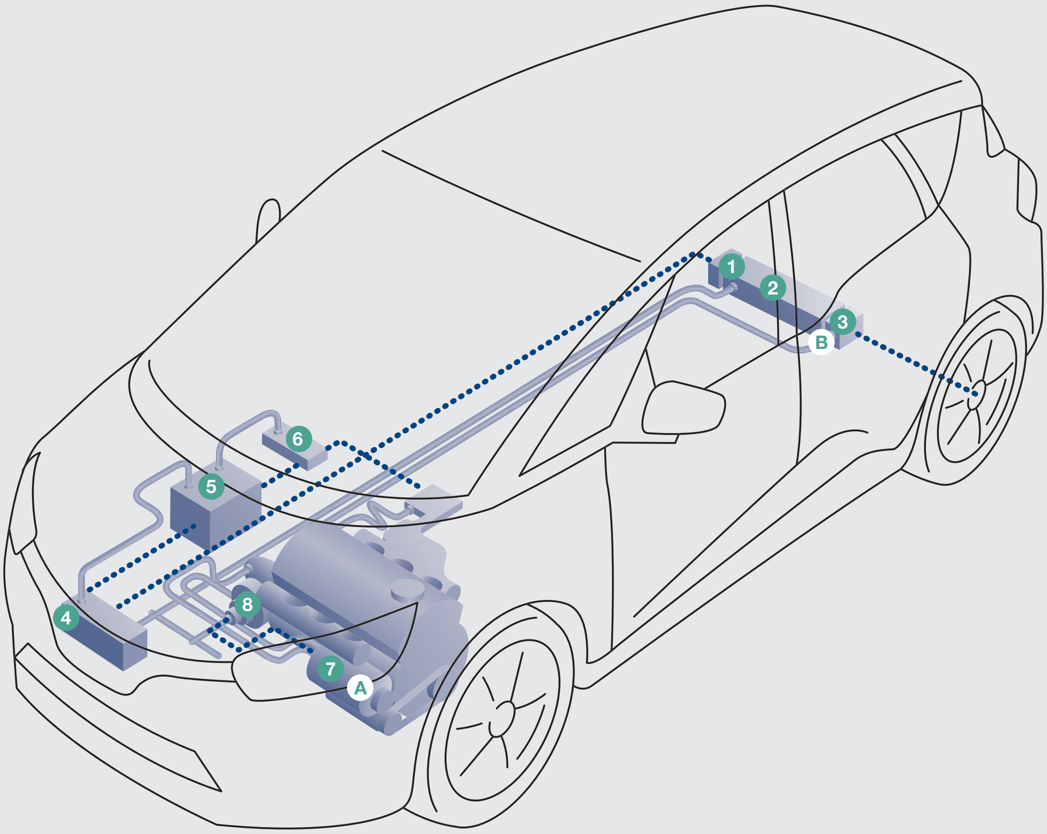
# Annual Report
## 2016/17

At the heart of power electronics


LEM



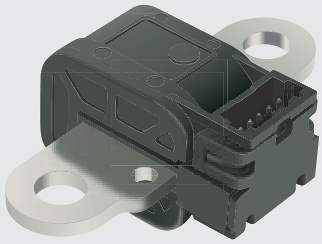

## Mild hybrid car

Mild hybrids are internal combustion engines equipped with an electric drive allowing the engine to be turned off whenever the car is coasting, braking, or stopped, yet restarted quickly. Mild hybrids employ regenerative brake and some level of power assist to the internal combustion engine.

Mild hybrids may provide some of the benefits of hybrid technologies, with less of the cost-weight penalty that is incurred by installing a full hybrid series-parallel drivetrain. Fuel savings would generally be lower than expected with use of a full hybrid design, but combining regenerative braking with the "start-stop system" helps to further lower the fuel consumption.

In electrical mode, LEM's HSN families control the power transmitted by the inverter to the electrical motor. CAB families monitor the transfer of the generated energy to the battery pack while driving and braking with best-in-class accuracy. LEM's transducers are compact, easy to integrate and their superior accuracy allows the system to contribute to reduce vehicle emission and improves the hybrid car's electrical range.

A HSN



B CAB

1 AC/DC converter
2 Lithium-ion battery
3 Battery controller
4 DC/DC converter
5 12-volt battery
6 12-volt electrical distribution center
7 Electric motor/generator
8 Electric supercharger

# Table of Contents



Reporting period 1 April 2016 to 31 March 2017


LEM

# Foreword

Dear Shareholders,

We look back at another positive year, despite the volatile business sentiment that accompanied us throughout the reporting period. While business in Europe and China weakened, we recorded robust growth in North America and the rest of Asia. During Q4 of 2016/17, we noticed improving market conditions in most regions resulting in a high level of orders for the quarter. After two years of foreign exchange pressure on LEM, the situation has stabilized against most currencies. We achieved high margins while at the same time significantly stepping up investment in future growth.

## Resilient margins

Sales reached CHF 264.5 million, representing growth of 1.2%, or by 1.0% in constant currencies. Whereas sales in drives & welding and in the green cars businesses were strong, demand in renewable energies and traction softened. EBIT improved by 5.4% to CHF 55.8 million. Net profit for the reporting year amounted to CHF 44.6 million, exceeding last year's result by CHF 1.1 million.

## On the right track

We are the clear leader in the Industry businesses and keep a market share above 50%. In the Automotive businesses, we continue expanding our project pipeline: we estimate that every fifth green car produced worldwide in 2017 will be equipped with a LEM transducer.

We executed our three-pillared strategy:

- Technology leadership: We launched a high number of new products and increased production of the latest models. To accelerate our growth, we have decided to increase significantly our R&D efforts in the future. Aside from increasing R&D staff in Beijing and Sofia, we have established a new R&D center in Lyon. The focus will be on innovation in the areas of ASICs and embedded software in order to capture Internet of Things and Industry 4.0 related opportunities. The center started its operations on 1 April 2017 with a team of 11 engineers.
- Efficiency: The share of production from our cost-competitive sites in Beijing and Sofia reached 77% of the global output.
- Flexibility: Requirements on our teams increase steadily, demanding stronger competencies in production. We redesigned training plans to improve the versatility and skills of production teams to better meet the changing work situation.

## Strong team – loyal customers

Our latest customer satisfaction survey confirmed that our customers recognize us as the global leader in providing solutions to measure electrical parameters. LEM's reputation is built on the reliability, quality and performance of its products, amongst others. The global employee survey showed a very high level of employee engagement for the Company. Our teams are proud to work for LEM and identify themselves with our strategy.

## Proposals to the General Meeting of Shareholders

The Board of Directors will propose at the forthcoming General Meeting of Shareholders a dividend of CHF 35 per share. The proposal is in line with LEM's dividend policy of distributing significantly more than 50% of its consolidated net profit to shareholders and corresponds to a payout ratio of 89.4%.

The Board of Directors proposes to elect Dr. iur. Werner Carl Weber as a new member. Mr. Weber is founding partner of the law firm weber schaub & partner ag in Zurich. He is Chairman and Board member of several Switzerland based privately held companies. Mr. Weber is a representative of LEM's largest shareholder WEMACO Invest AG, a long-term oriented and loyal shareholder for the past 15 years. His standing for election underpins the long-term commitment of LEM's anchor shareholder.

## Thanks

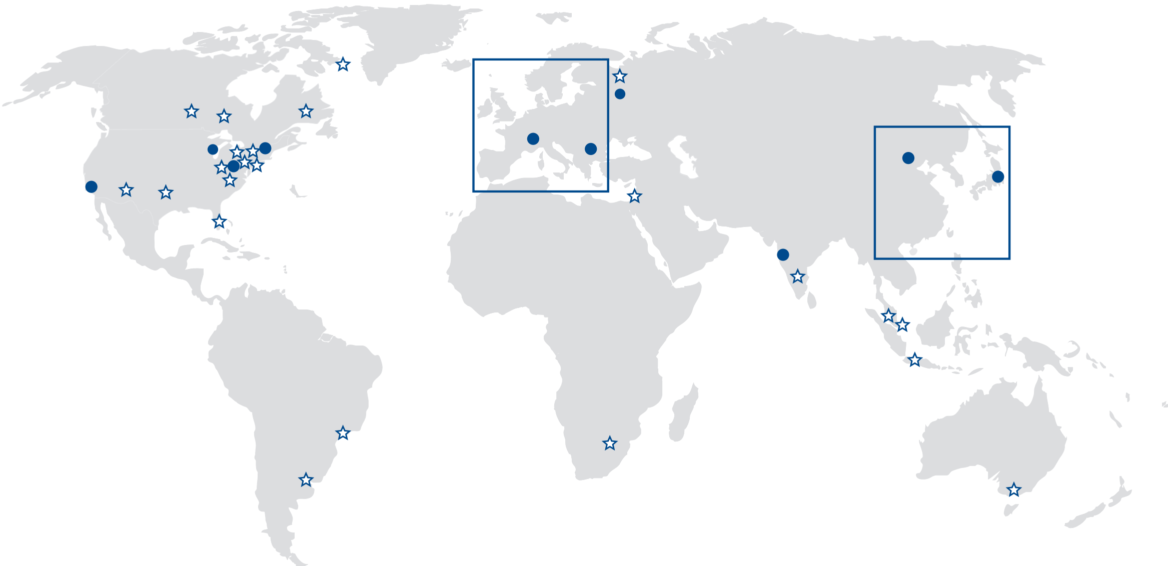
On behalf of the entire Board of Directors and the Executive Management, we wish to thank our employees for their commitment and hard work in the past year. We would also like to extend our gratitude to our customers, suppliers and business partners as well as to shareholders for their trust and confidence in LEM.

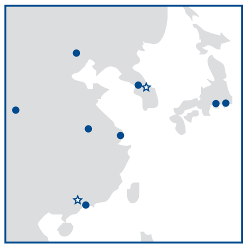
A. Hürlimann

Andreas Hürlimann
Chairman of the Board of Directors

François Gabella
Chief Executive Officer

# LEM at a Glance





**LEM – at the heart of power electronics**

LEM is a focused manufacturer and a global market leader. Its core products, transducers for measuring electrical parameters like current and voltage, are used in a broad range of applications. Although these devices are not visible to the outside world, they are vital for application functionality and the benefits provided to the end users. Starting with products for locomotives in the seventies, LEM expanded into a vast area of industrial applications, including variable speed drives for motors and power supplies for industrial applications. Today, LEM's current and voltage transducers are also used in AC/DC converters, uninterrupted power supply systems for computers as well as in new innovative energy applications like microturbines and wind and solar power generation. Additional opportunities have been developed in the automotive market, such as battery management and start/stop applications for conventional cars and electrical motor controls, battery pack management and embedded chargers for green cars. This evolution underscores the Company's exceptional skills in adapting to rapidly changing industrial trends, such as miniaturization, higher performance levels and a greater degree of application, integration and complexity.

LEM has the strongest brand recognition in its markets. Its products – commonly called "LEMs" – are at the heart of many power electronics applications. LEM's strategy is to increase its technology leadership, efficiency and production flexibility. At the same time, LEM is committed to maintaining customer focus and operational excellence by running cost-effective and service-oriented production platforms. Profitable growth is a key objective.

**Worldwide presence**

LEM is a global organization with production plants in Beijing (China), Geneva (Switzerland), Tokyo (Japan) and in Sofia (Bulgaria). The Company has sales offices close to its main clients' locations and offers seamless service around the globe.

■ **LEM Holding SA, Fribourg, Switzerland**

● **R&D Centers**

Geneva, Switzerland
Lyon, France
Beijing, China
Sofia, Bulgaria

● **Sales Offices**

Geneva, Switzerland
Frankfurt, Germany
Vienna, Austria
Brussels, Belgium
Randers, Denmark
Paris, France
Padova, Italy
Skelmersdale, UK
Tver, Russia
Beijing, Shanghai, Shenzhen, Xian, Hefei, China
Tokyo, Japan
Pune, India
Seoul, South Korea
Milwaukee, Columbus, Amherst,
Los Angeles, USA

☆ **Agents/Distributors**

● **Adaptation Centers**

Milwaukee, USA
Tver, Russia

● **Production Centers (PDCs)**

Beijing, China
Geneva, Switzerland
Tokyo, Japan
Sofia, Bulgaria

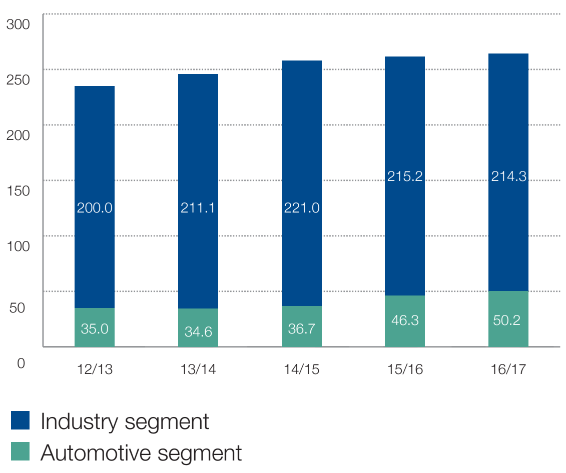
## Key figures 2012/13 to 2016/17

| In CHF millions, % | 2012/13[1] | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|---|---|
| Orders received | 230.6 | 246.4 | 251.0 | 256.5 | 271.2 |
| Book-to-bill ratio | 0.98 | 1.00 | 0.97 | 0.98 | 1.03 |
| Sales | 235.0 | 245.6 | 257.8 | 261.5 | 264.5 |
| Gross profit | 98.6 | 115.4 | 118.4 | 120.4 | 123.6 |
| *In % of sales* | *41.9%* | *47.0%* | *45.9%* | *46.0%* | *46.7%* |
| EBIT | 40.8 | 55.7 | 54.2 | 52.9 | 55.8 |
| *In % of sales* | *17.4%* | *22.7%* | *21.0%* | *20.2%* | *21.1%* |
| Net profit for the year | 32.4 | 45.6 | 43.1 | 43.5 | 44.6 |
| EPS basic (CHF) | 28.48 | 40.09 | 37.86 | 38.18 | 39.11 |
| Dividend per share (CHF) | 30.00 | 40.00 | 40.00 | 35.00 | 35.00[2] |
| Operating cash flow | 46.2 | 40.6 | 50.2 | 45.6 | 52.8 |
| Investing cash flow | –10.4 | –8.7 | –9.7 | –6.6 | –13.2 |

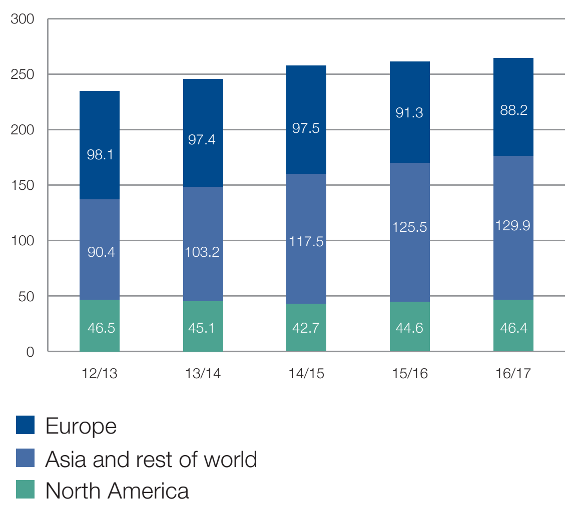
| In CHF millions, % | 31.3.2013[1] | 31.3.2014 | 31.3.2015 | 31.3.2016 | 31.3.2017 |
|---|---|---|---|---|---|
| Net financial assets/(liabilities) | 27.6 | 24.6 | 20.9 | 13.6 | 12.8 |
| Shareholders' equity | 84.0 | 94.2 | 91.9 | 85.9 | 90.5 |
| Equity ratio (in % of assets) | 61.9% | 65.1% | 65.0% | 61.3% | 60.7% |
| Market capitalization | 671.5 | 801.4 | 910.3 | 929.1 | 1'064.8 |
| Employees (in FTEs) | 1'137 | 1'241 | 1'274 | 1'388 | 1'453 |

