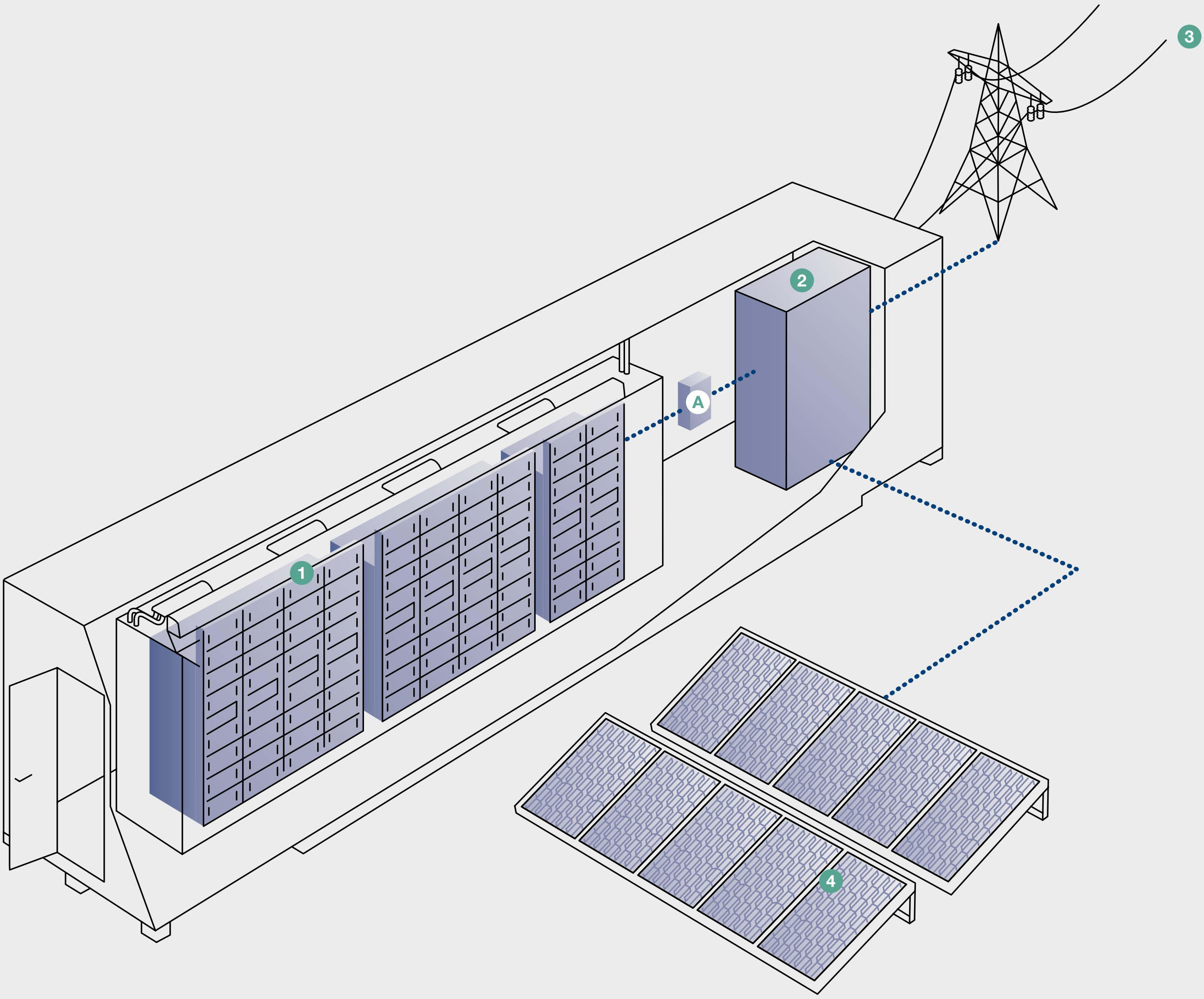
Annual Report
2017/18

At the heart of power electronics

LEM



Stationary battery

Utility-scale battery storage is used to stabilize the grid in remote areas with distributed energy resources.

The control, protection, and state of charge calculation of the battery require an accurate measurement of the current into or out of the battery. The biggest challenge is with small standby currents that are very difficult to measure. Accumulated over a long period of time, these small currents may bias the state of charge estimation.

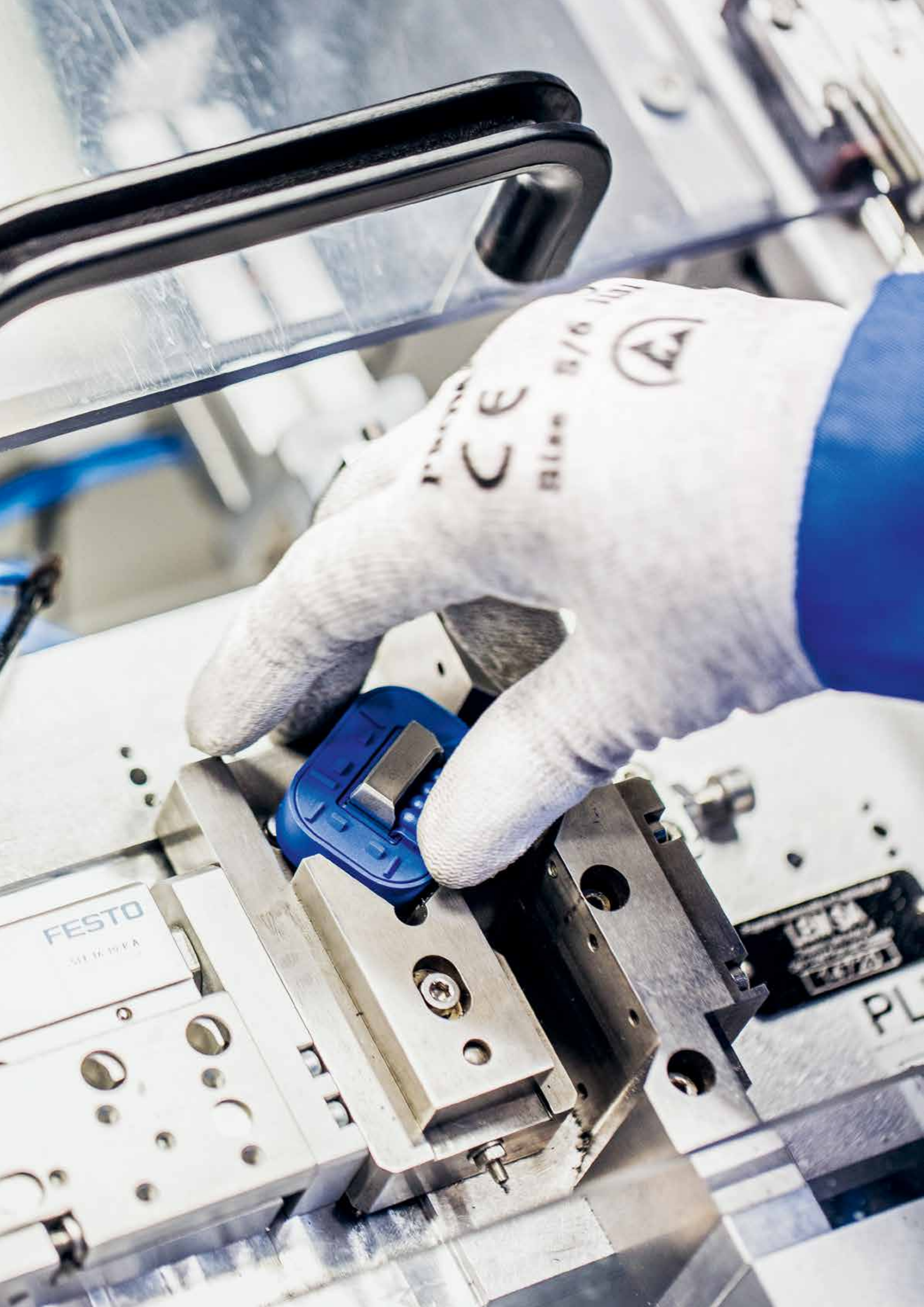
LEM's CAB 500 provides excellent accuracy for both large and small currents. This allows for an accurate state of charge calculation, which improves the performance, working life, and reliability of the battery.

A CAB

1 Battery
2 Inverter
3 Grid
4 Photovoltaic plant

Table of Contents

Reporting period 1 April 2017 to 31 March 2018


FESTO

Foreword

Dear Shareholders,

LEM achieved the strongest sales growth since 2010/11, lifting sales over the CHF 300 million mark for the first time. The trends to automation, environmentally friendly energy and electro-mobility were LEM's most important growth drivers, with the renewable energies business and the green cars business delivering the strongest growth contribution. Again, we achieved robust operating margins while at the same time strengthening R&D and our global footprint.

Prepare for the future

We maintained our leading market position not only in terms of market share, but also product quality and responsiveness. We believe innovation is of critical importance in view of the fast-developing power electronics industry, so we planted new seeds for future growth. To remain at the forefront of innovation, we have continued to strengthen our leadership: we increased our R&D team by more than 20% as we hired 18 engineers for our new R&D center in Lyon and added R&D resources in Beijing and Sofia. We launched six new products with distinctive value-adding features and we have a long pipeline of new products to be launched shortly. Our main production sites in Sofia (Bulgaria) and Beijing (China) increased production capacities, which will allow us to cope with the anticipated growth of the coming years.

At the same time, we keep a careful watch on the efficiency of our operations. The share of production from our cost-competitive sites in Beijing and Sofia reached 81% of the global output, an increase of 4 percentage points compared with last year. We started initiatives to implement Industry 4.0 methods in operations and logistics and increased automation in all production sites.

Strong growth – resilient operating margins

These operational accomplishments are the basis of a solid performance. We were able to strengthen our results with the objective of creating value for our shareholders.

Sales reached CHF 301.2 million, representing growth of 13.9%, or 13.2% in constant currencies. All but the conventional cars business contributed to this positive performance. EBIT improved by 10.7% to CHF 61.7 million. Our EBIT margin reached 20.5%. Net profit for the reporting year amounted to CHF 53.3 million, exceeding last year's result by CHF 8.7 million.

New CEO and changes in the Board of Directors

With the appointment of Frank Rehfeld as Chief Executive Officer starting 1 April 2018, the Board of Directors is confident that LEM is well placed to begin a new phase of growth and strengthen its global market position.

On behalf of the Board of Directors and the Executive Management, we would also like to express our gratitude to our outgoing CEO, François Gabella, who has successfully led LEM for eight years through a challenging period and laid the foundation for a strong future. LEM's Board of Directors will propose Mr. Gabella for election as a new Board member at the next Annual General Meeting on 28 June 2018 to benefit from his know-how and industry insights.

Norbert Hess, member of the Board of Directors since 2013, has announced his resignation on the date of the next Annual General Meeting. During his tenure, Mr. Hess strongly contributed to the successful development of LEM Group. Board and Management thank Mr. Hess for his highly valuable work and wish him all the best for his future.

For the financial year 2017/18, the Board of Directors is pleased to propose at the next Annual General Meeting a dividend of CHF 40 per share, which represents a dividend payout ratio of 85.5%. This dividend proposal is a sign of confidence in the future success of LEM. It is in line with LEM's dividend policy of distributing significantly more than 50% of its consolidated net profit to shareholders.

Thanks

On behalf of the entire Board of Directors and the Executive Management, we thank you for the confidence you have placed in our Company. Special thanks go to our more than 1'500 employees worldwide for their commitment and hard work. We would also like to extend our gratitude to our customers, suppliers and business partners for the successful cooperation.

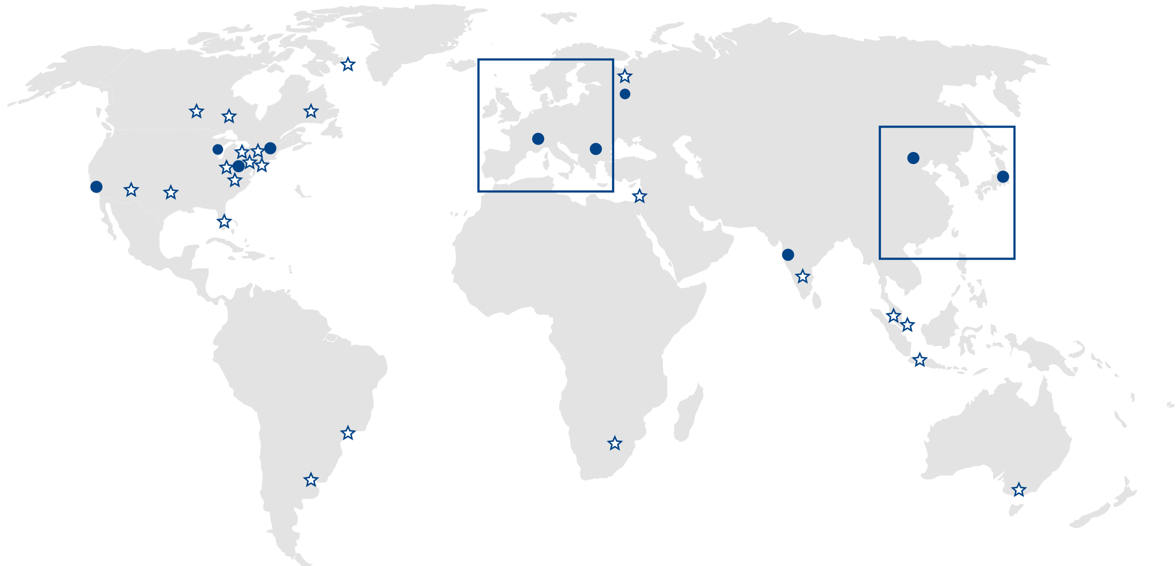
A. Hürlimann

Andreas Hürlimann
Chairman of the Board of Directors

François Gabella
Chief Executive Officer until 30 March 2018

Frank Rehfeld
Chief Executive Officer from 1 April 2018

LEM at a Glance



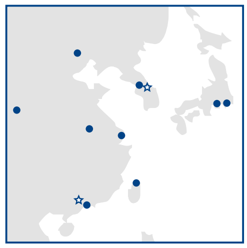
LEM – at the heart of power electronics

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), Sofia (Bulgaria), Geneva (Switzerland) and Tokyo (Japan). 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
Taipei, Taiwan
Milwaukee, Columbus, Amherst,
Los Angeles, USA

