-term | Total        |
| Trade accounts receivables from third parties   | 28.4         | –         | 28.4         | 22.5         | –         | 22.5         |
| Trade accounts receivables from group companies | 717.7        | –         | 717.7        | 584.5        | –         | 584.5        |
| <b>Total trade accounts receivables</b>         | <b>746.1</b> | <b>–</b>  | <b>746.1</b> | <b>607.0</b> | <b>–</b>  | <b>607.0</b> |
| Other accounts receivables from third parties   | 26.8         | –         | 26.8         | 13.5         | –         | 13.5         |
| Other accounts receivables from group companies | 60.7         | –         | 60.7         | 0.6          | –         | 0.6          |
| <b>Total other accounts receivables</b>         | <b>87.5</b>  | <b>–</b>  | <b>87.5</b>  | <b>14.1</b>  | <b>–</b>  | <b>14.1</b>  |
| <b>Total trade and other receivables</b>        | <b>833.6</b> | <b>–</b>  | <b>833.6</b> | <b>621.1</b> | <b>–</b>  | <b>621.1</b> |

The contractual maturity of short-term receivables is less than one year and for long-term receivables over one year.

**(9) Equity**

| in CHF million                           | Share and PC capital | Legal reserves | Foreign currency translation reserve | Retained earnings | Total equity   |
|------------------------------------------|----------------------|----------------|--------------------------------------|-------------------|----------------|
| <b>Equity at January 1, 2017</b>         | <b>126.7</b>         | <b>108.4</b>   | <b>(17.4)</b>                        | <b>2,190.8</b>    | <b>2,408.5</b> |
| Dividend paid                            | –                    | –              | –                                    | (243.3)           | (243.3)        |
| Foreign currency translation differences | –                    | –              | 4.9                                  | –                 | 4.9            |
| Net income                               | –                    | –              | –                                    | 392.7             | 392.7          |
| <b>Equity at December 31, 2017</b>       | <b>126.7</b>         | <b>108.4</b>   | <b>(12.5)</b>                        | <b>2,340.2</b>    | <b>2,562.8</b> |

As per year ending 2016 and 2017 the share capital consists of 176,000 registered shares with a par value of CHF 500 each and the participation capital consists of 774,400 participation certificates with a par value of CHF 50 each. The participation capital has no voting rights.

The extraordinary general meeting held at March 6, 2018 resolved to convert the participation capital of Hilti Corporation into share capital. The 774,400 participation certificates with a par value of CHF 50 each are converted to 77,440 registered shares with a par value of CHF 500 each. The share capital now consists of 253,440 registered shares with a par value of CHF 500 each. The total capital has not changed and continues to amount to CHF 126.7 million. All the capital is fully paid in and is entitled to dividends.

The currency translation differences arise from the inclusion of the income statement and balance sheet items of Plant Thüringen, Austria, which are denominated in euro. The foreign currency translation reserve comprises the accumulated foreign currency gains and losses recognized in equity since 2003.

**(10) Provisions**

| in CHF million                  | 2017        | 2016        |
|---------------------------------|-------------|-------------|
| Provision for employee benefits | 33.8        | 25.8        |
| Tax obligations                 | 35.8        | 32.9        |
| Other provisions                | 5.3         | 14.8        |
| <b>Total provisions</b>         | <b>74.9</b> | <b>73.5</b> |

Other provisions relate mainly to product liability.

**(11) Borrowings, payables and other liabilities**

| in CHF million                                          | 2017         |              |              | 2016         |              |              |
|---------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                                         | Short-term   | Long-term    | Total        | Short-term   | Long-term    | Total        |
| Euro bonds 2012/2015-2019                               | 11.7         | 34.5         | 46.2         | 117.1        | 42.4         | 159.5        |
| 0.875% bond 2013/2018                                   | 100.0        | -            | 100.0        | -            | 100.0        | 100.0        |
| 1.875% bond 2013/2023                                   | -            | 100.0        | 100.0        | -            | 100.0        | 100.0        |
| 0.200% bond 2017/2024                                   | -            | 100.0        | 100.0        | -            | -            | -            |
| 0.400% bond 2017/2027                                   | -            | 99.9         | 99.9         | -            | -            | -            |
| <b>Total bonds</b>                                      | <b>111.7</b> | <b>334.4</b> | <b>446.1</b> | <b>117.1</b> | <b>242.4</b> | <b>359.5</b> |
| <b>Bank borrowings</b>                                  | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>-</b>     |
| Trade accounts payables third parties                   | 175.8        | -            | 175.8        | 122.5        | -            | 122.5        |
| Trade accounts payables group companies                 | 118.1        | -            | 118.1        | 95.2         | -            | 95.2         |
| <b>Total trade accounts payables</b>                    | <b>293.9</b> | <b>-</b>     | <b>293.9</b> | <b>217.7</b> | <b>-</b>     | <b>217.7</b> |
| Other liabilities owing to third parties                | 10.8         | 25.5         | 36.3         | 30.9         | 3.8          | 34.7         |
| Other liabilities owing to group companies              | 68.2         | 145.7        | 213.9        | 114.5        | 83.2         | 197.7        |
| <b>Total other liabilities</b>                          | <b>79.0</b>  | <b>171.2</b> | <b>250.2</b> | <b>145.4</b> | <b>87.0</b>  | <b>232.4</b> |
| <b>Total borrowings, payables and other liabilities</b> | <b>484.6</b> | <b>505.6</b> | <b>990.2</b> | <b>480.2</b> | <b>329.4</b> | <b>809.6</b> |