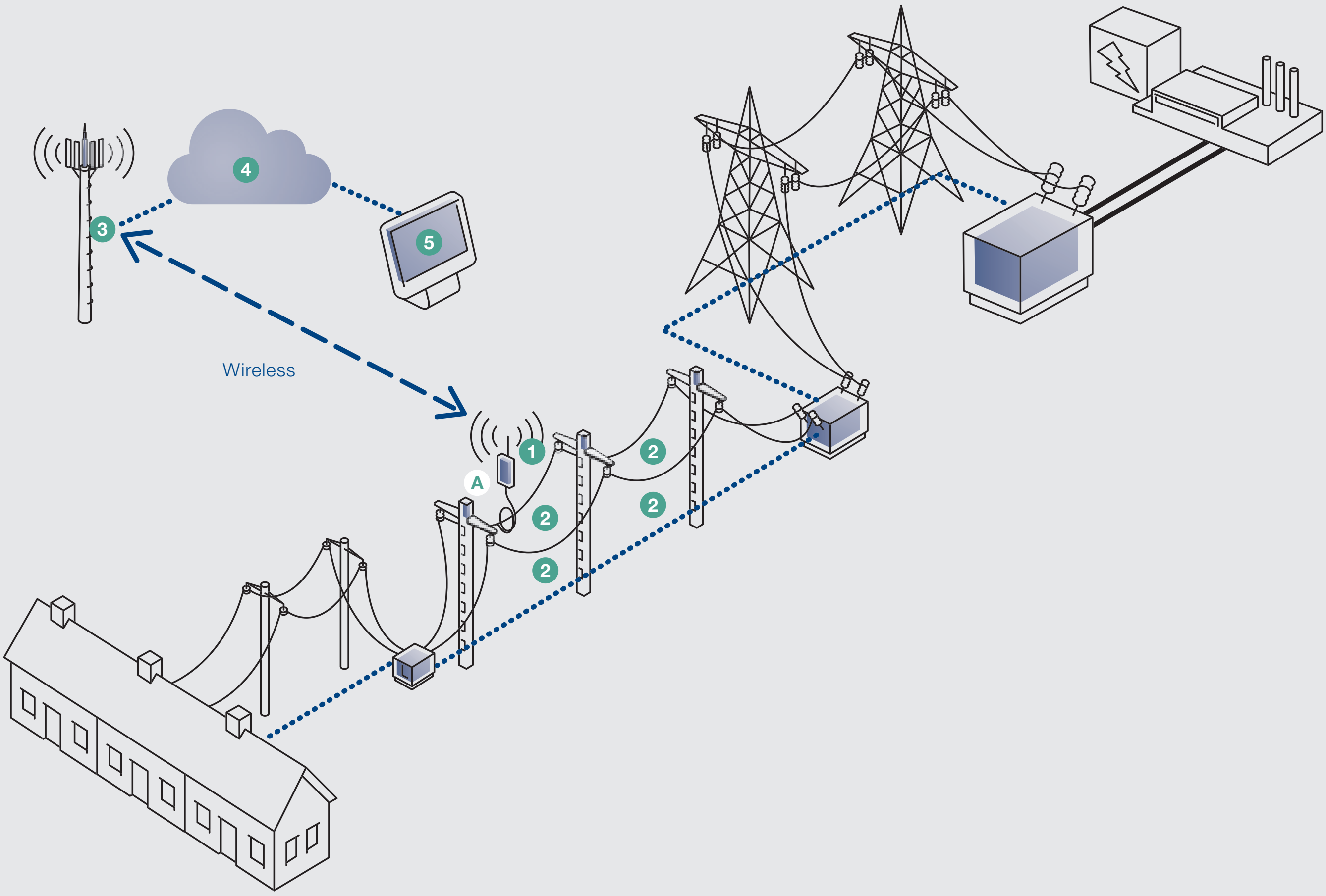
[1] Restatement following IAS19R application (pensions).
[2] Proposal of the Board of Directors to the Annual General Meeting of Shareholders on 29 June 2017.

### Sales per segment
In CHF millions




### Regional sales breakdown
In CHF millions





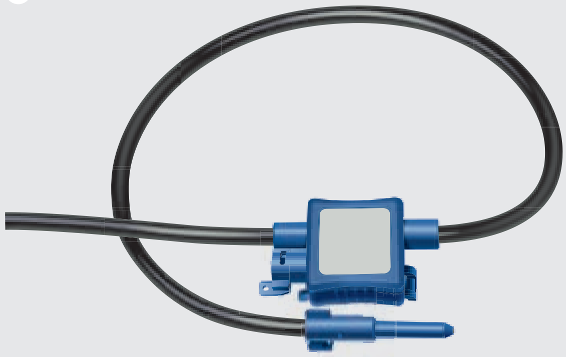

## Smart Grid Medium Voltage Line Monitoring

With new Internet of Things, telecom networks, monitoring overhead power lines is made possible. Thanks to an ammeter, installed between two poles, the grid operator can visualize in real-time the current flow in order to optimize the power line capacity to distribute more electricity.

The wireless ammeter sends data over a telecom relay to a secured database in the cloud. The energy management platform can regulate, alert and notify the maintenance team if needed.

The ammeter uses the rogowski coil ART to measure the current, detects line aging depending on the level of current, and helps prioritizing line capacity and regular maintenance.

A ART



1. Ammeter
2. MV power line
3. Telecom relay
4. Cloud and database
5. Energy management

# Business Report

**Net profit increased from CHF 43.5 million in the previous year to CHF 44.6 million in the reporting year, despite the volatile business sentiment. Our diversified business mix supported our robust performance. We recorded a positive impact of the improving economic situation in our cyclical drives and welding business. The strongest momentum was provided by the green cars business where we continued to establish our reputation. However, the renewable energies and traction businesses were soft. Business conditions improved in Q4 of 2016/17, resulting in growing sales and a high level of orders.**

### Financial result

Sales in the financial year 2016/17 totaled CHF 264.5 million, an increase of 1.2 % compared with the previous year. At constant exchange rates, Group sales increased by 1.0 %.

China represented 30 % (31 % in 2015/16), Asia excluding China 17 % (15 % in 2015/16), Europe 33 % (35 % in 2015/16), and North America 18 % (17 % in 2015/16) of Group sales. Sales growth was robust in Asia excluding China (+14 %) and North America (+4 %), but disappointing in China (-3 %) and Europe (-3 %). We achieved the highest growth rates in South Korea (+26 %), Japan (+14 %), USA (+4 %) and Germany (+4 %).

In the financial year 2016/17, orders increased by 5.7 % to CHF 271.2 million and the full year book-to-bill ratio reached 1.03, indicating improved business conditions.

Our gross margin improved to 46.7 % (46.0 % in the previous year) due to effective cost management, innovation, ongoing transfer of production to Sofia and improved sourcing.

### Key figures

| In CHF millions | Financial year 2015/16 | Q1 2016/17 | Q2 2016/17 | Q3 2016/17 | Q4 2016/17 | Financial year 2016/17 |
|---|---|---|---|---|---|---|
| Orders received | 256.5 | 65.2 | 67.1 | 67.7 | 71.2 | **271.2** |
| Sales | 261.5 | 66.9 | 65.7 | 65.1 | 66.8 | **264.5** |
| Book-to-bill | 0.98 | 0.97 | 1.02 | 1.04 | 1.07 | **1.03** |
| EBIT | 52.9 | 13.4 | 14.1 | 14.1 | 14.1 | **55.8** |
| **Net profit** | **43.5** | **10.8** | **11.4** | **10.6** | **11.9** | **44.6** |

We reduced sales, general and administrative spending (SG&A) by 2.1 % to CHF 51.8 million. For the financial year 2016/17, SG&A represented 19.6 % of sales, compared with 20.2 % in the previous reporting period. Research and development expense (R&D) as a percentage of sales increased to 6.1 %, above the long term average of 5.5 %. This intended increase in R&D spending is the result of a strategic decision to significantly increase investment in innovation.

EBIT for the full financial year 2016/17 increased to CHF 55.8 million from CHF 52.9 million in the previous reporting period. Our EBIT margin for the financial year 2016/17 came in at 21.1 %, up from 20.2 % in the previous year.

The tax rate has remained stable at 18.9 %. We posted a net profit for the year of CHF 44.6 million, an improvement of CHF 1.1 million compared with last year.

Our balance sheet remains strong. As at 31 March 2017, total assets increased to CHF 149.0 million. Shareholders' equity reached CHF 90.5 million, representing an equity ratio of 60.7 % (61.3 % as of 31 March 2016). LEM has no interest bearing financial liabilities. Net working capital has decreased by CHF 1.7 million.

Cash flow from operating activities in the financial year was CHF 52.8 million (+15.9 %) and free cash flow was CHF 39.6 million (+1.7 %). CAPEX nearly doubled due to investments in production lines for new products and in preparation of production volume increase.

### Dividend

The proposed dividend of CHF 35 is a sign of trust in the company's ability to continue generating strong cash flows in the future. The proposal follows LEM's dividend policy of distributing significantly more than 50 % of its consolidated net profit to shareholders and corresponds to a payout ratio of 89.4 %.

### Industry segment

Sales in the Industry segment decreased by 0.4 % to CHF 214.3 million in the financial year 2016/17, at constant exchange rates the sales decrease was also 0.4 %. We achieved strong orders and our book-to-bill ratio for the year resulted in 1.03, pointing to an increasing momentum. China has maintained its position as our most important single country and accounted for 30 % of Industry sales, but sales development was soft there (-4 %). Sales grew in North America and the rest of Asia by 11 % and 8 % respectively. Sales in Europe dropped by 4 %. Still, the EBIT margin improved to 20.5 % compared with 20.0 % in the previous financial year.

Our production volumes kept increasing and we invested in additional production lines. Our new products enhanced our competitiveness, opened opportunities to explore new markets and were well received. We maintained our market share above 50% in all markets and regions. We did not observe major changes in our competitive landscape.

In the course of 2016, global economic activity improved in North America and Europe and we noticed positive signals from China. Our customers reported a more positive perspective than 12 months ago and started increasing their investment activities. A positive assessment for a continued cyclical recovery is supported by an improved economic outlook for most of our target regions and positive forward-looking indicators such as purchasing manager indices.

Sales in the drives & welding business increased by 10% over the previous year. We achieved robust growth in all regions, yet growth was strongest in North America. We won market share in North America and Europe thanks to our products' superior performances. We witnessed a recovery in demand from oil and gas producers and ongoing growth in the machine and automation industries.

The renewable energies & power supplies business is dependent of local government decisions, which resulted in a volatile sales development. Solar-equipment production continues to move from North America and Europe to China. Hence, China has become by far the biggest solar-equipment manufacturer, now increasingly active on export markets. Wind activity was weak in all regions. Overall sales decreased by 8%.

Sales in the traction business decreased by 10%. There was little investment activity in new rail infrastructure during the past year. Some high-speed train projects for export markets in China were delayed or even cancelled. Yet, we executed an energy meter project in Europe and won market share globally.

In the project-driven high-precision business, sales decreased by 10%. Some of the sales decrease should be attributed to last year's strong HVDC sales in China that did not repeat in the reporting period. We achieved good sales in the Chinese and US medical markets and the Japanese test & measurement market. Overall, we won market share but observed low activity globally.

In the financial year 2017/18 we aim to leverage the improving market conditions and to further strengthen our market position. We want to accelerate the pace of product launches and address new markets with our latest product innovations.

### Automotive segment

Sales in the Automotive segment reached CHF 50.2 million in the financial year 2016/17, representing an increase of 8.5% on the financial year 2015/16. At constant exchange rates, sales grew by 7.5%. We recorded strong growth in Europe and Asia. North America is our largest region with 39%. Sales in China accounted for 29% of segment sales, while segment sales in Europe stood at 8%. We recorded the strongest growth in South Korea (+69%), Japan (+23%) and Germany (+24%). EBIT reached CHF 11.8 million, up 19.1% on the financial year 2015/16. The EBIT margin was 23.5%, compared with 21.4% one year ago. The margin increase resulted from volume growth, a favorable product mix and our efficient organization.

In a high-growth and increasingly dynamic market, we kept the operating performance at a high level. We won awards from two customers for our delivery reliability, product quality and innovation. We have established close relationships with Tier 1 companies and OEMs, which recognize us as a well-respected market player.

Strong growth in China pushed the global car market to new record levels in 2016. Vehicle production increased by 4.5% to 94.8 million (source: OICA). Apart from China (+14.5%), the rest of the world was stable. Green cars saw new record production levels last year due to more government incentives and better consumer acceptance. Production volumes of plug-in hybrid cars and electric cars amounted to 773'600 units in 2016, an increase of 42% compared to 2015 (source: EVvolumes.com). Electrification of cars becomes an increasingly dominant topic in the global car industry, besides connectivity and autonomous driving.

Year-on-year sales in the conventional cars business decreased by 5%, mainly driven by an anticipated technology change in our most important market in the US.

Sales in the green cars business increased by 41%. We achieved strong growth across all territories. Growth was still slower than expected due to delays of customers' product launches and certain reductions of government subsidies for green cars in China. The increasing attractiveness of the market lures new competitors such as system integrators or semiconductor suppliers resulting in increased competition and price pressure.

We have put the capacities in place to increase R&D activity and hence to increase the number of product launches. We will defend our market share and margins in the green cars business and expect the continued growth to more than offset our slowing conventional cars business. We estimate that every fitfth green car produced in 2017 will be equipped with a LEM transducer.

### Strategy implementation

We remain on course with our long-term strategy. It allows us to maintain our competitive edge, as demonstrated by our high market share and strong margins.

– **Increase our technology leadership**

We continuously expanded our R&D team to boost our innovation rate. To this end, we not only hired engineers for the established innovation teams in Beijing and Sofia, but also set up a new R&D center in Lyon. The focus will be on innovation in the areas of ASICs and embedded software in order to capture Internet of Things and Industry 4.0 related opportunities. The new R&D center started operations on 1 April 2017 with a team of 11 engineers and an ambitious development plan with first product launches and the aim to grow to more than 20 engineers within 12 months.

We remain focused on our product road map: we lead the current market trends of miniaturization, embedded software and digitalization with new products. We launched the first integrated primary sensors, GHS and GO, which combine transducer and semiconductor technologies. 50% of our new products include embedded software. The IN 2000, for example, provides unmatched performance levels by digital signal processing for test & measurements, medical and science applications. We launched digital output versions of HO and HLSR open-loop Hall effect current transducers, giving us a leading edge in the drives and renewable energies markets. The LH models for drives and solar markets incorporate our proprietary ASIC for closed-loop Hall effect technology, delivering high performance comparable with the more complex fluxgate products. The DVM models for traction applications use LEM's patented insulating digital technology to achieve improved accuracy and temperature stability. The accuracy class 0.5 ART models for smart grid applications use our patented Rogowski loop technology and provide an electrostatic shield. The two-phase motor control sensor HAH2 for hybrid-electric cars offers high accuracy and speed in a compact and easy-to-integrate casing. Going forward, we will increasingly develop products using new technologies in order to address new markets.

We secured ten new patents, and continue to be active in protecting our brand and technology in the international market.

– **Increase our efficiency of operations**

Ongoing transfer of production to Sofia and the development of a new supplier base in Eastern Europe were the main cost management contributions in 2016/17. The site in Bulgaria is developing faster than expected. Production increased in 2016/17 to 14.2% of global output (9.3% in 2015/16). During the reporting year, we increased the share of cost-competitive production in Sofia and Beijing to 77% of global output. We increased the work floor in Sofia by 20% and in Beijing by 10% to better meet the growth perspectives, mainly in the Automotive business. To offset the ongoing price erosion in our markets, we constantly increase productivity.

– **Increase our production flexibility**

We achieved a significant production increase in number of sensors. We added several new production lines while maintaining product quality and delivery performance at a high level. Nevertheless, our activities require more technical and engineering skills in production. To this end, we increased our focus on people development. We redesigned training plans to improve the versatility and skills of production teams to better meet changing work situations. With the increased experience of our teams in Sofia, we started transferring more complex product families with high labor content, adding to the flexibility of the Group.