☆ **Agents/Distributors**

● **Adaptation Centers**
Milwaukee, USA
Tver, Russia

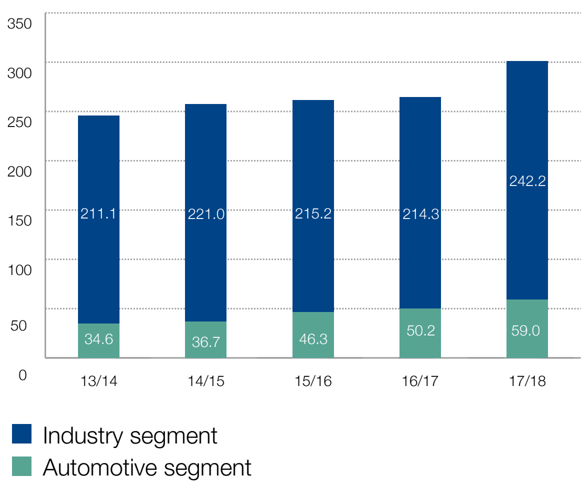
● **Production Centers (PDCs)**
Beijing, China
Geneva, Switzerland
Tokyo, Japan
Sofia, Bulgaria

Key figures 2013/14 to 2017/18

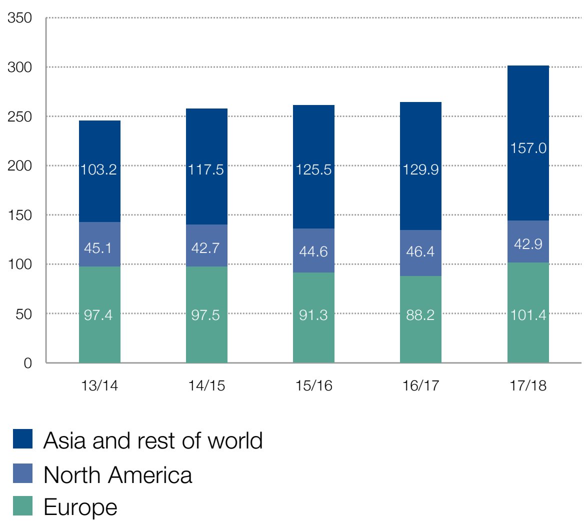
In CHF millions, %	2013/14	2014/15	2015/16	2016/17	2017/18
Orders received	246.4	251.0	256.5	271.2	319.7
Book-to-bill ratio	1.00	0.97	0.98	1.03	1.06
Sales	245.6	257.8	261.5	264.5	301.2
Gross profit	115.4	118.4	120.4	123.6	138.4
In % of sales	*47.0%*	*45.9%*	*46.0%*	*46.7%*	*45.9%*
EBIT	55.7	54.2	52.9	55.8	61.7
In % of sales	*22.7%*	*21.0%*	*20.2%*	*21.1%*	*20.5%*
Net profit for the year	45.6	43.1	43.5	44.6	53.3
EPS basic (CHF)	40.09	37.86	38.18	39.11	46.78
Dividend per share (CHF)	40.00	40.00	35.00	35.00	40.00[1]
Operating cash flow	40.6	50.2	45.6	52.8	54.1
Investing cash flow	–8.7	–9.7	–6.6	–13.2	–15.1
In CHF millions, %	**31.3.2014**	**31.3.2015**	**31.3.2016**	**31.3.2017**	**31.3.2018**
Net financial assets/(liabilities)	24.6	20.9	13.6	12.8	12.6
Shareholders' equity	94.2	91.9	85.9	90.5	109.0
Equity ratio (in % of assets)	65.1%	65.0%	61.3%	60.7%	59.2%
Market capitalization	801.4	910.3	929.1	1'064.8	1'812.6
Employees (in FTEs)	1'241	1'274	1'388	1'453	1'527

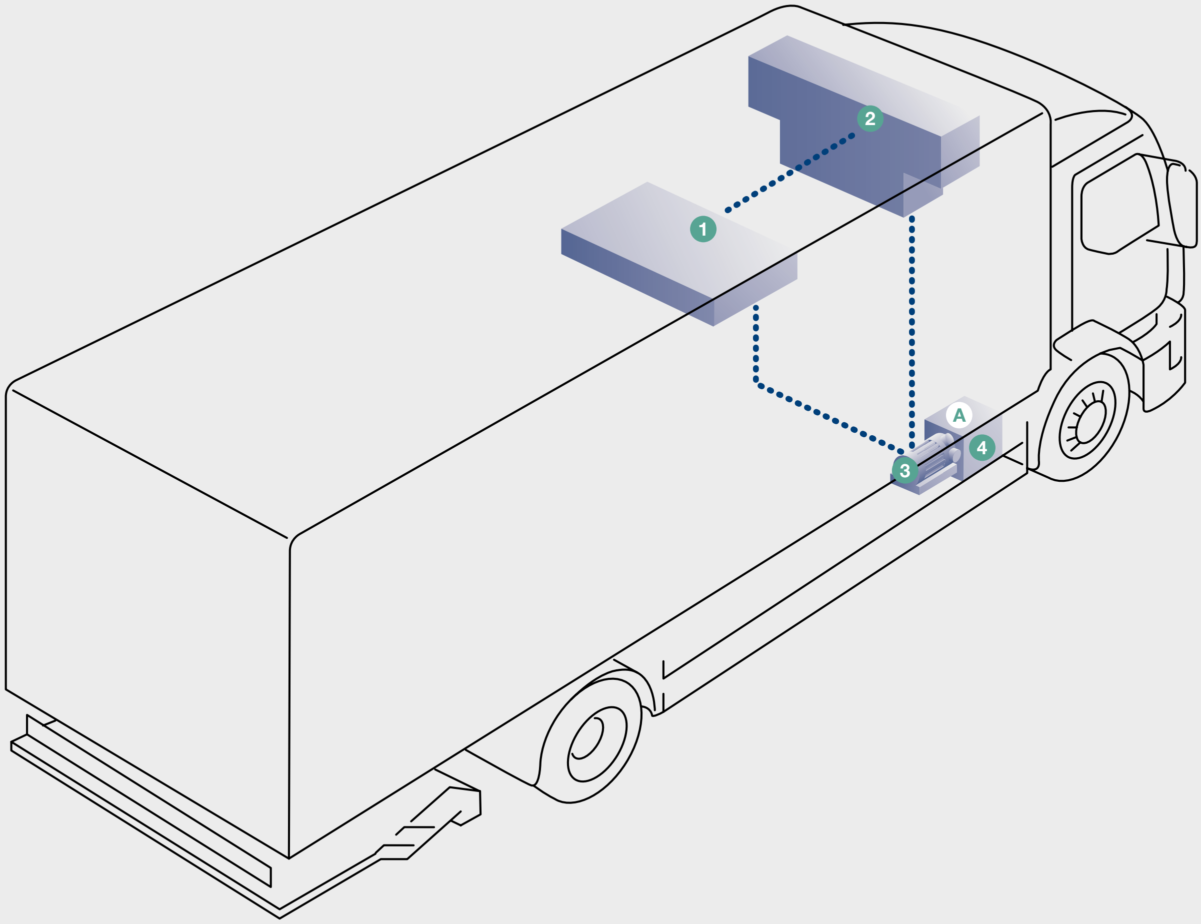
[1] Proposal of the Board of Directors to the Annual General Meeting of Shareholders on 28 June 2018.

Sales per segment
In CHF millions



Regional sales breakdown
In CHF millions





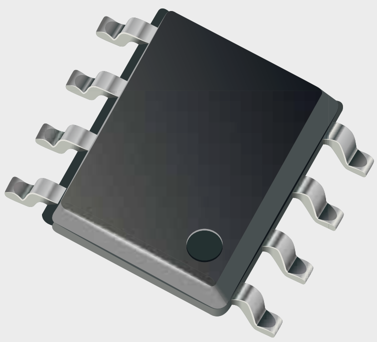
Refrigerator truck

The refrigerated truck is used to store and deliver fresh goods like fruits, vegetables, or meat. Its electricity-powered refrigeration unit is rooftop mounted and driven by the vehicle's battery.

The refrigeration system has to be highly efficient, i.e. energy efficient, quick to cool, and reliable. This requires good control of the compressor's motor, where current measurement is a key parameter.

LEM's GO is an economical, compact, reliable, and accurate current measurement solution for refrigeration and air-conditioning applications.

A GO



1 Evaporator
2 Front mount condenser
3 Compressor
4 Controller

Business Report

On the back of strong sales growth, resilient operating margins and reduced tax rates, net profit increased from CHF 44.6 million in the previous year to CHF 53.3 million in the reporting year. We benefitted from the positive economic momentum worldwide and the long-term trends supporting automation, renewable energies and green cars. The conventional cars business continued to contract as expected. Our main challenge was to increase production capacity and flexibility in order to better meet growing demand. Business conditions remained favorable throughout the year and resulted in record orders. Our outlook for 2018/19 is confident.

Financial result

Sales in the financial year 2017/18 totaled CHF 301.2 million, an increase of 13.9% compared with the previous year. At constant exchange rates, Group sales increased by 13.2%.

China represented 33% (30% in 2016/17), Asia excluding China 17% (17% in 2016/17), Europe 34% (33% in 2016/17), and North America 14% (18% in 2016/17) of Group sales. Sales growth was robust in China (+25%), in Asia excluding China (+14%) and Europe (+15%), but sales performance was slow in North America (–7%).

In the financial year 2017/18, orders increased by 17.9% to CHF 319.7 million and the full-year book-to-bill ratio reached 1.06, pointing to robust business conditions and continued growth.

Strong sales growth lifted gross profit by 12.0% to CHF 138.4 million and the gross margin reached 45.9%. This is 80 basis points lower than in the prior year, reflecting the constant price pressure, a change in product mix and the one-off cost for a footprint optimization executed in the first half of the financial year. Increasing the share of cost-competitive production and efficiency improvements counteracted some of these negative effects.

Key figures

In CHF millions	Financial year 2016/17	Q1 2017/18	Q2 2017/18	Q3 2017/18	Q4 2017/18	Financial year 2017/18
Orders received	271.2	78.8	78.0	78.7	84.2	**319.7**
Sales	264.5	75.9	76.3	72.8	76.2	**301.2**
Book-to-bill	1.03	1.04	1.02	1.08	1.10	**1.06**
EBIT	55.8	16.0	15.9	14.6	15.3	**61.7**
Net profit	**44.6**	**13.3**	**13.2**	**11.6**	**15.3**	**53.3**

Sales, general and administrative spending (SG&A) rose by 6.3% to CHF 55.0 million. However, SG&A relative to sales decreased by 1.3 percentage points to 18.3%. Our strategic decision to focus on innovation was reflected in increased Research and Development (R&D) expense. As a percentage of sales, R&D expense rose from 6.1% to 7.2%.

EBIT for the full financial year 2017/18 increased to CHF 61.7 million from CHF 55.8 million in the previous reporting period. Our EBIT margin for the financial year 2017/18 came in at 20.5%, down from 21.1% in the previous year.

Financial income amounted to CHF 1.2 million and the tax rate was lowered to 15.2% from 18.9% in the previous year. The decrease in the tax rate results from a deferred tax asset recognized in China.

We posted a net profit for the year of CHF 53.3 million, an improvement of CHF 8.7 million compared with last year. Cash flow from operating activities in the financial year was CHF 54.1 million (+2.5%) and free cash flow was CHF 39.0 million (–1.5%). This decrease is a consequence of increases in net working capital and higher capital expenditure linked to the accelerated sales growth.

Our balance sheet remains strong. As at 31 March 2018, total assets increased to CHF 184.2 million. Shareholders' equity reached CHF 109.0 million, representing an equity ratio of 59.2% (60.7% as of 31 March 2017).

Dividend

Based on the results for 2017/18 and the confident outlook, the Board of Directors proposes a dividend of CHF 40 per share, payable on 5 July 2018. 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 85.5%.

Industry segment

Sales in the Industry segment increased by 13.0% to CHF 242.2 million in the financial year 2017/18; at constant exchange rates the sales increase was 11.9%. The positive economic environment provided a boost for all businesses in most regions. Orders rose by 16.6% to CHF 256.1 million, resulting in a full-year book-to-bill ratio of 1.06. Sales in China grew by 18% and as a result China has expanded its position as our most important single country, representing 31% of Industry sales. Sales grew in the rest of Asia by 7% and by 16% in Europe. Sales in North America were negatively affected by exchange rate development and decreased by

2%. EBIT increased from CHF 43.9 million in the previous year to CHF 51.2 million in the reporting year. The EBIT margin improved from 20.5% to 21.1%.

