



ANNUAL REPORT

2018/19

KLINGELNBERG AG

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Dear Shareholders,

Your company, KLINGELNBERG AG, has enjoyed a highly eventful, challenging, but above all successful fiscal year. The most significant event for the company in the past year was no doubt the IPO. Particularly for a company that has developed so outstandingly over so many years in careful family hands, this step was and is of great importance. We saw our successful IPO – the shares were oversubscribed several times over – as a vote of confidence on the part of our new shareholders especially.

For the Board of Directors and the management, it was therefore particularly important to fully achieve its intended goals in the first year. And we stood by this goal even when the economic environment steadily lost its luster shortly after the IPO. The escalation of trade conflicts, the economic downturn on key markets and the enormous pressure to change in central customer sectors have all left their mark. Taking all of this into account, we are proud to report that we have achieved our goals.



Historic revenue and earnings

Net sales of the KLINGELNBERG Group were significantly higher than in the prior-year period (increase of around 8% from EUR 257,0 million to EUR 278,2 million).

Likewise, after adjustment for IPO costs (around EUR 1,1 million), EBIT rose by EUR 8,3 million as against the previous year. This is also the highest earnings figure that the KLINGELNBERG Group has ever achieved.

The figures were therefore entirely in line with the forecasts we had communicated to the market – EBIT was even slightly higher.

Growth drivers: Cylindrical gears and “non-gear”

The solid organic growth of our Group is thanks above all to cylindrical gear technology and precision measuring centers. As announced during the IPO, we placed ten Speed Viper cylindrical gear grinding machines on a wide range of geographical markets as incoming orders. Straight out of the gate, we were able to secure references on key sales markets following the launch in India, Germany, China and North America. We also added a system for the rapid cycloid gearing measurement in robot gears to the measuring software of our precision measuring centers and established this on the market.

Regionally, revenue performance was highly positive in Asia and Europe especially.

Challenging environment

The competitive environment of the global mechanical engineering industry is becoming increasingly volatile. It is clear that we can certainly not rely on momentum from the markets. On the contrary, the markets are signaling a growing reluctance to invest in new and replacement equipment. The uncertainty stemming from political factors such as Brexit, trade conflicts, upheaval in entire product categories – such as the automotive industry – will not be making our business any easier in the new fiscal year now underway. This is all the more important, as looking back at 2018/19 shows that we can be successful even on difficult markets.

In a challenging fiscal year, especially after the first half, we were able to deliver virtually 100% of the machinery ordered from us on schedule and with the promised quality. Given the familiar tensions on the supplier market, this is not something that can be taken for granted. Ultimately, however, we were able to master these challenges thanks to robust order processing combined with highly motivated and well-trained expert staff.

And we will say it once again: this is not something that can be taken for granted. And repeating or even improving on our strong results in the clearly depressed global economic environment of the current fiscal year isn't something that can be taken for granted either. But it is also clear that this company is excellently positioned – it will prove its very special quality even in difficult times. Our strategy of tapping new markets with new products, such as the Speed Viper, and new applications in measurement technology, worked admirably last year, and it will help us to face the mounting challenges in the current year as well.

Outlook

Despite the current uncertainty in the automotive industry, we believe that we will be able to continue our growth in cylindrical gears and measurement technology.

We anticipate a tougher uphill struggle in bevel gears and drive technology owing to the factors described above. However, we are confident that revenue growth in cylindrical gears and measurement technology can largely neutralize the market effects in the other two segments. It will also be a challenge to sustain our margin quality. It is especially important here that we establish robust processes for our new products. Even though the launch of the Speed Viper can be termed a success, it is also clear that we have not yet matched the level of our bevel gear technology. We will approach this task systematically and with all our energy. Taking all this into account, we assume that we can maintain revenue at the prior-year level. Due to the shift in the product mix and the associated change in the margin structure, profits will remain below the very good level of the previous year 2018/19. Nevertheless, we expect a clearly positive result.

In the medium term, we will continue to achieve double-digit EBIT margins as soon as the markets return to normal.

Our thanks

We would like to thank our customers, employees and shareholders for their support in the past year – success is a product of team work, and you have all played your part.

We look forward to mastering the coming challenges with all of you, and we thank you again for choosing to be our shareholders!



Dr. Jörg Wolle
Chairman of the Board of Directors



Jan Klingelberg
CEO

Zürich, 09 July 2019



At a Glance

Financial overview

Key facts

- Order intake rises by EUR 2,0 million to EUR 265,2 million
- Record-high net sales of EUR 278,2 million
- EBIT climbed to EUR 30,0 million
- Operating margin adjusted by IPO costs of 11,2%
- Respectable net profit amounted to EUR 19,2 million
- Basic earnings per share EUR 2,20
- Solid equity ratio of 63,8%
- Dividend of CHF 1,00 per share

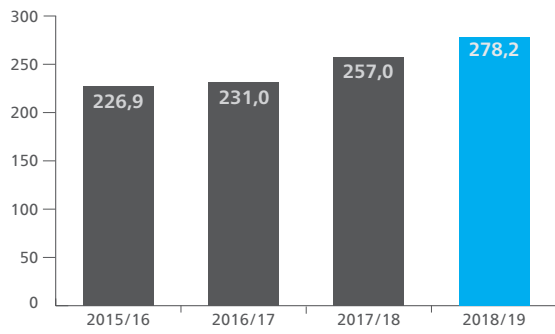
Group key figures

EUR million	2018/19	2017/18	Change
Net sales from goods and services	278,2	257,0	21,2
Order intake	265,2	263,2	2,0
Operating result (EBIT)	30,0	22,1	7,9
Operating result (adjusted, without IPO costs)	31,1	22,8	8,3
Net profit	19,2	14,2	5,0
Basic earnings per share (in EUR)	2,20	1,69	0,51
Diluted earnings per share (in EUR)	2,20	1,69	0,51
Operating result as % of net sales from goods and services	10,8%	8,6%	2,2%
Operating result (adjusted, without IPO costs) as % of net sales from goods and services	11,2%	8,9%	2,3%
Net profit as % of net sales from goods and services	6,9%	5,5%	1,4%
Cash flow from operating activities	27,6	6,4	21,2
Investments	7,8	6,2	1,6
Free cash flow	22,0	0,8	21,2
Employees (FTE)	1.310,0	1.266,8	43,2

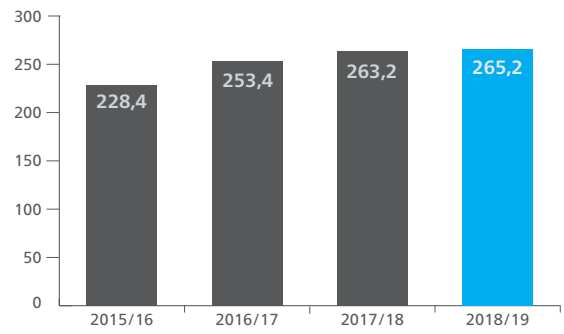
EUR million	31.03.2019	31.03.2018	Change
Total liabilities and equity	255,4	235,0	20,4
Net debt	-22,2	19,7	-41,9
Total equity	163,0	120,3	42,7
Equity ratio	63,8%	51,2%	12,6%

For alternative performance measures please refer to chapter alternative performance measures.

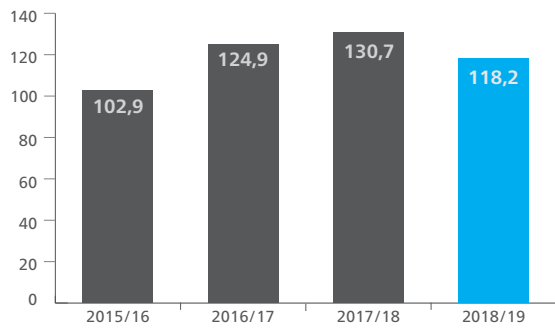
Net sales, in EUR million



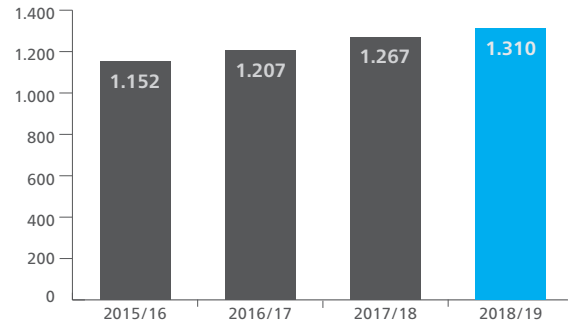
Order intake, in EUR million



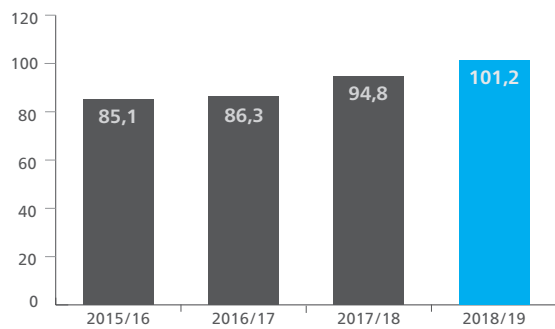
Order backlog, in EUR million



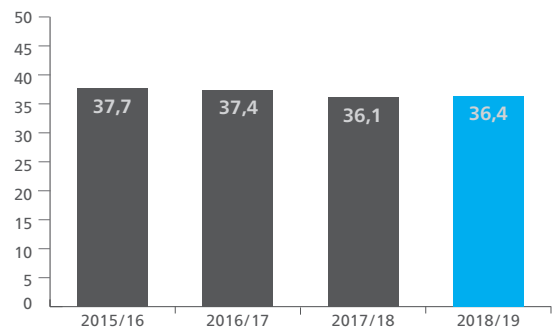
Employees, full time equivalents as of 31 March 2019