### Responsibility: Ethical Standards

Our core values (page 15) have laid a strong foundation for our achievements. We have been embracing the Ten Principles of the United Nations Global Compact (UNGC) since 2006. These principles, which relate to human rights, labor, environment and anticorruption, are embedded in every aspect of our Company, from our strategy to our recurring actions. As we do every year, we provided an update on our progress and made it available on our website (www.lem.com > About LEM > LEM Code of Conduct). We also follow other best-practice policies such as the Universal Declaration of Human Rights and the recommendations of the UK Ministry of Justice relating to antibribery.

The LEM Code of Conduct (CoC; www.lem.com > About LEM > LEM Code of Conduct) connects these principles to a binding behavior for all stakeholders. Every LEM employee receives training on the CoC (including instructions and case studies) and signs the CoC. The Code of Conduct also applies to all business partners we use, whether suppliers, consultants or agents. They need to sign the LEM CoC prior to the start of any activities. We regularly audit compliance and detected no violation during 2016/17.

### Responsibility: Environmental Standards

Our products help to reduce energy consumption and $CO_2$ emissions. Hence, our goal is to develop more accurate sensors, which allow our customers to develop applications that are more efficient. We develop an environmental profile for each new product before launch, which includes recyclability rate and material saving compared to previous or equivalent models.

All our production sites are ISO 14001:2004-certified, an environmental certification which we renew regularly. We will upgrade to ISO 14001:2015 in 2017/18. Our production activities are compliant with REACH (European Regulation for Registration, Evaluation, Authorization and Restriction of Chemicals), RoHS (Restriction of Hazardous Substances) and conflict minerals reporting and obligations.

In our Geneva site, we have deployed a smart-grid architecture solution with 36 energy meter devices to map our current electricity consumption and link it to every energy consumer. Our aim is to reduce electricity consumption by 20% in 10 years.

## Quality management

Quality and reliability are key strengths of LEM transducers and well known features to our customers, as evidenced by our recent customer survey. Thus, continuously improving the quality of our products and services is key. We maintain the same high principles for all production sites. We follow ISO standards depending on the market supplied: ISO 9001 for Industry, ISO/TS 16949 for Automotive, and IRIS for traction. Our laboratories are ISO/CEI 17025-certified for test and calibration. All production sites are ISO 9001:2008-certified. In 2017/18 we will switch to ISO 9001:2015. We apply quality improvement techniques such as LEAN and Six Sigma.

## Employees

We are convinced that a motivated workforce is essential for LEM's lasting success. To this end, we support our employees to attend regular job-specific training and develop their personal skills. We invest 1.5% of Group salary for internal courses and participation in external trainings. Technical competencies and management skills are the primary focus.

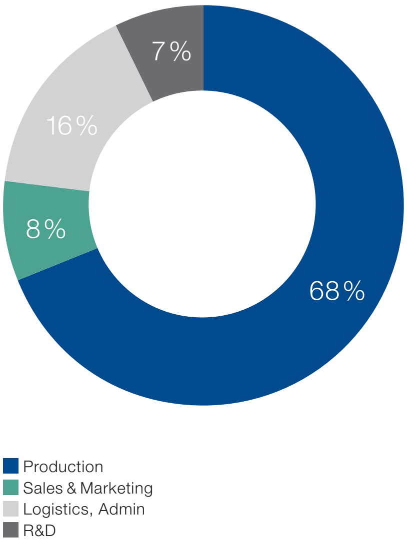
In management development, we emphasize enhancing technical core competencies that are essential for the future. We also develop the leadership capabilities of middle and top management as well as project management skills in international and intercultural teams.

| | 31.3.2017 | 31.3.2016 |
|---|---|---|
| Permanent employees (FTE) | 1'292 | 1'253 |
| Temporary employees (FTE) | 148 | 121 |
| Apprentices (FTE) | 13 | 13 |
| **Total** | **1'453** | **1'388** |
| Women in overall workforce (%) | 55% | 56% |
| Women in non-production-related activities (%) | 33% | 32% |
| Fluctuation in non-production-related activities (%) | 7.7% | 8.3% |

LEM provides equal opportunity to all qualified individuals. The share of female employees is 55% in the overall workforce. However, given the high share of engineering positions in product development, sales & marketing and management, the share of female employees in the non-production-related activities is 33%, though the balance is improving. We actively seek female candidates in order to increase their share in the higher-qualification positions.

We continue to enhance health and safety at the workplace. The most important measures include systematic health and safety training for newcomers, employee wellbeing programs, voluntary employee health checks and ongoing awareness enhancement of managers. LEM uses the ISO 45001 standard that is currently being developed to help improve occupational health and safety management systems.

### Employees per function




## Employee engagement

Every two years we conduct a global survey to assess LEM's employee engagement for the company, employee engagement for the job and managerial effectiveness. 76% of employees participated in the latest survey in 2016. The study reveals that employee engagement around the world remained stable at the same high level since the previous study, which was performed in 2014. Overall, LEM people assess strategy and future, customer focus, managerial effectiveness, working climate and empowerment as our main strengths. Employees are satisfied with their job and proud to work for LEM.

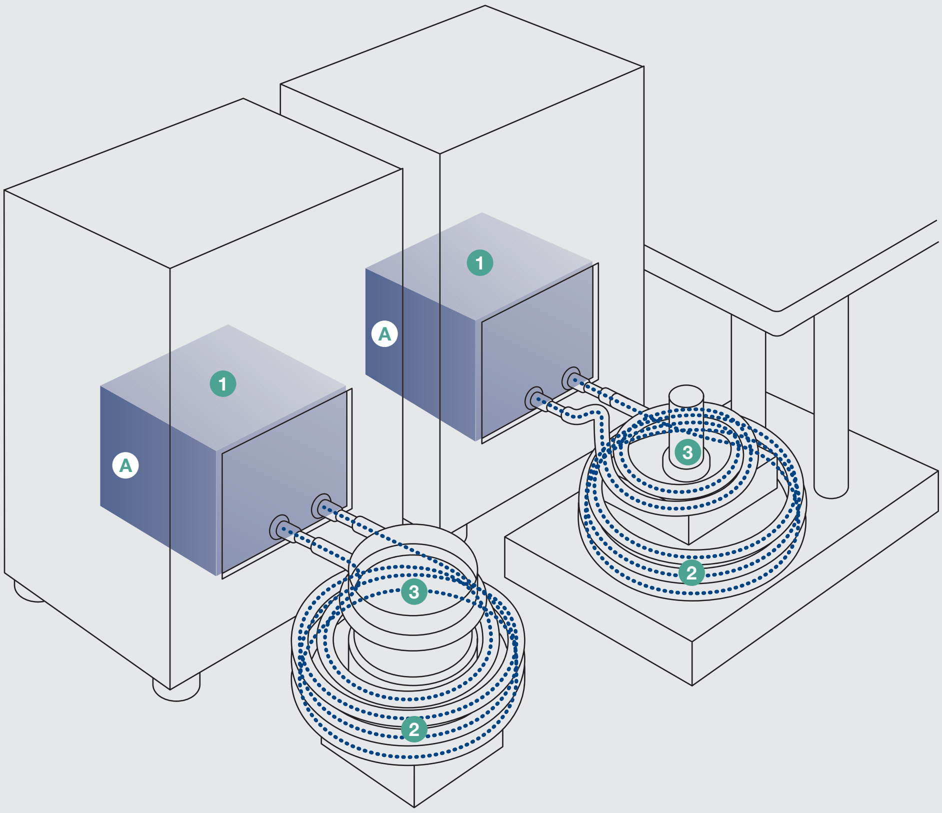
### Customer satisfaction

In 2016 we also conducted a customer satisfaction survey which included over 200 customers from all territories. Our customers gave a very high rating to the quality of our products, a very important reward for an engineering-driven firm like ours. A look at the detailed findings reveals that we are highly rated for our products in terms of reliability, quality and performance. Most customers agree that our products have a positive impact on the value and performance of their own applications. They confirmed that we have maintained the high-level quality of relations and efficiency of processes since 2014. Customers appreciate working with us and value us as a reliable business partner. Getting in touch with our team and the team's understanding of commercial requests and expectations were rated as strengths of LEM. Our customers recognize that we are the global leader in providing transducers to measure electrical parameters.

### Outlook

We see encouraging economic signals in our most important regions and observe increased investment activities among our customers. Thus, we expect positive momentum in the Industry businesses. Growth in the green cars business is forecast to continue. Again, we plan a high number of product launches and ongoing investment in production capacities for new products.

The strong Swiss franc will remain a challenge for LEM, despite the temporary easing of pressure during the past year. Adapting the international footprint of all our activities will thus remain on our agenda.



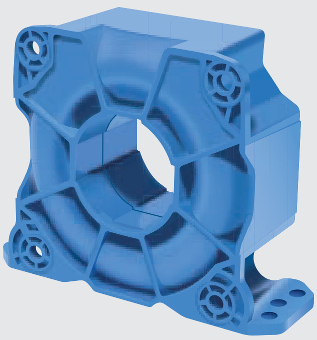

## Induction heating

Induction heating is a process, which is used to bond, harden or soften metals or other conductive materials. For modern manufacturing processes, induction heating offers an attractive combination of speed, consistency, control and energy efficiency.

In a basic induction heating setup, a power supply sends an AC current through an inductor (often a copper coil), and the part to be heated (the workpiece) is placed inside the inductor. The inductor serves as the transformer primary and the part to be heated becomes a short-circuit secondary. An LF 510 LEM transducer is built inside the power supply.

With its extremely high measurement accuracy, the LF 510 allows a very accurate control of the workpiece's temperature. The LF 510 also features high immunity to external interferences generated by adjacent currents or external perturbations, and provides excellent reliability to the induction heating process.

A LF 510



1 Power supply
2 Copper coil (inductor)
3 Work piece

# LEM's Core Values

**It is vital for all of LEM to share common values and working principles. All employees understand what LEM wants to achieve so that everyone works together for the same purpose.**

These values link all LEM employees together and make us a team. They are the common beliefs we share. They are the spirit and intent of everything we do at LEM.

There are six core values, each one guiding us throughout all our activities.
- We are customer driven
- We operate with integrity
- We value teamwork
- We commit
- We strive for excellence
- We lead innovation

**We are customer driven**
We succeed by exceeding our customer expectations with a "yes customer" attitude. All our activities are driven by the desire to provide best quality service to our customers. We aim to listen to, anticipate and respond to our customers' needs. For this reason, we collaborate closely with our customers and form true relationships. We target "customer delight."

**We operate with integrity**
Basic ethical behavior and integrity in business relationships determine the essence of all our actions. As a company and as individuals, we do the right things right and never compromise our values and principles. We honor our agreements and are honest in our communications.
Our relationships with coworkers, customers, suppliers, partners and the investor community are based on openness and fairness.

**We value teamwork**
LEM forms a worldwide community. Close collaboration and networking across functions, departments and cultures is critical for the success of the Company. To cooperate, we need to be open and honest and willing to share and trust each other. Accountability is a key factor to our success. We are committed to a workplace where individuals are treated fairly and with respect, where all employees have the opportunity to expand their skill, and accomplishments are recognized. Teamwork is more than just working together, it is bringing out the best of everyone's strengths.

**We commit**
We set our goals high because we know we can reach them. We honor these goals as promises to our customers, our shareholders and ourselves. Our continued success depends on keeping our promises and taking responsibility for all our actions. Success is measured by the results we produce in customer satisfaction, sales, profitability, value creation to our shareholders and the scope of opportunities we provide for our employees.

**We strive for excellence**
No matter how good our products, services, processes and results, we are dedicated to making them better. We aim for the highest standards of quality for our customers. By approaching our daily work with a passion for perfection, avoiding incidents by managing the risks of our activities, taking initiatives and a desire to learn and share that learning with colleagues, we all can make a difference.

**We lead innovation**
Innovation is the cornerstone of our success and our future depends on it. Innovation will ensure that we have attractive products for our markets, and a steady supply of new technologies, products, applications and customers. We aim to be the leaders in our industry and not the followers.

# 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 the Annual 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 international reporting standard of the SIX Swiss Exchange (LEHN, security no. 2 242 762; ISIN 0022427626). On 31 March 2017, the market capitalization was CHF 1'065 million.

LEM Group is structured into the Industry and the Automotive segments. Appropriate segment reporting pursuant to IFRS is contained in note 3 to the consolidated financial statements. All companies in LEM Group are listed under "Scope of consolidation" in note 24 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:

| | 31.3.2017 | | 31.3.2016 | |
|---|---|---|---|---|
| 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 | 548'786 | 48.1% | 527'485 | 46.3% |
| Ruth Wertheimer, in Kfar Shmaryahu, Israel, through 7-Industries Holding B.V., in Amsterdam, Netherlands | 141'581 | 12.4% | 141'581 | 12.4% |
| J. Safra Sarasin Investmentfonds AG, in Basel, Switzerland | 36'000 | 3.2% | 42'999 | 3.8% |
| Montanaro Asset Management Ltd, in London, United Kingdom[1] | | < 3% | 57'394 | 5.0% |
| **Total shareholders < 3%** | **413'633** | **36.3%** | **370'541** | **32.5%** |
| **Total** | **1'140'000** | **100.0%** | **1'140'000** | **100.0%** |

1 Montanaro Asset Management Ltd indicated on 9 February 2017 that it had crossed the 3% threshold in the downward direction with respect to the capital and voting rights.

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/.

### Shareholdings of nonexecutive Directors

| | 31.3.2017 Number of shares held | 31.3.2016 Number of shares held |
|---|---|---|
| Andreas Hürlimann | 1'001 | 960 |
| Ilan Cohen | 300 | 170 |
| Norbert Hess | 0 | 0 |
| Ueli Wampfler | 72'500 | 68'000 |
| Ulrich Jakob Looser | 0 | 0 |
| **Total** | **73'801** | **69'130** |

The Board of Directors has annulled on 3 November 2016 the requirement for nonexecutive Directors to acquire shares on the market within the period of three years after joining the Board of Directors with a value of approximately three annual fixed compensations.

### Shareholdings of Executive Management

| | 31.3.2017 Number of shares held | 31.3.2016 Number of shares held |
|---|---|---|
| François Gabella, CEO | 600 | 600 |
| Andrea Borla, CFO | 0 | 0 |
| Frank Rehfeld, SVP Industry | 0 | 0 |
| Rainer Bos, SVP Automotive | 0 | 0 |
| **Total** | **600** | **600** |

Trading LEM shares for both Board of Directors and Executive Management has to respect LEM's disclosure, 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 holds the shares for his own account.

On 31 March 2017, LEM Holding SA held 947 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 30 June 2016, Ilan Cohen, Norbert Hess, Andreas Hürlimann, Ulrich J. Looser and Ueli Wampfler were re-elected as members of the Board of Directors. Andreas Hürlimann was re-elected as Chairman of the Board of Directors. In addition, shareholders elected Norbert Hess and Ulrich J. Looser to the Compensation Committee. Norbert Hess chairs the Committee.

All members of the Board of Directors are nonexecutive and have at no time been part of the executive management of LEM.