Last year's main challenge was to increase production capacity to keep pace with constantly growing demand. Thanks to our forecasting models we anticipated the growth trend and early on added production lines in Beijing and Sofia. We closely cooperated with our supply chain and in this way controlled potential shortages of raw materials and components. Thus, we even improved delivery performance of high quality products for which LEM is well known. We are extending our sales network in Asia with the establishment of a new branch office in Taiwan, a market we expect to grow in the coming years. This new set-up will allow us to better support Taiwanese customers. We did not observe major changes in the competitive landscape and we maintained a stable market share above 50% in most regions.

The global economic activity continued to be firm throughout the reporting period with positive broad-based development in all our target regions. The global growth caused increased investment in automation in advanced economies and increased manufacturing output in Asia. The strong momentum experienced in the past year is expected to carry into the coming year. Purchasing managers' indices indicate firm manufacturing activity ahead, pointing to ongoing healthy demand. We expect continued economic tailwind in our target markets in Asia, Europe and North America. Potential economic risks arise from the tightening of global financial conditions and the ongoing US-China trade dispute.

Sales in the drives & welding business increased by 8% over the previous year. We achieved robust growth in all regions with the strongest sales performance in Europe and Asia. Automation and energy savings applications were the main growth drivers. We recorded strong interest in our new product family with integrated primaries for small drives and maintained our market share.

Solar equipment production continued to move from North America to Europe and China. Thus, the renewable energies & power supplies business is driven by the Chinese and European solar industry producing for the world market. Wind activity was weak in most regions. We started to build a pipeline of smart-grid projects. Overall sales increased by 15% and we defended our market share well above 50%.

A global catch-up of infrastructure investments and some individual projects supported our traction business, which grew by 24%. We achieved strong sales with light rail and locomotive projects in India and China as well as energy-metering and track-side (security and maintenance) projects in Europe. On the downside, there was hardly any activity in the US market. Our global market share remained stable.

In the project-driven high-precision business, sales were up by 7%. Sales in China slowed with no repeat of last year's HVDC sales. Activity in the global Medical market was stable, but the Test & Measurement market boomed in the US and Europe. Growth was driven from green cars test bench applications. Overall, our market share was unchanged and well above 50%.

We have carefully analyzed our market and defined new growth opportunities in the Industry segment. To this end, we continue to build our pipeline of innovations and to launch new products with new features. In the financial year 2018/19 we aim to leverage the strong market conditions in order to grow our market share.

Automotive segment

Sales in the Automotive segment reached CHF 59.0 million in the financial year 2017/18, representing an increase of 17.5% on the financial year 2016/17. At constant exchange rates, sales grew by 19.0%. For the first time, sales in our green cars business exceeded sales in our conventional car business. We recorded the strongest growth in China (+53%), South Korea (+91%) and Japan (+17%). China is our largest market with 38% of Automotive sales, followed by the US (28%), South Korea (14%) and Japan (11%). EBIT reached CHF 10.5 million, down 11.0% on the financial year 2016/17. The EBIT margin was 17.8%, compared with 23.5% one year ago. The margin decrease resulted from increased competitive pressure in the green cars market on the one hand, and higher operating expense due to the development of new R&D and sales resources on the other hand. We offset part of these effects with volume growth and efficiency gains in production and administration.

The green cars business is characterized by accelerated momentum and intensifying competition. We ramped up production volumes, and will continue to add production capacities to meet the growing demand as we develop our project pipeline. In many instances we provide value-adding service to OEMs and Tier-1 suppliers with customer-specific versions of our products. In the financial year 2017/18, the majority of our products are customer-specific developments. We continued to strengthen the Automotive organization with an increased marketing and sales team in Asia, Europe and the US. We participated in multiple trade fairs in order to develop our market position in the global car industry and won awards from two customers for our overall quality performance.

Growth in China, Europe and Japan pushed the global car market to a new record level in 2017. Amongst major markets, only US production declined (–8.1%). Global vehicle production increased by 2.4% to 97.3 million (source: OICA). Green cars again saw new record production levels last year due to more government incentives, new models and intensifying consumer appetite for alternative fueled vehicles. Global New Electric Vehicles (NEV, plug-in hybrids, battery-electric vehicles) deliveries reached 1.2 million, 58 % higher than for 2016 (source: EVvolumes.com). China remained the unchallenged leader in NEVs; the volume increased by 73% to 0.6 million units and represented 49.5 % of NEV sales. Japan and South Korea contributed further to the momentum in the Asia-Pacific Region while the development in the US lagged behind (0.2 million units) (source: EVvolumes.com).

Sales in LEM's green cars business jumped by 75%. We achieved strong growth across all important markets. Our business in Asia, especially in China, South Korea and Japan is growing fast. We benefit from our leading market position in China. We see increasing commitment from large European and US car manufacturers to launch new electric or hybrid-electric car platforms.

Year-on-year sales in the conventional cars business decreased by 17%. The decline was caused by the ongoing technological shift and the weak US car market.

We expect the green cars boom, mainly in Asia, to continue. The new regulations in China will likely be a supportive factor. The emerging trends of autonomous driving, connectivity and digitization will likely further increase demand for electric vehicles. We reinforced our R&D activity and intend to launch a series of new products for motor control and battery management applications. We will defend our market share in the green cars business and expect our green-cars growth to more than offset our slowing conventional cars business.

Strategy implementation

The focus of our strategy is on three priorities, which are reviewed annually by the Board of Directors. This strategy translates into clearly defined deliverables whose key performance indicators are continuously monitored.

- **Increase our technology leadership**

  Our new products and the strength of our pipeline keep us at the leading edge of our market. Last year we decided to significantly increase R&D investments and have since executed this strategy. We increased our R&D team by more than 20%. We hired 18 engineers for our new R&D center in Lyon, France, and we added R&D resources in Beijing and Sofia. As a result, R&D expense increased from CHF 16.0 million in 2016/17 to CHF 21.7 million in 2017/18.

  More intelligent sensors, i.e. transducers with embedded software or Field Programmable Gate Array (FPGA), is the main trend in product development. We constantly expand these core competences, which will be reflected in future product launches. For drive applications we launched two new product families, LESR and LXSR, with higher accuracy at better performance/cost ratio to replace some older families. HAT, a new open-loop design for solar and wind applications, offers better performance at similar cost to older products. For Automotive applications, we launched HAM, a fuel cell DC/DC sensor, with a patented very high bandwidth sensor and integrated busbar, HAH3DR, a 3-phase sensor with very high accuracy for green cars drive applications and HSNDR / HSNBV, a compact open-loop sensor with customizable, integrated busbar for green cars battery management or drive applications.

  We increased our patent portfolio by additional ten new patents, and kept a strong emphasis on IP creation and IP protection.

- **Increase our efficiency of operations**

  Ongoing transfer of production to Sofia and Beijing, increased automation and reduction of our supply chain cost were the main cost management contributions in 2017/18. We successfully transferred five high-production-volume lines to Bulgaria and Beijing. Production in Sofia increased in 2017/18 to 16.5% of global output (14.2% in 2016/17). During the reporting year, the share of cost-competitive production in Sofia and Beijing increased to 81% of global output. We accelerated automation in our production sites and started to introduce collaborative robots to relieve our employees of onerous and repetitive tasks. In order to handle the expected growth of the next years, we increased the work floor space in Sofia by an additional 20%.

- **Increase our production flexibility**

  Reliable forecasting is a key value driver for LEM. To this end, we introduced new tools to support planning and procurement, which will allow internal lead time reductions and optimization of safety stocks. Increasingly, we automatically record, monitor and analyze our key production process parameters and use them to improve processes.

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/en/company-information#code-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/en/company-information#code-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 2017/18.

Responsibility: environmental standards

The trend to environmentally friendly energy and electromobility is one of LEM's key growth drivers. We are launching increasingly accurate sensing solutions, which give our customers a competitive edge in energy management solutions; for example, LEM transducers' accuracy directly impacts the battery pack size of an electric or hybrid-electric car, and hence improves car weight and energy consumption.

All our production sites are ISO 14001:2015 certified, an environmental certification, which we renew regularly. 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. LEM regularly publishes updates to its standards and reporting on its website (www.lem.com/en/quality-environment#environment).

All LEM manufacturing sites apply waste-sorting solutions and route all waste into dedicated waste treatment solutions. We perceive the improvement of our internal procedures to reduce internal MUDA (waste) an effective way to increase profitability. During 2017/18, all LEM sites have been equipped with energy-metering systems to measure and evaluate energy consumption. With the support of specialized partners, some improvements have been planned to reduce electricity consumption at the Geneva site by 5%.

We develop an environmental profile for each new product before launch, which includes recyclability rate and material saving compared to previous or equivalent models.

Quality management

Quality and reliability are key strengths of LEM transducers and well-known features to our customers, as evidenced by our regular customer surveys. We consistently apply quality improvement techniques such as LEAN and Six Sigma. It is our hallmark that we maintain the same high quality standards for all four production sites. Our customers rely on the "made by LEM" mark rather than the country of origin.

We follow ISO standards depending on the market supplied. In 2017/18 we introduced new automotive standards related to the latest releases of the International Automotive Task Force (IATF) and new traction standards of the Union des Industries Ferroviaires Européennes (UNIFE). We currently apply ISO9001:2015 for Industry, AITF 16949:2016 for Automotive, and ISO/TS 22163:2017 for traction. Our laboratories are ISO/CEI17025:2015 certified for test and calibration. The latest updates on our certifications can be found on our website www.lem.com/en/quality-environment.

Employees

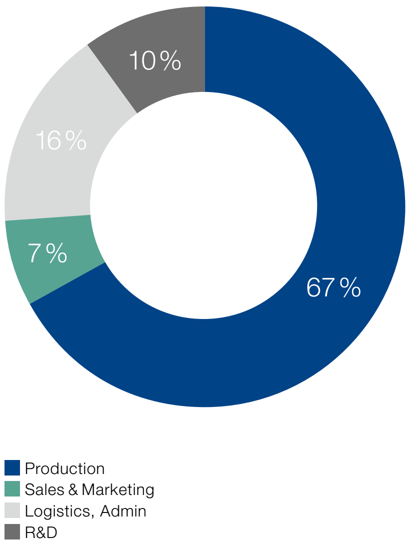
	31.3.2018	31.3.2017
Permanent employees (FTE)	1'382	1'292
Temporary employees (FTE)	139	148
Apprentices (FTE)	7	13
Total	**1'527**	**1'453**
Women in overall workforce (%)	53%	55%
Women in non-production-related activities (%)	33%	33%
Fluctuation in non-production-related activities (%)	11.9%	7.7%

A committed 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% (unchanged) of group salary for internal courses and participation in external training. Technical competencies for new products and applications and leadership development were the primary focus. In 2017/18 we created specific leadership assessment and development programs in Bulgaria and China. Leadership development programs in Switzerland focused on change management and delegating responsibilities.
Our annual evaluation shows that job content, work climate / team and work-life balance are the most important drivers of employee engagement. These drivers remained stable over the past years. As a result of last year's employee survey, we improved internal communications, particularly when it comes to important, strategic decisions. In 2017/18 we held regular town hall meetings at all sites during Executive Management visits.

LEM provides equal opportunity to all qualified individuals. The share of female employees is 53% 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%. We actively seek female candidates in order to increase their share in the higher-qualification positions. Fluctuation in the non-production-related activities increased from 7.7% last year to 11.9% in the reporting year. This increase is in line with benchmarks in our industry and linked to growing market dynamics.

We continue to enhance health and safety at the workplace. The most important measures include systematic health and safety training for newcomers, employee well-being programs for the prevention of excessive stress at the workplace, annual evacuation trainings and signage in all areas. All sites have a clear evacuation plan in place. As a result of our efforts we recorded no major work-related accident in 2017/18. We perform regular internal and external audits to analyze the effectiveness of the measures and the development of improvements.

Employees per function



Employee and customer survey

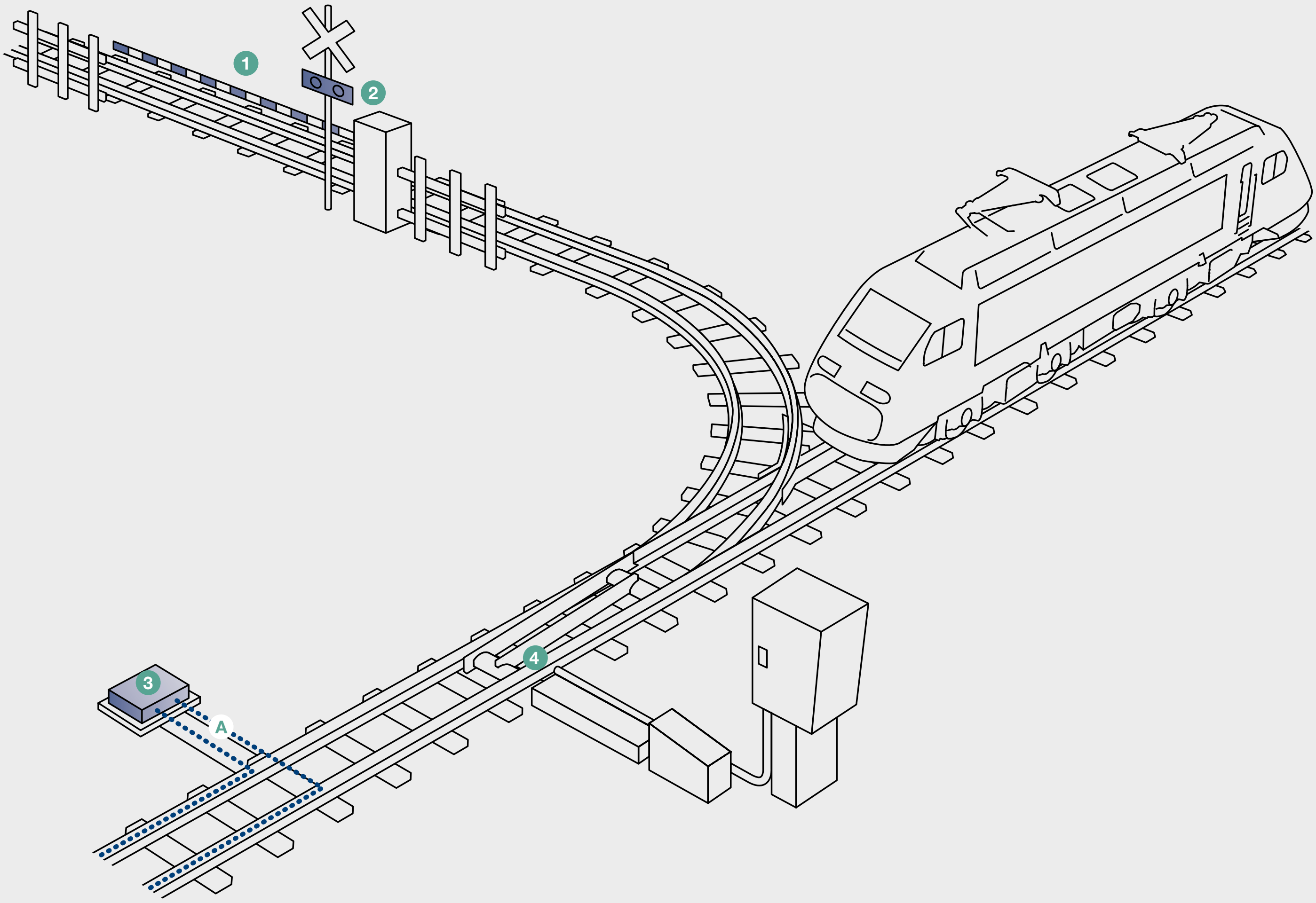
Every second year LEM performs a worldwide employee and customer survey. The next survey is scheduled for 2018. The results of the latest survey can be found in the annual report 2016/17 (page 12/13).

