LEM

Life Energy Motion

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LEM Group

Consolidated statement of financial position

Assets

in CHF thousands	Notes	31.3.2019	31.3.2018 Restated	1.4.2017 Restated
Current assets				
Cash and cash equivalents		12'538	17'630	12'809
Accounts receivable	6	68'651	66'648	58'479
Inventories	7	39'211	35'787	30'628
Income tax receivable		2'571	131	723
Other current assets	8	2'226	2'541	1'905
Total current assets		**125'197**	**122'737**	**104'543**
Noncurrent assets				
Deferred tax assets	20	13'494	14'189	4'555
Property, plant and equipment	9	42'209	39'937	31'381
Intangible assets	10	5'178	6'181	7'045
Other noncurrent assets	11	1'036	2'800	985
Total noncurrent assets		**61'916**	**63'107**	**43'967**
Total assets		**187'113**	**185'844**	**148'510**

Liabilities and equity

in CHF thousands	Notes	31.3.2019	31.3.2018 Restated	1.4.2017 Restated
Current liabilities				
Accounts payable	12	22'760	25'718	24'598
Accrued expenses		26'047	26'359	22'043
Income tax payable		5'253	6'037	2'824
Current provisions	13	1'778	682	1'061
Interest-bearing loans and borrowings		8'000	5'000	
Other current liabilities	14	660	778	578
Total current liabilities		**64'498**	**64'574**	**51'106**
Noncurrent liabilities				
Noncurrent provisions	13	1'980	1'026	1'127
Deferred tax liabilities	20	3'559	6'793	1'881
Other noncurrent liabilities	14	3'951	1'873	2'157
Total noncurrent liabilities		**9'490**	**9'692**	**5'165**
Total liabilities		**73'988**	**74'267**	**56'270**
Equity				
Share capital	15	570	570	570
Treasury shares	15	(983)	(1'091)	(906)
Reserves	15	11'616	12'997	9'467
Retained earnings		101'922	99'101	83'110
Total equity		**113'125**	**111'577**	**92'239**
Total liabilities and equity		**187'113**	**185'844**	**148'510**

Consolidated income statement

in CHF thousands	Notes	April to March 2018/19	2017/18 Restated
Sales		321'591	301'243
Cost of goods sold		(175'098)	(162'383)
Gross margin		**146'493**	**138'859**
Sales expenses		(29'733)	(30'278)
Administration expenses		(24'640)	(24'609)
Research & development expenses		(27'576)	(21'255)
Other expenses			
Other income		252	412
Operating profit		**64'796**	**63'129**
Financial expenses	17	(179)	(298)
Financial income	18	155	143
Exchange effect	19	(2'519)	1'345
Profit before taxes		**62'252**	**64'320**
Income taxes	20	(9'876)	(9'891)
Net profit for the year		**52'376**	**54'428**
Earnings per share, in CHF Basic & diluted earnings per share	21	45.97	47.76

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

Consolidated statement of comprehensive income

in CHF thousands	Notes	April to March 2018/19	April to March 2017/18 Restated
Net profit for the period recognized in the income statement		**52’376**	**54’428**
Other comprehensive income to be reclassified to profit and loss in subsequent periods			
Currency translation difference		(1’272)	3’346
Total other comprehensive income to be reclassified to profit and loss in subsequent periods		**(1’272)**	**3’346**
Other comprehensive income not to be reclassified to profit and loss in subsequent periods			
Remeasurement gains / (losses) on defined benefit plans, in Switzerland	23	(4’758)	1’707
Remeasurement gains / (losses) on defined benefit plans, in Germany	23	22	30
Income tax	20	1’007	(389)
Total other comprehensive income not to be reclassified to profit and loss in subsequent periods		**(3’730)**	**1’348**
Other comprehensive income / (loss) for the period, net of tax		**(5’002)**	**4’694**
Total comprehensive income for the period		**47’374**	**59’122**

Consolidated statement of changes in equity

Attributable to shareholders

in CHF thousands	Notes	Share capital	Treasury shares	Capital reserve	Translation reserve	Retained earnings	Total equity
1 April 2017		**570**	**(906)**	**12’849**	**(3’383)**	**81’350**	**90’480**
Effect of restatement	3					1’760	1’760
1 April 2017 Restated		**570**	**(906)**	**12’849**	**(3’383)**	**83’110**	**92’239**
Net profit for the year						54’428	54’428
Other comprehensive income/(loss)					3’346	1’348	4’694
Total comprehensive income					*3’346*	*55’777*	*59’122*
Dividends paid	15					(39’889)	(39’889)
Movement in treasury shares	15		(185)	185		104	104
31 March 2018 Restated / 1 April 2018		**570**	**(1’091)**	**13’034**	**(37)**	**99’101**	**111’577**
Net profit for the year						52’376	52’376
Other comprehensive income/(loss)					(1’272)	(3’730)	(5’002)
Total comprehensive income					*(1’272)*	*48’646*	*47’374*
Dividends paid	15					(45’561)	(45’561)
Movement in treasury shares	15		109	(109)		(265)	(265)
31 March 2019		**570**	**(983)**	**12’926**	**(1’310)**	**101’922**	**113’125**

The amount available for dividend distribution is based on LEM HOLDING SA shareholders’ equity determined in accordance with the legal provisions of the Swiss Code of Obligations.

Consolidated cash flow statement

in CHF thousands	Notes	April to March 2018/19	April to March 2017/18 Restated
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxes		**62’252**	**64’320**
Adjustment for noncash items and taxes paid			
Net financial result		14	134
Derivative financial instruments revaluation		(73)	223
Depreciation and amortization		9’056	8’219
Impairment loss		2’734	550
Gain / Loss on disposal of fixed assets		402	420
Increase (+) / decrease (-) of provisions and allowances		3’791	(318)
Movement in pension		(1’000)	(870)
Interest received		113	79
Interest paid		(127)	(213)
Taxes paid		(14’852)	(10’824)
Cash flow before changes in net working capital		**62’310**	**61’719**
Change in inventories		(4’908)	(4’106)
Change in accounts receivable and other current assets		(3’511)	(6’419)
Change in payables and other liabilities		(342)	2’930
Cash flow from changes in net working capital		**(8’761)**	**(7’594)**
Cash flow from operating activities		**53’549**	**54’124**
CASH FLOW FROM INVESTING ACTIVITIES			
Investment in fixed assets	9	(14’243)	(14’788)
Investment in intangible assets	10	(365)	(434)
Increase (-) in other assets		(610)	(268)
Decrease (+) in other assets		465	377
Cash flow from investing activities		**(14’754)**	**(15’113)**
CASH FLOW FROM FINANCING ACTIVITIES			
Treasury shares acquired (-)	15	(10’445)	(10’208)
Treasury shares divested (+)	15	10’180	10’312
Dividends paid to the shareholders of LEM HOLDING SA	15	(45’561)	(39’889)
Increase (+) in financial liabilities		52’000	43’000
Decrease (-) in financial liabilities		(49’000)	(38’000)
Cash flow from financing activities		**(42’826)**	**(34’785)**
Change in cash and cash equivalents		**(4’030)**	**4’226**
Cash and cash equivalents at the beginning of the period		**17’630**	**12’809**
Exchange effect on cash and cash equivalents		(1’062)	595
Cash and cash equivalents at the end of the period		**12’538**	**17’630**

Notes to the consolidated financial statements

1. General information

LEM Group (the Group) is a leading company in electrical measurement. LEM engineers the best solutions for energy and mobility, ensuring that its customers' systems are optimized, reliable and safe. The Group has operations in fifteen countries and employs 1'477 people as per 31 March 2019. The parent company of LEM Group is LEM HOLDING SA (the Company), which is a limited company incorporated in Switzerland.

The registered office is at Avenue Beauregard 1, CH-1700 Fribourg. The financial year ends on 31 March (the year). The Company has been listed on the SIX Swiss Exchange since 1986.

The Board of Directors approved the consolidated financial statements on 16 May 2019, to be submitted for approval by the Annual General Meeting of Shareholders on 27 June 2019.

2. Significant accounting principles

2.1 Basis of preparation

The consolidated financial statements of LEM Group have been prepared in accordance with the International Financial and Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB) and comply with Swiss law.

The consolidated financial statements have been prepared using the historical cost convention except that, as discussed in the accounting policies below, certain items like derivatives are recorded at fair value.

The financial information is presented in thousands of CHF. The totals are calculated with the original unit amounts, which could lead to rounding differences. These differences in thousands of units are not changed in order to keep the accuracy of the original data.

2.2 Adoption of new and revised International Financial Reporting Standards and interpretations

New standards in 2018/19

In 2018/19, LEM Group introduced the following revised standards and interpretations:

Standard or interpretation	Title	Effective date
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers and its Amendments	1 January 2018

New and amended standards and interpretations

The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.
Several other amendments and interpretations applied for the first time in 2018 but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.
IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenues and cash-flows arising from an entity's contracts with customers.
According to the new guidance, revenue recognition depicts the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled for these goods and services. Revenue is recognized when (or as) control of the goods and services is transferred to the customer. The standard replaces existing revenue recognition guidance including IAS 18 Revenues.
The Group has evaluated the potential impacts of this standard on the timing of recognition of revenue. Representative contracts with customers have been reviewed and as a result, the performance obligations identified relate primarily to the delivery of manufactured products. They may contain some additional performance obligations such as freight costs recharges or specific product developments which are highly dependent on the delivery of our transducers and amount to only 0.3 % of revenues at 31 March 2019. Before IFRS 15 implementation, the Group was already recognizing revenues at points in time according to the different delivery terms, which is in line with IFRS 15 based on the performance obligations identified. As a result there is no impact of the transition in the financial statements.
IFRS 9 generates changes to the classification and measurement of financial instruments as well as to the impairment of financial assets, in particular bad debt allowances. The Group implemented the new standard as of April 1, 2018. The exemption from full retrospective application for the classification and measurement requirements has been applied. As a consequence, comparative figures were not restated and continue to be reported under IAS 39.
The bad debt allowance calculation has been adjusted in order to reflect the forward looking expected credit loss model using the Group's historical credit loss experience, adjusted for forward looking factors specific to the customers and/or the economic environment. The new calculation mainly impacts the not-past-due receivables. This impact amounts to CHF 0.1 million as of March 31, 2019. Accounts receivable, which were presented under "Loans & receivables" under IAS 39, are now presented in the category "Financial assets at amortized cost".

Future standards

LEM Group will adopt the following revised standards and interpretations in the future:

Standard or interpretation	Title	Effective date
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019

The Group will implement the relevant new standards when they become effective, i.e., for annual periods beginning on or after the effective date stated above.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaces the following standards:
- IAS 17 Leases,
- IFRIC 4 Determining whether an Arrangement contains a Lease,
- SIC-15 Operating Leases-Incentives and
- SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model comparable to finance leases under IAS 17.
The standard includes two recognition exemptions for lessees: leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).
At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.
Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.
IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 using the modified retrospective approach. The Group will apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., printing and photocopying machines) that are considered of low value.

In 2018/19, the Group has performed a detailed impact assessment of IFRS 16. This will result in an increase in assets and liabilities of approximately CHF 18.5 million. Furthermore, the Group expects a decrease in operating expenses of approximately CHF 0.2 million and an increase of financial expenses by approximately CHF 0.5 million in 2019/20. The first-time application will not have a significant impact on the Group's net profit. Comparatives will not be restated.

2.3 Summary of critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and related disclosures at the date of the financial statements. These estimates are based on management's best knowledge of current events and actions that the Group may undertake in the future. However, actual results could differ from those estimates. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below.

Impairment of goodwill, other intangible assets and property, plant and equipment
The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. Other intangible assets and property, plant and equipment are tested for impairment if there is a triggering event indicating a potential impairment. These calculations require the use of estimates in particular to the expected growth of sales, discount rates and development of raw material prices.

Provisions
Provisions are recognized only if the specific criteria under IFRS are met. Provisions represent presumed obligations arising from past events and are recognized only if their amount can be estimated reliably. Nevertheless, provisions are based on assumptions.

Income and other taxes
The Group operates in multiple jurisdictions with complex legal and tax regulatory environments. Some of these positions are inherently uncertain and include those relating to transfer pricing matters and the interpretation of income tax laws applied to complex transactions. The Group periodically reassesses its tax positions. Changes to the financial statement recognition, measurement and disclosure of tax positions are based on management's best judgment given any changes in the facts, circumstances, information available and applicable tax laws.

Employee benefits
The standard requires that certain assumptions are made in order to determine the amount to be recorded for defined benefit obligations and pension plan assets, in particular for defined benefit plans. These are mainly actuarial assumptions such as expected salary increase, employee turnover and discount rates. Substantial changes in the assumed development of any of these variables may significantly change LEM Group's retirement benefit obligation and pension plan assets.

Valuation of deferred tax assets
The carrying amount of deferred tax assets is reviewed on each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2.4 Basis of consolidation
The consolidated financial statements are comprised of LEM HOLDING SA and of its subsidiaries.

Subsidiaries
Subsidiaries are those entities over which the Group has control. Control is when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary to direct the relevant activities.
Business combinations are accounted for using the acquisition method. Companies that are acquired are included when control is obtained and are consolidated until control is transferred to the acquirer. The costs of purchasing a company are determined as the sum of the fair value of the assets that are to be paid to the seller and the obligations that are entered into, or acquired, on the date of purchase. Identifiable acquired assets, liabilities and contingent liabilities are recognized at their fair value as of the date of their acquisition. The Group's share of the purchase price that exceeds the fair value of the identifiable net assets is recognized as goodwill. The Group's share of the fair value of the identifiable net assets that exceeds the purchase price is shown as a gain on bargain purchase on the income statement.
Intragroup assets and liabilities as well as income and expenses are set off against each other.
Unrealized intragroup profits, particularly on inventories and fixed assets, are eliminated.