Servotronix Motion Control Ltd, a company presided by Ilan Cohen, has bought transducers for CHF 751 thousand in 2016/17 (CHF 662 thousand in 2015/16), 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 2017:

*From left to right: Norbert Hess, Andreas Hürlimann, Ilan Cohen, Ueli Wampfler, Ulrich J. Looser*

**Andreas Hürlimann**

**Nationality** Swiss

**Born in** 1964

**Position** Chairman of the Board of Directors, Chairman of the Strategy 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., 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 Real Estate Investments SICAV, St. Gallen, Chairman of the Board of Directors
- Sobrado Software AG, Cham, Chairman of the Board of Directors
- ElectricFeel AG, Zürich, 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

**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**
- Board member, Servotronix Motion Control Ltd., Israel
- Chairman of the Board, Negba Houses for Children at Risk in Israel

**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

**Norbert Hess**

**Nationality** German

**Born in** 1960

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

**Entry** 2013

**Professional background**
- Since 2012, Member of the Management Board, Chief Operating Officer (COO), EPCOS AG, Munich, Germany
- 2005–2012, Head of Ceramic Components Division, EPCOS OHG, Deutschlandsberg, Austria
- 1999–2005, Head of Surge Arresters Business Division, EPCOS AG, Berlin, Germany
- 1987–1999, business, marketing and R&D roles at Siemens AG, Berlin/Erlangen, Germany

**Other notable activities**
- None

**Education**
- Ph.D., Technical University of Berlin, Germany
- M. Sc. Mat. Eng., Technical University of Berlin, Germany

**Ulrich J. Looser**

**Nationality** Swiss

**Born in** 1957

**Position** Member of the Board of Directors, Member of the Audit and Risk Committee, Member of the Nomination and Compensation 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
- Bachofen Holding AG, Chairman of the Board of Directors
- Econis AG, Chairman of the Board of Directors / Co-owner
- 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 Study Foundation, Head of Finance Committee
- Swiss National Science Foundation, Member of the Executive Committee of the Foundation Council

**Education**
- M.Sc. Physics, ETH Zurich, 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**
- Chairman of the Board of Directors, Swisa Holding AG, Cham (Swisa Group)
- Chairman of the Board of Directors, Arcotempo Holding AG, Cham
- Vice Chairman of the Board of Directors, Merbag Holding AG, Cham (Merbag Group)
- Member of the Board of Directors, Caspar Finanz AG, Baar (Traco Power Group)
- Member of the Board of Directors, Rebew AG, Zürich

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

### 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 seat in Fribourg. The Chairman, after consultation 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 reflects, in its working procedures, the efficiency and effectiveness of the 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 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 co-worker 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 session 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 biannual 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 financial result of the Annual Report, 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 two nonexecutive 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, four 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, three half-day meetings and six telephone conferences 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, seven half-day meetings and five telephone conferences were held.

## 4 Executive Management

The Executive Management was comprised of the following members as of 31 March 2017:

*From left to right: Frank Rehfeld, Andrea Borla, François Gabella, Rainer Bos*

| | |
|---|---|
| **François Gabella** | **Function** CEO LEM Group |
| **Nationality** Swiss | **With LEM since** 2010 |
| **Born in** 1958 | **Previous companies and positions**<br>– 2006 – 2010, CEO, Tesa SA<br>– 2002 – 2006, SVP, Areva<br>– 1996 – 2002, Business Area Manager, ABB Power Transformers |
| | **Education**<br>– M. Sc. Microtechnics EPFL, Lausanne, Switzerland<br>– MBA, IMD, Lausanne, Switzerland |
| **Andrea Borla** | **Function** CFO LEM Group |
| **Nationality** Swiss | **With LEM since** 2015 |
| **Born in** 1967 | **Previous companies and positions**<br>– 2008 – 2015, CFO, Schindler France<br>– 2003 – 2007, Field Operations Manager, Schindler China<br>– 1999 – 2003, Area Controller, Schindler Asia Pacific<br>– 1996 – 1999, Head of Group Consolidation, SAirGroup |
| | **Education**<br>– Ph.D., M.A. HSG, Finance and Accounting, St.Gallen, Switzerland |
| **Rainer Bos** | **Function** Senior Vice President Automotive |
| **Nationality** German | **With LEM since** 2015 |
| **Born in** 1962 | **Previous companies and positions**<br>– 2011 – 2015, General Manager, Amphenol Tuchel Electronics GmbH<br>– 2001 – 2011, Business Unit Director, Delphi Deutschland GmbH<br>– 1991 – 1999, Key Account Manager, Continental-Teves KGaA |
| | **Education**<br>– Dipl. Eng. Industrial Engineering, TU Darmstadt, Germany |
| **Frank Rehfeld** | **Function** Senior Vice President Industry |
| **Nationality** German | **With LEM since** 2016 |
| **Born in** 1968 | **Previous companies and positions**<br>– 2009 – 2015, VP Drives, Brose China Co., Ltd.<br>– 2006 – 2009, Managing Director, Hella Shanghai Electronics Co., Ltd.<br>– 2004 – 2006, Siemens VDO China, Director Body/Chassis Electronics<br>– 1996 – 2004, Siemens VDO Germany, Director R&D Body/Chassis Electronics |
| | **Education**<br>– Dipl. Eng. Electrical Engineering, Erlangen-Nuremberg, Germany |

François Gabella is member of the Swissmem Executive Committee. Apart from that, 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 section "Compensation Report" following on page 26.

## 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 are all following the Swiss law. The complete Articles of Incorporation can be downloaded from the Investor Relations pages on the website www.lem.com > Investor Relations > Corporate Governance.

### 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 expressly declares that the shares have been bought and will be held for his 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 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

In June 2010, the Annual General Meeting introduced an opting-out clause according to article 32 of the Federal Act on Stock Exchanges and Securities Trading (now: article 125 of the Financial Market Infrastructure Act, FMIA) in the Articles of Incorporation of the Company. This clause releases any shareholder 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. The Swiss Takeover Board has decided on 22 September 2011 that a passing of the 33 1/3% threshold by the shareholder group Weber & Wampfler would not trigger the obligation for a public takeover offer.

### Clauses of 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 Arthur Bergmann bearing the responsibility for the audit since 2013/14. 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 Group companies in Switzerland and abroad. The audit fees and fees for additional services are as follows:

**Type of service**

| In CHF thousands | 2016/17 | 2015/16 |
|---|---|---|
| Audit fees | 350 | 410 |
| Additional fees | 0 | 0 |
| **Total** | **350** | **410** |

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.

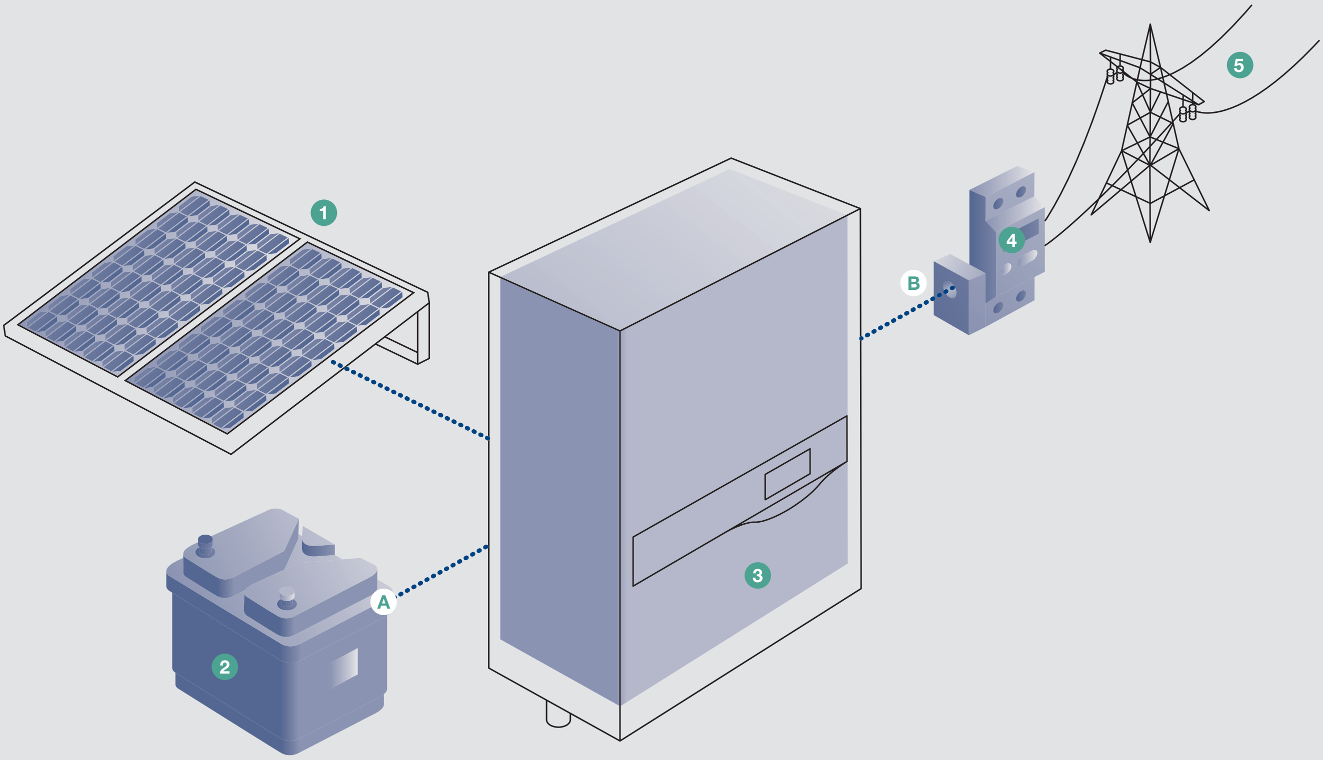
During 2016/17 Ernst & Young attended three regular ARC meetings.

## 9 Information policy

LEM informs its shareholders on the business status and its results on a quarterly basis. After the first six months, a half-year report is published. This report, as well as the Annual Report, is made publicly available on its website http://www.lem.com/hq/en/content/view/227/174/ 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).

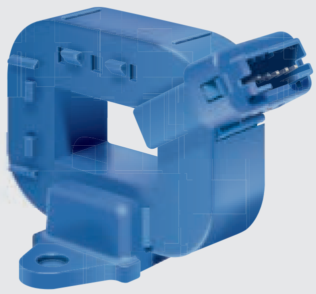



## Hybrid solar inverter with battery storage inside

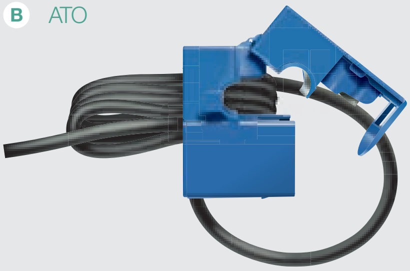
Home solar-energy storage is coming into the mainstream. Hybrid solar inverters store solar energy when the sun is shining in order to use it in the evening, when a household needs the electricity for cooking and light. Every home that installs a battery storage system will need an inverter to convert the stored DC electricity into an appliance-friendly AC electricity.

In the context of residential solar and storage systems, a hybrid inverter is an inverter which can simultaneously manage inputs from both solar panels and a battery bank, charging batteries with either solar panels or the electricity grid, depending on which is more economical or preferred. LEM's HO transducers control the charge/discharge of current into the battery and the ATO measures the total household consumption allowing to decide when to charge or discharge the battery. The HO offers best-in-class accuracy for the high currents flowing into the battery. The ATO is an attachable current transducer. It is simple to install and provides 1 % accuracy.

A HO



B ATO



1. Photovoltaic panel
2. Battery
3. Hybrid inverter
4. Meter
5. Grid

# 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 Executive Management's and the Board of Directors' interest with shareholders' interest.**

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.

The Articles of Association of LEM contain provisions regarding the approval of compensation of the Board of Directors and the Executive Management (EM) (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 (Art. 30). www.lem.com> Investor Relations > Corporate Governance.

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 compensation | 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 performance-based variable compensation. The compensation for the Chairman and the members of the Board of Directors depends on the amount of responsibility of each member and the work related to the Board of Directors membership 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 nonwage compensation. The target-setting process for the variable compensation is carried out on an annual basis and includes quantitative and qualitative performance criteria, including financial results of LEM.

## 1 Board of Directors

### 1.1 General principles for compensation of nonexecutive Directors

The compensation for the Board of Directors is approved by the Annual General Meeting upon proposal by the Board of Directors based upon recommendation by 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 nonexecutive 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 nonexecutive Directors

The Board of Directors adopted a remuneration scheme with a fixed fee paid in cash in the amount of CHF 220'000 for the Chairman, CHF 130'000 for the Vice Chairman and CHF 80'000 for each member. Committee activity will be compensated with CHF 40'000 for the Committee's Chairman and with CHF 20'000 for each member. As long as no Vice Chairman is appointed, the Chairman receives a supplementary amount of CHF 30'000 for the additional workload.

The tables below show the compensation per Board member in the financial years 2015/16 and 2016/17. The shareholders approved at the Annual General Meeting on June 30, 2016, a maximum compensation amount for the term of office from the ordinary General Meeting 2016 until the ordinary General Meeting 2017 of up to CHF 900'000. The actual costs for the Company are slightly lower at CHF 898'000.

**2016/17**

| In CHF thousands | Annual fees (A) | Taxes, social-security charges and similar contributions paid by the Company [a)] (B) | Total costs for the Company (A) + (B) |
|---|---|---|---|
| Andreas Hürlimann[1, 2, 7] | 290 | 26 | 316 |
| Ilan Cohen[8] | 100 | 100 | 200 |
| Norbert Hess[5] | 120 | | 120 |
| Ulrich Jakob Looser[4, 6] | 120 | 11 | 131 |
| Ueli Wampfler[3] | 120 | 11 | 131 |
| **Total** | **750** | **148** | **898** |

a) These amounts also include one-time, nonrecurring contributions to tax and social-security authorities.

**2015/16**

| In CHF thousands | Annual fees (A) | Taxes, social-security charges and similar contributions paid by the Company (B) | Total costs for the Company (A) + (B) |
|---|---|---|---|
| Andreas Hürlimann[1, 2, 6, 8] | 290 | 26 | 316 |
| Ilan Cohen[7] | 120 | 11 | 131 |
| Norbert Hess[5] | 120 | – | 120 |
| Ulrich Jakob Looser[4] | 100 | 9 | 109 |
| Ueli Wampfler[3] | 120 | 11 | 131 |
| **Total** | **750** | **56** | **806** |

[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

Remuneration for the Executive Management is approved by the shareholders at the Annual General Meeting upon recommendation by the Board of Directors. The proposal of the Board of Directors is based on the recommendation from the NCC. The remuneration of the Executive Management is reviewed on an annual basis.

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

| Compensation element | Instrument | Purpose | Drivers | Range and Cap |
|---|---|---|---|---|
| Annual base salary | Monthly cash payments | Pay for the function | Scope and responsibilities Profile and competencies | N/A |
| Variable short-term incentive | Annual cash payment | Pay for annual performance | Business and individual performance throughout the fiscal year | 0%–150% of target amount |
| Variable long-term incentive | Annual cash payment | Participation in sustainable company success Alignment with shareholder interests | Achieved value creation over three consecutive business years | 0%–200% of target amount |
| Nonwage compensation | Pension contributions | Protect against risks plus retirement and dependents' coverage | Local legislation and market practice | N/A |

Total compensation is in line with the market for comparable industrial companies considering the various remuneration levels for different functions within LEM Group. The compensation mix between base salary, variable compensation and nonwage compensation shall reflect 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. Objectives and performance evaluations are prepared by the Chairman of the Board of Directors for the CEO and by the NCC for the other members of the Executive Management based on personal performance review.

**Short-term variable compensation related to the individual's function and responsibility and obtained results**

The individual target amount for the short-term incentive plan is communicated to the member of the Executive Management at the beginning of the financial year together with the objectives. The target amount and the objectives are based on the role and impact of the Executive Management 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 is evaluated.

The number of objectives is large enough to allow the members of the Executive Management to reach a fair level of short-term variable compensation rewarding them 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 for the whole period. For each objective, the curve between minimum and maximum bonus level is defined. Ambitious but achievable objectives shall be set as targets, at which 100% of the respective target amount shall be attributed.

For the Executive Management, the minimum payout of the short-term incentive is 0% of the target amount and the maximum payout 150%.

The short-term incentive payout is presented for retrospective approval to the shareholders along with the Annual Report and the financial statements of the same business year at the Annual General Meeting 2017 prior to being paid out.

**Long-term variable compensation 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 years (2014/15 – 2016/17). The performance criterion is the cumulated Economic Value Added (EVA) over these three financial years. The definition of the EVA objective takes place at the beginning of year one and the evaluation of the performance at the end of year three. Once the forward-looking EVA objective is defined, the EVA objective remains unchanged over the period of three years.