Outlook

We believe the positive economic momentum to accompany the Industry businesses. LEM's growth in the green cars business is forecast to continue and to outgrow the slow conventional cars business. However, government policies remain an important factor that may result in a volatile trend. In addition, increasing competition in green cars will put additional pressure on prices. Geopolitical tensions or new trade barriers may pose a downward risk to global growth and our businesses.

Executing our innovation strategy, we plan to further increase investment in R&D. We want our R&D teams to grow and to add new know-how around current industry trends. Again in 2018/19, we expect a high number of product launches. To improve efficiency of operations we plan numerous initiatives, amongst others the implementation of Industry 4.0 tools such as additional collaborative robots and flexible production lines.

Taking all internal and external factors into account, we expect a robust financial year for LEM.



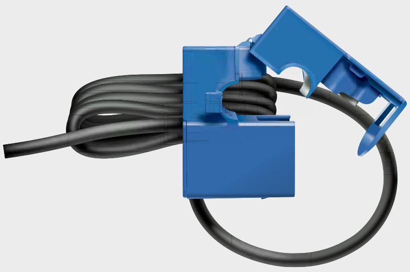
Track circuit monitoring

The purpose of a track circuit is to detect the presence of a train on a designated rail block. A track circuit typically has power applied to each rail and a relay wired across them. When no train is present, the relay is energized. When a train approaches, its axles connect the rails. The current to the track relay drops and the relay is de-energized.

The condition-monitoring system reliably identifies deterioration in track circuit performance and issues alerts to allow maintenance before failure. It provides early-stage detection of rail head or wheel contamination, ballast or insulation problems, and track circuit equipment faults. This helps to significantly reduce the downtime of a railway line.

Since existing signaling systems cannot be modified without costly recertification, the ATO, with its nonintrusive and easy setup, is an ideal solution for retrofit purposes on track circuit monitoring systems.

A ATO



1 Crossing gate
2 Lamp monitoring
3 Track circuit monitoring
4 Point machine

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 main segment of the SIX Swiss Exchange (LEHN, security no. 2 242 762; ISIN 0022427626). On 31 March 2018, the market capitalization was CHF 1'813 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.

Shareholdings of nonexecutive Directors

	31.3.2018 Number of shares held	31.3.2017 Number of shares held
Andreas Hürlimann	1'001	1'001
Ilan Cohen	300	300
Norbert Hess	0	0
Ueli Wampfler	68'010	72'500
Ulrich Jakob Looser	0	0
Werner C. Weber	0	0
Total	**69'311**	**73'801**

Significant shareholders

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

In number of shares, per cent of shareholding	31.3.2018 Shares	31.3.2018 In%	31.3.2017 Shares	31.3.2017 In%
Werner O. Weber and Ueli Wampfler, in Zollikon/Wollerau, Switzerland, through WEMACO Invest AG and Swisa Holding AG, in Zug/Cham, Switzerland	570'148	50.0%	548'786	48.1%
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%	36'000	3.2%
Total shareholders < 3%	**392'271**	**34.4%**	**413'633**	**36.3%**
Total	**1'140'000**	**100.0%**	**1'140'000**	**100.0%**

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

Shareholdings of Executive Management

	31.3.2018 Number of shares held	31.3.2017 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 2018, LEM Holding SA held 652 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 29 June 2017, Andreas Hürlimann, Ilan Cohen, Norbert Hess, Ueli Wampfler and Ulrich J. Looser were re-elected and Werner C. Weber was elected as members of the Board of Directors. Andreas Hürlimann was re-elected as Chairman of the Board of Directors. In addition, shareholders elected Andreas Hürlimann, Norbert Hess and Ulrich J. Looser to the Compensation Committee. Ulrich J. Looser 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 1'155 thousand in 2017/18 (CHF 751 thousand in 2016/17), 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 2018:

Andreas Hürlimann

Nationality Swiss

Born in 1964

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

Entry 2011

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

Other notable activities
- Vontobel Real Estate Investments SICAV, Zürich, 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 Control 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, Chairman of the Nomination and Compensation Committee, Member of the Audit and Risk Committee

Entry 2015

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

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

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

Ueli Wampfler

Nationality Swiss

Born in 1950

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

Entry 2007

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

Other notable activities
- 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

Werner C. Weber

Nationality Swiss

Born in 1960

Position Member of the Board of Directors

Entry 2017

Professional background
- Since 1998, weber schaub & partner ag, Partner
- Prior thereto in particular Freddy Burger Management Group in Zürich as legal counsel and general secretary and PricewaterhouseCoopers AG in Zürich as legal and tax counsel

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

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

External mandates

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

Internal organizational structure

The Board of Directors meets as often as necessary, but six annual meetings are planned in advance. In the completed financial year, six full-day meetings were held. The meetings usually take place at the Company's 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 the LEM Group;
- approval of creation/closing of any subsidiary and purchase/sale of any interest in any company or entry into any merger or joint venture agreement;
- appointment/dismissal of the Executive Management;
- monitoring the ethical and legal behavior of LEM;
- review of human resources management, including employee satisfaction and management development and legal, intellectual property, social and environmental aspects.

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

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

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

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

Business risk management

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

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

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

Internal control system

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

Starting from the material positions in the 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 at least 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, three half-day meetings were held.

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

4 Executive Management

The Executive Management was comprised of the following members as of 31 March 2018:

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

François Gabella is member of Swissmem's Executive Committee and of the Board of Directors of Optotune AG located in Dietikon. 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 internet page www.lem.com/en/Investors > 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 on changes of control

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

8 Auditors

The duration of the auditors' mandate is one year. Ernst & Young has been auditing LEM since the financial year 2005/06, with Fredi Widmann bearing the responsibility for the audit since 2017/18. As required by law, the auditor-in-charge is changed every seven years. Ernst & Young audits the Group's consolidated financial statements as well as the majority of LEM's Group companies in Switzerland and abroad. The audit fees and fees for additional services are as follows:

Type of service

In CHF thousands	2017/18	2016/17
Audit fees	350	350
Additional fees	15	0
Total	**365**	**350**

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.

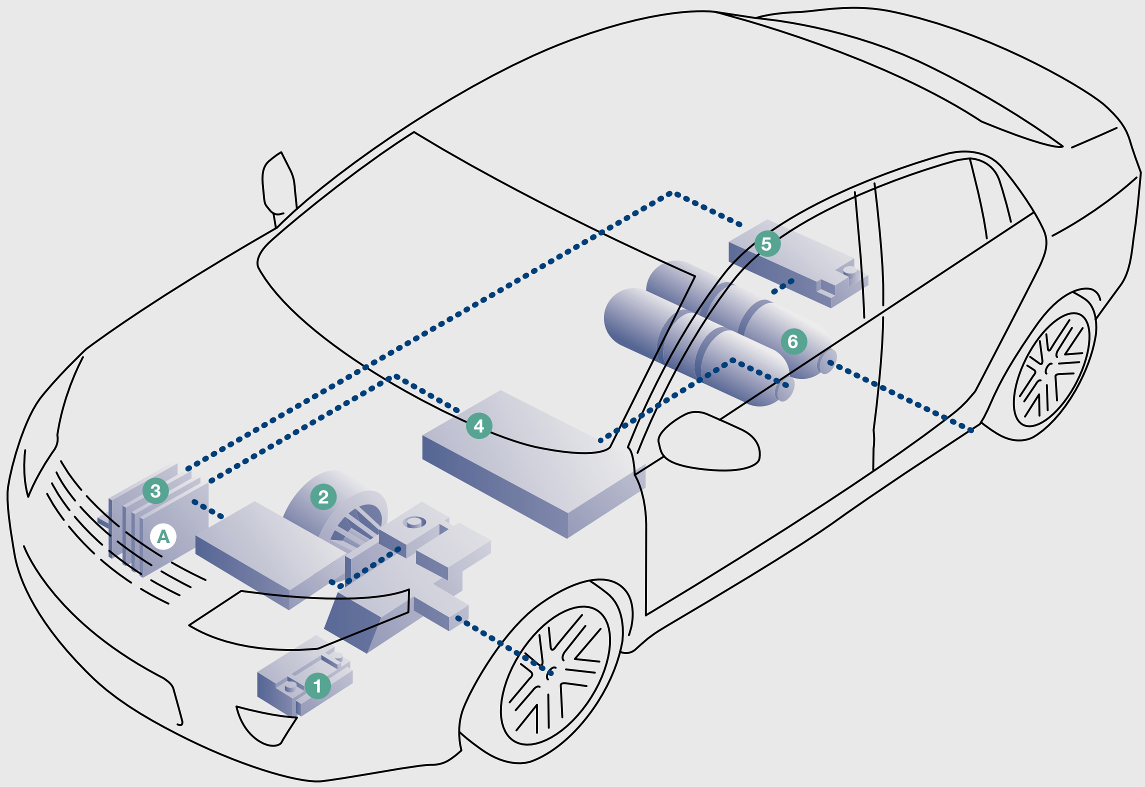
During 2017/18 Ernst & Young attended three regular ARC meetings.

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 www.lem.com /en/Investors > Financial Reports. 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).



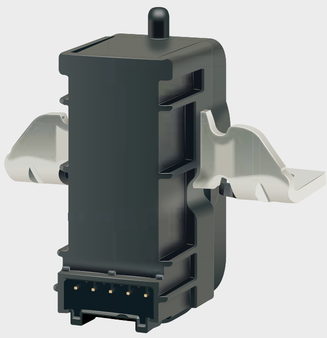
Fuel cell car

Fuel cell electric vehicles (FCEVs) use a propulsion system similar to electric vehicles, where energy is stored as hydrogen converted to electricity by the fuel cell. The power converter regulates the power between the fuel cell and the electric drive.

In order to adapt the power between the fuel cell and the electric drive, the converter monitors current and voltage from energy storage elements (fuel cell, battery pack) to respond to the powertrain's power needs.

LEM's HAM measurement frequency is considerably higher than standard sensors. This is particularly important for power electronics based on silicon carbide (SiC) or gallium nitride (GaN) technologies with increased efficiency and switching frequency. Thus, HAM is highly suitable for technologies used in fuel cell power converters. HAM uses LEM's patented technology to monitor the current.

A HAM



1. Battery 12 V
2. Electric traction motor
3. DC-Dc converter
4. Fuel-cell stack
5. Battery pack
6. Fuel tank (hydrogen)

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.

LEM's Articles of Incorporation (www.lem.com/en/Investors > Corporate Governance) contain provisions regarding the approval of compensation of the Board of Directors (BoD) and the Executive Management (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).

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 variable compensation. The compensation of 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 LEM's financial results.

1 Board of Directors

1.1 General principles for compensation of nonexecutive Directors

The compensation of the Board of Directors is approved by the Annual General Meeting upon proposal by the Board of Directors based upon recommendation from the NCC. The remuneration of the Board of Directors consists of a fixed cash payment and is reviewed on an annual basis. The remuneration compensates for the personal responsibility and exposure as a 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 2016/17 and 2017/18. The shareholders approved at the Annual General Meeting on 29 June 2017, a maximum compensation amount for the term of office from the ordinary General Meeting 2017 until the ordinary General Meeting 2018 of CHF 1'100'000. The actual costs for the Company are below at CHF 939'000.