The contractual maturity of short-term liabilities is less than one year and for long-term liabilities over one year.

**(12) Material costs**

| in CHF million                                            | 2017             | 2016             |
|-----------------------------------------------------------|------------------|------------------|
| Raw materials, consumables and bought-in goods for resale | (1,340.9)        | (1,232.2)        |
| Outsourced manufacturing                                  | (14.4)           | (13.3)           |
| <b>Total material costs</b>                               | <b>(1,355.3)</b> | <b>(1,245.5)</b> |

**(13) Personnel expenses**

| in CHF million                  | 2017           | 2016           |
|---------------------------------|----------------|----------------|
| Wages and salaries              | (268.3)        | (247.3)        |
| Pension contributions           | (36.5)         | (36.9)         |
| Other social contributions      | (15.4)         | (15.3)         |
| <b>Total personnel expenses</b> | <b>(320.2)</b> | <b>(299.5)</b> |

**(14) Depreciation and amortization**

This position comprises depreciation and amortization of intangible assets and property, plant and equipment.

**(15) Financial revenues**

| in CHF million                                                             | 2017         | 2016        |
|----------------------------------------------------------------------------|--------------|-------------|
| <b>Recovery of depreciation on financial assets</b>                        | <b>-</b>     | <b>-</b>    |
| Financial investment revenues from third parties                           | 2.1          | 4.3         |
| Financial investment revenues from group companies                         | 139.9        | 49.1        |
| <b>Total revenues from financial investments</b>                           | <b>142.0</b> | <b>53.4</b> |
| Revenues from cash and marketable securities invested with third parties   | -            | -           |
| Revenues from cash and marketable securities invested with group companies | -            | -           |
| <b>Total revenues from cash and marketable securities</b>                  | <b>-</b>     | <b>-</b>    |
| <b>Total financial revenues</b>                                            | <b>142.0</b> | <b>53.4</b> |

**(16) Financial expenses**

| in CHF million                                            | 2017          | 2016          |
|-----------------------------------------------------------|---------------|---------------|
| <b>Depreciation on financial assets</b>                   | <b>(4.5)</b>  | <b>(8.2)</b>  |
| Interest and similar expenses incurred to third parties   | (17.9)        | (7.3)         |
| Interest and similar expenses incurred to group companies | (3.6)         | (2.9)         |
| <b>Total interest and similar expenses</b>                | <b>(21.5)</b> | <b>(10.2)</b> |
| <b>Operating currency and hedge gains/(losses)</b>        | <b>(10.5)</b> | <b>1.4</b>    |
| <b>Total financial expenses</b>                           | <b>(36.5)</b> | <b>(17.0)</b> |

**(17) Tax expense**

For income tax purposes, dividends received are tax-exempt.

**(18) Derivative financial instruments**

Hilti Corporation enters derivative contracts to hedge mainly foreign currency risks arising from forecast foreign currency sales and purchases transactions. Derivative contracts are recognized when the applicable forecast transactions occur. Until then they remain off-balance sheet. Recognized (i.e. on-balance sheet) derivative contracts are reported at fair value. Changes in the fair value of recognized derivative contracts are reported in the income statement. In accordance with Article 1093 of the PGR, details of the on- and off-balance sheet derivative contracts outstanding at balance sheet date are as follows:

| in CHF million                                   | 2017         | 2016         |
|--------------------------------------------------|--------------|--------------|
| <b>Contract face amounts</b>                     |              |              |
| Foreign currency forward contracts               | 714.7        | 546.4        |
| Interest rate swaps                              | 60.0         | 60.0         |
| <b>Total contract face amounts</b>               | <b>774.7</b> | <b>606.4</b> |
| <b>Contract values</b>                           |              |              |
| Foreign currency forward contracts               | (1.7)        | (5.3)        |
| Interest rate swaps                              | 5.6          | 7.0          |
| <b>Total contract values</b>                     | <b>3.9</b>   | <b>1.7</b>   |
| <b>Reporting of contract values</b>              |              |              |
| Contract values recognized (on-balance sheet)    | 3.9          | 1.7          |
| Contract values unrecognized (off-balance sheet) | –            | –            |
| <b>Total contract values</b>                     | <b>3.9</b>   | <b>1.7</b>   |

**(19) Segment information**

Pursuant to Article 1094 (2) of the PGR, a breakdown of net sales has not been disclosed.