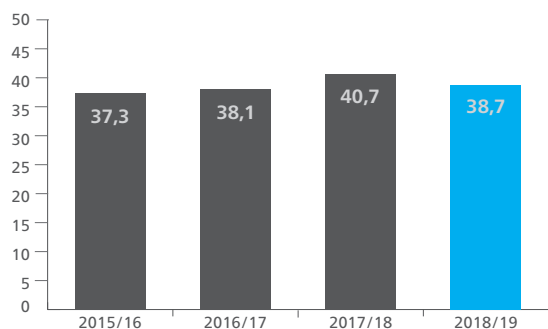
Personnel expense, in EUR million



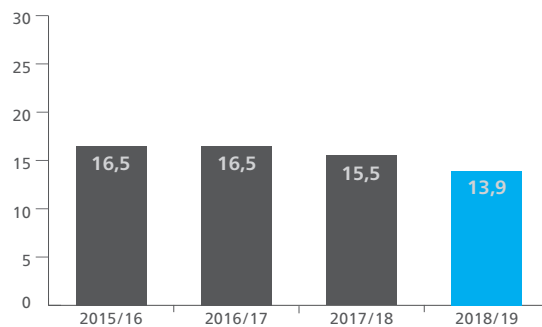
Personnel expense ratio, in %



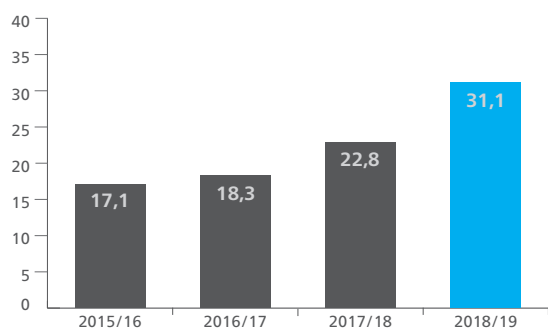
Adjusted other operating expense, in EUR million



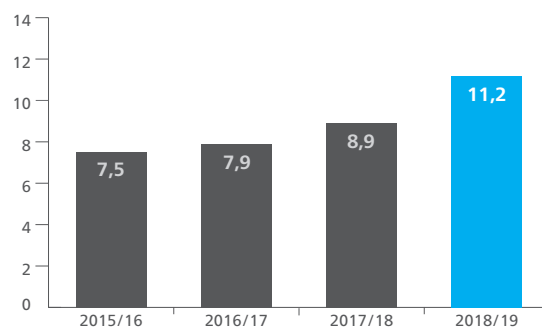
Adjusted other operating expense ratio, in %



Adjusted operating result (EBIT), in EUR million



Adjusted EBIT margin, in %



Share price, from 29 June 2018 – 29 March 2019 in CHF



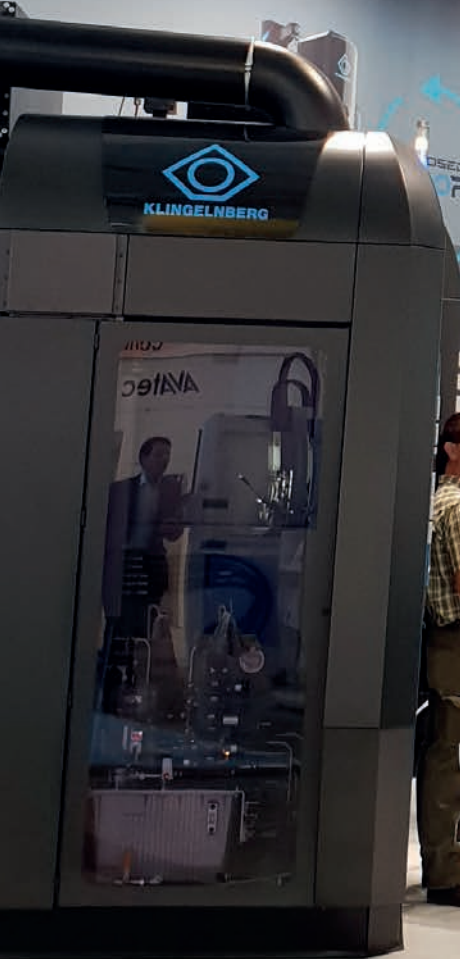
KLINGELNBERG

KLINGELNBERG

Highlights 2018/19

CLOSED LOOP

MANUFACTURING IN AN INDUSTRY 4.0 ENVIRONMENT



Trade Fairs:

KLINGELNBERG presented cutting-edge Industry 4.0 solutions on numerous international trade show platforms

KlingelInberg solutions are close to the market and also the user – as visitors to various international trade show platforms in 2018/19 were able to experience first-hand. The focus countries were Italy, Germany, Russia, the USA, Japan, and India. The show highlights included the Höfler Cylindrical Gear Grinding Machine with Closed Loop technology, the new hybrid technology for tactile and optical measuring technology, and SmartTooling, a digital identification method for tools and fixtures.

And last but not least: with its entry into the robotics industry, KlingelInberg has launched an initiative to expand its business outside the gear industry. KlingelInberg's cycloid measurement option for precision measuring centers provides a reliable solution for monitoring high production standards.

A&T

Turin, Italy
18.04.-20.04.2018

Metalloobrabotka

Moscow, Russia
14.05.-18.05.2018

BI-MU

Milan, Italy
09.10.-13.10.2018

Expomaq

León, Mexico
17.04.-20.04.2018

IMTS

Chicago, USA
10.09.-15.09.2018

JIMTOF

Tokyo, Japan
01.11.-06.11.2018

Control

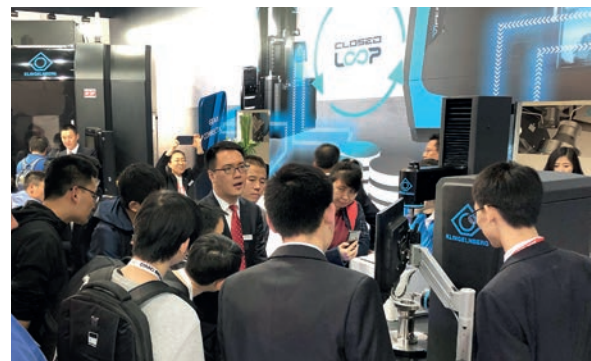
Stuttgart, Germany
24.04.-27.04.2018

AMB

Stuttgart, Germany
18.09.-22.09.2018

IMTEX

Bangalore, India
24.01.-30.01.2019



Industry 4.0 experience – live at KLINGELNBERG plant in Ettlingen, Germany

From 18 to 19 April 2018, international experts from the automotive industry were inspired by the system supplier's industry-specific solutions at Klingelberg's Ettlingen Oberweier plant. In keeping with the theme of "High-production generating grinding in large-scale production – quiet gearing with Klingelberg Industry 4.0 solutions," the main attraction of the event was the market launch of the Speed Viper² cylindrical gear generating grinding machine featuring the dual-spindle concept.



On either side stood additional exhibits from the Höfler cylindrical gear and Oerlikon bevel gear machine lines, precision measuring centers from Klingelberg and innovative production concepts such as SmartTooling and Closed Loop. In a number of interesting live demonstrations, over 100 gear experts from throughout Europe, Asia and the USA had an opportunity during the two-day event to design their own generating grinding process on the single- and dual-spindle machines on display: Speed Viper 300, Speed Viper 180 and Speed Viper² 80.

Gear Seminars:

Knowledge forums "made by" KLINGELNBERG: KLINGELNBERG hosts its original gear seminars in Europe, Asia and the USA

In 2016, Klingelberg initiated its own international "GEAR Seminar" series. Since then, the exclusive trade events have been held annually for Klingelberg customers, at different locations each year. In 2018 Klingelberg chose Italy, Asia (with Taiwan and China) and the USA as its priority venues.



With trade events provided free of charge under the GEAR Seminar brand, Klingelberg offers knowledge forums covering all aspects of gearing technology. During the events, typically lasting two days, Klingelberg experts bring their customers up-to-date on current technologies, trends and innovations in bevel gear technology, cylindrical gear technology and gear measuring technology. Focal points this year included topics such as smart production in the Industry 4.0 environment, new hybrid technology for tactile

and optical measuring technology, high-performance processes for bevel gears with an extended “Power Skiving” application, and the new level of high-productivity generating grinding with the new Speed Viper machine generation. Klingelberg also succeeded in attracting guest lecturers – instructors from the Department of Machine Tools and Production Engineering at RWTH Aachen University – who gave fascinating presentations at the Gear Seminar in Ann Arbor, USA.