Associates

Investments in associated undertakings are accounted for using the equity method. These are undertakings over which the Group exercises significant influence, but which it does not control.
No associated undertakings exist as per 31 March 2019 and 31 March 2018.

2.5 Foreign currencies

Functional and presentation currency

The consolidated financial statements are presented in Swiss francs as the presentation currency. The subsidiaries use local currencies as their functional currency, which is the currency of the primary economic environment in which they operate.

Foreign currency translation

All assets and liabilities in the balance sheets of subsidiaries that are denominated in the respective functional currencies are translated into Swiss francs at the year-end exchange rate. Items in the income statement and cash flow statement are translated at the average exchange rate for the year. The resulting translation differences are recognized in other comprehensive income. When a company is sold, the cumulative translation differences recognized in other comprehensive income are transferred to the income statement.
The following table summarizes the principal exchange rates that have been used in the translation process:

	Income statement of 2018/19	**Income statement of 2017/18**	**Balance sheet 31.3.2019**	**Balance sheet 31.3.2018**
Currency	Average rate in CHF	Average rate in CHF	Year-end rate in CHF	Year-end rate in CHF
BGN	0.586	0.579	0.571	0.600
CNY	0.147	0.146	0.148	0.152
DKK	0.154	0.152	0.150	0.157
EUR	1.146	1.133	1.116	1.174
GBP	1.299	1.285	1.296	1.336
JPY	0.0089	0.0088	0.0090	0.0090
RUB	0.015	0.017	0.015	0.017
USD	0.989	0.971	0.995	0.953

Foreign currency transactions

Foreign currency transactions are translated at the market rate prevailing at that time. The monetary assets and liabilities are translated at the year-end rates while nonmonetary assets are translated at historical rates. Gains and losses arising from the transactions as well as from the translation of monetary assets and liabilities in foreign currencies are recorded as income or expenses in the income statement (except from translation differences arising from a monetary item that forms part of the Group's net investment in a foreign operation, which are included in shareholders' equity).

2.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and cash at postal accounts and bank deposits with an original maturity of three months or less from the date of acquisition, that are readily convertible to known amounts of cash.

2.7 Inventories

Inventories are stated at the lower of cost or net realizable value. The first-in, first-out (FIFO) method is applied. The cost of finished goods and work in process comprise raw materials, direct labor costs and other costs that can be directly allocated, such as production overhead expenditures. Allowances are established when:
– there is an objective indication that the Group will not be able to sell the goods in due time;
– the goods are damaged, in excess or obsolete;
– the net realizable value is below cost.

2.8 Property, plant and equipment

Property, plant and equipment is stated at cost of acquisition or construction, less depreciation and any impairment. Depreciation is calculated on a straight-line basis on the following estimated useful life:

Land	nil
Buildings	20–40 years
Machinery and equipment	5–8 years
Tools and moulds	2–5 years
Vehicles	3–5 years
IT equipment	3–5 years

Repairs and renewals are charged to the income statement when the expense is incurred. Subsequent expenditure on an item of property, plant and equipment is capitalized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

2.9 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions is reported in the balance sheet under intangible assets and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Research & development

Research costs are expensed as incurred. An intangible asset arising from development is recognized if, and only if, the Group can demonstrate the following:
– the technical feasibility of completing the intangible asset;
– Group's intention to complete the intangible asset;
– ability to use or sell the intangible asset and the expectation that the intangible asset will generate probable future economic benefits;
– the availability of adequate technical, financial and other resources to complete the development; and
– the ability to measure the expenditure attributable to the intangible asset during its development reliably.
Such development costs are capitalized and amortized over the life of the product or process.

Other intangible assets

Other intangible assets with definite useful lives are carried at cost less amortization and any impairment.
Expenditure on computer software, acquired patents, trademarks and licenses is capitalized and amortized using the straight-line method over their useful lives, not exceeding five years.

2.10 Impairment of tangible fixed assets and intangible assets

Assets that are subject to depreciation and amortization are reviewed for impairment 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 the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.
For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).
The value in use is calculated based on the estimated future cash flows expected to result from the use of the asset and eventual disposal, discounted using an appropriate noncurrent interest rate.
Goodwill is tested for impairment annually (at 31 March) and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Impairment losses relating to goodwill cannot be reversed in future years.

2.11 Financial assets

Financial assets comprise cash, receivables, certain accrued income, marketable securities and derivative financial instruments.

Initial recognition and measurement

At initial recognition, financial assets are designated into two categories, financial assets at fair value through profit and loss and at amortized cost.
Financial assets are initially recognized at fair value plus, in the case of a financial asset not at fair value through profit and loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification:
- financial assets at fair value through profit and loss (refer to note 2.12);
- loans and receivables are measured at amortized cost using the effective interest rate method, less impairment.

Accounts receivable are carried at original invoice amount less an allowance made for doubtful accounts based on a review of all outstanding amounts at the year-end covering expected lifetime credit losses. Allowances for doubtful accounts are established when there is an objective indication that the Group will not be able to collect the amounts due. Allowances for doubtful accounts are written off when identified as irrecoverable. For accounts receivable that are not individually adjusted, LEM applies the simplified approach for the recognition of the expected lifetime losses using a provision matrix.

Other receivables are measured at amortized cost less allowances for amounts that are deemed not to be recoverable.

2.12 Derivative financial instruments

The Group uses derivative financial instruments to hedge foreign exchange risks of forecasted transactions. Derivative financial instruments comprise forward exchange contracts.

Derivative financial instruments are initially measured at fair value and subsequently at fair value through profit and loss. Any gains and losses arising from changes in fair value on derivatives are taken directly to the income statement, which means that the Group does not apply hedge accounting.
Derivative financial instruments are shown as part of other current assets and other current liabilities. In case the maturity is more than one year, derivative financial instruments are recognized under other noncurrent assets or other noncurrent liabilities.

2.13 Financial liabilities

Financial liabilities comprise bank loans, payables, certain accrued expenses and derivative financial instruments at the end of the period.
All financial liabilities are recognized initially at fair value less, in the case of financial liabilities not at fair value through profit and loss, directly attributable transaction costs.
Financial liabilities that are due within 12 months after the balance sheet date are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability until more than 12 months after the balance sheet date.

2.14 Leases

In the years under review LEM Group does not hold any finance leases.
Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease term.

2.15 Employee benefits

The Swiss and German subsidiaries provide a defined benefit plan for employees; the other subsidiaries provide defined contribution plans. In both cases the charges are included in the related periods in the personnel expenses of the various functions where the employees are located.

Defined benefit plan

The defined benefit obligation is determined annually by qualified independent actuaries. The obligation and costs of pension benefits are determined using the projected unit credit method. Service costs are part of personnel expenses and consist of current service costs, past service costs and gains/losses from plan settlements. Past service costs are recognized at the earlier of the date when the plan amendment occurs, or when restructuring costs are recognized. They include plan amendment and curtailment. Gains or losses on settlement of pension benefits are recognized when the settlement occurs. Net interest is recorded in the financial result and is determined by applying the discount rate to the net defined benefit liability/asset that exists at the beginning of the year. Actuarial gains and losses resulting from changes in actuarial assumptions and experience adjustments are recorded in other comprehensive income as remeasurements of employee benefits. The return on plan assets (excluding interest based on the discount rate) and any change in the effect of an asset ceiling are also recorded in this line. In accordance with IFRIC 14, any assets resulting from surpluses in defined benefit plans are limiting its economic benefit such as to the value of the maximum future savings from reduced contributions.

Defined contribution plan

The subsidiaries sponsor defined contribution plans based on local practices and regulations.

LEM Incentive System

The LEM Incentive System consists of a short-term incentive component and a long-term incentive component.
The short-term incentive component compensates for the actual annual results and achieved performance. The long-term incentive plan rewards the members of the Executive Management and Senior Managers for the sustainable financial performance of the Group.
Both elements are cash settled and the bonus payments are made in the first four months of the following fiscal year. The estimated payments are accrued for year-end.

2.16 Provisions and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Warranty and customer claims

The Group recognizes the estimated liability to replace products still under warranty at the balance sheet date. This position is calculated based on past history of the level of repairs and replacements. Additional specific provisions are booked when required.

Litigations and consumption taxes

The Group recognizes the estimated country and entity-specific risks relating to litigations with former personnel or indirect taxation.

Restructuring

A constructive obligation to restructure arises only when an entity has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected, function and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented;

and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent liabilities

Contingent liabilities arise from past events where the outcome depends on future events. As the probability either cannot be measured reliably or the probability for a subsequent outflow lies below 50 %, contingent liabilities are not recognized in the balance sheet but are described in the notes.

2.17 Share capital

LEM HOLDING SA has only ordinary registered shares. Dividends on ordinary shares are recognized in equity in the period in which they are declared.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in retained earnings.

2.18 Revenue recognition

Revenue from the sale of products is recognized at a point in time when LEM satisfies its performance obligation, which is the moment when the customer acquires control over the product. This is generally achieved at delivery of the products. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.
Revenue from the sale of products comprises all revenues that are derived from sales of products to third parties after deduction of price rebates and value-added tax.

2.19 Income taxes and deferred taxation

Income taxes

Income taxes comprise all current and deferred income taxes, including the withholding tax payable on profit distributions within the Group. Income taxes are recognized in the consolidated income statement except for income taxes on transactions that are recognized directly in shareholders' equity or in other comprehensive income.

Deferred taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred taxes are determined using tax rates that apply, or have been substantially enacted, on the balance sheet date in the countries where the Group is active. Tax losses carried forward and deductible temporary differences are recognized as deferred tax assets to the extent that it is probable that tax profit will be available in the future against which the tax losses carried forward can be utilized. Deferred tax assets and liabilities are offset against each other if the corresponding income taxes are raised by the same tax authority and a legally enforceable right for offsetting exists.

3. Restatement of the opening balance sheet as at 1 April 2017 and of the consolidated financial statements for the year ended at 31 March 2018

In April 2019 the Group has identified an error in the consolidated financial statements for the years ended 31 March 2018 and 31 March 2017. The conversion rates used for the calculation of the retirement benefit obligations as of 31 March 2018 and 31 March 2017 were not correct.

According to IAS 8, an entity shall correct material prior errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Consequently, the comparative periods of these reports have been restated and are presented hereinafter.

in CHF thousands	31.3.2017	IAS 19 Restatement	1.4.2017 Restated
Noncurrent assets			
Deferred tax assets	5'028	(473)	4'555
Noncurrent liabilities			
Other noncurrent liabilities	4'389	(2'232)	2'157
Equity			
Retained earnings	81'350	1'760	83'110

Notes to the consolidated financial statements

in CHF thousands	31.3.2018	IAS 19 Restatement	31.3.2018 Restated
Noncurrent assets			
Deferred tax assets	14'469	(280)	14'189
Other noncurrent assets	906	1'894	2'800
Noncurrent liabilities			
Deferred tax liabilities	6'392	400	6'793
Other noncurrent liabilities	3'205	(1'332)	1'873
Equity			
Retained earnings	96'556	2'545	99'101

in CHF thousands	2017/18	IAS 19 Restatement	2017/18 Restated
Sales	301'243		301'243
Cost of goods sold	(162'826)	443	(162'383)
Gross margin	**138'416**	**443**	**138'859**
Sales expenses	(30'540)	261	(30'278)
Administration expenses	(24'892)	283	(24'609)
Research & development expenses	(21'679)	423	(21'255)
Other expenses			
Other income	412		412
Operating profit	**61'719**	**1'411**	**63'129**
Financial expenses	(298)		(298)
Financial income	127	16	143
Exchange effect	1'345		1'345
Profit before taxes	**62'893**	**1'426**	**64'320**
Income taxes	(9'587)	(304)	(9'891)
Net profit for the year	**53'306**	**1'122**	**54'428**

Earnings per share

	2017/18	Restatement	2017/18 Restated
Basic and diluted earnings per share			
Net profit for the year attributable to LEM shareholders – in CHF thousands	53'306	1'122	54'428
Ordinary number of shares at the beginning of the year	1'140'000		1'140'000
Weighted average number of ordinary shares	1'140'000		1'140'000
Weighted average number of treasury shares	418		418
Weighted average number of shares outstanding	1'139'582		1'139'582
Earnings per share – basic and diluted in CHF	46.78		47.76

4. Segment information

Business segment information

In CHF thousands	Industry 2018/19	Industry 2017/18 Restated	Automotive 2018/19	Automotive 2017/18 Restated	LEM Group 2018/19	LEM Group 2017/18 Restated
Income statement						
Sales	250'230	242'248	71'361	58'995	321'591	301'243
EBITDA	64'503	58'760	12'083	13'137	76'585	71'897
Operating profit	54'903	52'350	9'893	10'779	64'796	63'129
Net financial expenses					(2'544)	1'190
Taxes					(9'876)	(9'891)
Net profit for the year					**52'376**	**54'428**
Depreciation and amortization						
Tangible assets	5'880	5'300	1'837	1'618	7'717	6'919
Intangible assets	986	925	352	375	1'338	1'300
Impairment loss	2'734	184		366	2'734	550
Total	**9'600**	**6'410**	**2'190**	**2'359**	**11'790**	**8'768**
Capital expenditures						
Tangible assets	9'583	10'271	4'660	4'517	14'243	14'788
Intangible assets	284	349	81	85	365	434
Total assets	**9'867**	**10'620**	**4'741**	**4'602**	**14'608**	**15'222**

For management purposes, LEM Group is organized into two operating segments, Industry and Automotive. The Industry segment develops, manufactures and sells electronic components called transducers for the measurement of current and voltage of various industrial applications. The Automotive segment develops, manufactures and sells transducers for applications in automotive markets.