For the Executive Management, the minimum payout of the long-term incentive is 0% of the target amount and the maximum payout 200%.
For the long-term incentive cycle ending 2016/17, the maximum amount of the long-term incentive approved prospectively by the shareholders at the Annual General Meeting in 2014 is of CHF 927'000 for payout in 2017.

**2.1.3 Nonwage compensation of Executive Management**

For the Executive Management, nonwage compensation includes pension plans (retirement benefits) only. LEM has a policy to limit nonwage compensation to what may be required for the jobholder as a work instrument to fulfill his/her function according to generally accepted local customs.

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. Under IFRS, this plan is considered as a defined benefit plan. The insured base salary, follows Swiss professional pension regulations and without limitation on the amount. The pension fund is funded by contributions from the Company and the insured employees.

## 2.2 Remuneration of Executive Management

**2016/17**

| 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 |
|---|---|---|---|---|---|---|
| François Gabella, CEO | 499 | 250 | 147 | 64 | 960 | 81 |
| Executive Management (excl. CEO) | 920 | 325 | 182 | 93 | 1'520 | 128 |
| Former Executive Management | 0 | 0 | 75 | 0 | 75 | 7 |
| **Total** | **1'419** | **575** | **404** | **157** | **2'555** | **216** |

**2015/16**

| 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 |
|---|---|---|---|---|---|---|
| François Gabella, CEO | 480 | 304 | 226 | 61 | 1'071 | 82 |
| Executive Management (excl. CEO) | 420 | 242 | 0 | 41 | 703 | 55 |
| Former Executive Management | 703 | 362 | 185 | 70 | 1'320 | 104 |
| **Total** | **1'603** | **907** | **411** | **172** | **3'093** | **241** |

The amounts are shown as follows:
- Base salary: as paid out in the reporting period
- Short-term incentive 2016/17: as proposed to the Annual General Meeting in June 2017 for payout in July 2017
- Long-term incentive: as accrued for or paid out during the reporting period
- Pension fund contributions: as accrued for or paid out during the reporting period
- Social charges contributions: as accrued for or paid out during the reporting period
- The compensation of former members of the Executive Management staying within the Company for their work after leaving the Executive Management are not taken into account in the numbers above, whereas the part of the long-term incentive paid out in 2016/17 corresponding to their activity while being in the Executive Management is taken into account.

Amounts approved by previous Annual General Meetings related to the period reported above:
- Maximum amount base salary (valid from 1 October 2016 to 30 September 2017) CHF 1'727'000
- Maximum amount long-term incentive 2014–15 for payment in 2017: CHF 927'000
- Maximum amount base salary (valid from 1 October 2015 to 30 September 2016) CHF 2'800'000
- Short-term incentive amount for payment 2015/16: CHF 982'000
- 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

No compensation has been paid in 2016/17 to former members. In the financial year 2015/16 the former members of the Executive Management who left the Company received after their departure from the Executive Management payments in the amount of CHF 651'000, including compensation for their non-compete obligation.

No compensation has been paid to related parties in either financial year.

# 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 related parties. Therefore, no loans have been granted in the financial years 2016/17 and 2015/16 or in any previous year.

# Auditor's Report

**Report of the statutory auditor on the Compensation Report**

We have audited the remuneration report of LEM Holding SA for the year ended 31 March 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the note 1.2 on page 27, and on notes 2.2 to 2.3 on page 29 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 remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the 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 2017 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, 22 May 2017

Ernst & Young Ltd

| | |
|---|---|
| Arthur Bergmann<br>Licensed audit expert<br>(Auditor in charge) | Karine Badertscher Chamoso<br>Licensed audit expert |

# LEM Group

## Consolidated Financial Statements




LEM

# Consolidated Statement of Financial Position

## Assets

| In CHF thousands | Notes | 31.3.2017 | 31.3.2016 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 12'809 | 13'629 |
| Accounts receivable | 4 | 58'479 | 55'896 |
| Inventories | 5 | 30'628 | 27'796 |
| Income tax receivable | | 723 | 1'694 |
| Other current assets | 6 | 1'905 | 1'739 |
| **Total current assets** | | **104'543** | **100'754** |
| **Noncurrent assets** | | | |
| Deferred tax assets | 17 | 5'028 | 5'636 |
| Property, plant and equipment | 7 | 31'381 | 25'179 |
| Intangible assets | 8 | 7'045 | 7'630 |
| Other noncurrent assets | | 985 | 979 |
| **Total noncurrent assets** | | **44'440** | **39'424** |
| **Total assets** | | **148'983** | **140'178** |

## Liabilities and equity

| In CHF thousands | Notes | 31.3.2017 | 31.3.2016 |
|---|---|---|---|
| **Current liabilities** | | | |
| Accounts payable | 9 | 24'598 | 21'301 |
| Accrued expenses | | 22'043 | 18'230 |
| Income tax payable | | 2'824 | 3'142 |
| Current provisions | 10 | 1'061 | 1'552 |
| Current financial liabilities | | | 24 |
| Other current liabilities | 11 | 578 | 593 |
| **Total current liabilities** | | **51'106** | **44'843** |
| **Noncurrent liabilities** | | | |
| Noncurrent provisions | 10 | 1'127 | 1'965 |
| Deferred tax liabilities | 17 | 1'881 | 2'054 |
| Other noncurrent liabilities | 11 | 4'389 | 5'422 |
| **Total noncurrent liabilities** | | **7'397** | **9'442** |
| **Total liabilities** | | **58'503** | **54'284** |
| **Equity** | | | |
| Share capital | 12 | 570 | 570 |
| Treasury shares | 12 | (906) | (502) |
| Reserves | 12 | 9'467 | 9'907 |
| Retained earnings | | 81'350 | 75'919 |
| **Total equity** | | **90'480** | **85'894** |
| **Total liabilities and equity** | | **148'983** | **140'178** |

# Consolidated Income Statement

| In CHF thousands | Notes | April to March 2016/17 | 2015/16 |
|---|---|---|---|
| Sales | | 264'519 | 261'454 |
| Cost of goods sold | | (140'959) | (141'061) |
| **Gross margin** | | **123'560** | **120'393** |
| Sales expense | | (26'700) | (25'855) |
| Administration expense | | (25'246) | (27'323) |
| Research & development expense | | (16'039) | (14'602) |
| Other expense | | (0) | (6) |
| Other income | | 182 | 300 |
| **Operating profit** | | **55'758** | **52'908** |
| Financial expense | 14 | (228) | (361) |
| Financial income | 15 | 80 | 116 |
| Exchange effect | 16 | (642) | 987 |
| **Profit before taxes** | | **54'968** | **53'650** |
| Income taxes | 17 | (10'403) | (10'163) |
| **Net profit for the year** | | **44'566** | **43'487** |

| **Earnings per share, in CHF** | Notes | 2016/17 | 2015/16 |
|---|---|---|---|
| Basic & diluted earnings per share | 18 | 39.11 | 38.18 |

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

# Consolidated Statement of Comprehensive Income

| In CHF thousands | Notes | April to March 2016/17 | 2015/16 |
|---|---|---|---|
| **Net profit for the period recognized in the income statement** | | **44'566** | **43'487** |
| **Other comprehensive income to be reclassified to profit and loss in subsequent periods** | | | |
| Currency translation difference | | (845) | (2'864) |
| **Total other comprehensive income to be reclassified to profit and loss in subsequent periods** | | **(845)** | **(2'864)** |
| **Other comprehensive income not to be reclassified to profit and loss in subsequent periods** | | | |
| Remeasurement gains/(losses) on defined benefit plans, in Switzerland | 20 | 1'881 | (952) |
| Remeasurement gains/(losses) on defined benefit plans, in Germany | 20 | (390) | |
| Income tax | 17 | (302) | 190 |
| **Total other comprehensive income not to be reclassified to profit and loss in subsequent periods** | | **1'189** | **(762)** |
| **Other comprehensive income/(loss) for the period, net of tax** | | **345** | **(3'625)** |
| **Total comprehensive income for the period** | | **44'910** | **39'862** |

# 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 2015** | | **570** | **(283)** | **12'226** | **326** | **79'105** | **91'943** |
| Net profit for the year | | | | | | 43'487 | 43'487 |
| Other comprehensive income/(loss) | | | | | (2'864) | (762) | (3'625) |
| *Total comprehensive income* | | | | | *(2'864)* | *42'726* | *39'862* |
| Dividends paid | 12 | | | | | (45'547) | (45'547) |
| Movement in treasury shares | 12 | | (219) | 219 | | (365) | (365) |
| **31 March 2016 / 1 April 2016** | | **570** | **(502)** | **12'445** | **(2'538)** | **75'919** | **85'894** |
| Net profit for the year | | | | | | 44'566 | 44'566 |
| Other comprehensive income/(loss) | | | | | (845) | 1'189 | 345 |
| *Total comprehensive income* | | | | | *(845)* | *45'755* | *44'910* |
| Dividends paid | 12 | | | | | (39'879) | (39'879) |
| Movement in treasury shares | 12 | | (405) | 405 | | (444) | (444) |
| **31 March 2017** | | **570** | **(906)** | **12'849** | **(3'383)** | **81'350** | **90'480** |

The amount available for dividend distribution is based on LEM Holding SA's 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 2016/17 | 2015/16 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| **Profit before taxes** | | **54'968** | **53'650** |
| Adjustment for noncash items and taxes paid | | | |
| – Net financial result | | 112 | 230 |
| – Derivative financial instruments revaluation | | (76) | 436 |
| – Depreciation and amortization | | 6'856 | 7'050 |
| – Impairment loss | | 0 | 746 |
| – Gain/loss on disposal of fixed assets | | 349 | 767 |
| – Increase (+)/decrease (–) of provisions and allowances | | (790) | 1'334 |
| – Movement in pension | | 436 | 1'308 |
| Interest received | | 35 | 74 |
| Interest paid | | (147) | (304) |
| Taxes paid | | (9'585) | (19'483) |
| **Cash flow before changes in net working capital** | | **52'159** | **45'809** |
| Change in inventory | | (2'615) | (459) |
| Change in accounts receivable and other current assets | | (2'645) | (6'371) |
| Change in payables and other current liabilities | | 5'926 | 6'593 |
| **Cash flow from changes in net working capital** | | **667** | **(237)** |
| **Cash flow from operating activities** | | **52'827** | **45'573** |
| **Cash flow from investing activities** | | | |
| Investment in fixed assets | 7 | (12'552) | (6'881) |
| Investment in intangible assets | 8 | (622) | (439) |
| Increase (–)/decrease (+) in other assets | | (27) | 717 |
| **Cash flow from investing activities** | | **(13'201)** | **(6'603)** |
| **Cash flow from financing activities** | | | |
| Treasury shares acquired (–)/divested (+) | 12 | (444) | (365) |
| Dividends paid to the shareholders of LEM Holding SA | 12 | (39'879) | (45'547) |
| Increase (+)/decrease (–) in financial liabilities | | (25) | 25 |
| **Cash flow from financing activities** | | **(40'349)** | **(45'887)** |
| **Change in cash and cash equivalents** | | **(723)** | **(6'917)** |
| **Cash and cash equivalents at the beginning of the period** | | **13'629** | **20'920** |
| Exchange effect on cash and cash equivalents | | (97) | (374) |
| **Cash and cash equivalents at the end of the period** | | **12'809** | **13'629** |

# Notes to the Consolidated Financial Statements

## 1 General information

LEM Group (the Group) is a market leader in providing innovative and high-quality solutions for measuring electrical parameters. Its core products – current and voltage transducers – are used in a broad range of applications in drives & welding, renewable energies and power supplies, traction, high-precision, conventional and green cars businesses. The Group has operations in thirteen countries and employs 1'453 people per 31 March 2017. The parent company of LEM Group is LEM Holding SA (the Company), which is a limited company incorporated in Switzerland.

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

The Board of Directors approved the consolidated financial statements on 16 May 2017, to be submitted for approval by the ordinary general meeting on 29 June 2017.

## 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 2016/17**

In 2016/17, LEM Group introduced the following revised standards and interpretations:

| Standard or interpretation | Title | Effective date | Impact |
|---|---|---|---|
| IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception Amendments to IFRS 10, IFRS 12 and IAS 28 | 1 January 2016 | None |
| IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations Amendments to IFRS 11 | 1 January 2016 | None |
| IFRS 14 | Regulatory Deferral Accounts | 1 January 2016 | None |
| IAS 1 | Disclosure Initiative Amendments to IAS 1 | 1 January 2016 | None |
| IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortization | 1 January 2016 | None |
| IAS 16 and IAS 41 | Agriculture Bearer Plants Amendments to IAS 16 and IAS 41 | 1 January 2016 | None |
| IAS 27 | Equity Method in Separate Financial Statements Amendments to IAS 27 | 1 January 2016 | None |
| Amendments | Annual improvements to IFRS 2012–2014 | 1 January 2016 | None |

### Future standards

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

| Standard or interpretation | Title | Effective date |
|---|---|---|
| IAS 7 | Disclosure Initiative<br>Amendments to IAS 7 | 1 January 2017 |
| IAS 12 | Recognition of Deferred Tax Assets for Unrealized Losses<br>Amendments to IAS 12 | 1 January 2017 |
| IFRS 2 | Classification and Measurement of Shared-Based Payment Transactions<br>Amendment to IFRS 2 | 1 January 2018 |
| IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts<br>Amendment to IFRS 4 | 1 January 2018 |
| IFRS 9 | Financial Instruments | 1 January 2018 |
| IFRS 15 | Revenue from Contracts with Customers and its<br>Amendments to IFRS 15 | 1 January 2018 |
| IAS 40 | Transfers of Investments Property<br>Amendments to IAS 40 | 1 January 2018 |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | 1 January 2018 |
| Amendments | Annual improvements to IFRS 2014–2016 | 1 January 2018 |
| IFRS 16 | Leases | 1 January 2019 |
| IFRS 10 and<br>IAS 28 | Sale or Contribution of Assets between an Investor and its Associate<br>or Joint Venture, Amendments to IFRS 10 and IAS 28 | Postponed* |

* In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

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. The impact on the capital, financial position, income or cash flow situation of LEM resulting from the application of above standards and interpretations has not been evaluated but is expected to have no material effects, with the exception of IFRS 15 and IFRS 16 for which the impact is currently under evaluation.

## 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 retirement 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 whose the Group has the control. Control is when the Group is exposed, or has rights, to variable returns from its involvement with 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 or sold during the financial year are included in the Group financial statements up to the date of transfer of control. 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 gain on bargain purchase on the income statement.

Intragroup assets and liabilities as well as income and expenses are set off against each other.
Also intragroup unrealized profits 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 2017 and 31 March 2016.

## 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.

| Currency | Income statement of 2016/17 | Income statement of 2015/16 | Balance sheet 31.3.2017 | Balance sheet 31.3.2016 |
|---|---|---|---|---|
| | Average rate in CHF | Average rate in CHF | Year-end rate in CHF | Year-end rate in CHF |
| BGN | 0.553 | 0.549 | 0.545 | 0.555 |
| CNY | 0.147 | 0.154 | 0.145 | 0.149 |
| DKK | 0.146 | 0.144 | 0.144 | 0.147 |
| EUR | 1.083 | 1.073 | 1.069 | 1.093 |
| GBP | 1.285 | 1.466 | 1.250 | 1.383 |
| JPY | 0.0091 | 0.0081 | 0.0090 | 0.0086 |
| RUB | 0.016 | 0.015 | 0.018 | 0.014 |
| USD | 0.989 | 0.972 | 1.001 | 0.963 |

### 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. Financing costs are not included in inventories. 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 linear 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 as an intangible asset 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 written off as incurred. An intangible asset arising from development should be recognized if, and only if the Group can demonstrate the following:
- the technical feasibility of completing the intangible asset;
- Group intention to complete the intangible asset;
- ability to use or sell the intangible asset, the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development; and
- ability to measure the expenditure attributable to the intangible asset during its development reliably.

Such development costs are capitalized and written off 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, 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 loans and receivables.
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 which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently 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. 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 irrecoverable.