Product Highlights:

Höfler Cylindrical gear grinding machine Speed Viper

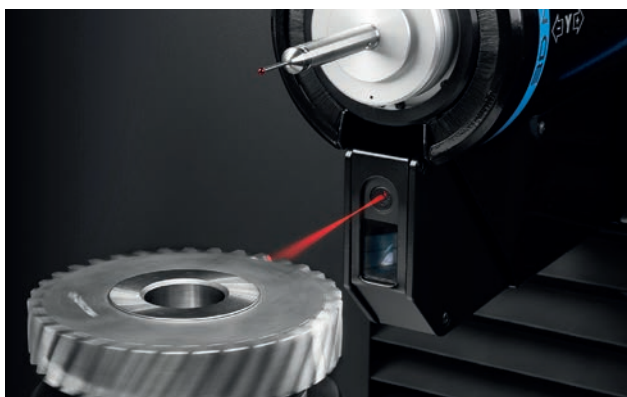
The new Speed Viper generation is designed for high productivity and robustness of the grinding process and therefore fulfills all of the requirements that are needed in modern large-scale production: short set-up times, minimum cycle times, innovative software solutions, and digital process and quality control in a Closed Loop system.

Depending on the model, Speed Viper is designed for maximum workpiece diameters of 80, 180, and 300 mm. These match the standard component sizes of the automotive and commercial vehicle sectors and their suppliers, for whom the Speed Viper is mainly intended. They also perfectly meet the stringent productivity requirements of this industry. However, the series is also ideal for cylindrical gears in industrial transmissions and for robotic applications.



Hybrid technology for tactile and optical measurement

The demands placed on gear measuring technology are extremely high: Accuracies in the nano-meter range on the one hand, and on the other, short measuring times with a higher information



density. In late 2018, Klingelberg launched a new hybrid technology that combines all the advantages of both tactile and optical measuring technology. The advantage of rapid sampling by the optical sensor is combined with the flexibility and extremely high accuracy of the 3D NANOSCAN tactile sensor system. This ensures that the new, highly appealing potential of optical measurement can be utilized without compromising the measuring accuracy.

Cycloid gears – reliable measurement of robot gears



The demand for high-precision robots grows as the level of automation increases. Cycloid gears, which enable high reduction ratios, are used to transmit forces in the robot arms. With the cycloid measurement option, Klingelberg now offers a reliable solution for monitoring high production standards. Extremely high requirements in regard to gear measurement combined with decades of business experience form the basis for precise, efficient measurement of cycloid workpieces, making a perfect complement to existing options

of dimension, form and position measurement. Bringing precision measuring centers and gear grinding machines together to produce cycloids from a single source contributes to continuous improvements in production quality. Leading expertise for the most demanding requirements makes Klingelberg a skilled partner in the robot industry.

Maximizing full potential with revolutionary digitization solutions

With its time-tested Closed Loop process, Klingelberg already has a long-standing tradition of elegantly integrating software solutions into the production process. But anyone who tackles the challenges of efficient, effective gear production today knows that Industry 4.0 and the networking of production systems into smart factories that this requires calls for expertise in developing innovative software systems. And that is where the Klingelberg digital solutions comes in – to deliver integrated solutions designed to improve efficiency in production and reliable quality results.

The unique GearEngine® application combines all of the Klingelberg solutions for gear production in one. This modular software solution is the key product that provides highly effective functionalities for capturing, tracking, and evaluating information covering all aspects of the components, machines, and production equipment. GearEngine® consists of three global modules, which are continually updated with exciting add-on functions. Smart-Tooling is the easy answer to every question on how to optimize the productivity and quality of production. The digital twin of production equipment such as grinding and cutting tools, fixtures, and dressing units is linked to information from machine operation and job engi-



neering and collected. Where today data must (or should) be manually recorded and maintained, tomorrow it will quite simply be possible to utilize the full potential of comprehensive production data for targeted analyses and a continuous increase in efficiency. In addition, the Closed Loop Production System is the logical development of our well-established rule and correction algorithms to create an active system that provides all of the component data and associated measurement and correction data in an integrated format and feeds it automatically to the machine.

The third fundamental module in the GearEngine® platform is the high-resolution machine data acquisition module, which goes above and beyond other established approaches to capture the specific characteristics of gear cutting machines, allowing valuable certainty to be ascertained about the status of individual machines, production equipment, and process result alike. KlingelInberg has combined all of the expertise required to design and develop individual software products for gear production. This makes it possible to create robust, customer-oriented solutions and provide a valuable contribution to the individual added value.

Awards:

KLINGELNBERG wins “Best of Industry Award” in the “Industry 4.0” category for its cyber-physical production system

2018 winners of the “Best of Industry Award” were honored on 07 June 2018, during a gala event at the Vogel Convention Center in Würzburg, Germany. It was the third time that the trade journal MM Maschinenmarkt has bestowed the honor. In 2018 the journal presented a total of 31 nominated companies in nine categories. KlingelInberg was among the lucky winners, receiving accolades in the “Industry 4.0” category for its cyber-physical production system.

For the third time, the “Best of Industry Award” honored the best of the best. Solutions that were qualified to vie for the award had won an industry prize between 01 July 2016, and 31 December 2017, or had made an extremely favorable impression on the market. KlingelInberg earned its nomination in late 2016, when the company won the Industry 4.0 Award granted by the trade journal Produktion in collaboration with the consulting firm ROI Management, for which the company had presented its cyber-physical production system. The winners were determined on an equal standing based on the results of an online vote by MM Maschinenmarkt readers and a decision by a nine-member jury of experts. The jury, consisting of MM Maschinenmarkt editors and experts from industry and research, evaluated each nominated product based on the following criteria: technological innovation, benefit for industry, environment and society, and presentation.



A close-up photograph of industrial machinery, featuring several large, metallic gears and cylindrical components. The scene is brightly lit, highlighting the metallic textures and the precision of the engineering. A dark blue, semi-transparent rectangular overlay is positioned in the upper left quadrant, containing the text 'Company Profile' in a light blue, sans-serif font. The background shows more of the machinery, including a vertical shaft and various mounting brackets.

Company Profile

We make the world turn

The KLINGELNBERG Group is one of the world's leading companies in developing and manufacturing machines for bevel gear and cylindrical gear machining and precision measuring centers for axially symmetrical components and gearing. The group also manufactures spiral bevel gears to customer specifications – with ultimate precision using in-house technology.

The origins of the engineering company date back to 1863. The Klingelberg family remains an anchor shareholder of the company. The path from the company's origins to global market leadership has been shaped by continuous striving towards first-rate quality and absolute reliability, for both products and service. With numerous R&D engineers worldwide and more than 200 registered patents, the company demonstrates its capacity for innovation each and every day.

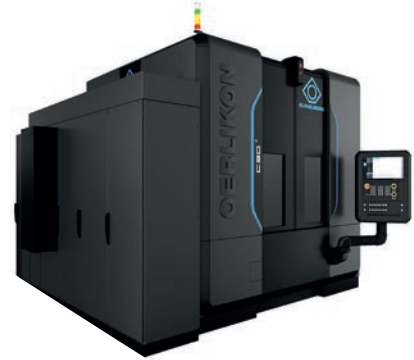
Klingelberg operates engineering and manufacturing facilities in Switzerland, Germany, and Hungary. The company ensures a global presence with regional sales offices and service centers. In addition, its ISO 14001 certification and participation in the VDMA's (German Mechanical Engineering Industry Association) "Blue Competence" initiative give credence to the company's sustainable, environmentally sound business practices.



The KLINGELNBERG segments:

OERLIKON Bevel Gear Technology

The Oerlikon Bevel Gear Technology segment makes economical, high-precision manufacturing of bevel gears a reality for customers. All machines in the system have been designed to work together to enable pre-machining and finishing of even the most complex gears. Klingelberg offers the most advanced technology and efficient machines for each and every step in the process chain.



The production process chain for bevel gears includes tool preparation, cutting, measuring, hardening, grinding or lapping and testing. The KIMoS (Klingelberg Integrated Manufacturing of Spiral Bevel Gears) software package supports every step in bevel gear design and optimization. Measurement results are converted to gear corrections with the software KOMET. As part of this process, all necessary data for the gear cutting process, tool preparation and quality control of the finished bevel gears is prepared in parallel. At the same time, a convenient data handling system offers the possibility of using development and production databases to access machine tools in production and quality assurance. The software package thus provides the optimum basis for ultra-modern bevel gear production according to the Closed Loop method, ensuring transparency and documented quality throughout the entire process chain.

KLINGELNBERG Precision Measuring Centers

Stringent accuracy requirements for gear tooth measurements and increasingly complex drive components demand the best measuring technology available and a machine and software concept optimized for these applications. That is why leading manufacturers put their trust in precision measuring centers from Klingelberg which represent the most widely used standard in the industry, while also serving as a reference for metrology institutes.

Today, Klingelberg precision measuring centers (P series) are ideally suited to handle most measurement tasks in a wide range of sectors: Users in the automotive and commercial vehicle industries, and the aerospace and aeronautical engineering industries, rely on this technology that replaces up to six different conventional measuring devices. This allows the following measurement tasks to be fully automated in a single setting:

- Gear measurement
- General coordinate measurement
- Form and position measurement
- Roughness measurement
- Contour measurement
- Optical measurement



HÖFLER Cylindrical Gear Technology

The Höfler Cylindrical Gear Technology segment is synonymous with efficient and flexible production of cylindrical gears. All machines have been perfectly designed to work as a system family, enabling pre-machining and finishing of even the most complex gears. Moreover, thanks to decades-long expertise and great innovative strength, we are able to maintain a leadership position not only through our high research and development standards, but also our in-house application engineering services.

Klingelberg offers the most advanced technology and efficient machines for each and every step in the cylindrical gear process chain. The production steps in the process chain include process design, cutting, measuring, deburring, grinding and quality control. Höfler cylindrical gear machines stand out not just because of their advanced hardware; the company's own Gear Production software also makes a key contribution to the successful execution of each step.