5. Revenue information

Regional information

In CHF thousands	Industry 2018/19	Industry 2017/18	Automotive 2018/19	Automotive 2017/18	LEM Group 2018/19	LEM Group 2017/18
Sales						
Europe	102'899	97'786	4'336	3'571	107'235	101'357
North America	28'678	26'154	14'539	16'770	43'217	42'924
Asia and rest of the world	118'653	118'308	52'486	38'654	171'139	156'962
Total	**250'230**	**242'248**	**71'361**	**58'995**	**321'591**	**301'243**

Geographical information

In CHF thousands	China 2018/19	China 2017/18	USA 2018/19	USA 2017/18	Germany 2018/19	Germany 2017/18	Japan 2018/19	Japan 2017/18
Sales	106'340	98'499	41'155	41'381	38'113	38'992	28'344	26'361
Noncurrent assets	15'853	14'705	23	31	259	223	3'894	3'589

In CHF thousands	Italy 2018/19	Italy 2017/18	Switzerland 2018/19	Switzerland 2017/18	Rest of the world 2018/19	Rest of the world 2017/18	LEM Group 2018/19	LEM Group 2017/18
Sales	11'667	11'048	3'856	3'095	92'116	81'866	321'591	301'243
Noncurrent assets[1]	49	63	16'231	17'772	11'078	9'733	47'387	46'118

Sales are reported as per place of transaction.

[1] Other than financial instruments, deferred tax assets, post employment benefit assets

6. Accounts receivable

in CHF thousands	31.3.2019	31.3.2018
Accounts receivable – trade	62'468	59'799
Allowance for doubtful accounts / expected credit losses	(838)	(763)
Total accounts receivable – trade	61'630	59'035
Other receivables	7'020	7'612
Total	**68'651**	**66'648**

Movements of allowance for doubtful accounts / expected credit losses

in CHF thousands	2018/19	2017/18
Opening position	**763**	**689**
Additions charged / (reversals credited) to income statement	437	129
Amounts written off	(350)	(75)
Foreign exchange effect	(12)	19
Total	**838**	**763**

Aging analysis of accounts receivable

In CHF thousands	Not due	< 30 days	31–90 days	91–180 days	> 180 days	Total
31 March 2018						
Accounts receivable – trade	47'636	8'411	2'826	371	555	59'799
Allowances for doubtful accounts / expected credit losses			(144)	(97)	(522)	(763)
Other receivables	7'601				11	7'612
Total	**55'237**	**8'411**	**2'682**	**274**	**44**	**66'648**
31 March 2019						
Accounts receivable – trade	49'839	8'793	2'825	694	317	62'468
Allowances for doubtful accounts / expected credit losses	(204)	(42)	(127)	(155)	(311)	(838)
Other receivables	6'832	189				7'020
Total	**56'467**	**8'940**	**2'698**	**539**	**7**	**68'651**

7. Inventories

in CHF thousands	31.3.2019	31.3.2018
Raw material	17'841	13'391
Work in progress	2'203	1'724
Finished goods and goods for resale	19'167	20'672
Total	**39'211**	**35'787**

The inventories include allowances of CHF 3'071 thousand (at 31 March 2018 CHF 2'196 thousand).

8. Other current assets

in CHF thousands	31.3.2019	31.3.2018
Advances to suppliers	608	713
Prepayments and accrued income	1'538	1'613
Other current assets	80	215
Total	**2'226**	**2'541**

9. Property, plant and equipment

in CHF thousands	Land and buildings	Machinery and equipment	Total
Net book value 1 April 2017	**87**	**31'294**	**31'381**
Foreign exchange effect		1'658	1'657
Investment		14'788	14'788
Disposal		(420)	(420)
Impairment gain / (loss)		(550)	(550)
Depreciation charge for the year	(15)	(6'904)	(6'919)
Net book value 31 Mars 2018	**71**	**39'866**	**39'937**
At cost of acquisition	364	108'941	109'305
Accumulated depreciation	(293)	(69'075)	(69'368)
Net book value 31 Mars 2018	**71**	**39'866**	**39'937**
Net book value 1 April 2018	**71**	**39'866**	**39'937**
Foreign exchange effect		(1'118)	(1'118)
Investment	6	14'237	14'243
Disposal		(402)	(402)
Impairment gain / (loss)		(2'734)	(2'734)
Depreciation charge for the year	(15)	(7'702)	(7'717)
Net book value 31 Mars 2019	**62**	**42'146**	**42'209**
At cost of acquisition	370	119'297	119'668
Accumulated depreciation	(308)	(77'151)	(77'459)
Net book value 31 Mars 2019	**62**	**42'146**	**42'209**

10. Intangible assets

in CHF thousands	Goodwill	Patents	Other intangible assets	Total
Net book value 1 April 2017	**3'165**	**247**	**3'633**	**7'045**
Foreign exchange effect	(23)		25	2
Investment			434	434
Transfer movement		44	(44)	
Amortization charge for the year	(1)	(76)	(1'223)	(1'300)
Net book value 31 Mars 2018	**3'141**	**215**	**2'825**	**6'181**
At cost of acquisition	3'141	5'374	10'467	18'982
Accumulated amortization		(5'159)	(7'642)	(12'801)
Net book value 31 Mars 2018	**3'141**	**215**	**2'825**	**6'181**
Net book value 1 April 2018	**3'141**	**215**	**2'825**	**6'181**
Foreign exchange effect	(13)		(16)	(29)
Investment		33	332	365
Transfer movement		1	(1)	
Amortization charge for the year		(76)	(1'262)	(1'338)
Net book value 31 Mars 2019	**3'127**	**173**	**1'878**	**5'178**
At cost of acquisition	3'127	5'408	10'739	19'274
Accumulated amortization		(5'235)	(8'862)	(14'096)
Net book value 31 Mars 2019	**3'127**	**173**	**1'878**	**5'178**

The entire goodwill of LEM Group results from the acquisition of NANA in 2000/01 and is allocated to the cash-generating unit LEM Japan KK. The goodwill relates to the Industry segment. The recoverable amount has been determined based on value-in-use calculations. These calculations use cash flow projections of five years based on financial business plans and budgets approved by management. The projections include assumptions concerning revenue growth and expected operating costs. Average revenue growth is projected at 9 % and operating costs were estimated based on the experience of management. The pretax discount rate used within these cash flow calculations is 12.8 % (2017/18 11.2 %) and is based on the weighted average cost of capital of a peer group. The carrying value of the cash-generating unit including goodwill was compared to the value in use and no impairment was found for the year ended 31 March 2019.

11. Other noncurrent assets

in CHF thousands	31.3.2019	31.3.2018 Restated
Loans to personnel	422	525
Deposits & guarantees	613	381
Postemployment benefit plans		1'894
Total	**1'036**	**2'800**

12. Accounts payable

in CHF thousands	31.3.2019	31.3.2018
Total accounts payable – trade	19’581	20’634
Other payables	3’179	5’085
Total	**22’760**	**25’718**

13. Provisions

In CHF thousands	Warranty and customer claims	Litigations and consumption taxes	Other	Total
Balance as per 1 April 2017	**1’961**	**227**		**2’188**
Additional provisions	474			474
Unused amounts reversed	(735)	(34)		(769)
Utilized during the year	(191)			(191)
Foreign exchange effect	(4)	11		7
Balance as per 31 March 2018	**1’505**	**204**		**1’709**
Of which current				*682*
Of which noncurrent				*1’026*
Balance as per 1 April 2018	**1’505**	**204**		**1’709**
Additional provisions	2’399		976	3’375
Unused amounts reversed	(790)			(790)
Utilized during the year	(526)			(526)
Foreign exchange effect	(12)	(5)	8	(9)
Balance as per 31 March 2019	**2’575**	**198**	**985**	**3’758**
Of which current				*1’778*
Of which noncurrent				*1’980*

Warranty and customer claims
Provisions for warranty and customer claims have been estimated based on past experience and the risk assessment of management. The warranty provision is expected to be used over the next five years.

Litigations and consumption taxes
Despite the care that LEM applies in the separation process with personnel, such separation may result in legal conflicts. The Group reviews all legal claims and takes appropriate actions to support its position and management estimates the reasonable risk to be provided for.

The Company operates in multiple jurisdictions with complex legal and tax regulatory environments. In the frame of the continuous improvement of its processes and systems, LEM has reviewed the consumption taxes in several countries. It has appeared that some LEM’s subsidiaries may not have been fully compliant with their local consumption tax regulations. As a consequence, LEM has estimated consumption tax provisions according to management’s best judgment. Some of these positions are inherently uncertain and include the interpretation of local regulations applied to complex transactions.

14. Other liabilities

In CHF thousands	31.3.2019	31.3.2018 Restated	1.4.2017 Restated
Postemployment benefit plans	2'692	828	1'416
Derivative financial instruments	168	241	18
Other liabilities	1'751	1'582	1'301
Total	**4'611**	**2'651**	**2'735**
Of which current	*660*	*778*	*578*
Of which noncurrent	*3'951*	*1'873*	*2'157*

The increase of the post-employment benefit plan liability is mainly linked to the decrease in the fair value of assets, as elaborated in note 23.

15. Equity

Share capital

The nominal share capital of CHF 570'000 comprises 1'140'000 registered shares, each with a nominal value of CHF 0.50. There is neither authorized nor conditional share capital outstanding.
Investments in shares of LEM HOLDING SA held by the Group are classified as treasury shares and are accounted for at historical cost. Treasury shares are not entitled to dividends.

Movement of treasury shares

In number of shares, in CHF	Number	High	Price per share in CHF Average	Low	Value in CHF thousands
Value 1 April 2017	**947**				**906**
Purchases at cost	7'516	1'779.78	1'344.65	919.76	10'208
Sales at cost	(7'811)	1'820.00	1'348.03	934.00	(10'023)
Value 31 March 2018	**652**				**1'091**
Purchases at cost	8'078	1'714.36	1'277.98	935.44	10'445
Sales at cost	(7'935)	1'725.57	1'294.96	941.88	(10'553)
Value 31 March 2019	**795**				**983**

In CHF	
Ordinary dividend per share 2017/18	40.00
Ordinary dividend per share 2018/19	42.00

A dividend of CHF 42 per share will be proposed by the Board of Directors to the Annual General Meeting of Shareholders of the Group on 27 June 2019. The expected payout for dividends amounts to CHF 47.9 million.

16. Staff costs

In CHF thousands	Notes	2018/19	2017/18 Restated
Production		(27'013)	(27'417)
Sales		(19'086)	(19'870)
Administration		(12'829)	(12'686)
Research and development		(15'931)	(14'408)
Total		**(74'859)**	**(74'381)**
Salaries and wages		(71'124)	(68'967)
Temporary employee costs		(2'365)	(3'805)
Cost of defined benefit plans	23.1	(1'255)	(1'471)
Cost of defined contribution plan		(115)	(138)
Total		**(74'859)**	**(74'381)**
Number of employees at the end of the financial year		**31.3.2019**	**31.3.2018**
Permanent employees		1'385	1'382
Temporary employees		83	139
Apprentices		9	7
Total		**1'477**	**1'527**

17. Financial expenses

In CHF thousands	2018/19	2017/18
Interest expenses	(127)	(213)
Other financial expenses	(52)	(85)
Total	**(179)**	**(298)**

18. Financial income

In CHF thousands	2018/19	2017/18 Restated
Interest income on cash	155	143
Total	**155**	**143**

19. Exchange effect

In CHF thousands	2018/19	2017/18
Exchange gains / (losses)	(1'491)	1'608
Fair value revaluation on derivatives	73	(223)
Gains / (losses) on derivatives [1]	(1'101)	(40)
Total	**(2'519)**	**1'345**

[1] Position includes cost of derivative hedging

The 2018/19 exchange effect is mainly driven by the losses on derivatives due to the USD revaluation and by the foreign exchange losses linked to EUR devaluation.

20. Income taxes, deferred tax assets and liabilities

The Group operates in multiple jurisdictions with complex legal and tax regulatory environments. In certain of these jurisdictions, the Group has taken income tax positions that management believes are supportable and are intended to withstand challenge by tax authorities. Some of these positions are inherently uncertain and include those relating to transfer pricing matters and the interpretation of income tax laws applied to complex transactions. The Company periodically reassesses its tax positions. Changes to the financial statement's recognition, measurement and disclosure of tax positions are based on management's best judgment given any changes in the facts, circumstances, information available and applicable tax laws. Considering all available information and the history of resolving income tax uncertainties, the Group believes that the ultimate resolution of such matters will not have a material effect on its financial statements.

Differences between the final tax outcome and the amounts that were initially recorded impact the income and deferred taxes in the period in which such determinations are made. The Group calculates its expected average tax rate as a weighted average of the tax rates in the tax jurisdictions in which the Group operates.

LEM has taken the decision to repatriate all available dividends from its subsidiaries in the foreseeable future. Unrecoverable withholding taxes are considered part of the expected tax rate. Deferred income tax liabilities have been established for unrecoverable withholding taxes that would be payable on the unremitted earnings of foreign subsidiaries.

In CHF thousands	2018/19	2017/18 Restated
Current income taxes	(12'044)	(14'342)
Deferred taxes relating to the origination and reversal of temporary differences	1'850	4'661
Adjustment recognized in the period for current tax of prior year	318	(210)
Total	**(9'876)**	**(9'891)**

The tax income relating to components of other comprehensive income amounts to CHF 1'007 thousand for the year 2018/19 (CHF –389 thousand in 2017/18 restated, CHF –485 thousand in 2017/18).

The Group's effective tax rate differs from the Group's average expected tax rate as follows:

In %	2018/19	2017/18 Restated
Group's average expected income tax rate	15.0	12.0
Group's average expected withholding tax rate	1.6	1.2
Group's average expected tax rate	**16.6**	**13.2**
Tax effect of		
permanent differences	(0.2)	0.1
effect of changes in tax rates on deferred taxes		1.9
adjustment in respect of previous periods' income tax	(0.5)	0.6
other differences	(0.1)	
Group's effective tax rate	**15.9**	**15.7**

Last year the Group income tax rate was positively impacted by a deferred tax asset of CHF +4.3 million linked to the Intellectual Property sale from LEM Intellectual Property to LEM Electronics China. This was partially compensated by the change of the deferred tax rate of LEM China from 25 % to 15 %, resulting in a deferred tax expense of CHF –0.9 million.