Other receivables are measured at amortized cost. The Group assesses at each reporting date whether there is any objective evidence that an asset or group of assets is impaired. Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant difficulties, default or delinquency in interest or principal payments. The amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows.

## 2.12 Derivative financial instruments

The Group uses derivative financial instruments to hedge foreign exchange risks of forecasted transactions. Derivative financial instruments can comprise forward exchange contracts and option-based structures.

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, accrued expenses and derivative financial instruments at the end of the period.
All financial liabilities are recognized initially at fair value and, in the case of loans and payables, net of 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 lease.
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 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 a qualified independent actuary. 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 limited to the value of the maximum future savings from reduced contributions.

**Defined contribution plan**
The subsidiaries abroad sponsor defined contribution plans based on local practices and regulations.

**LEM incentive scheme**
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 per 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 direct and 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 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. Neither gain nor 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 is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. 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. Revenues from the sale of products are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the products.

### 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 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 arise by the same tax authority and a legally enforceable right for offsetting exists.

## 3 Segment information

### Business segment information

| In CHF thousands | Industry 2016/17 | 2015/16 | Automotive 2016/17 | 2015/16 | LEM Group 2016/17 | 2015/16 |
|---|---|---|---|---|---|---|
| **Income statement** | | | | | | |
| Sales | 214'290 | 215'151 | 50'229 | 46'302 | 264'519 | 261'454 |
| EBITDA | 49'180 | 48'572 | 13'434 | 12'130 | 62'614 | 60'702 |
| Operating profit | 43'935 | 42'984 | 11'823 | 9'924 | 55'758 | 52'908 |
| Net financial expenses | | | | | (790) | 742 |
| Taxes | | | | | (10'403) | (10'163) |
| **Net profit for the year** | | | | | **44'566** | **43'487** |
| Depreciation and amortization: | | | | | | |
| Tangible assets | 4'313 | 4'200 | 1'264 | 1'589 | 5'577 | 5'789 |
| Intangible assets | 932 | 1'092 | 347 | 316 | 1'278 | 1'408 |
| Impairment loss | 0 | 295 | 0 | 302 | 0 | 597 |
| **Total** | **5'245** | **5'588** | **1'611** | **2'206** | **6'856** | **7'794** |
| Capital expenditures: | | | | | | |
| Tangible assets | 9'365 | 5'732 | 3'186 | 1'152 | 12'552 | 6'884 |
| Intangible assets | 504 | 361 | 118 | 78 | 622 | 439 |
| **Total assets** | **9'870** | **6'093** | **3'305** | **1'230** | **13'174** | **7'322** |

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.

Transactions between the subsidiaries and/or business segments are conducted at arm's length.

### Geographical Information

| | China | | USA | | Germany | | Japan | | Italy | | Switzerland | | Rest of the world | | LEM Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| In CHF thousands | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 |
| Sales | 79'013 | 81'535 | 44'654 | 42'944 | 32'668 | 31'532 | 24'839 | 21'733 | 9'835 | 13'829 | 3'096 | 2'973 | 70'414 | 66'908 | 264'519 | 261'454 |
| Noncurrent assets | 9'833 | 8'980 | 51 | 43 | 253 | 285 | 3'601 | 3'557 | 65 | 49 | 18'496 | 15'079 | 6'128 | 4'816 | 38'426 | 32'809 |

Sales are reported as per place of transaction.

## 4 Accounts receivable

| In CHF thousands | 31.3.2017 | 31.3.2016 |
|---|---|---|
| Accounts receivable – trade | 52'493 | 50'830 |
| Allowance for doubtful accounts | (689) | (1'187) |
| Total accounts receivable – trade | 51'804 | 49'643 |
| Other receivables | 6'675 | 6'253 |
| **Total** | **58'479** | **55'896** |

### Movements of allowance for doubtful accounts

| In CHF thousands | 2016/17 | 2015/16 |
|---|---|---|
| **Opening position** | **1'187** | **777** |
| Additions charged/(reversals credited) to income statement | (439) | 491 |
| Amounts written off | (49) | (12) |
| Other movements | 0 | (56) |
| Foreign exchange effect | (10) | (13) |
| **Total** | **689** | **1'187** |

### Aging analysis of accounts receivable

| In CHF thousands | Not due | <30 days | 31–90 days | 91–180 days | >180 days | Total |
|---|---|---|---|---|---|---|
| **31 March 2016** | | | | | | |
| Accounts receivable – trade | 39'286 | 5'745 | 3'965 | 1'009 | 825 | 50'830 |
| Allowance for doubtful accounts | | | (196) | (252) | (739) | (1'187) |
| Other receivables | 6'167 | 13 | 2 | | 71 | 6'253 |
| **Total** | **45'453** | **5'757** | **3'771** | **757** | **158** | **55'896** |
| **31 March 2017** | | | | | | |
| Accounts receivable – trade | 44'861 | 5'135 | 1'612 | 315 | 570 | 52'493 |
| Allowance for doubtful accounts | 0 | 0 | (80) | (80) | (529) | (689) |
| Other receivables | 6'675 | 0 | 0 | 0 | 0 | 6'675 |
| **Total** | **51'536** | **5'135** | **1'532** | **235** | **41** | **58'479** |

The allowance for doubtful accounts is computed as a percentage of aged balances plus an assessment of individual recoverability. It corresponds to 1.3% of trade accounts receivable (2.3% in 2015/16). In 2016/17, no receivables have been individually impaired.

## 5 Inventories

| In CHF thousands | 31.3.2017 | 31.3.2016 |
|---|---|---|
| Raw material | 11'175 | 11'548 |
| Work in progress | 2'105 | 1'706 |
| Finished goods and goods for resale | 17'348 | 14'542 |
| **Total** | **30'628** | **27'796** |

The inventories include allowances of CHF 2'260 thousand (2015/16 CHF 2'528 thousand).

## 6 Other current assets

| In CHF thousands | 31.3.2017 | 31.3.2016 |
|---|---|---|
| Advances to suppliers | 595 | 419 |
| Prepayments and accrued income | 1'292 | 1'296 |
| Other current assets | 18 | 24 |
| **Total** | **1'905** | **1'739** |

## 7 Property, plant and equipment

| In CHF thousands | Land and buildings | Machinery and equipment | Total |
|---|---|---|---|
| **Net book value 1 April 2015** | **105** | **25'623** | **25'728** |
| Foreign exchange effect | 6 | (652) | (646) |
| Investment | | 6'884 | 6'884 |
| Disposal | | (760) | (760) |
| Impairment (loss) | | (238) | (238) |
| Depreciation charge for the year | (14) | (5'775) | (5'789) |
| **Net book value 31 March 2016** | **97** | **25'082** | **25'179** |
| | | | |
| At cost of acquisition | 348 | 82'881 | 83'229 |
| Accumulated depreciation | (251) | (57'799) | (58'050) |
| **Net book value 31 March 2016** | **97** | **25'082** | **25'179** |
| | | | |
| **Net book value 1 April 2016** | **97** | **25'082** | **25'179** |
| Foreign exchange effect | 5 | (428) | (423) |
| Investment | | 12'552 | 12'552 |
| Disposal | | (349) | (349) |
| Depreciation charge for the year | (15) | (5'562) | (5'577) |
| **Net book value 31 March 2017** | **87** | **31'294** | **31'381** |
| | | | |
| At cost of acquisition | 364 | 92'862 | 93'226 |
| Accumulated depreciation | (278) | (61'568) | (61'845) |
| **Net book value 31 March 2017** | **87** | **31'294** | **31'381** |

LEM Group owns for its Automotive segment some equipment and machines, which will have very limited production volume in the future. This was an indication for the Group to perform an impairment test during 2015/16. The recoverable amounts of the equipment and machines have been determined based on a value-in-use calculation using cash flow projections from management estimates. The pretax discount rate applied to the cash flow projections was 9.9%. As a result of the analysis, management had recognized an impairment loss of CHF 238 thousand against the value of the machines previously carried at CHF 431 thousand, which was recorded in cost of goods sold. In 2016/17, no additional impairment has been booked.

## 8 Intangible assets

| In CHF thousands | Goodwill | Patents | Other intangible assets | Total |
|---|---|---|---|---|
| **Net book value 1 April 2015** | **3'009** | **(0)** | **5'869** | **8'878** |
| Foreign exchange effect | 89 | | (0) | 89 |
| Investment | | 2 | 437 | 439 |
| Disposal | | | (8) | (8) |
| Transfer movement | | 379 | (379) | |
| Impairment (loss) | | | (359) | (359) |
| Amortization charge for the year | | (57) | (1'351) | (1'408) |
| **Net book value 31 March 2016** | **3'098** | **324** | **4'208** | **7'630** |
| At cost of acquisition | 3'098 | 5'331 | 9'407 | 17'837 |
| Accumulated amortization | | (5'007) | (5'199) | (10'206) |
| **Net book value 31 March 2016** | **3'098** | **324** | **4'208** | **7'630** |
| **Net book value 1 April 2016** | **3'098** | **324** | **4'208** | **7'630** |
| Foreign exchange effect | 67 | 0 | 6 | 72 |
| Investment | | | 622 | 622 |
| Disposal | | (2) | | (2) |
| Amortization charge for the year | | (76) | (1'203) | (1'278) |
| **Net book value 31 March 2017** | **3'165** | **247** | **3'633** | **7'045** |
| At cost of acquisition | 3'165 | 5'329 | 10'025 | 18'519 |
| Accumulated amortization | | (5'083) | (6'392) | (11'475) |
| **Net book value 31 March 2017** | **3'165** | **247** | **3'633** | **7'045** |

The new ERP cumulative investment amounted to CHF 4.5 million as of 31 March 2016 and started to be amortized as per 1 April 2015. This represented a depreciation charge of CHF 0.9 million. In 2015/16, an additional impairment of CHF 0.4 million was recognized to reflect the nonutilization of one ERP module due to internal reorganization.

The entire goodwill of LEM Group is 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 6% and operating costs were estimated based on the experience of management. The pretax discount rate used within these cash flow calculations is 7.0% (2015/16 7.0%) 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 2017.

## 9 Accounts payable

| In CHF thousands | 31.3.2017 | 31.3.2016 |
|---|---|---|
| Total accounts payable – trade | 21'170 | 17'374 |
| Other payables | 3'428 | 3'927 |
| **Total** | **24'598** | **21'301** |

## 10 Provisions

| In CHF thousands | Warranty and customer claims | Litigations and consumption taxes | Restructuring | Total |
|---|---|---|---|---|
| **Balance as per 1 April 2015** | **2'371** | **785** | **199** | **3'355** |
| Additional provisions | 1'542 | 53 | 445 | 2'040 |
| Unused amounts reversed | (731) | (160) | | (891) |
| Utilized during the year | (613) | (118) | (197) | (928) |
| Foreign exchange effect | (37) | (21) | | (58) |
| **Balance as per 31 March 2016** | **2'532** | **538** | **447** | **3'517** |
| *Of which current* | | | | *1'552* |
| *Of which noncurrent* | | | | *1'965* |
| | | | | |
| **Balance as per 1 April 2016** | **2'532** | **538** | **447** | **3'517** |
| Additional provisions | 932 | 21 | 87 | 1'041 |
| Unused amounts reversed | (877) | (304) | | (1'181) |
| Utilized during the year | (651) | (22) | (534) | (1'207) |
| Foreign exchange effect | 24 | (7) | | 18 |
| **Balance as per 31 March 2017** | **1'961** | **227** | **(0)** | **2'188** |
| *Of which current* | | | | *1'061* |
| *Of which noncurrent* | | | | *1'127* |

### 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 will defend its case 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 of 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.

### Transfer of activity

As a continuation of a strategy initiated in 2004, LEM continues to relocate production lines from the plants in Machida, Japan, and Geneva, Switzerland, to low-cost countries. The operations in Japan are significantly reduced and concentrated on the local Japanese market. In Switzerland, the operations are being progressively reduced and focused on high-complexity / high-precision products for worldwide markets. In parallel, LEM's site in Switzerland is being reinforced with continued investment in R&D and marketing.

In 2015/16, a provision of CHF 445 thousand was set-up and fully used in 2016/17. No new restructuring plan has been announced this year, and as a consequence, no new restructuring provision has been booked in 2016/17.

## 11 Other liabilities

| In CHF thousands | 31.3.2017 | 31.3.2016 |
|---|---|---|
| Postemployment benefit plans | 3'648 | 4'706 |
| Derivative financial instruments | 18 | 94 |
| Other liabilities | 1'301 | 1'215 |
| **Total** | **4'967** | **6'015** |
| *Of which current* | *578* | *593* |
| *Of which noncurrent* | *4'389* | *5'422* |

The decrease of the postemployment benefit plan liability is mainly linked to the increase of the discount rate assumption, as elaborated in note 20.

## 12 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

| | | Price per share in CHF | | | Value |
|---|---|---|---|---|---|
| In number of shares, in CHF | Number | High | Average | Low | in CHF thousands |
| **Value 1 April 2015** | **365** | | | | **283** |
| Purchase at cost | 8'141 | 830.37 | 743.30 | 597.30 | 6'085 |
| Sales at cost | (7'844) | 835.00 | 747.31 | 610.24 | (5'867) |
| **Value 31 March 2016** | **662** | | | | **502** |
| Purchase at cost | 11'065 | 1'169.55 | 938.93 | 809.00 | 10'700 |
| Sales at cost | (10'780) | 1'180.88 | 945.39 | 814.39 | (10'296) |
| **Value 31 March 2017** | **947** | | | | **906** |

| In number of shares, in CHF | |
|---|---|
| **Ordinary dividend per share 2015/16** | **35.00** |
| **Ordinary dividend per share 2016/17** | **35.00** |

The dividend to be paid will be proposed by the Board of Directors to the Annual General Meeting of Shareholders of the Group on 29 June 2017. The expected payout for dividends amounts to CHF 39'856 thousand.

## 13 Staff cost

| In CHF thousands | Notes | 2016/17 | 2015/16 |
|---|---|---|---|
| Production | | (25'668) | (23'416) |
| Sales | | (19'694) | (18'035) |
| Administration | | (13'560) | (13'880) |
| Research and development | | (11'248) | (10'512) |
| **Total** | | **(70'170)** | **(65'843)** |
| | | | |
| Salaries and wages | | (63'136) | (60'127) |
| Temporary employee costs | | (4'078) | (2'784) |
| Cost of defined benefit plans | 20.1 | (2'821) | (2'693) |
| Cost of defined benefit contribution | | (135) | (239) |
| **Total** | | **(70'170)** | **(65'843)** |

| **Number of employees at the end of the financial year** | 31.3.2017 | 31.3.2016 |
|---|---|---|
| Permanent employees | 1'292 | 1'253 |
| Temporary employees | 148 | 121 |
| Apprentices | 13 | 13 |
| **Total** | **1'453** | **1'388** |

## 14 Financial expense

| In CHF thousands | 2016/17 | 2015/16 |
|---|---|---|
| Interest expenses | (147) | (304) |
| Other financial expenses | (80) | (57) |
| **Total** | **(228)** | **(361)** |

## 15 Financial income

| In CHF thousands | 2016/17 | 2015/16 |
|---|---|---|
| Interest income on cash | 80 | 116 |
| **Total** | **80** | **116** |

## 16 Exchange effect

| In CHF thousands | 2016/17 | 2015/16 |
|---|---|---|
| Exchange gains/(losses) | 205 | 2'195 |
| Fair value revaluation on derivatives | 76 | (436) |
| Gains/(losses) on derivative[1] | (923) | (772) |
| **Total** | **(642)** | **987** |

[1] Position includes cost of derivative hedging

The 2016/17 exchange effect is mainly driven by the appreciation of USD which led to losses on derivatives.

## 17 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 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 | 2016/17 | 2015/16 |
|---|---|---|
| Current income taxes | (10'378) | (12'150) |
| Deferred taxes relating to the origination and reversal of temporary differences | (101) | 1'457 |
| Adjustment recognized in the period for current tax of prior year | 77 | 530 |
| **Total** | **(10'403)** | **(10'163)** |

The tax (expense)/income relating to components of other comprehensive income amount to CHF (302) thousand for the year 2016/17 (CHF 190 thousand in 2015/16).