2017/18

In CHF thousands	Annual fees (A)	Total compensation	Taxes, social-security charges and similar contributions paid by the Company (B)	Total costs for the Company (A) + (B)
Andreas Hürlimann [1, 2, 6, 7]	310	310	27	337
Ueli Wampfler [3]	120	120	11	131
Ulrich Jakob Looser [4, 5]	140	140	13	153
Norbert Hess [6]	100	100	0	100
Ilan Cohen [8, b]	120	120	11	131
Werner C. Weber	80	80	7	87
Total	**870**	**870**	**69**	**939**

2016/17

In CHF thousands	Annual fees (A)	Total compensation	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	290	26	316
Ueli Wampfler [3]	120	120	11	131
Ulrich Jakob Looser [4, 6]	120	120	11	131
Norbert Hess [5]	120	120	0	120
Ilan Cohen [8]	100	100	100	200
Total	**750**	**750**	**148**	**898**

a) These amounts also include one-time, nonrecurring contributions to tax and social-security authorities.
b) Including CHF 20'000 for R&D contribution
1 Chairman of the Board
2 Vice Chairman of the Board
3 Chairman of the Audit & Risk Committee
4 Member of the Audit & Risk Committee
5 Chairman of the Nomination & Compensation Committee
6 Member of the Nomination & Compensation Committee
7 Chairman of the Strategy Committee
8 Member of the Strategy Committee

2 Executive Management

2.1 General principles for compensation of Executive Management

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

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

Compensation element	Instrument	Purpose	Drivers	Range and cap	Shareholder approval
Annual base salary	Monthly cash payments	Pay for the function	Scope and responsibilities, profile and competencies	N/A	Prospective max amount (October – September)
Variable short-term incentive	Annual cash payment	Pay for annual performance	Business and individual performance throughout the fiscal year	0%–139% of target amount	Retrospective
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	Prospective max amount for payout three years later
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 and locations. Furthermore, the compensation mix between base salary, variable compensation and nonwage compensation reflects sectorial and functional market practice. Benchmarking is carried out periodically.

2.1.1 Base salary of Executive Management
Base salaries are paid monthly as fixed cash amounts.

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

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

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

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

In addition, a one-time variable short-term incentive will be awarded to each member of the Executive Management and other Senior Managers for reaching two significant financial milestones of LEM Group (sales exceeding CHF 300 million and operating profit exceeding CHF 60 million) that had been previously communicated to the Executive Management.

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 2018 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 financial years (2015/16 – 2017/18). The performance criterion is the cumulated Economic Value Added (EVA) over these three financial years. The Board of Directors defines the EVA objective at the beginning of year one and the evaluation of the performance takes place at the end of year three. Once the forward-looking EVA objective is defined, this EVA objective remains unchanged over the period of three years.

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

For the long-term incentive cycle ending 2017/18, the maximum amount approved prospectively by the shareholders at the Annual General Meeting in 2015 is CHF 1'050'000 for payout in 2018.

2.1.3 Nonwage compensation of Executive Management
For Executive Management, nonwage compensation consists of pension plans (retirement benefits) only.

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

2.2 Remuneration of Executive Management

2017/18

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

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

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 [1]	0	0	75	0	75	7
Total	**1'419**	**575**	**404**	**157**	**2'555**	**216**

1 The long-term incentive 2014/15–2016/17 amount of former members of the Executive Management paid out in 2016/17 corresponds to their activity in the Executive Management.

The amounts are shown as follows:
- Base salary: as paid out in the reporting period
- Short-term incentive 2017/18: as proposed to the Annual General Meeting in June 2018 for payout in July 2018
- 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
- Company's contributions to social-security charges: as accrued for or paid out during the reporting period

Amounts approved by previous Annual General Meetings related to the period reported above:
- Maximum amount base salary (valid from 1 October 2017 to 30 September 2018) CHF 1'800'000
- Maximum amount long-term incentive 2015/16 for payment in 2018: CHF 1'050'000
- Maximum amount base salary (valid from 1 October 2016 to 30 September 2017) CHF 1'727'000
- Short-term incentive amount for payment 2016/17: CHF 626'750
- 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

Apart from the LTI disclosed in 2.2., no compensation has been paid in this and the prior reporting period to former members or related parties.

3 Loans to current and former members of the Board of Directors and Executive Management and related parties

Our Articles of Association do not provide the basis to grant loans to current or former members of the Board of Directors, the Executive Management or to any related party. Therefore, no loans have been granted in the financial years 2017/18 and 2016/17 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 2018. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the note 1.2 on page 27 and on notes 2.2 to 2.3 on page 29 of the remuneration report.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration 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 remuneration 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 remuneration 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 remuneration 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 remuneration report for the year ended 31 March 2018 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, 15 May 2018

Ernst & Young Ltd

Fredi Widmann Licensed audit expert (Auditor in charge)	Roland Ruprecht Licensed audit expert

LEM Group

Consolidated Financial Statements


LEM

Consolidated Statement of Financial Position

Assets

In CHF thousands	Notes	31.3.2018	31.3.2017
Current assets			
Cash and cash equivalents		17'630	12'809
Accounts receivable	4	66'648	58'479
Inventories	5	35'787	30'628
Income tax receivable		131	723
Other current assets	6	2'541	1'905
Total current assets		**122'737**	**104'543**
Noncurrent assets			
Deferred tax assets	17	14'469	5'028
Property, plant and equipment	7	39'937	31'381
Intangible assets	8	6'181	7'045
Other noncurrent assets		906	985
Total noncurrent assets		**61'493**	**44'440**
Total assets		**184'230**	**148'983**

Liabilities and equity

In CHF thousands	Notes	31.3.2018	31.3.2017
Current liabilities			
Accounts payable	9	25'718	24'598
Accrued expenses		26'359	22'043
Income tax payable		6'037	2'824
Current provisions	10	682	1'061
Interest-bearing loans and borrowings		5'000	
Other current liabilities	11	778	578
Total current liabilities		**64'574**	**51'106**
Noncurrent liabilities			
Noncurrent provisions	10	1'026	1'127
Deferred tax liabilities	17	6'392	1'881
Other noncurrent liabilities	11	3'205	4'389
Total noncurrent liabilities		**10'623**	**7'397**
Total liabilities		**75'198**	**58'503**
Equity			
Share capital	12	570	570
Treasury shares	12	(1'091)	(906)
Reserves	12	12'997	9'467
Retained earnings		96'556	81'350
Total equity		**109'032**	**90'480**
Total liabilities and equity		**184'230**	**148'983**

Consolidated Income Statement

In CHF thousands	Notes	April to March 2017/18	2016/17
Sales		301'243	264'519
Cost of goods sold		(162'826)	(140'959)
Gross margin		**138'416**	**123'560**
Sales expense		(30'540)	(26'700)
Administration expense		(24'892)	(25'246)
Research & development expense		(21'679)	(16'039)
Other expense		0	(0)
Other income		412	182
Operating profit		**61'719**	**55'758**
Financial expense	14	(298)	(228)
Financial income	15	127	80
Exchange effect	16	1'345	(642)
Profit before taxes		**62'893**	**54'968**
Income taxes	17	(9'587)	(10'403)
Net profit for the year		**53'306**	**44'566**

Earnings per share, in CHF	Notes	2017/18	2016/17
Basic & diluted earnings per share	18	46.78	39.11

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

Consolidated Statement of Comprehensive Income

In CHF thousands	Notes	April to March 2017/18	2016/17
Net profit for the period recognized in the income statement		**53'306**	**44'566**
Other comprehensive income to be reclassified to profit and loss in subsequent periods			
Currency translation difference		3'346	(845)
Total other comprehensive income to be reclassified to profit and loss in subsequent periods		**3'346**	**(845)**
Other comprehensive income not to be reclassified to profit and loss in subsequent periods			
Remeasurement gains/(losses) on defined benefit plans, in Switzerland	20	2'140	1'881
Remeasurement gains/(losses) on defined benefit plans, in Germany	20	30	(390)
Income tax	17	(485)	(302)
Total other comprehensive income not to be reclassified to profit and loss in subsequent periods		**1'685**	**1'189**
Other comprehensive income/(loss) for the period, net of tax		**5'031**	**345**
Total comprehensive income for the period		**58'337**	**44'910**

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 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 / 1 April 2017		**570**	**(906)**	**12'849**	**(3'383)**	**81'350**	**90'480**
Net profit for the year						53'306	53'306
Other comprehensive income/(loss)					3'346	1'685	5'031
Total comprehensive income					*3'346*	*54'991*	*58'337*
Dividends paid	12					(39'889)	(39'889)
Movement in treasury shares	12		(185)	185		104	104
31 March 2018		**570**	**(1'091)**	**13'034**	**(37)**	**96'556**	**109'032**

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 2017/18	2016/17
Cash flow from operating activities			
Profit before taxes		**62'893**	**54'968**
Adjustment for noncash items and taxes paid			
– Net financial result		134	112
– Derivative financial instruments revaluation		223	(76)
– Depreciation and amortization		8'219	6'856
– Impairment loss		550	0
– Gain/Loss on disposal of fixed assets		420	349
– Increase (+) / decrease (–) of provisions and allowances		(318)	(790)
– Movement in pension		556	436
Interest received		79	35
Interest paid		(213)	(147)
Taxes paid		(10'824)	(9'585)
Cash flow before changes in net working capital		**61'719**	**52'159**
Change in inventories		(4'106)	(2'615)
Change in accounts receivable and other current assets		(6'419)	(2'645)
Change in payables and other current liabilities		2'930	5'926
Cash flow from changes in net working capital		(7'594)	**667**
Cash flow from operating activities		**54'124**	**52'827**
Cash flow from investing activities			
Investment in fixed assets	7	(14'788)	(12'552)
Investment in intangible assets	8	(434)	(622)
Increase (–) / decrease (+) in other assets		109	(27)
Cash flow from investing activities		**(15'113)**	**(13'201)**
Cash flow from financing activities			
Treasury shares acquired (–) / divested (+)	12	104	(444)
Dividends paid to the shareholders of LEM Holding SA	12	(39'889)	(39'879)
Increase (+) / decrease (–) in financial liabilities		5'000	(25)
Cash flow from financing activities		**(34'785)**	**(40'349)**
Change in cash and cash equivalents		**4'226**	**(723)**
Cash and cash equivalents at the beginning of the period		**12'809**	**13'629**
Exchange effect on cash and cash equivalents		595	(97)
Cash and cash equivalents at the end of the period		**17'630**	**12'809**

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 1'527 people per 31 March 2018. The parent company of LEM Group is LEM Holding SA (the Company), which is a limited company incorporated in Switzerland.

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

The Board of Directors approved the consolidated financial statements on 15 May 2018, to be submitted for approval by the Annual General Meeting of Shareholders on 28 June 2018.

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 2017/18

In 2017/18, LEM Group introduced the following revised standards and interpretations:

Standard or interpretation	Title	Effective date	Impact
IAS 7	Disclosure Initiative Amendments to IAS 7	1 January 2017	New disclosure
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses Amendments to IAS 12	1 January 2017	None
Amendments	Annual improvements to IFRS 2014–2016	1 January 2018	None

Future standards

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

Standard or interpretation	Title	Effective date
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers and its Amendments	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments	Annual improvements to IFRS 2015–2017	1 January 2018
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
IFRS 9	Prepayment Features with Negative Compensation Amendments to IFRS 9	1 January 2019
IAS 19	Plan Amendment, Curtailment or Settlement Amendments to IAS 19	1 January 2019

The Group will implement the relevant new standards when they become effective, i.e., for annual periods beginning on or after the effective date stated above. 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 16 for which the impact is currently under evaluation. IFRS 16 requires lessees to recognize assets and liabilities for all leases. The note 21 Operating lease commitments gives a first indication of the volume of leases for the Group.

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenues and cash flows arising from an entity's contracts with customers.
According to the new guidance, revenue recognition depicts the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled for these goods and services. Revenue is recognized when (or as) control of the goods and services is transferred to the customer. The standard replaces existing revenue recognition guidance including IAS 18 Revenues.

The Group has evaluated the potential impacts of this standard on the timing of recognition of revenue. Representative contracts with customers have been reviewed and relate primarily to the delivery of manufactured products. They may contain some additional performance obligations such as freight costs recharges or specific product development which are highly dependent on the delivery of our transducers and amount to only 0.2% of revenues at 31 March 2018. To date, the Group is already recognizing revenues at a point in time according to the different delivery terms which is in line with IFRS 15 based on the performance obligations identified.

Based on the above-mentioned analysis, the Group assessed that the adoption of the standard does not significantly impact its consolidated financial statements, therefore, the retrospective transition method will not require a restatement of the consolidated financial statements.

2.3 Summary of critical accounting estimates and judgments

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

Impairment of goodwill, other intangible assets and property, plant and equipment

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

Provisions

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

Income and other taxes

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

Employee benefits

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

Valuation of deferred tax assets

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

2.4 Basis of consolidation

The consolidated financial statements are comprised of LEM Holding SA and of its subsidiaries.

Subsidiaries

Subsidiaries are those entities over which the Group has 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 2018 and 31 March 2017.

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 2017/18	Income statement of 2016/17	Balance sheet 31.3.2018	Balance sheet 31.3.2017
	Average rate in CHF	Average rate in CHF	Year-end rate in CHF	Year-end rate in CHF
BGN	0.579	0.553	0.600	0.545
CNY	0.146	0.147	0.152	0.145
DKK	0.152	0.146	0.157	0.144
EUR	1.133	1.083	1.174	1.069
GBP	1.285	1.285	1.336	1.250
JPY	0.0088	0.0091	0.0090	0.0090
RUB	0.017	0.016	0.017	0.018
USD	0.971	0.989	0.953	1.001

Foreign currency transactions

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

2.6 Cash and cash equivalents

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

2.7 Inventories

Inventories are stated at the lower of cost or net realizable value. The first-in, first-out (FIFO) method is applied. The cost of finished goods and work in process comprise raw materials, direct labor costs and other costs that can be directly allocated, such as production overhead expenditures. Allowances are established when:

– there is an objective indication that the Group will not be able to sell the goods in due time;
– the goods are damaged, in excess or obsolete;
– the net realizable value is below cost.