In 2018/19 the High New Technology Enterprise (HNTE) certificate was granted to LEM Electronics China Co. Ltd, enabling the Group to maintain the stability of its effective tax rate.

Deferred tax assets and liabilities

Deferred taxes have been calculated on the following balance sheet positions:

In CHF thousands	31.3.2019		31.3.2018 Restated		1.4.2017 Restated	
	Asset	Liability	Asset	Liability	Asset	Liability
Accounts receivable	87	(68)	80	(91)	74	(38)
Inventories	1’220	(632)	979	(292)	1’393	(240)
Property, plant and equipment	2’366	(1’416)	1’716	(868)	1’322	(114)
Intangible assets	13’491	(2’956)	13’578	(2’128)	149	(484)
Other financial assets				(243)	294	
Tax losses carried forward	336		491		933	
Other assets		(615)		(616)		(138)
Provisions	270		149		312	
Others	1’102		620	(3’549)	767	(27)
Withholding tax on dividends		(3’251)		(2’429)		(1’532)
Gross deferred taxes	**18’872**	**(8’938)**	**17’613**	**(10’216)**	**5’246**	**(2’572)**

The balance sheet contains the following:

	31.3.2019	31.3.2018 Restated	1.4.2017 Restated
Deferred tax assets	13’494	14’189	4’555
Deferred tax liabilities	(3’559)	(6’793)	(1’881)
Net assets	**9’934**	**7’397**	**2’674**

LEM Group has CHF 336 thousand (CHF 491 thousand in 2017/18) of deferred tax asset on tax losses. The Group expects that the concerned subsidiaries will be able to only partially use the tax losses against future taxable profit. On this basis, a part of the tax losses has not been recognized as deferred tax assets.

At 31 March 2019, the unrecognized losses carried forward are the following:

Unused tax loss carry-forwards not recognized in the balance sheet expire

In CHF thousands	31.3.2019	31.3.2018
In the next 7 years	3’787	1’572
Without date of expiration		
Total	**3’787**	**1’572**

21. Earnings per share

Basic and diluted earnings per share	2018/19	2017/18 Restated
Net profit for the year attributable to LEM shareholders – in CHF thousands	52'376	54'428
Ordinary number of shares at the beginning of the year	1'140'000	1'140'000
Weighted average number of ordinary shares	1'140'000	1'140'000
Weighted average number of treasury shares	693	418
Weighted average number of shares outstanding	1'139'307	1'139'582
Earnings per share – basic and diluted in CHF	**45.97**	**47.76**

22. Related parties

Related parties are the Board of Directors and the Executive Managers as defined in the corporate governance guidelines. The compensation to the Board of Directors is paid as a fixed fee in cash. The compensation for the Executive Management includes base salary, a performance-related bonus (LEM Incentive System), bonus and post-employment benefits. In 2018/19 and 2017/18, no termination benefits have been paid. The base salary is the employee's compensation before deduction of the employee's social security contributions. Bonus payments are effected in cash.

Compensation of the Board of Directors

In CHF thousands	2018/19	2017/18
Annual fees	(850)	(870)
Total	**(850)**	**(870)**

Compensation of the Executive Management

In CHF thousands	2018/19	2017/18
Base salary	(1'070)	(1'440)
Bonus	(790)	(1'851)
Company's contribution to pension fund	(112)	(161)
Total	**(1'972)**	**(3'452)**

Servotronix Motion Control Ltd, a company presided over by Ilan Cohen, bought transducers for CHF 897 thousand in 2018/19 (CHF 1'155 thousand in 2017/18), including purchases made by its subsidiaries and subcontractors, from LEM Group at market price. No other member of the Board of Directors has any significant business connection with LEM Group.
For details on the compensation of the Board of Directors and of the Executive Management, please refer to the compensation report. Also, see Significant Accounting Principles 2.15 Employee benefits.

23. Retirement benefit obligations

The Group operates a defined benefit plan for all its employees in Switzerland with a collective foundation.
This foundation is a separate legal entity which is not part of the Group. It is managed by a board having equal representation of employees and employers of the affiliated companies. It is supervised by the supervisory authority and complies with the requirements of Swiss pension law. The company's liabilities are limited to contributions that are based on a percentage of the insured salary under the Swiss law. According to Swiss law, the pension plan qualifies as a defined benefit plan under IAS 19 due to the various benefit guarantees included in the laws.

The plan is funded by contributions from both employer and employees.
The plan participants are insured against the financial consequences of old age, disability and death. The retirement benefit is based on a notional individual savings account converted at retirement into a fixed pension benefit.

The assets of the foundation are invested into a diversified portfolio. Death-in service and disability benefits are insured with an insurance company. The pension plan does not expose the affiliated companies to any additional unusual risks. No curtailments or settlements occurred in 2018/19.
The funded status decrease of CHF −3.8m is the result of the assumptions and demographic changes generating an increase of the DBO of CHF +3.7m. The following main assumptions have been updated:
- discount rate from 1 % to 0.6 %;
- interests credited on savings account from 1 % to 0.6 %;
- salary increase rate remains stable at 1 %.

The before-mentioned updates generated a net DBO increase of CHF +2.5m.
In application of IAS 19, this adjustment was accounted for in other comprehensive income and did not impact the net profit for the year.
The subsidiaries abroad sponsor either defined contribution plans or defined benefit plans based on local practices and regulations. A former employee in Germany benefits from a defined benefit obligation amounting to CHF 377 thousand at 31.3.2019. Other subsidiaries' defined benefit obligations in Japan, Bulgaria and Italy amount to CHF 450 thousand at 31.3.2019.

In CHF thousands	31.3.2019	31.3.2018 Restated	1.4.2017 Restated
Fair value of plan assets at year-end	42'691	42'716	46'873
Defined benefit obligations at year-end	44'556	40'822	47'556
Funded status (net (liabilities)/assets in the balance sheet)	**(1'865)**	**1'894**	**(683)**

LEM expects to contribute CHF 2'454 thousand to its defined benefit plan in 2019/20.

23.1 Cost of defined benefit plans

In CHF thousands	2018/19	2017/18 Restated	1.4.2017 Restated
Current service cost	2'624	2'714	2'821
Past service cost	(1'370)	(1'242)	(2'232)
Net interest (income) / cost	(19)	5	22
Total pension expenses recorded in consolidated income statement	**1'236**	**1'476**	**610**

Costs related to the pension plan were charged to the different functional departments based on salary costs.
Past service costs result from a change in conversion rate, refer to note 3.

23.2 Remeasurements of employee benefits

In CHF thousands	2018/19	2017/18 Restated	1.4.2017 Restated
Experience adjustments on defined benefit obligation	3'811	245	(866)
Return on plan assets excluding interests	947	(1'952)	(1'016)
Total remeasurements recorded in other comprehensive income	**4'758**	**(1'707)**	**(1'881)**

23.3 Change in fair value of plan assets

In CHF thousands	31.3.2019	31.3.2018 Restated	1.4.2017 Restated
Fair value of plan assets as per beginning of year	**42'716**	**46'873**	**46'298**
Return on plan assets excluding interest income	(947)	1'952	1'016
Interest income on plan assets	427	328	231
Employer's contributions	2'235	2'346	2'406
Employees' contributions	1'868	1'983	2'077
Benefits paid	(3'608)	(10'766)	(5'156)
Fair value of plan assets as per end of year	**42'691**	**42'716**	**46'873**

23.4 Change in present value of defined benefit obligation

In CHF thousands	31.3.2019	31.3.2018 Restated	1.4.2017 Restated
Defined benefit obligation as per beginning of year	**40'822**	**47'556**	**50'659**
Current service cost	2'624	2'714	2'821
Past service cost	(1'370)	(1'242)	(2'232)
Employees' contributions	1'868	1'983	2'077
Interest cost	408	333	253
Actual (gains) / losses	3'811	245	(866)
due to assumption changes	2'510	(1'491)	(1'489)
due to demographic changes	1'301	1'736	623
Benefits paid	(3'608)	(10'766)	(5'156)
Defined benefit obligation per end of year	**44'556**	**40'822**	**47'556**

The weighted average duration of the Defined Benefit Obligation (DBO) at the end of the current fiscal year is 26 years. Past service costs result from a change in conversion rate, refer to note 3.

23.5 Asset allocation of investments

Major categories of plan assets as a percentage of the fair value of total plan assets

In%	Long-term target	2018/19	2017/18 Restated	1.4.2017 Restated
Equity securities	32.0 %	32.5 %	30.4 %	34.3 %
Debt securities	33.0 %	28.6 %	25.0 %	24.3 %
Real estate	25.0 %	28.3 %	27.7 %	27.7 %
Cash and other investments	10.0 %	10.6 %	16.9 %	13.8 %
	100.0 %	**100.0 %**	**100.0 %**	**100.0 %**

Strategic pension plan allocations are determined by the objective to achieve a return on investment, which, together with the contribution paid, is sufficient to maintain reasonable control over the various funding risks of the plans. Estimated returns on assets are determined based on the asset allocation and are reviewed periodically. A temporary deviation from policy targets is allowed.
Cash as well as most equity and debt securities have a quoted market price in an active market. Other assets, including real estate and other investments, do not have a quoted market price.

23.6 Actuarial assumptions

In %	2018/19	2017/18 Restated	1.4.2017 Restated
Discount rate	0.60 %	1.00 %	0.70 %
Salary increases	1.00 %	1.00 %	0.50 %

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

Sensitivities of significant actuarial assumptions

The sensitivity analysis is based on reasonable possible changes as of the end of the year 2018/19. Each change in a significant assumption was analyzed separately as part of the test.
The sensitivity of the DBO to changes in the main actuarial assumptions is as follows:

DBO increase / DBO (decrease) – In CHF thousands	2018/19	2017/18 Restated	1.4.2017 Restated
Discount rate			
Increase by 0.25%	(2’443)	(2’279)	(2’542)
Decrease by 0.25%	2’640	2’460	2’739
Salary increase rate			
Increase by 0.25%	200	184	218
Decrease by 0.25%	(196)	(179)	(311)

23.7 Maturity structure of pension obligation

The following main cash outflows are expected in future periods:

In CHF thousands	
in 1 year	1’080
in 2 years	1’101
in 3 years	1’172
in 4 years	1’223
in 5 years	1’245
in 6 to 10 years	7’567

24. Operating lease commitments

Minimal lease payments are payable as follows:

In CHF thousands	31.3.2019	31.3.2018
Within 1 year	5'336	4'868
Between 1 and 5 years	5'643	2'551
Beyond 5 years	160	143
Total	**11'139**	**7'563**

In 2018/19 lease expenses amounted to CHF 5'646 thousand (2017/18 CHF 5'263 thousand). Lease agreements exist for the business facilities used by the Group companies. The agreements are classified as operating leases. The leases have varying terms and renewal rights between one and fifteen years.

25. Contingent liabilities

The Group is from time to time impacted by changing political, legislative, fiscal and regulatory environments, including those relating to environmental protection. The frequency and effects on future operations and earnings are unpredictable and are only partly covered by insurance. For the years 2017/18 and 2018/19, there is no contingent liability from a consolidated point of view.

26. Financial risk management objectives and policies

The group classifies its financial assets and liabilities in the following categories as per IFRS 7:

Financial assets

In CHF thousands	31.3.2019 Fair value	31.3.2018 Fair value	Amortized cost	At fair value through profit and loss
Cash and cash equivalents	12'538	17'630	X	
Accounts receivable	68'651	66'648	X	
Other current financial assets	80	215	X	
Other noncurrent financial assets	1'036	906	X	
Total	**82'304**	**85'399**		

Financial liabilities

In CHF thousands	31.3.2019 Fair value	31.3.2018 Fair value	Other finan-cial liabilities	At fair value through profit and loss
Accounts payable	22'760	25'718	X	
Accrued expenses	26'047	26'359	X	
Derivative financial instruments – current	168	241		X
Other current financial liabilities	8'000	5'000	X	
Other noncurrent financial liabilities	14	90	X	
Total	**56'989**	**57'408**		

Changes in liabilities arising from financing activities

In CHF thousands	1.4.2017	Cash impact Cash flows Inflow/ (Outflow)	Non-cash impact Fair values changes and Others	Currency effect	31.3.2018
Interest-bearing loans and borrowings		5'000			5'000
Derivative financial instruments	18		223		241
Total	**18**	**5'000**	**223**		**5'241**

In CHF thousands	1.4.2018	Cash impact Cash flows Inflow/ (Outflow)	Non-cash impact Fair values changes and Others	Currency effect	31.3.2019
Interest-bearing loans and borrowings	5'000	3'000			8'000
Derivative financial instruments	241		(73)		168
Total	**5'241**	**3'000**	**(73)**		**8'168**

The management assessed that fair value level of cash and cash equivalents, accounts receivables, other current and noncurrent assets, accounts payables, accrued expenses and other current and noncurrent liabilities approximates their book value.
The Group enters into derivative transactions such as currency risk reversal and forward contracts to hedge the USD and EUR risks.
The purpose of these currency hedges is to manage the currency risks arising from the Group's operations.
It is the Group's policy that no derivatives for speculative purposes shall be entered into.
The main risks arising from the Group's financial instruments are foreign currency risks and credit risks, whereas the others are of minor or no impact.
The Board of Directors reviews and agrees policies for managing each of those risks.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.
The Group's financial liabilities at fair value amount to CHF 168 thousand per 31 March 2019 (financial liabilities of CHF 241 thousand per 31 March 2018), all classified under level 2.
During the two last reporting periods, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Foreign currency risk

The Group operates globally and is exposed to various foreign exchange risks, primarily to the USD, EUR, JPY, CNY and GBP. The Group seeks to reduce those risks by optimizing its natural hedging (cash inflows and outflows in a specific currency should be in balance as far as possible).
The Group's policy states that 100 % of LEM's net exposure for the main currencies EUR, USD and JPY is to be hedged on a rolling 12-month basis.
Currency risks also arise from translation differences that are not hedged by the Group when preparing the consolidated financial statements in CHF. The foreign exchange translation is excluded from the calculation of the sensitivity analysis for currency risk below.