The software guarantees convenient machining of even the most complex topographies and ensures maximum efficiency in daily use. Only in this way is concentrated knowledge of state-of-the-art machining strategies and process sequences placed right in the user's hands. And with its numerous options, Gear Production plays an active role in achieving productivity gains.

KLINGELNBERG Drive Technology

Back in 1923, Klingelberg was the first company in the world to begin made-to-order production of bevel gears using the continuous hobbing method at its site in Hückeswagen, Germany. A high level of innovation and close partnership with customers and suppliers has constituted a tried-and-tested success model ever since. In 2008, the Drive Technology segment Germany was moved from the original plant in the center of Hückeswagen to the Winterhagen industrial zone, located approximately five kilometers away. Today, spiral bevel gears with diameters up to 3.000 millimeters are manufactured there – using state-of-the-art methods. The plant in Hückeswagen (Winterhagen) provides ideal conditions with approximately 100 employees and a flexible production capacity of over 2.000 bevel gear sets per year.



KLINGELNBERG History

1863 to 1897

FOUNDING

- The company is founded in Remscheid, Germany.
- The founders of W. Ferd. Klingelberg, Söhne (Julius and Ernst Klingelberg).



1908 to 1916

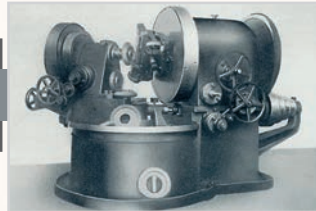
PRODUCTION SITES

- Production of tools and machine blades begins on the company's own production site in Remscheid, Germany.
- Tool production is relocated from Remscheid to Hückeswagen, Germany.

1922 to 1923

GEAR TECHNOLOGY

- Production of bevel gear machines for the Palloid method.
- First hobbing machine built at the Hückeswagen plant, model FK 150, construction year 1923.



1951

INTERNATIONALIZATION

- Internationalization begins. First subsidiary abroad

1985 to 1996

EXPANSION

- First introduction of a CNC measuring device.
- Entry into bevel gear grinding business through acquisition of Dr.-Ing.-Wiener-Verzahntechnik-GmbH.
- Takeover of Oerlikon Geartec AG - Zürich, Switzerland.
- Acquisition of ZEISS Industrial Metrology (Höfler) in Ettlingen.



1997 to 2003

INNOVATIONS

- Introduction of a dry cutting process for spiral bevel gears with the new generation of C machines: OERLIKON Spiral Bevel Gear Cutting Machine C 28.
- Introduction of a new series of OERLIKON Bevel Gear Grinding Machines G 27 / G 60 with vertical concept.

2004 to 2012

EVOLUTION

- The company enters its seventh generation with Jan Klingelberg.
- Commissioning of the world's most advanced large bevel gear manufacturing facility in Winterhagen/Hückeswagen, Germany.
- Assumption of core business of Höfler Maschinenbau GmbH in Ettlingen, Germany.

Since 2017...

KLINGELBERG 2.0

- Premiere of HÖFLER Cylindrical Gear Grinding Machine Speed Viper for high-production generating grinding.
- Klingelberg receives iF Design Award for its innovative machine design.
- Klingelberg has been listed on the SIX Swiss Exchange since 20 June 2018.



Management Report

Segments and markets

Net sales of the KLINGELNBERG Group rose convincingly in the past financial year 2018/19 and reached a new high in the company's history of EUR 278,2 million. Based on strong increases in sales in the Cylindrical Gear and Measuring Centers segment, total net sales were up year on year by EUR 21,2 million or 8,2%. While sales weakened in the USA and Switzerland, Germany and Japan positioned themselves as sales drivers. They expanded sales by EUR 25,7 million compared with the previous year.

In the past financial year 2018/19, the KLINGELNBERG Group generated 43,0% of all sales in the EMEA region (Europe, Middle East and Africa). As a large proportion of all sales was invoiced in Euros (79,0%), there are negligible currency effects.

In particular, Klingelberg's strategy of top quality combined with leading technology was crucial to its success. Development in the Bevel Gear and Drive Technology business units has followed market conditions as expected, while the Cylindrical Gears and Measuring Centers business units have enjoyed an increase in business thanks to new products and application developments.

Bevel Gear segment:

The Bevel Gear segment developed solidly in the past financial year, albeit with a slight decline in net sales of EUR 2,3 million or 1,9% compared with the previous year. The impending trade conflicts, unclear Brexit situation and current discussions on electric mobility in particular are leading to restrained economic activity in the automotive industry. The increasing number of major projects with long decision-making times and open projects characterizes the outlook for this segment. At the end of the financial year, order intake was approximately EUR 2,0 million or 1,8% down on the previous year. Against the backdrop of this diffuse and weak market environment, the order backlog at the end of the financial year was EUR 49,2 million, EUR 12,5 million down on the previous year.

Cylindrical Gear segment:

As in the previous year, the Cylindrical Gear segment posted strong sales growth. Based on the high order intake of the previous year, a significant increase in net sales from EUR 38,4 million in the financial year 2017/18 to EUR 53,1 million (+38,2%) was achieved. In addition to the established product business, the successful market entry into highly productive gear grinding with the new Speed Viper platform was a factor contributing to this growth. With an increase to EUR 57,7 million, the ambitious order intake level of the previous year was again exceeded by EUR 6,6 million, reaching an order backlog of EUR 39,1 million. This was driven by the upturn in markets such as the mining industry, which stabilized financially after a consolidation phase, and also the entry into the automotive market.

Measuring Centers segment:

With net sales of EUR 80,4 million, the Measuring Centers segment exceeded the previous year by EUR 7,2 million or 9,9%. The expansion of the solid position in the automotive sector and the establishment of KLINGELNBERG Measuring Centers in the electric drive train sector underpinned the positive development of the segment in the last financial year. In addition, new markets such as measurement technology for transmissions and robotic applications were opened up and diversification within the segment was driven forward.

Order intake of EUR 76,0 million is at a high level, but does not quite match the extremely strong previous-year figure of EUR 77,2 million. The slight cooling of the order situation is in line with the forecast developments on international automotive markets. This is due to distortions surrounding the new fuel consumption cycle "WLTP", which may result in decreasing new registrations in Germany, France and Spain in 2019. Special effects such as the general uncertainty of consumers caused by the Brexit with an expected fall in the pound sterling are noticeably slowing new registrations in the UK, Europe's second-largest automobile market.

Drive Technology segment:

Compared to the previous year, the Drive Technology segment recorded a slight increase in net sales by EUR 0,2 million to EUR 13,3 million. However, the order situation within the segment remains tense. Order intake at the end of the financial year was around EUR 1,0 million lower than in the previous year, and the order backlog was also slightly below the prior-year period (decrease by EUR 0,1 million). Low order volumes in global shipbuilding continue to dampen production capacity utilization. Coupled with the restrained growth in freight traffic, existing overcapacities are dampening the upturn in the cargo ship sectors. However, order impulses from the consolidated and price-stable mining industry partially compensate for weakening cargo ship construction and contribute to a growing diversification within the drive technology segment.

Research and development

In the last financial year, KlingelInberg generated a range of innovative new and further developments that will offer additional sales and earnings prospects in the future as well as open up market opportunities for the company.

In addition to the technical functions, the handling and ergonomics of processing and measuring machines are gaining importance. For this reason, KlingelInberg has processed and standardized the overall design and the ergonomics of its product pallet according to the new brand and design principle "The new precision is black".

In times of Industry 4.0, the relevance of solutions for networked production systems is growing and requires expertise in the development of innovative software systems. KlingelInberg bundles

this expertise in its new digital solution business unit with the objective of continuing to be a pioneer for modern, software-driven production processes and of delivering integrated solutions designed to improve efficiency in production and reliable quality results.

The unique GearEngine® application combines all of Klingelberg solutions for gear production. This modular software solution is the key product that provides highly effective functionalities for capturing, tracking, and evaluating information covering all aspects of components, machines, and production equipment. SmartTooling, a digital identification system for tools and clamping devices, enables traceability and thus a 360-degree view of the production goods. The additional data also provides a good basis for identifying optimization potential for process improvement.

Various machine types of the Bevel Gear segment are now integrated into the new Klingelberg design. Further machine types will follow in the financial year 2019/20. With the C 50 bevel gear cutting machine and the G 60 bevel gear grinding machine, the implementation of the new design is accompanied by a changeover to the intuitive and proven KOP-C or KOP-G control concept, which is already established in the C 30 and G 30 bevel gear machine.

In addition, Klingelberg developed new retrofit and refurbishment packages for the aftersales market which are also based on the current generation of control systems. These include the retrofit for older generation grinding machines (G 20, G 30DS, and G 50), the mini-retrofit for the grinding machine type G 27 and the refurbishment for the cutting machine C 27. Further retrofit packages are under development.

In the field of precision measuring technology, Klingelberg has extended the measuring software with a system for the rapid measurement of cycloid gears in robot gears. This allows a significant reduction of the measuring time for robotic gears with high precision requirements.

The Measuring Centers are characterized by the high-precision 3D-Nanoscan touch probe as well as a comfortable roughness probe system. Klingelberg has now added a powerful optical sensor to this system. This new concept of optical measurement technology enables a very fast change-over between the tactile touch probe as well as the optical sensor and creates a hybrid system that optimally combines the advantages of both measurement methods.