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

| In % | 2016/17 | 2015/16 |
|---|---|---|
| Group's average expected income tax rate | 16.6 | 17.8 |
| Group's average expected withholding tax rate | 1.2 | 1.6 |
| **Group's average expected tax rate** | **17.8** | **19.3** |
| **Tax effect of** | | |
| – permanent differences | 0.4 | 0.3 |
| – effect of changes in tax rates on deferred taxes | 0.0 | 0.1 |
| – adjustment in respect of previous periods' income tax | (0.1) | (1.0) |
| – other differences | 0.9 | 0.2 |
| **Group's effective tax rate** | **18.9** | **18.9** |

### Deferred tax assets and liabilities

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

| | 31.3.2017 | | 31.3.2016 | |
|---|---|---|---|---|
| In CHF thousands | Asset | Liability | Asset | Liability |
| – Accounts receivable | 74 | (38) | 92 | (13) |
| – Inventories | 1'393 | (240) | 1'090 | (169) |
| – Property, plant and equipment | 1'322 | (114) | 1'442 | (11) |
| – Intangible assets | 149 | (484) | 507 | (478) |
| – Other financial assets | 767 | 0 | 999 | |
| – Tax losses carried forward | 933 | 0 | 875 | |
| – Other assets | 0 | (138) | 3 | (151) |
| – Provisions | 312 | 0 | 399 | |
| – Others | 767 | (27) | 753 | (33) |
| – Withholding tax on dividends | 0 | (1'532) | | (1'725) |
| **Gross deferred taxes** | **5'719** | **(2'572)** | **6'160** | **(2'578)** |

The balance sheet contains the following:

| | 31.3.2017 | 31.3.2016 |
|---|---|---|
| – Deferred tax assets | 5'028 | 5'636 |
| – Deferred tax liabilities | (1'881) | (2'054) |
| **Net assets** | **3'147** | **3'582** |

LEM Group has CHF 933 thousand (CHF 875 thousand in 2015/16) 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 have not been recognized as deferred tax assets.

At 31 March 2017, the unrecorded losses carried forward are the following:

| | 31.3.2017 | 31.3.2016 |
|---|---|---|
| – In the next 7 years | 1'572 | 0 |
| – Without date of expiration | 0 | 0 |
| **Total** | **1'572** | **0** |

## 18 Earnings per share

| | 2016/17 | 2015/16 |
|---|---|---|
| **Basic and diluted earnings per share** | | |
| Net profit for the year attributable to LEM shareholders – in CHF thousands | 44'566 | 43'487 |
| 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 | 602 | 1'065 |
| Weighted average number of shares outstanding | 1'139'398 | 1'138'935 |
| **Earnings per share – basic and diluted in CHF** | **39.11** | **38.18** |

## 19 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 (L4R), bonus and postemployment benefits. In 2016/17 and 2015/16, 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 | 2016/17 | 2015/16 |
|---|---|---|
| Annual fees | (750) | (750) |
| **Total** | **(750)** | **(750)** |

**Compensation of the Executive Management**

| In CHF thousands | 2016/17 | 2015/16 |
|---|---|---|
| Base salary | (1'419) | (1'603) |
| Bonus | (979) | (1'318) |
| Company's contribution to pension fund | (157) | (172) |
| **Total** | **(2'555)** | **(3'093)** |

Servotronix Motion Control Ltd, a company presided by Ilan Cohen, has bought transducers for CHF 751 thousand in 2016/17 (CHF 662 thousand in 2015/16), 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.

For details on the compensation of the Board of Directors and of the Executive Management, please refer to note 10 in the notes to the financial statements of LEM Holding SA. Also, see Significant accounting principles 2.15 Employee benefits and 2.16 Provisions and contingent liabilities.

## 20 Retirement benefit obligations

The Group operates a defined contribution 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. According to Swiss law, the pension plan is considered as a defined contribution plan whereas it is considered 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 retirement, disability and death. The retirement benefit is based on a notional individual savings account converted at retirement into a pension.

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 2016/17.

In view of the increasing interest trend, the discount rate used for the evaluation of LEM's pension obligations has been slightly increased from 0.5% to 0.7%, thereby decreasing the obligations by CHF – 0.9 million. The plan assets showed an increase by CHF + 0.6 million. As a result, the overall funded status increased by CHF +1.5 million, from a liability of CHF 4.4 million to CHF 2.9 million. 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 defined contribution plans based on local practices and regulations.
A former employee in Germany benefits from a defined benefit obligation which was insured and covered by plan assets at 31.3.2016. In December 2016, the plan has been partially settled and LEM's engagement revaluated at 31.3.2017, generating a net impact of CHF 291 thousand in LEM Group's equity.

| In CHF thousands | 31.3.2017 | 31.3.2016 |
|---|---|---|
| Fair value of plan assets at year-end | 46'873 | 46'298 |
| Defined benefit obligations at year-end | 49'786 | 50'657 |
| **Funded status (net liabilities in the balance sheet)** | **(2'913)** | **(4'359)** |

LEM expects to contribute CHF 2'467 thousand to its defined benefit plan in 2017/18.

## 20.1 Cost of defined benefit plans

| In CHF thousands | 2016/17 | 2015/16 |
|---|---|---|
| Current service cost | 2'821 | 2'693 |
| Net interest (income)/cost | 22 | 19 |
| **Total pension expenses recorded in consolidated income statement** | **2'842** | **2'712** |

Costs related to the pension plan were charged to the different functional departments based on salary costs.

## 20.2 Remeasurements of employee benefits

| In CHF thousands | 2016/17 | 2015/16 |
|---|---|---|
| Experience adjustments on defined benefit obligation | (866) | 1'615 |
| Return on plan assets excluding interest | (1'016) | (661) |
| **Total remeasurements recorded in other comprehensive income** | **(1'881)** | **954** |

## 20.3 Change in fair value of plan assets

| In CHF thousands | 31.3.2017 | 31.3.2016 |
|---|---|---|
| **Fair value of plan assets per beginning of year** | **46'298** | **42'564** |
| Return on plan assets excluding interest income | 1'016 | 661 |
| Interest income on plan assets | 231 | 383 |
| Employer's contributions | 2'406 | 1'405 |
| Employees' contributions | 2'077 | 1'887 |
| Benefits paid | (5'156) | (602) |
| **Fair value of plan assets per end of year** | **46'873** | **46'298** |

## 20.4 Change in present value of defined benefit obligation

| In CHF thousands | 31.3.2017 | 31.3.2016 |
|---|---|---|
| **Defined benefit obligation per beginning of year** | **50'657** | **44'661** |
| Current service cost | 2'821 | 2'693 |
| Employees' contributions | 2'077 | 1'887 |
| Interest cost | 253 | 402 |
| Experience adjustments on obligation | (866) | 1'615 |
| *due to assumption changes* | *(1'489)* | *3'129* |
| *due to population changes* | *623* | *(1'514)* |
| Benefits paid | (5'156) | (602) |
| **Defined benefit obligation per end of year** | **49'786** | **50'657** |

The weighted average duration of the Defined Benefit Obligation (DBO) at the end of the current fiscal year is 26 years.

## 20.5 Asset allocation of investments

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

| In % | Long-term target | 2016/17 | 2015/16 |
|---|---|---|---|
| Equity securities | 30.0% | 34.3% | 32.0% |
| Debt securities | 29.0% | 24.3% | 29.5% |
| Real estate | 25.0% | 27.7% | 24.0% |
| Cash and other investments | 16.0% | 13.8% | 14.5% |
| | **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.

### 20.6 Actuarial assumptions

The principal actuarial assumptions used in the actuarial calculations include:

| In % | 2016/17 | 2015/16 |
|---|---|---|
| Discount rate | 0.70% | 0.50% |
| Salary increases | 0.50% | 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 2016/17. 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 | 2016/17 | 2015/16 |
|---|---|---|
| **Discount rate** | | |
| Increase by 0.25% | (2'673) | (2'738) |
| Decrease by 0.25% | 2'880 | 2'953 |
| **Salary increase rate** | | |
| Increase by 0.25% | 242 | 265 |
| Decrease by 0.25% | (332) | (355) |

### 20.7 Maturity structure of pension obligation

The following main cash outflows are expected in future periods:

| In CHF thousands | |
|---|---|
| in 1 year | 978 |
| in 2 years | 985 |
| in 3 years | 1'057 |
| in 4 years | 1'121 |
| in 5 years | 1'216 |
| in 6 to 10 years | 8'095 |

## 21 Operating lease commitments

Minimal lease payments are payable as follows:

| In CHF thousands | 31.3.2017 | 31.3.2016 |
|---|---|---|
| Within 1 year | 4'966 | 4'850 |
| Between 1 and 5 years | 9'368 | 12'298 |
| Beyond 5 years | 403 | 574 |
| **Total** | **14'737** | **17'722** |

In 2016/17 lease expenses amounted to CHF 5'192 thousand (2015/16 CHF 5'084 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.

## 22 Contingent liabilities

The French customs authorities have audited LEM International SA for the period from 27 March 2011 to 31 March 2015, and did not identify any wrongdoings in respect of the customs and duties paid. However they question the validity of the applied VAT exemption (so-called régime 42) for goods sold from Switzerland to EU customers, transiting through France. LEM International SA has received an official notice from the customs authorities during Q4 2015/16 demanding to pay the value-added tax for that period, amounting to a total of EUR 15.4 million. If LEM International SA decides to pay, those VAT taxes should be recoverable.
LEM International SA and two renowned external legal counsels firmly disagree with the conclusions rendered by the local customs authorities. In case of the customs authorities upholding their position, LEM International SA will consider to go to court to defend its position. The whole legal dispute is expected to last several years. Per today, the financial impact of the customs claim cannot be measured with sufficient reliability.

## 23 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 | 31.3.2017 Fair value | 31.3.2016 Fair value | Loans and receivables | At fair value through profit and loss |
|---|---|---|---|---|
| Cash and cash equivalents | 12'809 | 13'629 | X | |
| Accounts receivable | 58'479 | 55'896 | X | |
| Other current financial assets | 18 | 24 | X | |
| Other noncurrent financial assets | 985 | 979 | X | |
| **Total** | **72'291** | **70'528** | | |

### Financial liabilities

| In CHF thousands | 31.3.2017 Fair value | 31.3.2016 Fair value | Loans and receivables | At fair value through profit and loss |
|---|---|---|---|---|
| Accounts payable | 24'598 | 21'301 | X | |
| Accrued expenses | 22'043 | 18'230 | X | |
| Derivative financial instruments – current | 18 | 94 | | X |
| Other current financial liabilities | 0 | 65 | X | |
| Other noncurrent financial liabilities | 2 | 40 | X | |
| **Total** | **46'661** | **39'731** | | |

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 that are not measured at fair value approximate their carrying amounts in view of their short-term nature and are consequently not separately disclosed.

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 18 thousand per 31 March 2017 (financial liabilities of CHF 94 thousand per 31 March 2016), 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 2017 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 ±799 thousand for a ±5% EUR rate change (CHF ±820 thousand per 31 March 2016), of CHF ±616 thousand for a ±5% USD rate change (CHF ±509 thousand per 31 March 2016), of CHF ±727 thousand for a ±5% CNY rate change (CHF ±681 thousand per 31 March 2016) and of CHF ±178 thousand for a ±5% JPY rate change (CHF ±273 thousand per 31 March 2016). 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 4.

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 done 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.

| **Financial liabilities**<br>In CHF thousands | 31.3.2017 Fair value | Less than one year | Over one year | 31.3.2016 Fair value | Less than one year | Over one year |
|---|---|---|---|---|---|---|
| Accounts payable | 24'598 | 24'598 | | 21'301 | 21'301 | |
| Accrued expenses | 22'043 | 22'043 | | 18'230 | 18'230 | |
| Derivative financial instruments – current | 18 | 18 | | 94 | 94 | |
| Other current financial liabilities | 0 | 0 | | 65 | 65 | |
| Other noncurrent financial liabilities | 2 | 0 | 2 | 40 | | 40 |
| **Total** | **46'661** | **46'659** | **2** | **39'731** | **39'690** | **40** |

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates with the current financial leverage is very low. Per 31 March 2017, there is no bank loan.

### 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.

## 24 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 | 53'153'194 | 100% |
| LEM Japan KK | Japan | JPY | 16'000'000 | 100% |

## 25 Changes in scope of consolidation

On 17 February 2017, the Group registered a new R&D center LEM Tech France S.A.S. at the Parc Technologique de Lyon, Saint-Priest, France.
The setup of this new company will support LEM's growth strategy by focusing on innovation.

## 26 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

Building a better working world

**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 2017 and the consolidated income statement, the 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 31 to 55) give a true and fair view of the consolidated financial position of the Group as at 31 March 2017, 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.

**Income taxes, indirect taxes and transfer pricing**

**Area of focus**

The Group operates in multiple jurisdictions with complex legal and tax regulatory environment 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 at corporate level only, 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 position on income tax, indirect tax 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 notes 17 and 22 to the consolidated financial statements for further information.

**Our audit response**

Our procedures included, amongst 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.

**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, the compensation report 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, 22 May 2017

Ernst & Young Ltd

| | |
|---|---|
| Arthur Bergmann<br>Licensed audit expert<br>(Auditor in charge) | Karine Badertscher Chamoso<br>Licensed audit expert |

# LEM Holding SA

## Financial Statements



# Balance Sheet

## (before distribution of earnings)

### Assets

| In CHF thousands | Notes | 31.3.2017 | 31.3.2016 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 4'878 | 4'137 |
| Loans to affiliated companies | | 34'901 | 30'829 |
| Current assets from affiliated companies | | 970 | 456 |
| Other current assets | | 146 | 238 |
| Other current assets from affiliated companies | 4 | 1'627 | |
| **Total current assets** | | **42'521** | **35'660** |
| | | | |
| **Noncurrent assets** | | | |
| Loans to affiliated companies | | | 8'840 |
| Investments in affiliated companies | 1 | 45'183 | 45'183 |
| **Total noncurrent assets** | | **45'183** | **54'023** |
| | | | |
| **Total assets** | | **87'704** | **89'683** |

### Liabilities and equity

| In CHF thousands | Notes | 31.3.2017 | 31.3.2016 |
|---|---|---|---|
| **Current liabilities** | | | |
| Loans from affiliated companies | | 23'873 | 28'614 |
| Current liabilities from affiliated companies | | 33 | 75 |
| Other current liabilities | | 1'725 | 1'738 |
| **Total current liabilities** | | **25'631** | **30'427** |
| | | | |
| **Equity** | | | |
| Share capital | 2 | 570 | 570 |
| Legal reserves | | 285 | 285 |
| Free reserves – balance carried forward | | 19'024 | 9'153 |
| – profit for the year | | 43'100 | 49'750 |
| Treasury shares | 3 | (906) | (502) |
| **Total equity** | | **62'072** | **59'256** |
| | | | |
| **Total liabilities and equity** | | **87'704** | **89'683** |

# Income Statement

## Income

| In CHF thousands | Notes | 2016/17 | 2015/16 |
|---|---|---|---|
| Dividend from affiliated companies | 4 | 41'115 | 48'708 |
| Interest income from affiliated companies | | 831 | 848 |
| Foreign exchange gain | 5 | 2'092 | 2'337 |
| Other financial income | | 22 | 16 |
| Other income from affiliated companies | | 5'217 | 5'415 |
| **Total income** | | **49'275** | **57'325** |

## Expense

| In CHF thousands | Notes | 2016/17 | 2015/16 |
|---|---|---|---|
| Office, administration and personnel expense | 6 | (3'423) | (3'767) |
| Financial expense | | (278) | (369) |
| Foreign exchange loss | 5 | (2'046) | (3'072) |
| **Total expense** | | **(5'747)** | **(7'209)** |
| **Profit before taxes** | | 43'529 | 50'116 |
| Income taxes | 7 | (429) | (366) |
| **Net profit for the year** | | **43'100** | **49'750** |

# 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 | 31.3.2017 | 31.3.2016 |
|---|---|---|
| Historical cost | 45'183 | 45'183 |
| **Total** | **45'183** | **45'183** |

Refer to note 24 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 1.4.2016** | **1'140'000** | **0.50** | **570** |
| Change of capital | 0 | | 0 |
| **Closing capital 31.3.2017** | **1'140'000** | **0.50** | **570** |

## 3 Treasury shares

| | Number | Price per share in CHF High | Average | Low | Value in CHF thousands |
|---|---|---|---|---|---|
| **Value 1.4.2015** | **365** | | | | **283** |
| Purchase at cost | 8'141 | 830.37 | 743.30 | 597.30 | 6'085 |
| Sales at cost | (7'844) | 835.00 | 747.31 | 610.24 | (5'867) |
| **Value 31.3.2016** | **662** | | | | **502** |
| Purchase at cost | 11'065 | 1'169.55 | 938.93 | 809.00 | 10'700 |
| Sales at cost | (10'780) | 1'180.88 | 945.39 | 814.39 | (10'296) |
| **Value 31.3.2017** | **947** | | | | **906** |

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

## 4 Dividend from affiliated companies

The Other current assets from affiliated companies of CHF 1'627 thousand relates to the dividend from Europe GmbH to be received.