Sensitivity analysis for currency risk

The sensitivity analysis is performed per 31 March 2019 with a 5 % change in the USD, EUR, JPY, CNY and GBP, with all other variables held constant, of the Group's profit before tax (due to the changes in the fair value of the monetary assets and liabilities) and the Group's equity.
The sensitivity analysis performed for the financial year shows an impact of CHF ±788 thousand for a ±5 % EUR rate change (CHF ±762 thousand per 31 March 2018), of CHF ±561 thousand for a ±5 % USD rate change (CHF ±568 thousand per 31 March 2018), of CHF ±1'130 thousand for a ±5 % CNY rate change (CHF ±1'181 thousand per 31 March 2018) and of CHF ±127 thousand for a ±5 % JPY rate change (CHF ±157 thousand per 31 March 2018). For other currencies, there is no significant impact. There is no significant impact on the Group's equity.

Credit risk

Credit risk is the risk that a financial loss occurs if a counterparty is unable or unwilling to fulfill its contractual payment obligation. The Group trades with recognized and creditworthy parties. The accounts receivable are monitored on a monthly basis. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In case of a deterioration of the credit history, advance payments are required. The Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 6. There are no significant concentrations of risk within the Group. With respect to credit risk arising from the other financial assets in the Group, which comprises cash and cash equivalents, other current assets and certain derivative instruments, the Group's exposure to credit risks arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these positions.

Liquidity risk

The Group operates a cash-pooling agreement in which cash targets are set for all the subsidiaries. Cash surplus / shortages are balanced in intercompany loans on a monthly basis. Group capital requirements are managed centrally by corporate finance. In case liquidity is required a bank loan is either taken up centrally and passed on as an intercompany loan, or given directly by the bank to the subsidiary with a reduction of the Group's total credit line. The total leverage of the Group is low, the financial liabilities mature in less than one year based on the carrying value of borrowings reflected in the financial statements.

In CHF thousands	31.3.2019 Fair value	Less than one year	Over one year	31.3.2018 Fair value	Less than one year	Over one year
Accounts payable	22'760	22'760		25'718	25'718	
Accrued expenses	26'047	26'047		26'359	26'359	
Derivative financial instruments – current	168	168		241	241	
Other current financial liabilities	8'000	8'000		5'000	5'000	
Other noncurrent financial liabilities	14		14	90		90
Total	**56'989**	**56'975**	**14**	**57'408**	**57'318**	**90**

Interest rate risk

The Group's exposure to the risk of changes in market interest rates with the current financial leverage is low. Per 31 March 2019, the bank credit line amounts to CHF 8 million.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy and stable equity ratio in order to secure the confidence of shareholders and investors, creditors and other market players, and to strengthen the future development of the Group's business activities.
The Group manages its capital structure and makes adjustments to it, in light of changes in the economic conditions.
LEM targets a payout ratio significantly above 50 % of the consolidated net profit for the year.
However, it may diverge from this policy due to economic prospects or on the grounds of planned future investment activities.

27. Scope of consolidation

Full consolidation	**Country**	**Currency**	**Share capital**	**Ownership**
Europe				
LEM Europe GmbH	Germany	EUR	75'000	100%
LEM HOLDING SA	Switzerland	CHF	570'000	100%
LEM International SA	Switzerland	CHF	100'000	100%
LEM Intellectual Property SA	Switzerland	CHF	300'000	100%
LEM Switzerland SA	Switzerland	CHF	1'000'000	100%
LEM Tech France SAS	France	EUR	50'000	100%
LEM Bulgaria EOOD	Bulgaria	BGN	1'971'000	100%
LEM Russia Ltd	Russia	RUB	16'400'000	100%
LEM Management Services SARL	Switzerland	CHF	20'000	100%
North America				
LEM USA Inc.	USA	USD	150'000	100%
Asia				
LEM Electronics (China) Co. Ltd	China	CNY	204'495'594	100%
LEM Japan KK	Japan	JPY	16'000'000	100%

28. Changes in scope of consolidation

In 2018/19, there were no changes in the scope of consolidation.

29. Events after the balance sheet date

There were no events subsequent to the balance sheet date that require adjustment to or disclosure in the financial statements.

Auditor's report

Statutory auditor's report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of LEM HOLDING SA and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 March 2019 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 4 to 37) give a true and fair view of the consolidated financial position of the Group as at 31 March 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

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

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key audit matters

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

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

Uncertainties regarding Income taxes and transfer pricing

Area of focus

The Group operates in multiple jurisdictions with complex legal and tax regulatory environments that are constantly changing and require more compliance efforts. The country-specific tax risks could result in potential material amounts payable.

Management monitors these tax risks primarily at corporate level, including the significant level of estimations and judgments made with respect to the likelihood and magnitude of these risks. In certain of these jurisdictions, the Group has taken tax positions on income taxes and transfer pricing that management believes are supportable. Due to the significance of the deferred tax balances and other tax positions and the judgment involved in determining these, this matter was considered significant to our audit. Refer to note 20 of the consolidated financial statements for further information.

Our audit response

Our procedures included, among others, assessing the tax rules in the various jurisdictions in which the Company operates and assessing the management’s assumptions and estimates in relation to uncertain tax positions, current income tax and deferred taxes.

We involved our tax specialists to assist in assessing the Company’s tax methodologies and analyzing the underlying key assumptions, including the advice received by management from external parties to support their position. We audited the current year tax provision, the Company’s reconciliation of book to taxable income as well as the deferred tax balances, and evaluated whether the assumptions applied by management on the recoverability of deferred tax assets is consistent with its budget and forecasts. Our audit procedures did not lead to any reservations regarding income taxes and transfer pricing.

Measurement of defined benefit obligation and accounting for an error identified in 2018/19

Area of focus

The Group has defined benefit pension plans in five different countries, of which the one in Switzerland is significant to the Group. The Swiss plan consists of plan assets amounting to CHF 42.7m and defined benefit obligations of CHF 44.6m leading to a funded status of net CHF 1.9m (net liability) as of 31 March 2019. LEM has joined a multi-employer plan to insure its employees against the risks of old age, disability and death as required by Swiss law. The valuation of the pension liabilities requires significant levels of judgment and technical expertise in choosing appropriate assumptions and to determine the defined benefit obligation. Many of those assumptions have a material impact on the calculation of the liability. Certain changes of actuarial assumptions are recorded in other comprehensive income, other changes like past service cost in the income statement. In 2018/19, management identified an error in an assumption used to assess the defined benefit obligation. The multi-employer plan had decreased the conversion rate in each of the two previous years and in the current year from 6.1 % to 5.4 % now, and this decrease was not reflected in the consolidated financial statements. LEM has therefore restated the balance sheets as of 31 March 2017 and 2018 and the income statement 2017/18 to correctly reflect the gradual reduction of the conversion rates as required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Our audit response

We evaluated management’s assessment of the assumptions made in relation to the measurement of the defined benefit obligation and the fair value assessment of plan assets. The assumptions and calculations made to assess the funded status are disclosed in note 23. We discussed the report of the external actuary with the responsible experts to obtain an understanding particularly of the impact of the conversion rates used in previous and the current year. We also discussed all other parameters that are used to determine the defined benefit obligation, the method to assess the fair value of the plan assets and therefore to calculate the net funded status in the balance sheet of each respective year.

We reviewed the updated calculations obtained for the two previous periods and determined whether the errors reflected in the actuarial reports were adjusted in the prior year balance sheets as of 31 March 2017 and 2018 and the income statement 2017/18. Moreover, we reviewed whether all required disclosures of IAS 8 were made in the 2018/19 financial statements. Our audit procedures did not lead to any reservations regarding the measurement of the defined benefit obligation and accounting for the error identified in 2018/19.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and 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.

Responsibility of the Board of Directors for the consolidated financial statements

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

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

Auditor’s responsibilities for the audit of the consolidated financial statements

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

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor’s report.

Report on other legal and regulatory requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

To the General Meeting of LEM HOLDING SA, Fribourg
Lancy, 16 May 2019

Ernst & Young Ltd

Roland Ruprecht	**Victoria Napoly**
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Corporate governance report

The following information complies with the Corporate Governance Directive of the SIX Swiss Exchange (SIX) and the disclosure rules of the Swiss Code of Obligations. In order to enhance the clarity of this chapter, reference is made to other parts of this Financial Report and our website (www.lem.com). Key elements are contained in the Articles of Incorporation.

1. Group structure and shareholders

Group structure

LEM HOLDING SA is domiciled at Avenue Beauregard 1, CH-1700 Fribourg. LEM's registered shares are listed on the main segment of the SIX Swiss Exchange (LEHN, security no. 2 242 762; ISIN 0022427626). On 31 March 2019, the market capitalization was CHF 1'459 million. LEM Group is structured into Industry and Automotive segments. Appropriate segment reporting pursuant to IFRS is contained in note 4 of the consolidated financial statements. All companies in LEM Group are listed under "Scope of consolidation" in note 27 of the consolidated financial statements, with their respective company names, registered offices, share capitals and the relevant percentages of shares held. There are no other listed companies in the scope of consolidation.

Significant shareholders

The following shareholders held 3 % or more of the share capital and voting rights:

	31.3.2019		31.3.2018	
In number of shares, per cent of shareholding	Shares	In %	Shares	In %
Werner O. Weber and Ueli Wampfler, in Zollikon/Wollerau, Switzerland, through WEMACO Invest AG and Swisa Holding AG, in Zug/Cham, Switzerland	574'500	50.4 %	570'148	50.0 %
Ruth Wertheimer, in Kfar Shmaryahu, Israel, through 7-Industries Holding B.V., in Amsterdam, Netherlands	141'581	12.4 %	141'581	12.4 %
Columbia Threadneedle, London, United Kingdom	48'142	4.2 %	27'522	2.4 %
J. Safra Sarasin Investmentfonds AG, Basel, Switzerland	36'000	3.2 %	36'000	3.2 %
Total shareholders < 3 %	**339'777**	**29.8 %**	**364'749**	**32.0 %**
Total	**1'140'000**	**100.0 %**	**1'140'000**	**100.0 %**

Shareholdings of non-executive Directors

	31.3.2019 Number of shares held	31.3.2018 Number of shares held
Andreas Hürlimann	1'001	1'001
François Gabella	600	600
Ilan Cohen	300	300
Ueli Wampfler	69'500	68'010
Ulrich Jakob Looser	100	0
Werner C. Weber	0	0
Total	**71'501**	**69'911**

Shareholdings of Executive Management

	31.3.2019 Number of shares held	31.3.2018 Number of shares held
Frank Rehfeld, CEO & SVP Industry	0	0
Andrea Borla, CFO	0	0
Rainer Bos, SVP Automotive	0	0
Total	**0**	**0**

The notifications which have been sent to the Company and the disclosure office of the SIX Swiss Exchange AG during the financial year pursuant to article 120 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading may be viewed via the search function on https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html/.

The trading of LEM shares by both Board of Directors and Executive Management has to respect LEM's disclosure and insider trading policy as well as all applicable rules and legislation.

Cross-shareholdings

LEM has no cross-shareholdings with other joint-stock companies.

2. Capital structure

Capital and shares

The nominal value of the share capital of LEM HOLDING SA is CHF 570'000, which is divided into 1'140'000 fully paid-up registered shares with a par value of CHF 0.50 each. There are no shares with preferred voting rights. All shareholders are entitled to the same dividends. There are no restrictions on the transfer of shares. In order to be registered in the share register, each shareholder shall declare that he/she holds the shares for their own account.

On 31 March 2019, LEM HOLDING SA held 795 treasury shares.

Authorized and conditional capital

There is no authorized or conditional capital, nor are there any profit-sharing certificates or participation in certificates or any convertible bonds outstanding.

3. The Board of Directors' election, terms of office and cross-involvement

The Board of Directors is comprised of at least three members who are individually elected at the Annual General Meeting for a mandate of one year, which is renewable up to an age limit of 70. The Board of Directors constitutes itself, except for the Chairman of the Board of Directors and the members of the Compensation Committee who are elected by the Annual General Meeting of Shareholders.

At the Annual General Meeting on 28 June 2018, Andreas Hürlimann, Ilan Cohen, Ueli Wampfler, Ulrich J. Looser and Werner C. Weber were re-elected and François Gabella was elected as members of the Board of Directors. Andreas Hürlimann was re-elected as Chairman of the Board of Directors. In addition, shareholders elected Andreas Hürlimann and Ulrich J. Looser to the Nomination & Compensation Committee (NCC). Ulrich J. Looser chairs the Committee.

All members of the Board of Directors are non-executive. Only François Gabella had been part of the Executive Management of LEM before his election as member of the Board of Directors.

Ilan Cohen is President of Servotronix Motion Control Ltd, which has bought transducers for CHF 897 thousand in 2018/19 (CHF 1'155 thousand in 2017/18), including purchases done by its subsidiaries and subcontractors, from LEM Group at market price. No other member of the Board of Directors has any significant business connection with LEM Group.