**(20) Contingent liabilities**

| in CHF million                      | 2017         | 2016         |
|-------------------------------------|--------------|--------------|
| Guarantees third parties            | –            | –            |
| Guarantees group companies          | 134.4        | 151.9        |
| <b>Total contingent liabilities</b> | <b>134.4</b> | <b>151.9</b> |

**(21) Commitments**

Payment commitments arising from operating lease contracts and service contracts are as follows:

| in CHF million                 | 2017       | 2016       |
|--------------------------------|------------|------------|
| Expiring within 1 year         | 0.5        | 0.6        |
| Expiring between 1 and 5 years | 0.6        | 1.1        |
| <b>Total commitments</b>       | <b>1.1</b> | <b>1.7</b> |

**(22) Remuneration of the Board of Directors and the Corporate Management**

For details of the remuneration of the Board of Directors and the Corporate Management, see note (42) of the Group's consolidated financial statements.

**(23) Other transactions and balances with shareholder**

For details about other transactions and balances with the shareholder see note (42.3) within the notes to the consolidated financial statements.

**(24) Number of employees**

The breakdown of employees by nationality is as follows:

| Country                | 2017         | %           | 2016         | %           |
|------------------------|--------------|-------------|--------------|-------------|
| Austria                | 831          | 40%         | 831          | 42%         |
| Germany                | 408          | 20%         | 403          | 20%         |
| Liechtenstein          | 159          | 8%          | 162          | 8%          |
| Switzerland            | 225          | 11%         | 217          | 11%         |
| Other countries        | 452          | 21%         | 388          | 19%         |
| <b>Total employees</b> | <b>2,075</b> | <b>100%</b> | <b>2,001</b> | <b>100%</b> |

**(25) Management report**

Pursuant to Article 1121 (3) of the PGR, the management report of Hilti Corporation has been combined with the consolidated management report. The consolidated management report is on pages 6 and 7 of this Financial Report.

**(26) Appropriation of retained earnings**

| in CHF million                                     | 2017           | 2016           |
|----------------------------------------------------|----------------|----------------|
| Profit brought forward                             | 1,947.5        | 1,906.8        |
| Net income                                         | 392.7          | 284.0          |
| <b>At the disposal of the General Meeting</b>      | <b>2,340.2</b> | <b>2,190.8</b> |
| <b>Proposal by the Board of Directors</b>          |                |                |
| Dividend of                                        |                |                |
| CHF 1,040 (2016: CHF 960) per share                | 263.6          | 169.0          |
| CHF 0 (2016: CHF 96) per participation certificate | -              | 74.3           |
| Appropriation to other reserves                    | -              | -              |
| Balance carried forward                            | 2,076.6        | 1,947.5        |
| <b>Total</b>                                       | <b>2,340.2</b> | <b>2,190.8</b> |

# REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF HILTI AKTIENGESELLSCHAFT, SCHAAN

## Report on the audit of the financial statements

### Opinion

We have audited the accounting records and financial statements of Hilti Aktiengesellschaft, which comprise the balance sheet, the income statement and notes (pages 70 to 79), and the management report (pages 6 to 7) for the year ended December 31, 2017.

In our opinion, the financial statements give a true and fair view of the financial position as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Liechtenstein law. Furthermore, the accounting records and financial statements and the management report comply with Liechtenstein law and the company's articles of incorporation.

### Basis for opinion

We conducted our audit in accordance with Liechtenstein law and International Standards on Auditing (ISAs). Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Liechtenstein law and the requirements of the Liechtenstein audit profession, as well as the IESBA Code of Ethics for Professional Accountants and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Audit scope

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

### Materiality

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

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

|                                                        |                                                                                                                                                  |
|--------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Overall materiality</b>                             | CHF 21.4 million                                                                                                                                 |
| <b>How we determined it</b>                            | 5% of profit before tax                                                                                                                          |
| <b>Rationale for the materiality benchmark applied</b> | We chose profit before tax because, this is the most commonly used performance measure for the company and it is a generally accepted benchmark. |

### Report on key audit matters

We have determined that there are no key audit matters to communicate in our report.