2.8 Property, plant and equipment

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

Land	nil
Buildings	20–40 years
Machinery and equipment	5–8 years
Tools and molds	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 is 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 amortized over the life of the product or process.

Other intangible assets

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

2.10 Impairment of tangible fixed assets and intangible assets

Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.
For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit).
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 nonderivative 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 comprise forward exchange contracts.

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

2.13 Financial liabilities

Financial liabilities comprise bank loans, payables, 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 and German subsidiaries provide a defined benefit plan for employees; the other subsidiaries provide defined contribution plans. In both cases the charges are included in the related periods in the personnel expenses of the various functions where the employees are located.

Defined benefit plan

The defined benefit obligation is determined annually by 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 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 and deductible temporary differences are recognized as deferred tax assets to the extent that it is probable that tax profit will be available in the future against which the tax losses carried forward can be utilized. Deferred tax assets and liabilities are offset against each other if the corresponding income taxes arise by the same tax authority and a legally enforceable right for offsetting exists.

3 Segment information

Business segment information

In CHF thousands	Industry 2017/18	Industry 2016/17	Automotive 2017/18	Automotive 2016/17	LEM Group 2017/18	LEM Group 2016/17
Income statement						
Sales	242'248	214'290	58'995	50'229	301'243	264'519
EBITDA	57'601	49'180	12'886	13'434	70'487	62'614
Operating profit	51'191	43'935	10'527	11'823	61'719	55'758
Net financial expenses					1'175	(790)
Taxes					(9'587)	(10'403)
Net profit for the year					**53'306**	**44'566**
Depreciation and amortization						
Tangible assets	5'300	4'313	1'618	1'264	6'919	5'577
Intangible assets	925	932	375	347	1'300	1'278
Impairment loss	184	0	366	0	550	0
Total	**6'410**	**5'245**	**2'359**	**1'611**	**8'768**	**6'856**
Capital expenditures						
Tangible assets	10'271	9'365	4'517	3'186	14'788	12'552
Intangible assets	349	504	85	118	434	622
Total assets	**10'620**	**9'870**	**4'602**	**3'305**	**15'222**	**13'174**

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

In CHF thousands	China 2017/18	China 2016/17	USA 2017/18	USA 2016/17	Germany 2017/18	Germany 2016/17	Japan 2017/18	Japan 2016/17	Italy 2017/18	Italy 2016/17	Switzerland 2017/18	Switzerland 2016/17	Rest of the world 2017/18	Rest of the world 2016/17	LEM Group 2017/18	LEM Group 2016/17
Sales	98'499	79'013	41'381	44'654	38'992	32'668	26'361	24'839	11'048	9'835	3'095	3'096	81'866	70'414	301'243	264'519
Noncurrent assets	14'705	9'833	31	51	223	253	3'589	3'601	63	65	17'772	18'496	9'733	6'128	46'118	38'426

Sales are reported as per place of transaction.

4 Accounts receivable

In CHF thousands	31.3.2018	31.3.2017
Accounts receivable – trade	59'799	52'493
Allowance for doubtful accounts	(763)	(689)
Total accounts receivable – trade	59'035	51'804
Other receivables	7'612	6'675
Total	**66'648**	**58'479**

Movements of allowance for doubtful accounts

In CHF thousands	2017/18	2016/17
Opening position	**689**	**1'187**
Additions charged / (reversals credited) to income statement	129	(439)
Amounts written off	(75)	(49)
Foreign exchange effect	19	(10)
Total	**763**	**689**

Aging analysis of accounts receivable

In CHF thousands	Not due	<30 days	31–90 days	91–180 days	>180 days	Total
31 March 2017						
Accounts receivable – trade	44'861	5'135	1'612	315	570	52'493
Allowances 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**
31 March 2018						
Accounts receivable – trade	47'636	8'411	2'826	371	555	59'799
Allowances for doubtful accounts	0	0	(144)	(97)	(522)	(763)
Other receivables	7'601	0	0	0	11	7'612
Total	**55'237**	**8'411**	**2'682**	**274**	**44**	**66'648**

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 (1.3% in 2016/17). In 2017/18, no receivables have been individually impaired.

5 Inventories

In CHF thousands	31.3.2018	31.3.2017
Raw material	13'391	11'175
Work in progress	1'724	2'105
Finished goods and goods for resale	20'672	17'348
Total	**35'787**	**30'628**

The inventories include allowances of CHF 2'196 thousand (2016/17 CHF 2'260 thousand).

6 Other current assets

In CHF thousands	31.3.2018	31.3.2017
Advances to suppliers	713	595
Prepayments and accrued income	1'613	1'292
Other current assets	215	18
Total	**2'541**	**1'905**

7 Property, plant and equipment

In CHF thousands	Land and buildings	Machinery and equipment	Total
Net book value 1 April 2016	**97**	**25'082**	**25'179**
Foreign exchange effect	5	(428)	(423)
Investment	0	12'552	12'552
Disposal	0	(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**
Net book value 1 April 2017	**87**	**31'294**	**31'381**
Foreign exchange effect	(0)	1'658	1'657
Investment	0	14'788	14'788
Disposal	0	(420)	(420)
Impairment loss	0	(550)	(550)
Depreciation charge for the year	(15)	(6'904)	(6'919)
Net book value 31 March 2018	**71**	**39'866**	**39'937**
At cost of acquisition	364	108'941	109'305
Accumulated depreciation	(293)	(69'075)	(69'368)
Net book value 31 March 2018	**71**	**39'866**	**39'937**

8 Intangible assets

In CHF thousands	Goodwill	Patents	Other intangible assets	Total
Net book value 1 April 2016	**3'098**	**324**	**4'208**	**7'630**
Foreign exchange effect	67	0	6	72
Investment	0	0	622	622
Disposal	0	(2)	0	(2)
Amortization charge for the year	0	(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	0	(5'083)	(6'392)	(11'475)
Net book value 31 March 2017	**3'165**	**247**	**3'633**	**7'045**
Net book value 1 April 2017	**3'165**	**247**	**3'633**	**7'045**
Foreign exchange effect	(23)	0	25	2
Investment	0	0	434	434
Transfer movement	0	44	(44)	(0)
Amortization charge for the year	(1)	(76)	(1'223)	(1'300)
Net book value 31 March 2018	**3'141**	**215**	**2'825**	**6'181**
At cost of acquisition	3'141	5'374	10'467	18'982
Accumulated amortization	0	(5'159)	(7'642)	(12'801)
Net book value 31 March 2018	**3'141**	**215**	**2'825**	**6'181**

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 9% and operating costs were estimated based on the experience of management. The pretax discount rate used within these cash flow calculations is 7.0% (2016/17 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 2018.

9 Accounts payable

In CHF thousands	31.3.2018	31.3.2017
Total accounts payable – trade	20'634	21'170
Other payables	5'085	3'428
Total	**25'718**	**24'598**

10 Provisions

In CHF thousands	Warranty and customer claims	Litigations and consumption taxes	Restructuring	Total
Balance as per 1 April 2016	**2'532**	**538**	**447**	**3'517**
Additional provisions	932	21	87	1'041
Unused amounts reversed	(877)	(304)	0	(1'181)
Utilized during the year	(651)	(22)	(534)	(1'207)
Foreign exchange effect	24	(7)	0	18
Balance as per 31 March 2017	**1'961**	**227**	**0**	**2'188**
Of which current				*1'061*
Of which noncurrent				*1'127*
Balance as per 1 April 2017	**1'961**	**227**	**0**	**2'188**
Additional provisions	474	0	0	474
Unused amounts reversed	(735)	(34)	0	(769)
Utilized during the year	(191)	0	0	(191)
Foreign exchange effect	(4)	11	0	7
Balance as per 31 March 2018	**1'505**	**204**	**0**	**1'709**
Of which current				*682*
Of which noncurrent				*1'026*

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

On 25 September 2017, LEM announced a restructuring plan. At 31 March 2018, most of the employees affected by the plan have left the Company. The remaining costs are accrued in the balance sheet; as a consequence, no restructuring provision has been booked in 2017/18.

11 Other liabilities

In CHF thousands	31.3.2018	31.3.2017
Postemployment benefit plans	2'160	3'648
Derivative financial instruments	241	18
Other liabilities	1'582	1'301
Total	**3'983**	**4'967**
Of which current	*778*	*578*
Of which noncurrent	*3'205*	*4'389*

The decrease of the postemployment benefit plan liability is mainly linked to the increase in the fair value of assets, 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

In number of shares, in CHF	Number	High	Price per share in CHF Average	Low	Value in CHF thousands
Value 1 April 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**
Purchase at cost	7'516	1'779.78	1'344.65	919.76	10'208
Sales at cost	(7'811)	1'820.00	1'348.03	934.00	(10'023)
Value 31 March 2018	**652**				**1'091**

In CHF	
Ordinary dividend per share 2016/17	**35**
Ordinary dividend per share 2017/18	**40**

A dividend of CHF 40 per share will be proposed by the Board of Directors to the Annual General Meeting of Shareholders of the Group on 28 June 2018. The expected payout for dividends amounts to CHF 45.6 million.

13 Staff cost

In CHF thousands	Notes	2017/18	2016/17
Production		(27'860)	(25'668)
Sales		(20'132)	(19'694)
Administration		(12'968)	(13'560)
Research and development		(14'832)	(11'248)
Total		**(75'792)**	**(70'170)**
Salaries and wages		(68'967)	(63'136)
Temporary employee costs		(3'805)	(4'078)
Cost of defined benefit plans	20.1	(2'882)	(2'821)
Cost of defined benefit contribution		(138)	(135)
Total		**(75'792)**	**(70'170)**

Number of employees at the end of the financial year	31.3.2018	31.3.2017
Permanent employees	1'382	1'292
Temporary employees	139	148
Apprentices	7	13
Total	**1'527**	**1'453**

14 Financial expense

In CHF thousands	2017/18	2016/17
Interest expenses	(213)	(147)
Other financial expenses	(85)	(80)
Total	**(298)**	**(228)**

15 Financial income

In CHF thousands	2017/18	2016/17
Interest income on cash	127	80
Total	**127**	**80**

16 Exchange effect

In CHF thousands	2017/18	2016/17
Exchange gains / (losses)	1'608	205
Fair value revaluation on derivatives	(223)	76
Gains / (losses) on derivatives[1]	(40)	(923)
Total	**1'345**	**(642)**

1 Position includes cost of derivative hedging

The 2017/18 exchange effect is mainly driven by the appreciation of EUR generating foreign exchange gains while the derivatives impact is nearly neutral due to losses on EUR compensated by gains on USD.

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	2017/18	2016/17
Current income taxes	(14'342)	(10'378)
Deferred taxes relating to the origination and reversal of temporary differences	4'965	(101)
Adjustment recognized in the period for current tax of prior year	(210)	77
Total	**(9'587)**	**(10'403)**

The tax expense relating to components of other comprehensive income amounts to CHF 485 thousand for the year 2017/18 (CHF 302 thousand in 2016/17).
LEM IP sold to LEM Electronics (China) Co. Ltd the Intellectual Property for all products manufactured and sold in China during 2017/18. That transaction generated a net deferred tax asset of CHF +7.9 million.
This impact is compensated by the change of the deferred tax rate in China from 25% to 15% resulting in a deferred tax expense of CHF –0.9 million. This considered 15% tax rate is dependent on the HNTE status in China, which is expected to be applied as of 1 April 2018.

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

In%	2017/18	2016/17
Group's average expected income tax rate	11.5	16.6
Group's average expected withholding tax rate	1.2	1.2
Group's average expected tax rate	**12.7**	**17.8**
Tax effect of		
– permanent differences	0.1	0.4
– effect of changes in tax rates on deferred taxes	1.9	0.0
– adjustment in respect of previous periods' income tax	0.6	(0.1)
– other differences	0.0	0.9
Group's effective tax rate	**15.2**	**18.9**

The decrease in the expected income tax rate is due to the above-mentioned transaction on Chinese Intellectual Property sale generating a total income tax and deferred tax impact of CHF+4.3 million (positive tax impact).

Deferred tax assets and liabilities

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

	31.3.2018		31.3.2017	
In CHF thousands	Asset	Liability	Asset	Liability
– Accounts receivable	80	(91)	74	(38)
– Inventories	979	(292)	1'393	(240)
– Property, plant and equipment	1'716	(868)	1'322	(114)
– Intangible assets	13'578	(2'128)	149	(484)
– Other financial assets	437	0	767	0
– Tax losses carried forward	491	0	933	0
– Other assets	0	(616)	0	(138)
– Provisions	149	0	312	0
– Others	620	(3'549)	767	(27)
– Withholding tax on dividends	0	(2'429)	0	(1'532)
Gross deferred taxes	**18'050**	**(9'973)**	**5'719**	**(2'572)**

The balance sheet contains the following:

	31.3.2018	31.3.2017
– Deferred tax assets	14'469	5'028
– Deferred tax liabilities	(6'392)	(1'881)
Net assets	**8'077**	**3'147**

LEM Group has CHF 491 thousand (CHF 933 thousand in 2016/17) of deferred tax assets 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 2018, the unrecognized losses carried forward are the following:

	31.3.2018	31.3.2017
– In the next 7 years	1'572	1'572
– Without date of expiration	0	0
Total	**1'572**	**1'572**

18 Earnings per share

	2017/18	2016/17
Basic and diluted earnings per share		
Net profit for the year attributable to LEM shareholders – in CHF thousands	53'306	44'566
Ordinary number of shares at the beginning of the year	1'140'000	1'140'000
Weighted average number of ordinary shares	1'140'000	1'140'000
Weighted average number of treasury shares	418	602
Weighted average number of shares outstanding	1'139'582	1'139'398
Earnings per share – basic and diluted in CHF	**46.78**	**39.11**

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 (LEM Incentive System), bonus and postemployment benefits. In 2017/18 and 2016/17, 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	2017/18	2016/17
Annual fees	(870)	(750)
Total	**(870)**	**(750)**

Compensation of the Executive Management

In CHF thousands	2017/18	2016/17
Base salary	(1'440)	(1'419)
Bonus	(1'851)	(979)
Company's contribution to pension fund	(161)	(157)
Total	**(3'452)**	**(2'555)**

Servotronix Motion Control Ltd, a company presided by Ilan Cohen, has bought transducers for CHF 1'155 thousand in 2017/18 (CHF 751 thousand in 2016/17), 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 benefit plan for all its employees in Switzerland with a collective foundation.