The Board of Directors was comprised of the following members as of 31 March 2019:

Andreas Hürlimann

Nationality Swiss
Born in 1964

Position
Chairman of the Board of Directors, Chairman of the Strategy Committee, Member of the Nomination and Compensation Committee

Entry
2011

Professional background
- Since 2011, Entrepreneur
- 2005 – 2010, Managing Director, Spencer Stuart, Zürich
- 1999 – 2005, Global Director of Industry Practices and Member of the Executive Board, Arthur D. Little Inc., Zürich, Lisbon, London and Paris
- 1990 – 1999, international business development, sales and management roles with Siemens Schweiz AG, ABB Power Generation AG and Oerlikon Aerospace Inc., Zürich, Baden, Montréal

Other notable activities
- Vontobel Sustainable Real Estate Investments SICAV, Zürich, Chairman of the Board of Directors
- Condis SA, Rossens, Member of the Board of Directors
- Sobrado Software AG, Cham, Chairman of the Board of Directors
- ElectricFeel AG, Zürich, Member of the Board of Directors
- Novo MOF AG, Villigen, Member of the Board of Directors
- themissinglink ag, Cham, Member of the Board of Directors

Education
- M. Sc. Electrical Engineering, ETH Zürich, Switzerland
- DAS Finance, University of Zürich, Switzerland

François Gabella

Nationality Swiss
Born in 1958

Position
Member of the Board of Directors

Entry
2018

Professional background
- 2010 – 2018, CEO, LEM Group
- 2006 – 2010, CEO, Tesa SA
- 2002 – 2006, SVP, Areva
- 1996 – 2002, Business Area Manager, ABB Power Transformers

Other notable activities
- Vice President of Swissmem, Zürich
- Winterthur Instruments AG, Winterthur, Chairman of the Board of Directors
- Optotune AG, Dietikon, Member of the Board of Directors,
- Switzerland Global Enterprise, Zürich, Member of the Advisory Board
- Fischer Connectors SA, Saint-Prex, Member of the Board of Directors
- Sonceboz SA, Sonceboz, Member of the Board of Directors
- Sensirion AG, Stäfa, Member of the Board of Directors, elected on 14.5.2019

Education
- M. Sc. Microtechnics EPFL, Lausanne, Switzerland
- MBA IMD, Lausanne, Switzerland

Ilan Cohen

Nationality Israeli
Born in 1956

Position
Member of the Board of Directors, Member of the Strategy Committee

Entry
2010

Professional background
- Since 2010, President, Servotronix Motion System Ltd.
- 2008 – 2009, General Manager, Kollmorgen Industrial & Commercial Engineered Solutions Ltd. (Danaher Group)
- 1997 – 2008, President and CEO, Kollmorgen Servotronix Ltd.
- 1987, Founder, Servotronix Ltd.
- 1983 – 1990, Associate professor, University of Tel Aviv, Israel

Other notable activities
- Servotronix Motion Control Ltd., Israel, Member of the Board of Directors
- Negba Houses for Children at Risk in Israel, Chairman of the Board

Education
- Ph.D. Control System, Ecole Polytechnique de Bruxelles, Belgium
- MSEE, CALTECH Pasadena, USA
- M.Sc. and BSEE Electro-mechanical engineer, Ecole Polytechnique de Bruxelles, Belgium

Ulrich J. Looser

Nationality Swiss
Born in 1957

Position
Member of the Board of Directors, Chairman of the Nomination and Compensation Committee, Member of the Audit and Risk Committee

Entry
2015

Professional background
- Since 2009, Berg Looser Rauber & Partner (BLR&Partners)
- 2001 – 2009, Accenture, various positions including Managing Director Austria/Switzerland/Germany Management Consulting and Chairman Accenture AG (Switzerland)
- 1987 – 2001, McKinsey & Company, industry, energy, pharma and public sector practices, partner election 1993

Other notable activities
- Straumann Holding AG, Member of the Board of Directors
- Kardex AG, Member of the Board of Directors
- u-blox AG, Member of the Board of Directors
- Bachofen Holding AG, Chairman of the Board of Directors
- Spross Entsorgungs Holding AG, Member of the Board of Directors
- University of Zürich, Member of the University Council
- Economiesuisse, Member of the Board
- University Hospital Balgrist, Member of the Board
- Swiss-American Chamber of Commerce
- Swiss National Science Foundation, Member of the Executive Committee of the Foundation Council

Education
- M.Sc. Physics, ETH Zürich, Switzerland
- M.A. HSG, University of St. Gallen, Switzerland

Ueli Wampfler

Nationality Swiss
Born in 1950

Position
Member of the Board of Directors, Chairman of the Audit and Risk Committee

Entry
2007

Professional background
- Since 2004, Founder and Senior Partner, Wampfler & Partner AG, Zürich
- 1998 – 2004, Director, STG Schweizerische Treuhandgesellschaft, Zürich
- 1974 – 1998, STG Coopers & Lybrand, Zürich (Partner since 1991)

Other notable activities
- Swisa Holding AG (Swisa Group), Cham, Chairman of the Board of Directors
- Arcotempo Holding AG, Cham, Chairman of the Board of Directors
- Merbag Holding AG (Merbag Group), Cham, Vice Chairman of the Board of Directors
- Caspar Finanz AG (Traco Power Group), Baar, Member of the Board of Directors
- Rebew AG, Zürich, Member of the Board of Directors

Education
- Lic. oec., University of Zürich, Switzerland
- Certified auditor

Werner C. Weber

Nationality Swiss
Born in 1960

Position
Member of the Board of Directors

Entry
2017

Professional background
- Since 1998, weber schaub & partner ag, Partner
- Prior thereto in particular Freddy Burger Management Group in Zürich as Legal Counsel and General Secretary, and PricewaterhouseCoopers AG in Zürich as Legal and Tax Counsel

Other notable activities
- WEMACO Invest AG, Zug, Member of the Board of Directors
- weber schaub & partner ag, Zürich, Member of the Board of Directors
- Arosa Bergbahnen AG, Arosa, Member of the Board of Directors
- Schilthornbahn AG, Lauterbrunnen, Member of the Board of Directors
- City Parkhaus Aktiengesellschaft, Zürich, Member of the Board of Directors
- MedioSearch AG, Bern / SkySmile AG, Zürich, Member of the Board of Directors

Education
- Dr. iur. University of Zürich, Switzerland
- Admitted as an attorney-at-law in Zürich, Switzerland
- Mediator SBA, Zürich, Switzerland

External mandates

Pursuant to Article 31 of the Articles of Incorporation, members of the Board of Directors may not hold more than ten additional mandates of which no more than four may be in listed companies. The following mandates are not subject to the above limitations: (a) mandates in companies which are controlled by LEM or which control LEM; (b) up to five mandates held at the request of LEM or companies controlled by it; and (c) up to six mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. Mandates shall mean mandates in the supreme governing body of a legal entity, which is required to be registered in the commercial register or a corresponding foreign register. Up to 20 mandates in different legal entities which are under joint control or same beneficial ownership are deemed one mandate.

Internal organizational structure

The Board of Directors meets as often as necessary, but six annual meetings are planned in advance. In the completed financial year, six full-day meetings were held. The meetings usually take place at the Company's registered office in Fribourg. The Chairman, after consulting with the CEO and the Chairmen of the committees, determines the agenda for the Board meetings. The members of the Board of Directors can ask for additional items to be included on the agenda. They receive supporting documents beforehand, allowing for a comprehensive preparation of the meeting. As a rule the CEO and CFO attend the meetings of the Board of Directors without having a right to vote. Depending on the topics, other members of Executive Management participate in the meetings in order to respond to specific questions. Decisions can be taken by the Board of Directors if at least half of the Directors are present, and a simple majority of them is sufficient. In the event of tie, the Chairman has the casting vote. Minutes of the meetings including decisions taken are prepared by the CFO and distributed to the members of the Board of Directors, the CEO and the CFO.

The Board of Directors reviews its working procedures, the efficiency and effectiveness of its teamwork as well as its interaction with the Management of the Company on a regular basis. Regular feedback sessions at the end of a meeting provide valuable inputs for the continuous improvement of the Board's coherence and leadership.

Definition of areas of responsibility

The Board of Directors delegates the management of the Company to the CEO to the fullest extent permitted by the Swiss Code of Obligations. The Board of Directors reviews and assesses at least on an annual basis and takes decisions in the following areas:

- review and approval of the strategy, business plan, annual business objectives and budget for the LEM Group;
- approval of creation/closing of any subsidiary and purchase/sale of any interest in any company or entry into any merger or joint venture agreement;
- appointment/dismissal of the Executive Management;
- monitoring the ethical and legal behavior of LEM;
- review of human resources management, including employee satisfaction and management development and legal, intellectual property, social and environmental aspects.

Information and control systems of the Board of Directors vis-à-vis Executive Management

The Board of Directors ensures that it receives sufficient information from the Management to perform its supervisory duty and to make the necessary decisions.

The Board of Directors obtains the information required to perform its duties through several means:

- the Board of Directors receives monthly and quarterly reports on the current development of the business;
- informal meetings and teleconferences are held as required between the Chairman and the CEO as well as between the Chairman and individual members of the Board of Directors;
- the Committees meet at regular intervals and exchange detailed information with the Executive Management;
- the Board of Directors receives detailed information to each agenda item one week before the Board meeting;
- each Executive Manager joins at least one but usually multiple Board sessions in any given year.

Business risk management

In compliance with Swiss law, LEM is using a standardized procedure to analyze its business risks. LEM's risk management covers all types of risk: financial, operational and strategic – including the external business environment, compliance and reputational aspects.

The Executive Management conducts an annual risk analysis. The results and consecutive action plans are thereafter presented to and formally approved by the Board of Directors.

The risk management approach follows five steps: in a first step, potential hazards are evaluated and a consolidated list with 5 to 10 main hazards is set up. In a second step, each hazard is assessed by a product of probability and quantified impact. Step two results in a risk map, which visualizes LEM's potential risk environment. In step three, an action plan is put in place to mitigate the risks. The hazards thereafter are revalued a second time, taking into consideration the mitigation measures. In step four, the action plan is validated and thereafter monitored on a bi-annual basis (step five).

Internal control system

In compliance with Swiss law, LEM has put in place an internal control system.

Starting from the material positions in the annual financial results, the important underlying processes and process owners have been identified. For each process, key risks that could lead to errors in the financial reporting have been identified. For each key risk, key controls have been defined and responsibilities assigned to assure effective compliance and documentation of the key controls. The process has been presented to and approved by the Audit & Risk Committee.

Looking forward, the process owners will perform an annual process review whereby identified weaknesses shall be continuously improved and key risks and controls shall be updated. Based on the input of the process owners, the CFO prepares an annual report on the internal control system, which is presented to and discussed with the Audit & Risk Committee.

Committees

Three standing committees support the Board of Directors. They are comprised of at least two non-executive members of the Board of Directors. They meet whenever necessary but at least twice a year.

- The primary objective of the Audit & Risk Committee (ARC) is to provide the Board of Directors with effective support in financial matters, in particular the selection and supervision of the external auditor, assessment of the effectiveness, compliance and clarity of the Group financial reporting and the assessment and preparation of the financial reports to the shareholders. Furthermore, it reviews critical accounting policies, financial control mechanisms and compliance with corresponding laws and regulations as well as the development and continuous improvement of the internal control system. If required, the external Group auditors are invited to participate at the meeting. The ARC prepares proposals to be decided by the Board of Directors. In the completed financial year, three half-day meetings were held.

- The Nomination & Compensation Committee (NCC) deals with succession, recruitment and compensation of the members of the Board of Directors and the Executive Management. It ensures and monitors the personnel development plan and adequate succession planning for the middle and top management. It supports the Board of Directors in establishing and reviewing the compensation strategy and guidelines and the performance objectives as well as in preparing the proposals to be submitted to the General Meeting regarding the compensation of the Board of Directors and of the Executive Management. It reviews and updates the compensation policy for the members of the Board of Directors and the Executive Management and the performance-based compensation system for the Executive Management. The NCC prepares proposals to be decided by the Board of Directors. In the completed financial year, four half-day meetings were held.

- The primary objective of the Strategy Committee (SC) is to assist the Board of Directors in fulfilling its duties with respect to determining the Company's strategy and the appropriate means to pursue it, including LEM's organizational setup. As strategic work and its successful implementation is based upon coordinated and interlocking activities between Executive Management and the Board of Directors, the SC ensures close collaboration with the CEO and the Executive Management. The SC prepares proposals to be decided by the Board of Directors. The Board of Directors may also decide to delegate members of the SC to assist in steering longer-term strategic initiatives by joining the project steering committee. In the completed financial year, five half-day meetings and four telephone conferences were held.

Frank Rehfeld

Andrea Borla

Rainer Bos

4. Executive Management

The Executive Management was comprised of the following members as of 31 March 2019:

Frank Rehfeld

Nationality German
Born in 1968

Function
CEO LEM Group & Senior Vice President Industry

With LEM since
2016

Previous companies and positions
- 2016 – 2018, SVP Industry, LEM Group
- 2009 – 2015, VP Drives, Brose China Co., Ltd.
- 2006 – 2009, Managing Director, Hella Shanghai Electronics Co., Ltd.
- 2004 – 2006, Siemens VDO China, Director Body/Chassis Electronics
- 1996 – 2004, Siemens VDO Germany, Director R&D Body/Chassis Electronics

Education
- Dipl. Eng. Electrical Engineering, Erlangen-Nuremberg, Germany

Andrea Borla

Nationality Swiss
Born in 1967

Function
CFO LEM Group

With LEM since
2015

Previous companies and positions
- 2008 – 2015, CFO, Schindler France
- 2003 – 2007, Field Operations Manager, Schindler China
- 1999 – 2003, Area Controller, Schindler Asia Pacific
- 1996 – 1999, Head of Group Consolidation, SAirGroup

Education
- Ph.D., M.A. HSG, Finance and Accounting, St. Gallen, Switzerland

Rainer Bos

Nationality German
Born in 1962

Function
Senior Vice President Automotive

With LEM since
2015

Previous companies and positions
- 2011 – 2015, General Manager, Amphenol Tuchel Electronics GmbH
- 2001 – 2011, Business Unit Director, Delphi Deutschland GmbH
- 1991 – 1999, Key Account Manager, Continental-Teves KGaA

Education
- Dipl. Eng. Industrial Engineering, TU Darmstadt, Germany

None of the members of the Executive Management have other activities in governing or supervisory bodies, any official functions or political posts nor any permanent management functions for important Swiss and foreign interest groups.