With the Viper 500 MFM (MultiFunction Machine), Klingelberg is expanding the Viper 500, which is established in the market, for grinding drillings and test collars. Especially with regard to the editing of cycloid discs, this offers a tremendous advantage. According to the "DONE-IN-ONE" philosophy, with the Viper 500 MFM it is possible to manufacture cycloid-shaped external gears and the accuracy-specified "CAMBORES" in a single clamping. Furthermore, the integrated measurement of the cycloids in conjunction with an adaptive control strategy eliminates classification processes. This results in the potential to eliminate costly manufacturing steps in cycloidal gear production. The

established KLINGELNBERG Closed Loop is also used here. KlingelInberg has expanded its portfolio in the Cylindrical Gear business unit for the automotive sector with the Speed Viper platform. From now on, the focus will be on the consistent functional expansion of the new machine software Gear Operator and Gear Designer. Grinding processes to reduce noise emission are in the foreground.

The ratio of research and development expenses increased by 0,3 percentage points compared to the previous year and totaled 8,8% in the financial year 2018/19. Expenses increased by EUR 2,5 million in comparison to the previous year.

Business performance trends

The standard intra-year seasonal trends of recent years can also be seen in this year's business performance. In general, approximately 60% to 70% of total sales are generated in the second half of the year. As a result, sales have been stronger and therefore profits higher in the second half of the year.

Gross profit

Net sales growth of EUR 21,2 million and lower changes in inventory of EUR 5,9 million compared with the prior-year period resulted in an increase in total operating performance of EUR 15,3 million. The lower change in inventory is due to higher capitalization of demonstration machines (in particular Measuring Centers and Speed Vipers) of EUR 3,6 million.

Driven by higher operating performance, raw material expenses increased by EUR 7,5 million. As a result, the KLINGELNBERG Group's materials ratio rose to 39,0%, 0,6 percentage points above the previous year's level. Excluding the shift in capitalized machinery, the materials ratio would have been 38,5%, almost at the previous year's level. Lower sales in the Bevel Gear segment of EUR 2,3 million are offset by significant increases in the Cylindrical Gear segment of EUR 14,7 million.

Personnel expenses and employees

Personnel expenses amounted to EUR 101,2 million at the end of the financial year, EUR 6,4 million higher than in the previous year. This was mainly caused by the collective bargaining agreement for the metal and electrical engineering industry that was concluded in February 2018 for KLINGELNBERG GmbH. The significant increase in total operating performance of EUR 15,3 million resulted in 43 more employees than in the previous year. But the strong rise in output softened the personnel expense ratio increase from 36,1% in the financial year 2017/18 to 36,4%. The KLINGELNBERG Group had 1.310 employees as of 31 March 2019.

Other operating expense

Other operating expense amounted to EUR 39,9 million at the end of the fiscal year, EUR 1,6 million less than in the previous year. The other operating expense ratio adjusted by EUR 1,1 million IPO costs amounted to 13,9% at the end of the financial year, a remarkable 1,6 percentage points down on the previous year.

Operating result

Despite restrained momentum in the automotive industry and global political tensions, the KLINGELNBERG Group successfully opened up new markets in the past financial year. The combination of newly developed products such as the Speed Viper and sales diversification in established products contributed to the increase. Countervailing increases in personnel and material expenses were fully offset. This enables an operating result of EUR 30,0 million, EUR 7,9 million higher than the previous year.

Excluding IPO costs, adjusted EBIT for the financial year totaled EUR 31,1 million and exceeded previous financial year by EUR 8,3 million. The stronger increase in sales combined with stringent cost awareness led to an increase in the EBIT margin adjusted for IPO costs to 11,2%. This significantly exceeds the previous year's figure of 8,9%. The development is also reflected in net profit, which was EUR 5,0 million higher than in the previous year. Basic earnings per share amounted to EUR 2,20.

Financial result

In 2018/19 KlingelInberg reported a loss of EUR 3,2 million. EUR 2,7 million of this came from the exchange rate result, generated mainly by KLINGELNBERG AG. The holding company reports Group figures in Euro, but accounting of KLINGELNBERG AG is in Swiss francs. The loss is primarily the result of cash pool receivables of KLINGELNBERG AG held in Euro which suffered from the change in Swiss franc year-end exchange rate from CHF/EUR 1,17875 on 31 March 2018 to CHF/EUR 1,11835 on 31 March 2019.

Balance sheet

The balance sheet total of the KLINGELNBERG Group expanded by EUR 20,3 million compared to the financial statements on 31 March 2018 and totaled EUR 255,4 million on 31 March 2019. Non-current assets decreased by EUR 1,8 million (-2,6%) mainly due to lower deferred tax assets (EUR -2,6 million), while current assets rose by EUR 22,1 million (+13,2%) essentially caused by increased cash and cash equivalents (EUR +20,1 million).

Equity rose by EUR 42,7 million (+35,5%) to EUR 163,0 million compared to the financial statements on 31 March 2018. This increase is mainly due to the capital increase in connection with the IPO as

well as higher net profit. As a result, the equity ratio increased by 12,6 percentage points to 63,8% compared to 31 March 2018. Total liabilities fell by EUR 22.4 million compared to 31 March 2018 and totaled EUR 92,4 million as of 31 March 2019. Financial liabilities were significantly reduced as a result of the aforementioned capital increase as well as retained earnings.

Net debt decreased by EUR 41,9 million and totaled EUR -22,2 million at the end of the financial year 2018/19. As a result, the KLINGELNBERG Group further reinforced its excellent financial position in the financial year 2018/19.

Cash flow statement

Operating cash flow climbed to EUR 27,6 million from EUR 6,4 million in 2017/18. Compared to last financial year, net profit and cash flow from receivables and accrued income developed positively.

The above-mentioned rise in capitalization of demonstration machines pushed outflows for investment of tangible fixed assets to EUR -7,3 million from EUR -5,5 million in 2017/18. At the same time, inflows from the sale of tangible fixed assets and for investment in financial assets increased. Therefore, cash flow from investing activities stayed stable at the same level as the previous year.

Cash flow from financing activities totaled EUR -2,2 million and was down by EUR 3,8 million on the previous year. As a result of the IPO, equity increased by EUR 19,8 million during the period under review, while short-term financial liabilities decreased by EUR 22,0 million.

Overall, the net change in cash totaled EUR 20,1 million, which means a strong year-on-year upturn of EUR 18,1 million .

Financial risk management

In 2018, KlingelInberg established a holistic risk management system to identify, evaluate and manage business risk. For further information about the system, please refer to the section 5.7.7 of the Corporate Governance report. KlingelInberg has to deal with a variety of financial risks as described in the following.

Market risks

- **Currency risks:** KlingelInberg's primary exposure to currency risks relates to the CHF, USD and JPY, which arises in the context of business transactions from the translation of the disclosed assets and liabilities. Typically, KlingelInberg uses foreign exchange forwards or currency options to hedge against the USD and JPY currency risk in connection with current machinery transactions affecting open and, in some cases, expected production orders and purchase orders.

- Interest rate risks: Short-term bank account balances are subject to market fluctuations. Such balances are not hedged. Klingelberg has no long-term interest-bearing assets. Most of the long-term financial liabilities are at fixed interest rates. The short-term bank debt is not hedged.
- Sales risks: An increase in the intensity of competition can lead to a decrease in sales and profitability.

Credit risk

Credit risks affect cash and cash equivalents, account balances with financial institutions and receivables from goods and services. Klingelberg's long-standing business relationships with well-known customers limit its overall credit risk. Klingelberg does not expect significant losses on receivables from goods and services and we do not believe that there are any concentration risks. Receivables that cannot be recovered in full are impaired.

Liquidity risk

Liquidity risk arises when Klingelberg cannot meet its financial obligations. Diligent liquidity risk management requires sufficient available liquid funds as well as having financing options in place in the form of approved credit facilities for appropriate amounts with multiple banks.

Outlook

VDMA, the German Mechanical Engineering Industry Association, recently lowered its production forecast for 2019 from plus 2% in real terms to plus 1% but still expects growth. This was because the trade disputes between the world's major economic blocs have lost none of their sharpness or explosiveness in recent months.

Looking at the order intake of the last quarter 2018/19 makes us optimistic regarding sales in 2019/20. However, Klingelberg remains cautious and acknowledges risk resulting from global effects on the economy such as uncertainties in Europe, tendencies towards rising protectionism especially due to the trade war between China and the U.S., and increased and constantly changing regulations on business. In the Bevel Gear and Drive Technology segments, we are exposed to economic fluctuations due to our market position. We are confident that sales growth in the Cylindrical Gear and Measuring Centers segments will largely offset market weakness in the other two segments. In addition, it should also be noted that the new "Speed Viper" machine platform naturally still needs some time to reach its full potential and cost efficiency and thus its targeted margins. This will be our special focus this year. For Klingelberg, these effects will result in a change to the product mix that may decrease the rate of return and slightly increase operating expenses, leading to lower EBIT estimates compared with fiscal year 2018/19.

Corporate Governance

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1 Introduction

This report describes the principles of corporate governance for the KLINGELNBERG Group (hereinafter also the "Group") and provides background information on the Group's Executive Management (hereinafter also the "EM") and the Board of Directors (hereinafter also the "BoD") as of 31 March 2019. The report contains the information that is stipulated by the directive on information relating to corporate governance of the SIX Swiss Exchange AG.