The decrease of dividend revenue is mainly explained by a lower dividend of CHF 13'892 thousand paid by LEM China in 2016/17 compared to a dividend of CHF 19'827 thousand paid in 2015/16.
The dividend payment generated a withholding tax payment of CHF 696 thousand as mentioned in note 6 Office, administration and personnel expense.

## 5 Exchange effect

| In CHF thousands | 2016/17 | 2015/16 |
|---|---|---|
| Exchange gains/(losses)[1] | 893 | 473 |
| Fair value revaluation on derivatives[1] | 76 | (436) |
| Gains/(losses) on derivative[2] | (923) | (772) |
| **Exchange effect** | **46** | **(735)** |

1 Positions exclude unrealized gains on long-term assets and liabilities, as per Swiss Code of Obligations.
2 Position includes cost of derivative hedging.

## 6 Office, administration and personnel expense

The decrease in Office, administration and personnel expense is mainly linked to the withholding taxes paid on dividend received from LEM China in 2015/16 that has reduced consistently with the dividend payment reduction.

## 7 Income taxes

| In CHF thousands | 2016/17 | 2015/16 |
|---|---|---|
| Current taxes | (355) | (299) |
| Adjustments of tax provisions of previous periods | (73) | (67) |
| **Total** | **(429)** | **(366)** |

## 8 Significant shareholders according to article 663c of the Swiss Code of Obligations

On 31 March 2017, the following shareholders held 3% or more of the share capital and voting rights:

| In number of shares / percent of shareholding | 31.3.2017 Shares | In% | 31.3.2016 Shares | In% |
|---|---|---|---|---|
| Werner O. Weber and Ueli Wampfler, in Zollikon/Wollerau, Switzerland, through WEMACO Invest AG and Swisa Holding AG, in Zug/Cham, Switzerland | 548'786 | 48.1% | 527'485 | 46.3% |
| Ruth Wertheimer, in Kfar Shmaryahu, Israel, through 7-Industries Holding B.V., in Amsterdam, Netherlands | 141'581 | 12.4% | 141'581 | 12.4% |
| J. Safra Sarasin Investmentfonds AG, in Basel, Switzerland | 36'000 | 3.2% | 42'999 | 3.8% |
| Montanaro Asset Management Ltd, in London, United Kingdom[1] | | < 3% | 57'394 | 5.0% |
| **Total shareholders < 3%** | **413'633** | **36.3%** | **370'541** | **32.5%** |
| **Total** | **1'140'000** | **100.0%** | **1'140'000** | **100.0%** |

1 Montanaro Asset Management Ltd indicated on 9 February 2017 that it had crossed the 3% threshold in the downward direction with respect to the capital and voting rights.

## 9 Guarantees in favor of third parties on behalf of subsidiaries

| In CHF thousands | 31.3.2017 | 31.3.2016 |
|---|---|---|
| Amount of guarantees issued | 1'932 | 1'839 |

## 10 Remuneration of Board of Directors and Executive Management

### 10.1 Compensation of active members of the Board of Directors

The members of the Board of Directors do not participate in bonus schemes, nor pension funds. The annual salary compensation is therefore equal to the total compensation.

**2016/17**

| In CHF thousands | Annual fees (A) | Taxes, social-security charges and similar contributions paid by the Company [a)] (B) | Total costs for the Company (A) + (B) |
|---|---|---|---|
| Andreas Hürlimann[1, 2, 7] | 290 | 26 | 316 |
| Ilan Cohen[8] | 100 | 100 | 200 |
| Norbert Hess[5] | 120 | – | 120 |
| Ulrich Jakob Looser[4,6] | 120 | 11 | 131 |
| Ueli Wampfler[3] | 120 | 11 | 131 |
| **Total** | **750** | **148** | **898** |

a) These amounts also include one-time, nonrecurring contributions to tax and social-security authorities.

**2015/16**

| In CHF thousands | Annual fees (A) | Taxes, social-security charges and similar contributions paid by the Company (B) | Total costs for the Company (A) + (B) |
|---|---|---|---|
| Andreas Hürlimann[1, 2, 6, 8] | 290 | 26 | 316 |
| Ilan Cohen[7] | 120 | 11 | 131 |
| Norbert Hess[5] | 120 | – | 120 |
| Ulrich Jakob Looser[4] | 100 | 9 | 109 |
| Ueli Wampfler[3] | 120 | 11 | 131 |
| **Total** | **750** | **56** | **806** |

[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

## 10.2 Remuneration of Executive Management

**2016/17**

| 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 |
|---|---|---|---|---|---|---|
| François Gabella, CEO | 499 | 250 | 147 | 64 | 960 | 81 |
| Executive Management (excl. CEO) | 920 | 325 | 182 | 93 | 1'520 | 128 |
| Former Executive Management | 0 | 0 | 75 | 0 | 75 | 7 |
| **Total** | **1'419** | **575** | **404** | **157** | **2'555** | **216** |

**2015/16**

| 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 |
|---|---|---|---|---|---|---|
| François Gabella, CEO | 480 | 304 | 226 | 61 | 1'071 | 82 |
| Executive Management (excl. CEO) | 420 | 242 | | 41 | 703 | 55 |
| Former Executive Management | 703 | 362 | 185 | 70 | 1'320 | 104 |
| **Total** | **1'603** | **907** | **411** | **172** | **3'093** | **241** |

The amounts are shown as follows:

- Base salary: as paid out in the reporting period
- Short-term incentive 2016/17: as proposed to the Annual General Meeting in June 2017 for payout in July 2017
- Long-term incentive: as accrued for or paid out during the reporting period
- Pension fund contributions: as accrued for or paid out during the reporting period
- Social charges contributions: as accrued for or paid out during the reporting period
- The compensation of former members of the Executive Management staying within the Company for their work after leaving the Executive Management are not taken into account in the numbers above, whereas the part of the long-term incentive paid out in 2016/17 corresponding to their activity as Executive Management is taken into account.

Amounts approved by previous Annual General Meetings related to the period reported above:

- Maximum amount base salary (valid from 1 October 2016 to 30 September 2017): CHF 1'727'000
- Maximum amount long-term incentive 2014–15 for payment in 2017: CHF 927'000
- Maximum amount base salary (valid from 1 October 2015 to 30 September 2016): CHF 2'800'000
- Short-term incentive amount for payment 2015/16: CHF 982'000
- 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

### 10.3 Shareholdings

**Shareholdings of nonexecutive Directors**

| | 31.3. 2017 Number of shares held | 31.3.2016 Number of shares held |
|---|---|---|
| Andreas Hürlimann | 1'001 | 960 |
| Ilan Cohen | 300 | 170 |
| Norbert Hess | 0 | 0 |
| Ueli Wampfler | 72'500 | 68'000 |
| Ulrich Jakob Looser | 0 | 0 |
| **Total** | **73'801** | **69'130** |

**Shareholdings of Executive Management**

| | 31.3. 2017 Number of shares held | 31.3.2016 Number of shares held |
|---|---|---|
| François Gabella, CEO | 600 | 600 |
| Andrea Borla, CFO | 0 | 0 |
| Frank Rehfeld, SVP Industry | 0 | 0 |
| Rainer Bos, SVP Automotive | 0 | 0 |
| **Total** | **600** | **600** |

# Proposed Appropriation of Available Earnings

**Appropriation of available earnings**

| In CHF thousands | | 31.3.2017 | 31.3.2016 |
|---|---|---|---|
| Balance brought forward from previous year | | 18'522 | 8'870 |
| Variation of treasury shares | | (405) | (219) |
| Net profit for the year | | 43'100 | 49'750 |
| **Total available earnings** | | **61'217** | **58'401** |
| | | | |
| **Proposal of the Board of Directors:** | | | |
| Ordinary dividend | | (39'856) | (39'879) |
| **Balance to be carried forward** | | **21'361** | **18'522** |

The Board of Directors proposes the distribution of an ordinary dividend of CHF 35 per share. Net of 35% withholding tax, this is an ordinary cash dividend of CHF 22.75 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 59 to 66), for the year ended 31 March 2017.

**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 2017 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.

Building a better working world

**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.

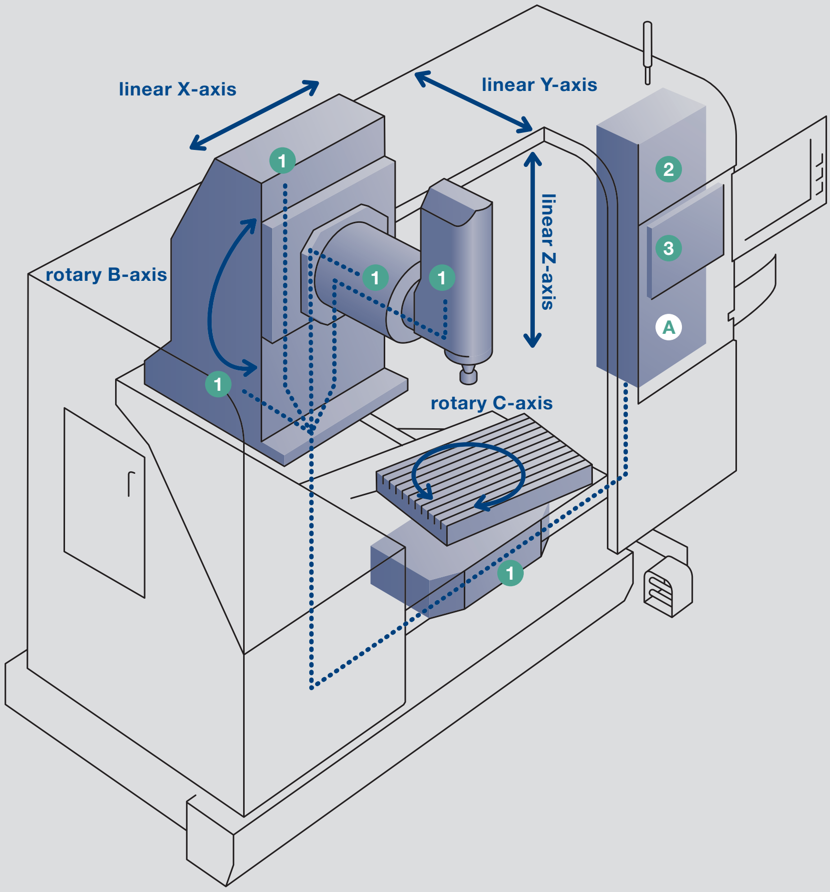
We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

To the General Meeting of LEM Holding SA, Fribourg
Lancy, 22 May 2017

Ernst & Young Ltd

Arthur Bergmann
Licensed audit expert
(Auditor in charge)

Karine Badertscher Chamoso
Licensed audit expert



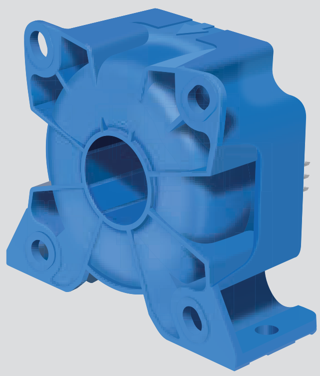

## CNC milling-turning 5-axis machine tool

Producing mechanical parts is faster and more profitable when using a 5-axis machining center. In addition to the usual linear X-axis, Y-axis, and Z-axis, two additional axes are rotating. The B-axis rotates around the Y-axis and the C-axis around the Z-axis.

LEM transducers are key components inside the inverter that controls the 5 electrical motors driving the 5 axes of this milling-turning center. LEM's LF 210 and LF 310 measure the current that powers the motors and generates their torque.

The efficiency and quality of a CNC milling-turning machine depends of its speed, its accuracy and of the control quality of all its axes. These high control performances are achieved thanks to the very high accuracy, linearity, and low thermal drift of LEM's transducers.

A LF 210/310



1 Motors
2 Inverter
3 Numeric control

# Information for Investors

| Number of registered shareholders | 31.3.2017 | 31.3.2016 |
|---|---|---|
| 1–499 | 917 | 907 |
| 500–4'999 | 66 | 72 |
| 5'000–49'999 | 7 | 8 |
| 50'000 and more | 4 | 4 |
| **Total** | **994** | **991** |

### Shareholders by category

| In % | 31.3.2017 | 31.3.2016 |
|---|---|---|
| Institutional shareholders | 49.9 | 49.4 |
| Private individuals | 26.7 | 27.0 |
| LEM employees, managers and board | 7.0 | 6.6 |
| Treasury shares | 0.1 | 0.1 |
| Non-registered shares | 16.3 | 16.9 |
| **Total** | **100.0** | **100.0** |

### Share information

| | |
|---|---|
| Symbol | LEHN |
| Listing | SIX Swiss Exchange |
| Nominal value | CHF 0.50 |
| ISIN | CH0022427626 |
| Swiss Security Number (Valor) | 2 242 762 |

### Contact


Andrea Borla (CFO)
Phone: +41 22 706 12 50
E-mail: investor@lem.com


### LEM share

| In number of shares, CHF | 2016/17 | 2015/16 |
|---|---|---|
| Number of shares | 1'140'000 | 1'140'000 |
| Year high[1] | 1'199.00 | 840.00 |
| Year low[1] | 807.50 | 620.50 |
| Year-end[1] | 934.00 | 815.00 |
| Average daily trading volume (shares)[1] | 499 | 452 |
| Earnings per share | 39.11 | 38.18 |
| Ordinary dividend per share | 35.00[2] | 35.00 |
| Market capitalization as per 31 March[1] (in CHF millions) | 1'065 | 929 |

[1] Source: SIX
[2] Proposal of the Board of Directors to the Annual General Meeting of Shareholders

### Financial calendar of the financial year 1 April 2017 to 31 March 2018

| | |
|---|---|
| 29 June 2017 | Annual General Meeting of Shareholders for the financial year 2016/17, Université de Fribourg, bvd. de Pérolles |
| 4 July 2017 | Dividend ex-date |
| 6 July 2017 | Dividend payment date |
| 3 August 2017 | First quarter results 2017/18 |
| 9 November 2017 | Half-year results 2017/18 |
| 8 February 2018 | Third quarter results 2017/18 |
| 23 May 2018 | Year-end results 2017/18 |
| 28 June 2018 | Annual General Meeting of Shareholders for the financial year 2017/18 |
| 3 July 2018 | Dividend ex-date |
| 5 July 2018 | Dividend payment date |

### Share price development LEM Holding SA (LEHN) compared to SMI


Source: Bloomberg

# 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**
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CH-1700 Fribourg

**LEM International SA**
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P.O. Box 35
CH-1228 Plan-les-Ouates

**LEM Switzerland SA**
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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
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CH-1228 Plan-les-Ouates

**LEM Tech France SAS**
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F-69800 Saint-Priest

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**LEM Europe GmbH, Branch Belgium**
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**LEM Europe GmbH, Succursale France**
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**LEM Russia, LLC**
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