External mandates

Pursuant to Article 31 of the Articles of Incorporation, and subject to approval by the Board of Directors, members of the Executive Management may not hold more than three additional mandates of which no more than one may be in listed companies. The following mandates are not subject to the above limitations: (a) mandates in companies which are controlled by LEM or which control LEM; (b) up to five mandates held at the request of LEM or companies controlled by it; and (c), subject to approval by the Board of Directors, up to three mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. Mandates shall mean mandates in the supreme governing body of a legal entity, which is required to be registered in the commercial register or a corresponding foreign register. Up to 20 mandates in different legal entities which are under joint control or same beneficial ownership are deemed one mandate.

Management contracts

There are no management contracts with companies or individuals outside LEM Group.

5. Compensation

Please refer to the compensation report on page 52.

6. Shareholders' participation rights

The rules on shareholders' participation rights are outlined in the Articles of Incorporation. The rules for the convening of General Meetings, the participation rights and the majority rules for decisions all follow Swiss law. The complete Articles of Incorporation can be downloaded from the Investor Relations pages on the website. http://www.lem.com/images/stories/files/HQ/en/Investors/AGM Docs/2014/LEM_Holding_SA_Articles_of_Association_26062014.pdf

Voting rights and representation restrictions and inscription in the share register

There are no limitations on voting rights for shareholders who are entered into the shareholders' register with voting rights. Anyone purchasing registered shares is registered by the Board of Directors in the share register on request as a shareholder with voting rights, provided he/she expressly declares that the shares have been bought and will be held for their own account. Each shareholder may be represented by the independent representative or by a third party who need not be a shareholder of LEM HOLDING SA.

Statutory quorums

The Articles of Incorporation contain no deviation from the applicable law. In case a second vote is necessary for elections, a relative instead of the absolute majority of the votes represented is required.

Convocation of the General Meeting of the Shareholders

Registered shareholders are convened to General Meetings by ordinary mail and by publication in the Swiss Official Gazette of Commerce at least 20 calendar days prior to the day of the meeting.

Agenda

According to Article 12 of the Articles of Incorporation, one or several shareholders who collectively hold 10 % of the share capital can call for a shareholders' meeting and submit matters to be placed on the agenda.

Dividend policy
LEM targets a payout ratio significantly above 50 % of the consolidated net profit for the year, to be proposed by the Board of Directors to the Annual General Meeting.

7. Change of control and defensive measures
Opting-out clause
Any shareholder is released from the obligation to submit a public takeover offer to all shareholders if his participation in LEM exceeds 33 1/3 % of the voting rights.

Clauses on changes of control
There is no particular clause in the Articles of Incorporation for changes of control. No member of the Executive Management will receive additional severance payments if dismissed in the case of a change of control of the Company.

8. Auditors
The duration of the auditors' mandate is one year. Ernst & Young has been auditing LEM since the financial year 2005/06, with Roland Ruprecht bearing the responsibility for the audit since 2018/2019. As required by law, the auditor-in-charge is changed every seven years. Ernst & Young audits the Group's consolidated financial statements as well as the majority of LEM's Group companies in Switzerland and abroad. The audit fees and fees for additional services are as follows:

Type of service

In CHF thousands	2018/19	2017/18
Audit fees	350	350
Additional fees		15
Total	**350**	**365**

Evaluation and control of the auditors is done by the ARC, which makes recommendations to the Board of Directors. In particular, the ARC evaluates the performance, the fees and the independence of the auditors.
The auditors report on the results of their audits both orally and in writing. Financial statements as well as management letters are discussed in the ARC in the presence of the external auditors.
During 2018/19 Ernst & Young attended two regular ARC meetings.

9. Information policy
LEM informs its shareholders about the business status and its results on a quarterly basis in the form of press releases. These, together with the Annual Review and Financial Report, are made publicly available on its website (http://www.lem.com/en/investors) and may be obtained in print from the company's headquarters. Once a year, LEM holds a presentation for the media, investors and financial analysts. Internal processes assure that price-sensitive facts are published without delay in accordance with the ad hoc publicity rules of the SIX Swiss Exchange. At www.lem.com, detailed information is available, e.g., the Articles of Incorporation, interim and annual reports, investor presentations, press releases as well as the financial calendar.

Contact for investors and media: Andrea Borla, CFO, Chemin des Aulx 8, CH-1228 Plan-les-Ouates, or send an e-mail to investor@lem.com (phone: +41 22 706 12 50).

Compensation report

The future of LEM depends on our ability to attract, develop and retain talented people. Among the many measures we use to achieve this goal are competitive remuneration policies. Our compensation policies are designed to align the interests of Executive Management and the Board of Directors with the interest of Shareholders.

In brief

Core principles

LEM's compensation policies are designed to reward results and performance as well as to create long-term value for Shareholders. The compensation policies are reviewed on an annual basis.

LEM's Articles of Incorporation (www.lem.com/en/Investors > Corporate Governance) contain provisions regarding the approval of compensation of the Board of Directors (BoD) and the Executive Management (Article 27), the supplementary amount for new members of the Executive Management (Article 28), the general compensation principles (Article 29) as well as provisions regarding the agreements with members of the Board of Directors and the Executive Management (Article 30).

The compensation report is based on section 5 of the annex to the Corporate Governance Directive issued by SIX Swiss Exchange and Art. 13 to 17 of the Ordinance Against Excessive Compensation in Listed Stock Companies (OaEC).

The compensation authorities are summarized in the following table:

Beneficiary	Compensation element	Proposal	Approval
BoD and Executive Management	Compensation principles	NCC	BoD
BoD	Aggregate maximum amount fixed compensation	BoD based on NCC proposal	Annual General Meeting (prospective approval)
BoD	Individual compensation	NCC	BoD
Executive Management	Aggregate maximum amount fixed annual base salary	BoD based on NCC proposal	Annual General Meeting (prospective approval)
Executive Management	Aggregate amount short-term incentive	BoD based on NCC proposal	Annual General Meeting (retrospective approval)
Executive Management	Aggregate maximum amount long-term incentive	BoD based on NCC proposal	Annual General Meeting (prospective approval)
Executive Management	Individual compensation	NCC based on proposal from CEO	BoD
CEO	Individual compensation	Chairman of the BoD	BoD

Compensation of the Board of Directors

The compensation of the Board of Directors consists exclusively of a fixed fee paid in cash. There is no variable compensation. The compensation of the Chairman and the members of the Board of Directors depends on the responsibility of each member and any related work such as Committee activity.

Compensation of the Executive Management

In order to encourage and reward results that contribute to the sustainable success of LEM, the total compensation of the Executive Management consists of three elements: base salary, variable compensation and non-wage compensation. The target-setting process for the variable compensation is carried out on an annual basis and includes quantitative and qualitative performance criteria, including LEM's financial results.

1. Board of Directors

1.1 General principles for compensation of non-executive Directors

The compensation of the Board of Directors is approved by the Annual General Meeting upon proposal by the Board of Directors based upon recommendation from the NCC. The remuneration of the Board of Directors consists of a fixed cash payment and is reviewed on an annual basis. The remuneration compensates for the personal responsibility and exposure as a non-executive member of the Board of Directors and the work related to the Board of Directors' membership. There is neither a variable compensation nor any participation in an equity-based compensation plan.

1.2 Remuneration of non-executive Directors

The Board of Directors adopted a remuneration scheme with a fixed BoD membership fee paid in cash of gross CHF 250'000 for the Chairman and CHF 80'000 for each member. Committee activity is compensated by membership fees of CHF 40'000 for the Committee's Chairman and CHF 20'000 for each member.
The tables below show the compensation per Board member in the financial years 2017/18 and 2018/19 for their term of office. The Shareholders approved at the Annual General Meeting on 28 June 2018 a maximum compensation amount for the term of office from the ordinary General Meeting 2018 until the ordinary General Meeting 2019 of CHF 1'100'000. The actual costs for the Company are below at CHF 927'000.

2018/19

In CHF thousands	Annual fees (A)	Total compensation	Taxes, social security charges and similar contributions (B)	Total (A) + (B)
Andreas Hürlimann [1, 6, 7]	310	310	27	**337**
Ueli Wampfler [3]	120	120	11	**131**
Ulrich Jakob Looser [4, 5]	140	140	13	**153**
Ilan Cohen [8, a]	120	120	11	**131**
Werner C. Weber	80	80	7	**87**
François Gabella	80	80	7	**87**
Total	**850**	**850**	**77**	**927**

2017/18

In CHF thousands	Annual fees (A)	Total compensation	Taxes, social security charges and similar contributions (B)	Total (A) + (B)
Andreas Hürlimann [1, 2, 6, 7]	310	310	27	**337**
Ueli Wampfler [3]	120	120	11	**131**
Ulrich Jakob Looser [4, 5]	140	140	13	**153**
Norbert Hess [6]	100	100		**100**
Ilan Cohen [8, a]	120	120	11	**131**
Werner C. Weber	80	80	7	**87**
Total	**870**	**870**	**69**	**939**

[a] including the amount of CHF 20'000 for R&D contribution
[1] Chairman of the Board
[2] Vice Chairman of the Board
[3] Chairman of the Audit & Risk Committee
[4] Member of the Audit & Risk Committee
[5] Chairman of the Nomination & Compensation Committee
[6] Member of the Nomination & Compensation Committee
[7] Chairman of the Strategy Committee
[8] Member of the Strategy Committee

2. Executive Management

2.1 General principles for compensation of Executive Management

The aggregate remuneration of the Executive Management is approved by the Shareholders at the Annual General Meeting upon proposal by the Board of Directors. The proposals of the Board of Directors are based on NCC recommendations. The remuneration of the Executive Management is reviewed on an annual basis.

The total compensation of the Executive Management is composed of the following elements:

Compensation element	Instrument	Purpose	Drivers	Range and cap	Shareholder approval
Base salary	Monthly cash payments	Pay for the function	Scope and responsibilities, profile and competencies	N/A	Prospective maximum amount (October – September)
Short-term incentive	Annual cash payment	Pay for annual performance	Business and individual performance throughout the financial year	0 % – 139 % of target amount	Retrospective
Long-term incentive	Annual cash payment	Participation in sustainable company success, alignment with Shareholder interests	Achieved value creation over three consecutive financial years	0 % – 200 % of target amount	Prospective maximum amount for payout three years later
Non-wage compensation	Pension contributions	Protect against risks plus retirement and dependents' coverage	Local legislation and market practice	N/A	

The total compensation is in line with the market for comparable industrial companies considering the various remuneration levels for different functions and locations. Furthermore, the compensation mix between base salary, variable compensation and non-wage compensation reflects sectorial and functional market practice. Benchmarking is carried out periodically.

2.1.1 Base salary of Executive Management

Base salaries are paid monthly as fixed cash amounts.

2.1.2 Variable compensation of Executive Management

The target-setting process for the Leadership-for-Results (L4R) plan is part of the LEM performance management and is carried out on an annual basis by the NCC. All variable compensation is paid in cash and after approval by the Shareholders. The Chairman of the BoD prepares objectives and performance evaluations for the CEO and the NCC for the other members of the Executive Management based on a personal performance review.

Short-term incentive related to the Executive's function, responsibility and obtained results

Each Executive's individual target amount for the short-term incentive plan is communicated to the Executive at the beginning of the financial year together with the objectives and their weighting. The target amount and the objectives are based on the role and impact of the Executive as well as annual company priorities. Objectives are linked to bottom line indicators, quantitative or qualitative targets. At the end of the year, the performance of each objective is evaluated, resulting in the total amount to be paid.

The number of objectives is large enough to allow each Executive to reach a fair level of short-term variable compensation rewarding for the results achieved even under changed business conditions. Since the degree of achievement of set objectives has to be evaluated at the end of the period, a clear understanding of the metrics to be applied is established at the time of target setting and kept constant over the period. For each objective, the curve between minimum and maximum bonus level is defined. Ambitious but achievable objectives are set as targets, at which 100 % of the respective target amount is attributed.

For Executive Management, the minimum payout of the short-term incentive is 0 % of the target amount and the weighted maximum payout is 139 %.

The short-term incentive payout is presented for retrospective approval to the Shareholders along with the Annual Review and Financial Report of the same financial year at the Annual General Meeting 2019 prior to being paid out.

Long-term incentive related to the sustainable financial performance of LEM Group

The long-term incentive is defined as an annual target amount and is based on the performance of LEM evaluated over a period of three consecutive financial years (2016/17 – 2018/19). The performance criterion is the cumulated Economic Value Added (EVA) over these three financial years. The Board of Directors defines the EVA objective at the beginning of year one and the evaluation of the performance takes place at the end of year three. Once the forward-looking EVA objective is defined, this EVA objective remains unchanged over the three-year period.

For Executive Management, the minimum payout of the long-term incentive is 0 % of the target amount and the maximum payout is 200 %.

For the long-term incentive cycle 2016/17 to 2018/19, the maximum amount approved prospectively by the Shareholders at the Annual General Meeting in 2016 is CHF 851’000 for payout in 2019.

2.1.3 Non-wage compensation of Executive Management

For Executive Management, non-wage compensation consists of pension plans (retirement benefits) only.

Executive Management benefits from LEM’s Swiss pension plan, considered a defined contribution plan under Swiss law that provides retirement benefits and risk insurance for death and disability. IFRS, on the contrary, considers this plan as a defined benefits plan. The insured base salary follows Swiss professional pension regulations without limitation of the amount. The pension fund is funded by contributions from the company and the insured Executive.