The Articles of Association (hereinafter the "Articles") of KLINGELNBERG AG (hereinafter also the "Company") can be accessed at the corporate governance section of the KlingelInberg website: https://www.klingelberg.com/Articles_of_Association_KlingelInberg.pdf

For clarity and transparency, the compensation report is presented as a separate chapter of the annual report.

2 Group structure

2.1 Operational group structure

Headquartered in Zürich, Switzerland, KLINGELNBERG AG is the mother company of the KLINGELNBERG Group, with 16 subsidiaries in 11 other countries and a network of independent distributors serving additional markets.

The KLINGELNBERG Group has effective oversight and efficient management structures at all levels. The operational Group structure as of 31 March 2019 is as follows:

The Company's BoD acting collectively, has the ultimate responsibility for the conduct of business of the Company and for delivering sustainable shareholder and stakeholder value. The BoD sets the Company's strategic aims, ensures that the necessary financial and human resources are in place to meet the Company's objectives, and supervises and controls the management of the Company. The BoD also has two committees: the Audit Committee (hereinafter "Audit Committee" or "AC") and a Nomination and Compensation Committee (hereinafter the "Nomination and Compensation Committee" or "NCC").

In accordance with and subject to Swiss law, the Articles and the Organizational Regulations, the BoD has delegated the executive management of the Company's business to the EM, which is headed by the Chief Executive Officer (hereinafter the "CEO") pursuant to the Organizational Regulations. The EM comprises: the CEO, the Chief Financial Officer (hereinafter the "CFO") and the Chief Operations Officer (hereinafter the "COO"). The EM is supervised by the BoD and its committees.

2.2 Listed companies

KLINGELNBERG AG, the ultimate parent company of the KLINGELNBERG Group, is listed on the SIX Swiss Exchange. Apart from KLINGELNBERG AG, no other company belonging to the consolidated KLINGELNBERG Group is listed on any stock exchange.

Registered office	Binzmühlestrasse 171, 8050 Zürich, Switzerland
Listed on	SIX Swiss Exchange
VALOR number	42046226
ISIN	CH0420462266
VALOR symbol	KLIN
Nominal value	CHF 5

2.3 Non-listed companies

A list of the subsidiaries of the KLINGELNBERG Group as of 31 March 2019 can be found in note 2.3 of the consolidated financial statements.

3 Shareholders

3.1 Significant shareholders

According to the disclosure notifications reported to the Company during 2018/19 and published by the Company via the electronic publishing platform on SIX Swiss Exchange, the following shareholders had holdings of 3% or more of the voting rights of the Company as of 31 March 2019:

Date	Issuer	Beneficial owner/persons who can exercise the voting rights at their own discretion	Direct shareholder	Position
18 August 2018	KLINGELNBERG AG	Henderson Global Investors Limited		3,06%
29 June 2018	KLINGELNBERG AG	Jan Klingelberg Diether Klingelberg ¹	Klingelberg Luxemburg A.G.	48,62%
29 June 2018	KLINGELNBERG AG	Arndt Klingelberg		4,86%
23 June 2018	KLINGELNBERG AG	The Capital Group Companies, Inc.	Capital Research and Management Company	6,369%

¹ Jointly registered as a Group due to an agreement on exercising of voting rights

Notifications made in 2018/19 in accordance with Article 120 et seq. of the Financial Market Infrastructure Act ("FMIA") can be viewed using the following link:

<https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html?companyId=KLINGELN>

As regards to the value of the percentage of voting rights shown, it should be noted that any changes in the percentage of voting rights between the notifiable threshold values are not subject to disclosure requirements.

As of 31 March 2019, the Company held no treasury shares.

3.2 Cross-shareholdings

As of the 31 March 2019, the Company does not have any cross-shareholdings exceeding 5% of the holdings of capital or voting rights on both sides.

4 Capital

4.1 Share capital

As of 31 March 2019, the ordinary share capital of KLINGELNBERG AG registered with the Commercial Register of the Canton of Zürich is CHF 44.200.000 fully paid-up and divided into 8.840.000 registered shares with a par value of CHF 5 each.

As of 31 March 2019, the Company has not issued any participation certificates or profit sharing certificates, nor has it issued any preference shares within the meaning of Article 654 et seq. of the Swiss Code of Obligations (hereinafter also "CO").

Subject to the provisions of Article 5 of the Articles (provisions regarding entry in share register, also see 4.6 below), each share entitles to one vote (Article 11 of the Articles):

https://www.klingelberg.com/Articles_of_Association_Klingelberg.pdf

4.2 Authorized and conditional capital

4.2.1 Authorized share capital

The General Meeting of 09 June 2018 approved the creation of authorized share capital of 891.280 shares with a par value of CHF 5 per share. The authorized capital amounts to CHF 4.456.400.

More information on the authorized capital can be found in Article 3 B of the Articles at:

https://www.klingelberg.com/Articles_of_Association_Klingelberg.pdf

4.2.2 Conditional capital

The General Meeting of 09 June 2018 approved the creation of conditional capital of 445.640 shares with a par value of CHF 5 per share to improve the Company's financial flexibility for financing, acquisitions and other purposes. The conditional capital amounts to CHF 2.228.200.

More information on the conditional share capital can be found in Article 3 A of the Articles available at:

https://www.klingelberg.com/Articles_of_Association_Klingelberg.pdf

4.2.3 Options

KLINGELNBERG AG has not granted any options.

4.2.4 Convertible bonds

KLINGELNBERG AG has not issued any convertible bonds.

4.3 Changes in capital

The capital of the Company was as follows:

	31.03.2019	31.03.2018	31.03.2017	31.03.2016
Ordinary capital (in CHF)	44.200.000	42.000.000	42.000.000	42.000.000
Share capital in units	8.840.000	42.000	42.000	42.000
Authorized capital (in CHF)	4.456.400	0	0	0
Authorized capital in units	891.280	0	0	0
Conditional capital (in CHF)	2.228.200	0	0	0
Conditional capital in units	445.640	0	0	0

There have been no changes in capital since the IPO on 20 June 2018. In preparation for the IPO, an Extraordinary Shareholders' Meeting of the Company held on 09 June 2018 resolved, among other things, to (i) split each of the existing registered shares of the Company in the amount of 42.000 with a nominal value of CHF 1.000 into 200 shares with a nominal value of CHF 5 each (then amounting to 8.400.000 fully paid up shares), (ii) increase the Company's share capital by up to CHF 2.564.000 through the issuance of up to 512.800 registered new shares with a nominal value of CHF 5 each (whereby the final number of new shares amounted to 440.000 shares according to the supplement to the Offering Memorandum of the Company dated 19 June 2018), (iii) create

conditional share capital in the amount of CHF 2.228.200, (iv) create authorized share capital in the amount of CHF 4.456.400 and (v) further amend and restate the Articles.

The conditional share capital of 445.640 registered shares, which was created on 09 June 2018 in order to improve the Company's financial flexibility for financing, acquisitions and other purposes, has not yet been used.

4.4 Share buyback program

Klingelberg has no ongoing share buyback program.

4.5 Convertible bonds and options

As outlined above, Klingelberg has not issued any convertible bonds or options.

4.6 Limitations on transferability and nominee registration

The Company maintains a share register. Any person who acquires shares may submit an application to be registered in the share register as a shareholder with voting rights, provided such person expressly declares that he or she has acquired and holds such shares in his/her own name and for his/her own account. Entry into the Share Register with voting rights may be refused based on the grounds set forth in Article 5 of the Articles described below under "Nominees". If the Company does not refuse to register the acquirer as shareholder with voting rights within 20 calendar days upon receipt of the application, the acquirer is deemed to be a shareholder with voting rights.

According to Article 5 of the Articles, any person who does not expressly state in his/her application to the Company that the relevant shares were acquired for his/her own account (any such person, a "Nominee") may be entered in the Share Register as a shareholder with voting rights without further inquiry up to a maximum of 3,0% of the share capital outstanding at that time. Above this limit, shares held by Nominees shall be entered in the share register with voting rights only if the Nominee in question makes known the names, addresses and shareholdings of the persons for whose account he or she is holding 0,5% or more of the outstanding share capital that is outstanding at the time and provided that the disclosure requirement stipulated in the FMIA is complied with. The BoD has the right to conclude agreements with Nominees concerning their disclosure requirements. Subject to Article 652b para 3 CO, the abovementioned limit of registration also applies to the subscription for or acquisition of registered shares by exercising pre-emptive, option or convertible rights arising from shares or any other securities issued by the Company or third parties. Legal entities, partnerships, other associations or joint ownership arrangements that are linked in the form described in Article 5 of the Articles are considered one shareholder or nominee.

Until an acquirer becomes a shareholder with voting rights for the shares in accordance with Article 5 of the Articles, she/he may neither exercise the voting rights connected with the shares nor rights associated with the voting rights.

Details regarding legal entities or people acting in concert can be found in Article 5 para 8 of the Articles available at:

https://www.klingelberg.com/Articles_of_Association_Klingelberg.pdf

4.6.1 Admissibility of nominee registrations

The BoD has the right to conclude agreements with nominees concerning their disclosure requirements. In special cases, the Company may approve exceptions to the above restrictions. More information can be found in Article 5 of the Articles (see link in clause 4.6 above).

4.6.2 Exceptions granted in the year under review

No exceptions under Article 5 of the Articles were granted by the BoD during the reporting period.