This foundation is a separate legal entity which is not part of the Group. It is managed by a board having equal representation of employees and employers of the affiliated companies. It is supervised by the supervisory authority and complies with the requirements of Swiss pension law. 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 old age, 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 2017/18.

The funded status increase of CHF +1.6 million can mainly be explained by the return on plan assets of CHF +2.0 million and by the assumptions and population changes generating a decrease of the DBO of CHF +0.2 million. The following main assumptions have been updated:

- discount rate from 0.7% to 1%;
- interests credited on savings account from 0.7% to 1%;
- salary increase rate from 0.5% to 1%.

The before-mentioned updates generated a net DBO decrease of CHF +1.5 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 either defined contribution plans or defined benefit plans based on local practices and regulations. A former employee in Germany benefits from a defined benefit obligation amounting to CHF 426 thousand at 31.3.2018. Other subsidiaries' defined benefit obligations in Japan, Bulgaria and Italy amount to CHF 402 thousand at 31.3.2018.

In CHF thousands	31.3.2018	31.3.2017
Fair value of plan assets at year-end	42'716	46'873
Defined benefit obligations at year-end	44'048	49'786
Funded status (net liabilities in the balance sheet)	**(1'332)**	**(2'913)**

LEM expects to contribute CHF 2'410 thousand to its defined benefit plan in 2018/19.

20.1 Cost of defined benefit plans

In CHF thousands	2017/18	2016/17
Current service cost	2'882	2'821
Net interest (income) / cost	20	22
Total pension expenses recorded in consolidated income statement	**2'902**	**2'842**

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	2017/18	2016/17
Experience adjustments on defined benefit obligation	(188)	(866)
Return on plan assets excluding interests	(1'952)	(1'016)
Total remeasurements recorded in other comprehensive income	**(2'140)**	**(1'881)**

20.3 Change in fair value of plan assets

In CHF thousands	31.3.2018	31.3.2017
Fair value of plan assets per beginning of year	**46'873**	**46'298**
Return on plan assets excluding interest income	1'952	1'016
Interest income on plan assets	328	231
Employer's contributions	2'346	2'406
Employees' contributions	1'983	2'077
Benefits paid	(10'766)	(5'156)
Fair value of plan assets per end of year	**42'716**	**46'873**

20.4 Change in present value of defined benefit obligation

In CHF thousands	31.3.2018	31.3.2017
Defined benefit obligation per beginning of year	**49'786**	**50'657**
Current service cost	2'882	2'821
Employees' contributions	1'983	2'077
Interest cost	349	253
Experience adjustments on obligation	(188)	(866)
due to assumption changes	*(1'544)*	*(1'489)*
due to population changes	*1'356*	*623*
Benefits paid	(10'766)	(5'156)
Defined benefit obligation per end of year	**44'048**	**49'786**

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	2017/18	2016/17
Equity securities	30.0%	30.4%	34.3%
Debt securities	29.0%	25.0%	24.3%
Real estate	25.0%	27.7%	27.7%
Cash and other investments	16.0%	16.9%	13.8%
	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 main actuarial assumptions used in the actuarial calculations include:

In %	2017/18	2016/17
Discount rate	1.00 %	0.70 %
Salary increases	1.00 %	0.50 %

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

Sensitivities of significant actuarial assumptions

The sensitivity analysis is based on reasonable possible changes as of the end of the year 2017/18. 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	2017/18	2016/17
Discount rate		
Increase by 0.25 %	(2'480)	(2'673)
Decrease by 0.25 %	2'678	2'880
Salary increase rate		
Increase by 0.25 %	221	242
Decrease by 0.25 %	(313)	(332)

20.7 Maturity structure of pension obligation

The following main cash outflows are expected in future periods:

In CHF thousands	
in 1 year	1'060
in 2 years	1'063
in 3 years	1'055
in 4 years	1'123
in 5 years	1'133
in 6 to 10 years	6'899

21 Operating lease commitments

Minimal lease payments are payable as follows:

In CHF thousands	31.3.2018	31.3.2017
Within 1 year	4'868	4'966
Between 1 and 5 years	2'551	9'368
Beyond 5 years	143	403
Total	**7'563**	**14'737**

In 2017/18 lease expenses amounted to CHF 5'263 thousand (2016/17 CHF 5'192 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 Group Financial Statements as of 31 March 2017 mentioned a dispute between LEM International SA and the French customs authorities which were questioning the validity of the applied VAT exemption (so-called régime 42) for goods sold from Switzerland to EU customers transiting through France. The value-added tax requested amounted to EUR 15.4 million. On 12 June 2017, the French customs authorities announced to LEM International SA that they decided to drop the charges and to cancel the related value-added tax payment request of EUR 15.4 million.

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	31.3.2018 Fair value	31.3.2017 Fair value	Loans and receivables	At fair value through profit and loss
Cash and cash equivalents	17'630	12'809	X	
Accounts receivable	66'648	58'479	X	
Other current financial assets	215	18	X	
Other noncurrent financial assets	906	985	X	
Total	**85'399**	**72'291**		

Financial liabilities

In CHF thousands	31.3.2018 Fair value	31.3.2017 Fair value	Loans and receivables	At fair value through profit and loss
Accounts payable	25'718	24'598	X	
Accrued expenses	26'359	22'043	X	
Derivative financial instruments – current	241	18		X
Other current financial liabilities	5'000	0	X	
Other noncurrent financial liabilities	90	2	X	
Total	**57'408**	**46'661**		

Changes in liabilities arising from financing activities

In CHF thousands	1.4.2017	Cash impact: cash inflow/ (outflow)	Noncash impact: fair value changes and others	31.3.2018
Interest-bearing loans and borrowings		5'000		5'000
Total	**0**	**5'000**	**0**	**5'000**

The management assessed that fair value level of cash and cash equivalents, accounts receivables, other current and non-current assets, accounts payables, accrued expenses and other current and noncurrent liabilities approximates their book value.

The Group enters into derivative transactions such as currency risk reversal and forward contracts to hedge the USD and EUR risks.
The purpose of these currency hedges is to manage the currency risks arising from the Group's operations.

It is the Group's policy that no derivatives for speculative purposes shall be entered into.
The main risks arising from the Group's financial instruments are foreign currency risks and credit risks, whereas the others are of minor or no impact.
The Board of Directors reviews and agrees policies for managing each of those risks.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group's financial liabilities at fair value amount to CHF 241 thousand per 31 March 2018 (financial liabilities of CHF 18 thousand per 31 March 2017), 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 2018 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 ±762 thousand for a ±5% EUR rate change (CHF ±799 thousand per 31 March 2017), of CHF ±568 thousand for a ±5% USD rate change (CHF ±616 thousand per 31 March 2017), of CHF ±1'181 thousand for a ±5% CNY rate change (CHF ±727 thousand per 31 March 2017) and of CHF ±157 thousand for a ±5% JPY rate change (CHF ±178 thousand per 31 March 2017). 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 In CHF thousands	31.3.2018 Fair value	Less than one year	Over one year	31.3.2017 Fair value	Less than one year	Over one year
Accounts payable	25'718	25'718		24'598	24'598	
Accrued expenses	26'359	26'359		22'043	22'043	
Derivative financial instruments – current	241	241		18	18	
Other current financial liabilities	5'000	5'000		0	0	
Other noncurrent financial liabilities	90	0	90	2	0	2
Total	**57'408**	**57'318**	**90**	**46'661**	**46'659**	**2**

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 2018, the bank credit line amounts to CHF 5 million.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy and stable equity ratio in order to secure the confidence of shareholders and investors, creditors and other market players and to strengthen the future development of the Group's business activities.

The Group manages its capital structure and makes adjustments to it, in light of changes in the economic conditions.

LEM targets a payout ratio significantly above 50% of the consolidated net profit for the year.

However, it may diverge from this policy due to economic prospects or on the grounds of planned future investment activities.

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	116'420'194	100%
LEM Japan KK	Japan	JPY	16'000'000	100%

25 Changes in scope of consolidation

In 2017/18, there have been no changes in the scope of consolidation.

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 2018 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 33 to 59) give a true and fair view of the consolidated financial position of the Group as at 31 March 2018, 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 primarily at corporate level, including the significant level of estimations and judgments made with respect to the likelihood and magnitude of these risks. In certain of these jurisdictions, the Group has taken tax 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 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.

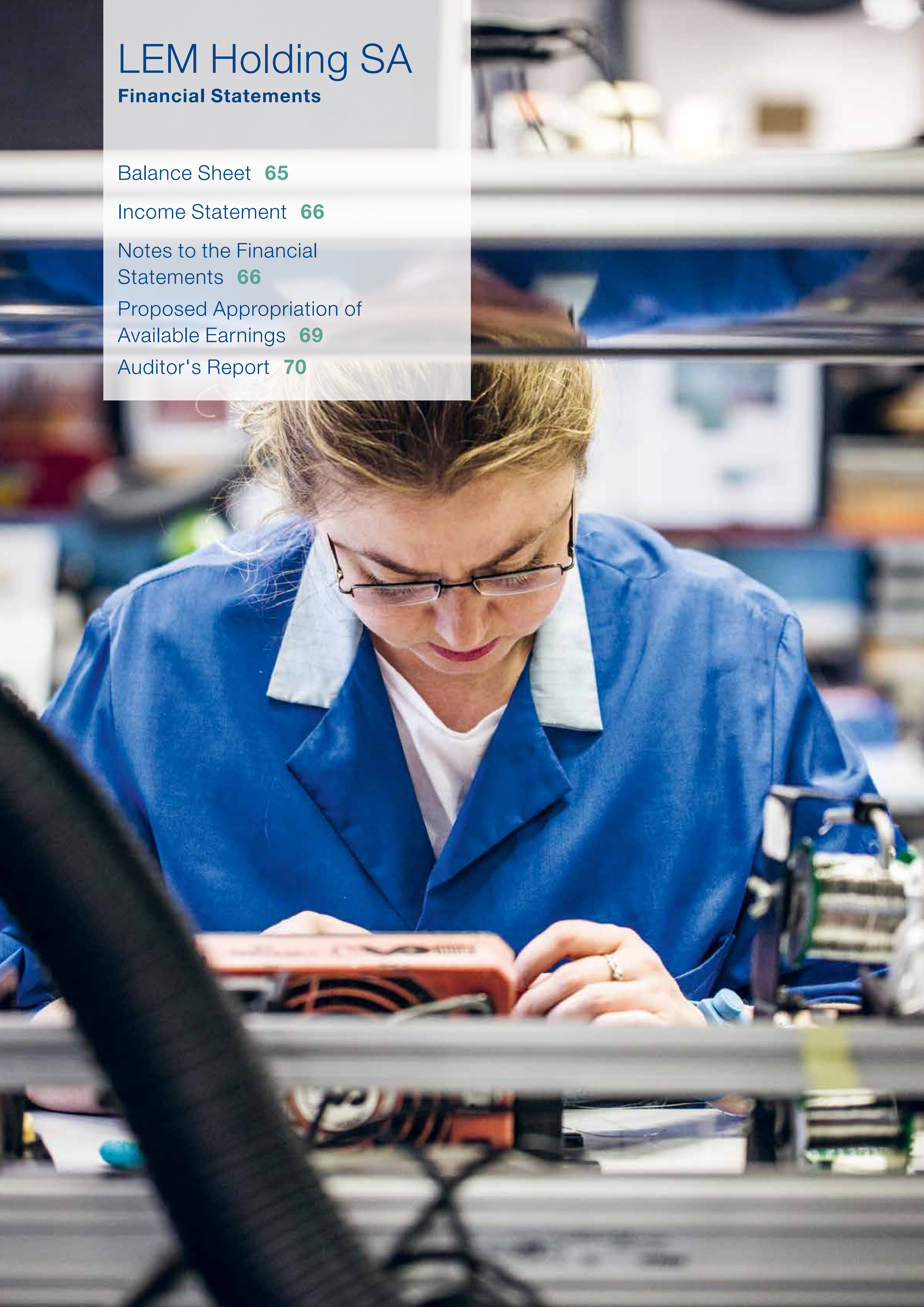
To the General Meeting of LEM Holding SA, Fribourg
Lancy, 15 May 2018