2.2 Remuneration of Executive Management

2018/19

In CHF thousands	Base salary	Short-term incentive	Long-term incentive	Company's contribution to pension fund	Total compensation	Company's contribution to social security charges
Frank Rehfeld, CEO	450	265	99	46	860	73
Executive management (excl. CEO)	620	256	170	66	1'112	94
Total	**1'070**	**521**	**269**	**112**	**1'972**	**167**

2017/18

In CHF thousands	Base salary	Short-term incentive[3]	Long-term incentive	Company's contribution to pension fund	Total compensation	Company's contribution to social security charges
François Gabella, CEO	520	416	486 [1]	66	1'488	128
Executive management (excl. CEO)	920	634	266	95	1'915	164
Former Executive Management [2]			49		49	4
Total	**1'440**	**1'050**	**801**	**161**	**3'452**	**296**

[1] Also includes pro-rata payments under the long-term incentives 2016/17 – 2018/19 and 2017/18 – 2019/20.
[2] The long-term incentive 2015/16 – 2017/18 amount of former members of the Executive Management paid out in 2017/18 corresponds to their activity in the Executive Management. (This is the last year this applies.)
[3] Including an additional one-time payment beyond the regular short-term incentive plan.

The amounts are shown as follows:
- Base salary: as paid out in the reporting period
- Short-term incentive 2018/19: as proposed to the Annual General Meeting in June 2019 for payout in July 2019
- Long-term incentive: as accrued for or paid out during the reporting period
- Pension fund contributions: as accrued for or paid during the reporting period
- Company's contributions to social security charges: as accrued for or paid during the reporting period

Amounts approved by previous Annual General Meetings related to the period reported above:
- Maximum amount base salary (for the period from 1 October 2018 to 30 September 2019): CHF 1'800'000
- Maximum amount long-term incentive 2016/17 for payment in 2019: CHF 851'000
- Maximum amount base salary (for the period from 1 October 2017 to 30 September 2018): CHF 1'800'000 (based on four Executive Management members)
- Short-term incentive amount for 2017/18 for payment in 2018: CHF 1'144'664
- Pension fund contribution and company contribution to social security charges as paid out or accrued for in the reporting period are included in the above amounts

2.3 Compensation of former members and related parties
In the financial year 2018/19, the former CEO François Gabella provided consulting services during the period from 1 April to 28 June 2018 for a total fixed compensation of CHF 30'000.

Apart from the LTI disclosed in 2.2., no compensation has been paid in the financial year 2017/18 to former members or related parties.

3. Loans to current and former members of the Board of Directors and Executive Management and related parties
Our Articles of Association do not provide the basis to grant loans to current or former members of the Board of Directors, the Executive Management or to any related party. Therefore, no loans have been granted in the financial years 2018/19 and 2017/18 or in any previous year.

Auditor’s report

Report of the statutory auditor on the compensation report

We have audited the compensation report of LEM HOLDING SA for the year ended 31 March 2019. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in note 1.2 on page 53 and in notes 2.2 to 2.3 on pages 56 to 57 of the compensation report.

Board of Directors’ responsibility

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

Auditor’s responsibility

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

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

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

Opinion

In our opinion, the compensation report for the year ended 31 March 2019 of LEM HOLDING SA complies with Swiss law and articles 14–16 of the Ordinance.

To the General Meeting of LEM HOLDING SA, Fribourg
Lancy, 16 May 2019

Ernst & Young Ltd

Roland Ruprecht	**Victoria Napoly**
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

LEM HOLDING SA

Balance sheet
(before distribution of earnings)

Assets

In CHF thousands	Notes	31.3.2019	31.3.2018
Current assets			
Cash and cash equivalents		1’530	2’074
Loans to affiliated companies		68’476	31’666
Current assets from affiliated companies		1’115	575
Other current assets		96	61
Total current assets		**71’217**	**34’377**
Noncurrent assets			
Investments in affiliated companies	1	67’989	54’512
Total noncurrent assets		**67’989**	**54’512**
Total assets		**139’206**	**88’889**

Liabilities and equity

In CHF thousands	Notes	31.3.2019	31.3.2018
Current liabilities			
Current financial liabilities		8’000	5’000
Loans from affiliated companies		45’313	28’065
Current liabilities from affiliated companies		148	31
Other current liabilities		1’956	1’896
Total current liabilities		**55’417**	**34’992**
Equity			
Share capital	2	570	570
Legal reserves		285	285
Free reserves – balance carried forward		8’571	22’234
– profit for the year		75’346	31’898
Treasury shares	3	(983)	(1’091)
Total equity		**83’789**	**53’896**
Total liabilities and equity		**139’206**	**88’889**

Income statement

Income

In CHF thousands	Notes	2018/19	2017/18
Dividend from affiliated companies	4	73’871	28’014
Interest income from affiliated companies		1’234	751
Foreign exchange gain	5	881	2’309
Other financial income		41	362
Other income from affiliated companies		6’343	5’993
Total income		**82’370**	**37’429**

Expense

In CHF thousands	Notes	2018/19	2017/18
Office, administration and personnel expense		(3’337)	(2’886)
Financial expense		(578)	(264)
Foreign exchange loss	5	(2’728)	(1’884)
Total expense		**(6’642)**	**(5’034)**
Profit before taxes		**75’727**	**32’394**
Income taxes	6	(382)	(496)
Net profit for the year		**75’346**	**31’898**

Notes to the financial statements

Principles for the establishment of the financial statements

The accompanying financial statements have been prepared in accordance with the requirements of the Swiss Code of Obligations. Regarding the inclusion of LEM HOLDING SA in the consolidated financial statements, the accounting and reporting principles described in the notes to the consolidated financial statements apply.

LEM HOLDING SA does and did not have any employees.

1. Investments in affiliated companies

In CHF thousands	31.3.2019	31.3.2018
Historical cost	67'989	54'512
Total	**67'989**	**54'512**

The increase in investments in affiliated companies is linked to the additional investment in LEM Electronics (China) Co. Ltd for USD 14 million (CHF 13.5m).
Refer to note 27, Scope of consolidation of the consolidated financial statements.
The percentage of ownership corresponds to the percentage of voting rights.

2. Share capital

	Number of shares	Par value per share in CHF	Capital in CHF thousands
Opening capital 1.4.2018	**1'140'000**	**0.50**	**570**
Change of capital			
Closing capital 31.3.2019	**1'140'000**	**0.50**	**570**

3. Treasury shares

		Price per share in CHF			
	Number	High	Average	Low	Value in CHF thousands
Value 1.4.2017	**947**				**906**
Purchases at cost	7'516	1'779.78	1'344.65	919.76	10'208
Sales at cost	(7'811)	1'820.00	1'348.03	934.00	(10'023)
Value 31.3.2018	**652**				**1'091**
Purchases at cost	8'078	1'714.36	1'277.98	935.44	10'445
Sales at cost	(7'935)	1'725.57	1'294.96	941.88	(10'553)
Value 31.3.2019	**795**				**983**

Subsidiaries of LEM HOLDING SA did not own any shares of LEM HOLDING SA.
Treasury shares are valued at the lower of cost or market value.

4. Dividend from affiliated companies

LEM Intellectual Property SA paid a dividend of CHF 37.7m in 2018/19, which explains the increase of dividend revenue in 2018/19.

5. Exchange effect

In CHF thousands	2018/19	2017/18
Exchange gains/(losses)	(819)	687
Fair value revaluation on derivatives [1]	73	(223)
Gains/(losses) on derivatives [1]	(1'101)	(40)
Exchange effect	**(1'847)**	**425**

[1] Position includes cost of derivative hedging.

6. Income taxes

In CHF thousands	2018/19	2017/18
Current taxes	(457)	(457)
Adjustments of tax provisions of previous periods	75	(39)
Total	**(382)**	**(496)**

7. Significant shareholders according to article 663c of the Swiss Code of Obligations

On 31 March 2019, the following shareholders held 3 % or more of the share capital and voting rights:

	31.3.2019		31.3.2018	
In number of shares, percent of shareholding	Shares	In %	Shares	In %
Werner O. Weber and Ueli Wampfler, in Zollikon/Wollerau, Switzerland, through WEMACO Invest AG and Swisa Holding AG, in Zug/Cham, Switzerland	574'500	50.4 %	570'148	50.0 %
Ruth Wertheimer, in Kfar Shmaryahu, Israel, through 7-Industries Holding B.V., in Amsterdam, Netherlands	141'581	12.4 %	141'581	12.4 %
Columbia Threadneedle, London, United Kingdom	48'142	4.2 %	27'522	2.4 %
J. Safra Sarasin Investmentfonds AG, Basel, Switzerland	36'000	3.2 %	36'000	3.2 %
Total shareholders < 3 %	**339'777**	**29.8 %**	**364'749**	**32.0 %**
Total	**1'140'000**	**100 %**	**1'140'000**	**100.0 %**

8. Guarantees in favor of third parties on behalf of subsidiaries

In CHF thousands	31.3.2019	31.3.2018
Amount of guarantees issued	1'638	1'928

9. Shareholdings

Shareholdings of nonexecutive Directors

	31.3. 2019 Number of shares held	31.3.2018 Number of shares held
Andreas Hürlimann	1'001	1'001
François Gabella	600	600
Ilan Cohen	300	300
Ueli Wampfler	69'500	68'010
Ulrich Jakob Looser	100	0
Werner C. Weber	0	0
Total	**71'501**	**69'911**

Shareholdings of Executive Management

	31.3. 2019 Number of shares held	31.3.2018 Number of shares held
Frank Rehfeld, CEO & SVP Industry	0	0
Andrea Borla, CFO	0	0
Rainer Bos, SVP Automotive	0	0
Total	**0**	**0**

Proposed appropriation of available earnings

Appropriation of available earnings

In CHF thousands	31.3.2019	31.3.2018
Balance brought forward from previous year	7’480	21’328
Variation of treasury shares	109	(185)
Net profit for the year	75’346	31’898
Total available earnings	**82’934**	**53’041**
Proposal of the Board of Directors		
Ordinary dividend	(47’834)	(45’561)
Balance to be carried forward	**35’100**	**7’480**

The Board of Directors proposes the distribution of an ordinary dividend of CHF 42 per share. Net of 35 % withholding tax, this is an ordinary cash dividend of CHF 27.3 per share.
The proposed appropriation of available earnings is made in compliance with article 671 of the Code of Obligations.
Shares held by LEM HOLDING SA or any of its subsidiaries are not entitled to dividends.

Auditor’s report

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of LEM HOLDING SA, which comprise the balance sheet, income statement and notes (pages 60 to 65), for the year ended 31 March 2019.

Board of Directors’ responsibility

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

Auditor’s responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity’s preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 March 2019 comply with Swiss law and the company’s articles of incorporation.

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Report on other legal requirements

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

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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

To the General Meeting of LEM HOLDING SA, Fribourg
Lancy, 16 May 2019

Ernst & Young Ltd

Roland Ruprecht	**Victoria Napoly**
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Group subsidiaries

LEM is a global player with production plants and development centers in Beijing (China), Geneva (Switzerland), Tokyo (Japan) and Sofia (Bulgaria). The Company has a dedicated R&D Center in Lyon (France) and sales offices at all its customers' locations and offers seamless service around the globe.
For a complete list of subsidiaries and offices, refer to www.lem.com > Contact > Sales Locator

Europe

LEM HOLDING SA
Avenue Beauregard 1
CH-1700 Fribourg

LEM International SA
Chemin des Aulx 8
P.O. Box 35
CH-1228 Plan-les-Ouates

LEM Switzerland SA
Chemin des Aulx 8
P.O. Box 35
CH-1228 Plan-les-Ouates

LEM Intellectual Property SA
Avenue Beauregard 1
CH-1700 Fribourg

LEM Management Services Sàrl
Chemin des Aulx 8
P.O. Box 35
CH-1228 Plan-les-Ouates

LEM Tech France SAS
Les Allées du Parc
Allée des Parcs 575/655
F-69800 Saint-Priest

LEM Europe GmbH
Frankfurter Straße 74
D-64521 Groß-Gerau

LEM Europe GmbH, Branch Austria
Concorde Business Park 2/F/6
A-2320 Schwechat

LEM Europe GmbH, Branch Belgium
Egelantierlaan 2
B-1851 Humbeek

LEM Europe Denmark,
Filial af LEM Europe GmbH
Haraldsvej 60A,1.
DK-8960 Randers

LEM Europe GmbH,
Succursale France
Avenue Galois 15
F-92340 Bourg-la-Reine

LEM Europe GmbH,
Succursale Italia
Via V. Bellini 7
I-35030 Selvazzano Dentro, PD

LEM Europe GmbH,
Branch UK
Suite 10 West Lancs Investment
Centre Mapleview
Whitemoss Business Park
UK-Skelmersdale WN8 9TG

LEM Bulgaria EOOD
Iliensko Shosse 8
BG-1220 Sofia

LEM Russia, LLC
Staritskoe Shosse 15
RU-170040 Tver

Asia

LEM Electronics (China) Co. Ltd
Linhe Street 28, Shunyi District
CN-101300 Beijing

LEM Japan KK
2-1-2 Nakamachi
JP-Machida, 194-0021 Tokyo

LEM Management Services Sàrl,
Branch India
Level 2, Connaught Place
Bund Garden Road
IN-411 001 Pune

LEM Management Services Sàrl,
Branch Korea
Seocho-Dong
Wonil Bldg.1-3F (311) 10
Nambushuhwan-Ro 333-Gil
Seocho-Gu
KR-Seoul

LEM Management Services Sàrl,
Taiwan Branch
7F., No. 342, Wenlin Road
Shilindistrict
TWN-11163 Taipei

North America

LEM U.S.A., Inc.
11665 West Bradley Road
USA-Milwaukee, WI 53224

Concept and text
LEM, Fribourg
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LEM HOLDING SA
Avenue Beauregard 1
1700 Freiburg/Fribourg
Switzerland
www.lem.com

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