4.6.3 Procedure and conditions for easement or abolition of the restriction of the transferability

A resolution of the General Meeting passed by at least two-thirds of the represented share votes and the absolute majority of the nominal value of the represented shares is required for the easement or abolition of the restriction of the transferability of the registered shares

(Article 12 para 2 lit. 2 of the Articles

https://www.klingelberg.com/Articles_of_Association_Klingelberg.pdf).

5 Board of Directors

5.1 Introduction

The BoD of KLINGELNBERG AG sets the overall direction and supervision of the management (see Article 716a para. 1 of the Swiss Code of Obligations). Its organization is reflected in the Organizational Rules. No member of the BoD holds an executive management position with KLINGELNBERG AG or any of its subsidiaries, or has held such a position in the past three years.

In the 2018/19 fiscal year, there were no significant business connections between a member of the BoD and KLINGELNBERG AG or one of its subsidiaries. For a list of other related party transactions, please refer to note 6.2 of the consolidated financial statements.

5.2 Other activities and vested interests

Except as disclosed in the biographies of the members of the BoD, no member of the BoD holds a position in a governing or supervisory body of any significant private or public sector organization, institution, or foundation, a permanent management or consultancy position with an important interest group, or a public or political office.

5.3 Mandates outside KLINGELNBERG AG

The Articles stipulate that no member of the BoD may hold more than five additional mandates as a member of the board of directors, other top management or administrative body in listed companies and no more than 10 mandates as a member of the board of directors, other top management or administrative body of legal entities that do not meet the abovementioned criteria.

In addition to the mandates permitted as described above, each Member of the BoD may have up to 10 mandates in the top management or administrative bodies of legal entities that must be registered in a commercial register and that serve exclusively as entities for the private administration and management of real estate and other assets of the respective member of the BoD or such member's relatives. With respect to the additional activities, mandates in companies that are under uniform control or the same beneficial ownership are deemed to be one mandate.

For further details, especially regarding mandates that are not subject to the abovementioned limitations please see Article 23 of the Articles available at:

https://www.klingelberg.com/Articles_of_Association_Klingelberg.pdf

All BoD members comply with the aforementioned rules.

5.4 BoD competences and evaluation

The NCC/BoD evaluate current and prospective members of the EM according to their skills and experience in order to ensure that the Executive Management has an appropriate mix of relevant skills and experience.

The NCC/BoD identify and evaluate prospective candidates for the BoD to ensure an appropriate mix of relevant skills and experience is represented on the BoD. Both the BoD and its Committees perform an annual self-assessment of their work.

5.5 Elections and terms of office

According to Article 6 para 2 lit. 2 of the Articles of KLINGELNBERG AG, the Annual General Meeting (hereinafter also the "AGM") has the non-transferable powers to elect and recall the members of the BoD, the Chairman of the BoD, the members of the NCC, the auditors, and the independent proxy. Article 15 of the Articles of KLINGELNBERG AG states that the BoD must consist of a minimum of four members.

All elections are made for a term of one year. In this context, a year means the time period between one AGM and the next or, if a member is elected at an Extraordinary Shareholders' Meeting, between the Extraordinary Shareholders' Meeting and the next AGM. Re-election is permitted. According to Article 11 of the Articles, members of the BoD and of the NCC are elected individually. There is no limit on the term in office.

5.6 Members of the BoD

The following chart provides an overview of the current members of the BoD:

Name	Position	Committee Membership	Year of Appointment
Dr. Jörg Wolle	Chairman	NCC (Chairman)	2018
Diether Klingelberg	Member	NCC	1991
Dr. Hans-Martin Schneeberger	Member	NCC	2007
Hans-Georg Härter	Member	–	2008
Roger Baillod	Member	AC (Chairman)	2018
Prof. Dr. Michael Hilb	Member	AC	2018

Dr. Jörg Wolle

is the Chairman of the BoD and a Swiss and German citizen born in 1957. He has been chairman of the BoD of the company since June 2018. Dr. Wolle has also served as the Chairman of the Board of Directors of Kuehne + Nagel International AG since 2016. He is a member of the Board of Kuehne Holding AG as well as a member of the Board of Trustees of the Kuehne Foundation, Switzerland. Dr. Wolle was Chairman of DKSH Holding Ltd. from 2017 to March 2019 and President and CEO of DKSH from June 2002 to March 2017. Previously, he was president and CEO of SiberHegner Holding Ltd. from early 2000. Dr. Wolle obtained his PhD in engineering in 1987 from the University of Technology in Chemnitz, Germany. He graduated from the Senior Executive Program at the Stanford Business School, USA.

Diether Klingelberg

is a BoD member and German citizen born in 1944. Mr. Klingelberg has been a member of the BoD of the Company since 1991 and acted as its Chairman between 1991 and 2018. He became CEO of the KLINGELNBERG Group in 1969 and held the position until he was succeeded by Jan Klingelberg in 2004. In addition, he was the Managing Director of MF GmbH between 2002 and 2013. Mr. Klingelberg was President of the VDMA between 2001 and 2004, a trade association for the industrial sector in which the Company is active, and Vice President of the Bundesverband der Deutschen Industrie e. V. between 2003 and 2006. Mr. Klingelberg holds a degree in Business and Engineering from the Technische Hochschule in Darmstadt, Germany.

Dr. Hans-Martin Schneeberger

is a BoD member and Swiss citizen born in 1955. Dr. Schneeberger has been a member of the BoD of the Company since 2007. He currently serves as Chairman of the Board of Directors of Schneeberger Holding AG since 2003. He was CEO of Schneeberger AG from 1993 to 2018 and its Managing Director and Head of Marketing and Sales from 1988 to 1993. From 1985 to 1988, Dr. Schneeberger was an account and project manager with a European-based management consulting firm. Since 2006, he has served on the Board of Directors of Unitectra AG and served as its Chairman between 2014 and 2018. Between 2010 and 2012, Dr. Schneeberger was on the Executive Committee of Swissmem, an association of Swiss companies in the mechanical and electrical engineering industries and related technology-oriented sectors. He currently is the Designated President of CECIMO, the European Machine Tool Builders Association in Brussels. Dr. Schneeberger obtained a PhD from the Krannert Business School at Purdue University in the USA in 1984 and was a tenure track Assistant Professor at the Ross Business School at the University of Michigan from 1984 to 1985.

Hans-Georg Härter

is a BoD member and German citizen born in 1945. Mr. Härter has been a member of the BoD of the Company since 2008. He has also been a member of the European Advisory Board of BainCapital since 2016. He also served as the Chairman of the Supervisory Committee of Knorr-Bremse AG from 2016 until 2018, as a member of the Board of Directors of Saurer Jintan from 2013 until 2018, as a member of the Board of Directors and Strategic Committee of Faurecia S.A. from 2012 until May 2019, as the Chairman of the Board of Directors of Deutz AG from 2013 until 2018, a member of the Board of Directors of ZF Friedrichshafen AG from 2006 until 2012, and the CEO of that company between 2007 and 2012. Before that, he was the CEO of ZF Sachs AG between 2002 and 2006. Between 1994 and 2001, Mr. Härter was the CEO of ZF Passau GmbH as well as a member of the Board of Corporate Management of ZF Friedrichshafen AG. He has held various roles in the ZF Group since 1973, including as a member of the management of ZF Passau GmbH. Mr. Härter holds a degree in engineering from Meersburg Academy in Germany.

Roger Baillod

is a BoD member and Swiss citizen born in 1958. He has been member of the BoD of the company since June 2018. Mr. Baillod has been a professional director and management consultant since 2017. He has been a member of the NCC of Migros-Genossenschafts-Bund since 2018 and was the Chairman of its AC from 2012 to 2018. He has served as a member of the Board of Directors and Chairman of the Audit and Risk Management Committee of BKW AG since 2013, a member of the Board of Directors and Chairman of the AC of Rieter Holding AG since 2016, as well as President of the Board/member of the Board of four non-listed Swiss companies since 2017 and 2018 respectively. He is president of a pension fund commission and member of the board of trustees of the Joh. Jacob Rieter-Stiftung. Between 1996 and 2016, Mr. Baillod was the Chief Financial Officer and a member of the Group management of Bucher Industries AG. Between 1993 and 1996, he was member of the executive board of two industrial companies. Mr. Baillod started his career as an auditor and consultant at ATAG Ernst & Young AG in Zürich from 1984 until 1993. Mr. Baillod holds a degree in Business Economics and is a Certified Public Accountant.

Prof. Dr. Michael Hilb

is a BoD member and Swiss citizen born in 1977. He has been member of the BoD of the company since June 2018. Prof. Dr. Hilb is founder and CEO of DBP Holding Ltd., a business group with a focus on developing international digital businesses. He was with DKSH from 2010 to 2018, most recently as Vice President of Group Strategy and Digital Business. Before that, Prof. Dr. Hilb was a project manager with Roland Berger from 2005 until 2010 and with Holcim Commerce from 2001 until 2003. He currently serves as a member of the Board of Trustees of the Board Foundation and as a member of the Supervisory Board of IMP at the University of St. Gallen, Switzerland. Prof. Dr. Hilb is a titular professor at the University of Fribourg, Switzerland. He holds a PhD and an MSc in Management as well as a CAS in Board Effectiveness from the University of St. Gallen, was a fellow at Harvard University and INSEAD, and completed executive education programs at IMD, HBS, and MIT.