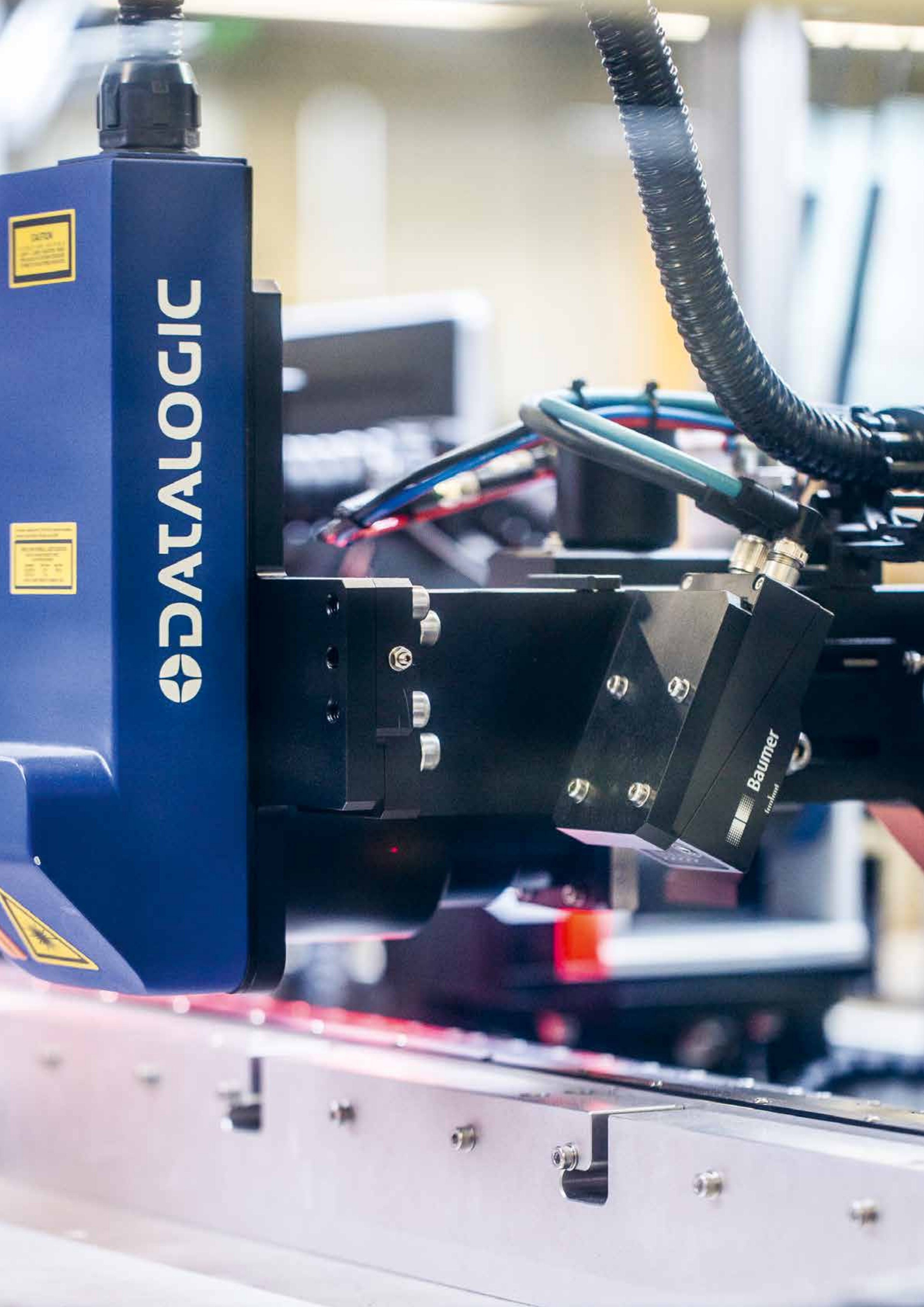
Ernst & Young Ltd

Fredi Widmann Licensed audit expert (Auditor in charge)	Roland Ruprecht Licensed audit expert

LEM Holding SA

Financial Statements




DATALOGIC
Baumer

Balance Sheet
(before distribution of earnings)

Assets

In CHF thousands	Notes	31.3.2018	31.3.2017
Current assets			
Cash and cash equivalents		2'074	4'878
Loans to affiliated companies		31'666	34'901
Current assets from affiliated companies		575	970
Other current assets		61	146
Other current assets from affiliated companies	4		1'627
Total current assets		**34'377**	**42'521**
Noncurrent assets			
Investments in affiliated companies	1	54'512	45'183
Total noncurrent assets		**54'512**	**45'183**
Total assets		**88'889**	**87'704**

Liabilities and equity

In CHF thousands		Notes	31.3.2018	31.3.2017
Current liabilities				
Current financial liabilities			5'000	
Loans from affiliated companies			28'065	23'873
Current liabilities from affiliated companies			31	33
Other current liabilities			1'896	1'725
Total current liabilities			**34'992**	**25'631**
Equity				
Share capital		2	570	570
Legal reserves			285	285
Free reserves	– balance carried forward		22'234	19'024
	– profit for the year		31'898	43'100
Treasury shares		3	(1'091)	(906)
Total equity			**53'896**	**62'072**
Total liabilities and equity			**88'889**	**87'704**

Income Statement

Income

In CHF thousands	Notes	2017/18	2016/17
Dividend from affiliated companies	4	28'014	41'115
Interest income from affiliated companies		751	831
Foreign exchange gain	5	2'309	2'092
Other financial income		362	22
Other income from affiliated companies		5'993	5'217
Total income		**37'429**	**49'275**

Expense

In CHF thousands	Notes	2017/18	2016/17
Office, administration and personnel expense	6	(2'886)	(3'423)
Financial expense		(264)	(278)
Foreign exchange loss	5	(1'884)	(2'046)
Total expense		**(5'034)**	**(5'747)**
Profit before taxes		**32'394**	**43'529**
Income taxes	7	(496)	(429)
Net profit for the year		**31'898**	**43'100**

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	31.3.2018	31.3.2017
Historical cost	54'512	45'183
Total	**54'512**	**45'183**

The increase in investments in affiliated companies is linked to the additional investment in LEM Electronics (China) Co. Ltd for USD 10 million (CHF 9.3m).

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 1.4.2017	**1'140'000**	**0.50**	**570**
Change of capital	0		0
Closing capital 31.3.2018	**1'140'000**	**0.50**	**570**

3 Treasury shares

	Number	Price per share in CHF High	Average	Low	Value in CHF thousands
Value 1.4.2016	**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**
Purchase at cost	7'516	1'779.78	1'344.65	919.76	10'208
Sales at cost	(7'811)	1'820.00	1'348.03	934.00	(10'023)
Value 31.3.2018	**652**				**1'091**

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

LEM Electronics (China) Co. Ltd did not pay any dividend in 2017/18 which explains the decrease of dividend revenue.

In 2016/17 the "Other current assets from affiliated companies" amounted of CHF 1'627 thousand and were related to the dividend from LEM Europe GmbH.

5 Exchange effect

In CHF thousands	2017/18	2016/17
Exchange gains/(losses)	687	893
Fair value revaluation on derivatives[1]	(223)	76
Gains/(losses) on derivative[1]	(40)	(923)
Exchange effect	**425**	**46**

1 Position includes cost of derivative hedging.

6 Office, administration and personnel expense

LEM Electronics (China) Co. Ltd did not pay any dividend in 2017/18, therefore no withholding taxes were paid which explains the decrease in Office, administration and personnel expense.

7 Income taxes

In CHF thousands	2017/18	2016/17
Current taxes	(457)	(355)
Adjustments of tax provisions of previous periods	(39)	(73)
Total	**(496)**	**(429)**

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

On 31 March 2018, the following shareholders held 3% or more of the share capital and voting rights:

In number of shares, percent of shareholding	31.3.2018 Shares	In%	31.3.2017 Shares	In%
Werner O. Weber and Ueli Wampfler, in Zollikon/Wollerau, Switzerland, through WEMACO Invest AG and Swisa Holding AG, in Zug/Cham, Switzerland	570'148	50.0%	548'786	48.1%
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%	36'000	3.2%
Total shareholders < 3%	**392'271**	**34.4%**	**413'633**	**36.3%**
Total	**1'140'000**	**100.0%**	**1'140'000**	**100.0%**

9 Guarantees in favor of third parties on behalf of subsidiaries

In CHF thousands	31.3.2018	31.3.2017
Amount of guarantees issued	1'928	1'932

10 Shareholdings

Shareholdings of nonexecutive Directors

	31.3. 2018 Number of shares held	31.3.2017 Number of shares held
Andreas Hürlimann	1'001	1'001
Ilan Cohen	300	300
Norbert Hess	0	0
Ueli Wampfler	68'010	72'500
Ulrich Jakob Looser	0	0
Werner C. Weber	0	0
Total	**69'311**	**73'801**

Shareholdings of Executive Management

	31.3. 2018 Number of shares held	31.3.2017 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	31.3.2018	31.3.2017
Balance brought forward from previous year	21'328	18'522
Variation of treasury shares	(185)	(405)
Net profit for the year	31'898	43'100
Total available earnings	**53'041**	**61'217**
Proposal of the Board of Directors:		
Ordinary dividend	(45'562)	(39'889)
Balance to be carried forward	**7'479**	**21'328**

The Board of Directors proposes the distribution of an ordinary dividend of CHF 40 per share. Net of 35 % withholding tax, this is an ordinary cash dividend of CHF 26 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 65 to 69), for the year ended 31 March 2018.

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

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

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

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

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Report on other legal requirements

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

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

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

To the General Meeting of LEM Holding SA, Fribourg
Lancy, 15 May 2018

Ernst & Young Ltd

Fredi Widmann Licensed audit expert (Auditor in charge)	Roland Ruprecht Licensed audit expert

Information for Investors

Number of registered shareholders	31.3.2018	31.3.2017
1 – 499	933	917
500 – 4'999	52	66
5'000 – 49'999	7	7
50'000 and more	4	4
Total	**996**	**994**

Shareholders by category

In %	31.3.2018	31.3.2017
Institutional shareholders	49.4	49.9
Private individuals	26.3	26.7
LEM employees, managers and board	6.4	7.0
Treasury shares	0.1	0.1
Nonregistered shares	17.8	16.3
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

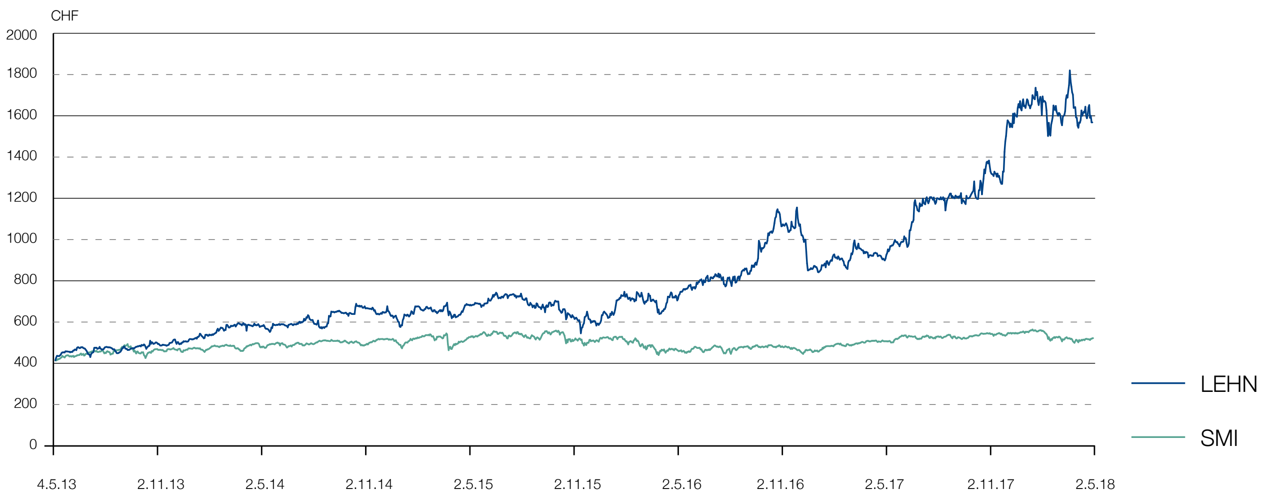
In number of shares, CHF	2017/18	2016/17
Number of shares	1'140'000	1'140'000
Year high[1]	1'828	1'199
Year low[1]	915	808
Year-end[1]	1'590	934
Average daily trading volume (shares)[1]	828	499
Earnings per share	46.78	39.11
Ordinary dividend per share	40.00[2]	35.00
Market capitalization as per 31 March[1] (in CHF millions)	1'813	1'065

[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 2018 to 31 March 2019

28 June 2018	Annual General Meeting of Shareholders for the financial year 2017/18 Université de Fribourg, bvd. de Pérolles
3 July 2018	Dividend ex-date
5 July 2018	Dividend payment date
31 July 2018	First-quarter results 2018/19
6 November 2018	Half-year results 2018/19
1 February 2019	Third-quarter results 2018/19
22 May 2019	Year-end results 2018/19
27 June 2019	Annual General Meeting of Shareholders for the financial year 2018/19
2 July 2019	Dividend ex-date
4 July 2019	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
Avenue Beauregard 1
CH-1700 Fribourg

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

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

LEM Intellectual Property SA
Avenue Beauregard 1
CH-1700 Fribourg

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

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

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

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

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

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

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

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

LEM Europe GmbH, Branch UK
West Lancs Investment Centre
UK-Skelmersdale WN8 9TG

LEM Bulgaria EOOD
Iliensko Shosse 8
BG-1220 Sofia

LEM Russia, LLC
Staritskoe Shosse 15
RU-170040 Tver

Asia

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

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

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

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

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

North America

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

Imprint

Concept and text
LEM
Gregor Communications, Zürich

Design
TGG Hafen Senn Stieger, St. Gallen

Images, illustrations
LEM
Pedro Neto
Jasmin Viertl

Printing
Cavelti, Gossau

LEM HOLDING SA
Avenue Beauregard 1
1700 Freiburg/Fribourg
Switzerland

Phone: +41 26 460 10 30
Fax: +41 26 460 10 39
www.lem.com