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

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

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Liechtenstein law and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Liechtenstein law and ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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



**Report on other legal and regulatory requirements**

The management report is in accordance with the financial statements.

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



PricewaterhouseCoopers AG

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

René Rausenberger

Auditors in charge

A handwritten signature in blue ink, appearing to read 'Gianluca Galasso'.

Gianluca Galasso

St. Gallen, March 14, 2018









# CORPORATE GOVERNANCE

|                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Election and term of office for the members of the Board of Directors</b> | The members of the Board of Directors of Hilti Corporation are elected by the Annual General Meeting for three years. As a rule, directors serve up to four terms, but no longer than until the end of the business year in which they reach the age of 70.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Allocation of responsibilities and duties of the Board of Directors</b>   | <p>In addition to its legally defined duties, the Board of Directors specifically takes decisions on the basic strategic direction of the Group, its long-term and annual strategic planning, important business decisions, as well as the succession planning of the Board of Directors itself and the succession planning and the appointment of the Executive Board.</p> <p>In the last business year, the Board of Directors supervised the activities of the Executive Board and supported it in a consultative capacity. The Board of Directors took a strategic focus and was actively involved in projects concerning Group strategy. In several multiday Board meetings and visits to major operating units of the Group, as well as on the basis of written and oral reports of the Executive Board, the Board of Directors dealt intensively with the economic situation, day-to-day running of the business as well as with its corporate policy, financial planning, risk management and basic questions of corporate development. Furthermore, the Board of Directors was kept fully informed by the statutory auditors on the results of the audit of the annual financial statements.</p> |
| <b>Audit Committee</b>                                                       | The Audit Committee assists the Board of Directors in fulfilling its supervisory responsibilities with respect to the accounting and financial reporting practices of Hilti Corporation and its subsidiaries, compliance with legal and regulatory requirements, the internal and external audit processes as well as with its oversight of the risk management. The overall responsibility for the tasks delegated to the Audit Committee remains with the Board of Directors. In 2017, the Audit Committee consisted of Dr. Michael Jacobi (Chairman of the Audit Committee) and Dr. Tis Prager, who were appointed by the Board of Directors for a term of one year.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Internal audit</b>                                                        | The internal audit department, Corporate Audit, supports the Board of Directors by monitoring the internal control status within Group companies. To achieve this, Corporate Audit conducts audits focused on controls within major transaction cycles as well as on processes for management of selected corporate risks. Corporate Audit's objective is to provide transparency over the Group's control environment and enable security to be provided over the Group's resources.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Risk management</b>                                                       | The Group maintains an enterprise-wide risk management process which involves a complete risk inventory with different risk owners assigned to manage all known strategic, financial and occurrence-oriented risks of the Group. The risk owners are responsible for their respective risks to evaluate, implement, review and monitor compliance with the corresponding risk mitigation measures. For financial and occurrence-oriented risks, the Corporate Risk Manager is responsible for the risk reporting process and to ensure the reported content and identified measures regarding the identified risks are plausible. Corporate Audit undertakes reviews of selected risks as part of their internal control reviews in Group companies (see above) and in corporate functions managed by the respective risk owners. For strategic risks, Corporate Development runs annual strategy review workshops with the Executive Board. The risk management reporting is regularly reviewed by the Audit Committee, on behalf of the Board of Directors.                                                                                                                                             |

**Shareholders' participation rights**

Details of share and participation capital are given in the Group financial statements (see note (20)). Resolutions of shareholder meetings are generally decided by an absolute majority of represented votes. A majority of at least three quarters of represented votes is necessary to change the articles of incorporation, or for resolutions concerning changes to share and participation capital, subscription rights, expansion or restriction of business scope as well as mergers, transformation or liquidation of the company.

**Auditors**

The examinations of the Group financial statements and the financial statements of Hilti Corporation are conducted by PricewaterhouseCoopers AG, St. Gallen (leading auditor). The company was reappointed in March 2017 for the 2017 year. The auditor-in-charge has been responsible for the mandate from 2012 following a partner rotation after the 2011 year. In respect of the 2017 year, audit fees of PricewaterhouseCoopers amount to CHF 1.9 million whereas the non-audit fees amount to CHF 0.3 million. Total audit fees of the Group, including audits not performed by PricewaterhouseCoopers, amount to CHF 2.4 million.



## INVESTOR INFORMATION

### Contact information

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### Key dates

Interim financial information  
January to April 2018

May 16, 2018

Interim financial information  
January to August 2018

September 19, 2018

Publication of the 2018 Financial Report

March 15, 2019

Annual results media conference

March 15, 2019