5.7 Structure of the internal organization – Allocation of tasks within the Board of Directors

Except for the election of the Chairman of the BoD and the chairman and members of the NCC by the AGM, the BoD organizes itself.

If the office of the Chairman of the BoD is vacant, the BoD shall appoint a substitute that must be a member of the BoD for the time period until the conclusion of the next AGM. In case of a vacancy on the NCC, the NCC shall appoint a substitute for the time period until the conclusion of the next AGM (Article 17, last paragraph of the Articles

https://www.klingelberg.com/Articles_of_Association_Klingelberg.pdf).

In accordance with the Charter of the AC, the BoD appoints the members of the AC on an annual basis until the next AGM.

5.7.1 Tasks and areas of responsibility of the Board of Directors' committees

The BoD may delegate the preparation and execution of its decisions to committees or to individual members. The duties and authorities of the committees are defined in the Articles (Article 19, NCC only), the Organizational Regulations and the Committee Charters of the BoD. The committees usually meet before the BoD meetings and regularly report to the BoD on their activities and findings. The overall responsibility for duties delegated to the committees remains with the BoD. The period of office of all Committee members is one year. Re-election is possible.

5.7.2 Audit Committee

The Audit Committee consists of two or more members of the BoD who are appointed by the BoD. The term of office of the members of the Audit Committee is one year ending upon conclusion of the subsequent AGM. Re-election is possible. The current members of the Audit Committee are Roger Baillod and Prof. Dr. Michael Hilb. The organization, detailed responsibilities, and reporting duties of the AC are stipulated in its charters and the Organizational Regulations.

Meetings of the AC are held as often as required but at least three times a year or upon request of its members.

The AC assists the BoD in fulfilling its supervisory responsibilities with respect to accounting and financial reporting, the internal control system and the statutory auditors of the Company. According to the AC Regulations, the AC's responsibilities include but are not limited to:

- review and assess the plans and the scope of the external audit, to review the reports of the statutory auditors, to discuss their content with the statutory auditors and the EM, and to supervise the implementation of the recommendations issued by the statutory auditors

- review and assess the performance of the statutory auditor
- review and assess the qualifications and effectiveness of the statutory auditors in consultation with the EM and to make recommendations to the BoD regarding proposals to the AGM for the appointment or removal of the statutory auditors
- review and assess on an annual basis the independence of the statutory auditor and the compatibility of advisory mandates, if any, with their role as statutory auditors
- approve, based upon the proposal of the CFO, the budget for auditing fees
- review the annual and interim statutory and consolidated financial statements and discuss these with the EM and statutory auditor prior to making a proposal to the BoD with respect to these annual and interim statutory and consolidated financial statements
- review in cooperation with the statutory auditor and the EM whether the accounting processes and the financial control mechanism of the Company and the Group are appropriate in view of the size and complexity of the Group
- review the effectiveness of the internal control system and to assess on an ongoing basis the Group's compliance with applicable laws and regulations
- assess whether the risk management established by the EM addresses all relevant risks and whether the appropriate measures have been implemented
- assess the effectiveness of the Group's compliance systems.

The BoD may entrust the AC with additional duties in financial matters. In discharging its responsibilities, the AC has unrestricted and direct access to all relevant information in relation to the Company and the Group. The AC ensures that it is informed by the statutory auditors on a regular basis. The AC is required to report its activities to the BoD on a regular basis and to make recommendations and propose appropriate measures to the BoD.

5.7.3 Nomination and Compensation Committee

As required by Swiss law, the members of the NCC are elected by the AGM. As of 31 March 2019 the members of the NCC are Dr. Jörg Wolle, Diether Klingelberg and Dr. Hans-Martin Schneeberger. The organization, detailed responsibilities and reporting duties of the NCC are stipulated in its charter and the Articles of Association.

Meetings of the NCC are held as often as required but at least twice a year, or upon request of its members.

Pursuant to the Organizational Regulations and the charters of the NCC, a majority of the members of the NCC should be independent as defined in the Swiss Code of Best Practice for Corporate Governance and a majority of the members of the NCC, including its chairperson, should be experienced in the areas of succession planning, performance evaluation as well as the nomination and compensation of members of boards of directors and executive management boards.

The NCC supports the BoD in the discharge of its duties in the area of personnel and compensation policy. The NCC's responsibilities include but are not limited to:

- preparing and periodically reviewing the Group's compensation policy and principles and periodically reviewing their implementation as well as submission of related proposals and recommendations to the BoD
- submitting proposals to the BoD regarding the approval by the AGM of the maximum aggregate compensation for the members of the BoD as well as the maximum aggregate compensation of the members of the EM
- submitting proposals to the BoD regarding the determination of the individual compensation of the Chairman and the other members of the Board as well as of the CEO and, based upon a proposal of the CEO, the other members of the EM, in each case within the limits of the respective maximum amounts approved by the AGM
- submitting proposals to the BoD regarding the determination of compensation-related performance metrics and targets for the EM and assessing the performance of the members of the EM on an annual basis
- submitting proposals to the Board regarding the mandate or employment agreements with the members of the BoD and the EM
- submitting proposals to the BoD regarding the approval of, and any amendments to, compensation plans and other compensation regulations and regarding the persons eligible for participation in compensation plans as well as assessing such compensation plans on a regular basis and submitting proposals to the BoD in connection with this
- reviewing the compensation report prepared by the EM and submitting the compensation report to the BoD for approval

- making recommendations on BoD composition and balance, setting criteria for the assessment of the independence of BoD members as well as submitting proposals to the BoD regarding the criteria to be applied for the selection of the Chairman, other members of the Board and its committees as well as for the nomination of candidates for positions in the EM
- identifying and assessing candidates for membership in the BoD and for the position of CEO and submitting proposals to the BoD regarding the appointment and removal of the CEO
- assessing candidates proposed by the CEO for other positions in the EM and submitting proposals to the BoD regarding the appointment of such persons
- informing the BoD at least annually on succession and contingency plans in relation to the members of the EM and other key employees
- reviewing the acceptance of mandates outside the Group by members of the BoD or the EM
- supporting and advising the BoD in matters of corporate governance.

The BoD may entrust the NCC with additional duties in related matters. The NCC is required to report its activities to the BoD on a regular basis and to make recommendations and propose appropriate measures to the BoD.

5.7.4 Working methods of the Board of Directors and its committees

A familiarization meeting was held after the IPO in order to introduce the three board members who were not part of the pre-IPO board. Between the General Meeting held on 09 June 2018 and the end of the reporting period (i.e. 31 March 2019, hereinafter also “the Reporting Period”), the BoD held two regular meetings and a short general on-boarding session, attended by all Members of the BoD. The table shows the individual members’ attendance at BoD and committee meetings and the average length of meetings:

Name	BoD	AC	NCC
Dr. Jörg Wolle	3		2
Diether Klingelberg	3		2
Dr. Hans-Martin Schneeberger	3		2
Hans-Georg Härter	3		
Roger Baillod	3	2	
Prof. Dr. Michael Hilb	3	2	
Average meeting length	3 hours	2 hours and 30 minutes	1 hour

Urgent business matters were discussed in telephone conferences. In addition to formal meetings at which minutes were taken, members of the BoD or of the Committees also met informally for other issues and discussions that required additional time, such as preparations for formal meetings. In particular, the members of the AC met twice for lengthy initial information gathering meetings with members of the management.

According to the Organizational Regulations, the BoD meets at the invitation of the Chairman at least four times each year, or whenever a member or the CEO requests a meeting of the BoD indicating the reasons in writing. The Chairman or, if he is not available, another member of the BoD, shall preside over BoD meetings. Meetings of the BoD may be held in person, by telephone or video conference, or by similar means of live communication.

BoD resolutions may also be passed in writing by way of circular resolution, provided that no member of the BoD requests oral deliberation. In such cases, the Organizational Regulations require that the text of the resolution be provided to all members of the BoD and that the majority of the members cast a vote and approve the matter.

The BoD is quorate to validly pass resolutions when a majority of its members is present. The Board passes resolutions by the majority of the votes cast. In case of a tie, the Chairman (but not any other member acting as chairman) has the casting vote.

The BoD works closely with the EM. In general, the meetings of the BoD and its committees are also attended by the CEO and – as appropriate – by the CFO and the COO. Meetings are also attended by the Corporate Secretary. The BoD consults external experts when necessary in connection with specific topics.

All meetings of the BoD were attended by the CEO, CFO, and COO in the Reporting Period.

The two meetings of the NCC in the Reporting Period were held in the presence of the CEO with regards to his requests. The two meetings of the AC in the Reporting Period were attended by the CEO and the CFO, one meeting was also attended by the Head of Finance and the auditors.

5.7.5 Areas of responsibility

The BoD is entrusted with the ultimate direction of the Company and its subsidiaries and has ultimate responsibility for the business and affairs of the Company and its subsidiaries. Such responsibilities include the duty to carefully select, to properly instruct, and to supervise the persons entrusted with the Company's management. It represents the Company to third parties and attends to all matters that have not been delegated to or reserved for another corporate body of the Company by law, the Articles, the Organizational Regulations, or by other internal regulations.

In accordance with Article 16 of the Articles

https://www.klingelberg.com/Articles_of_Association_Klingelberg.pdf, the BoD may delegate the executive management of the Company in full or in part.

Its non-transferable and irrevocable duties are set out in the CO and Article 17 of the Articles https://www.klingelberg.com/Articles_of_Association_Klingelberg.pdf, they include: (i) the ultimate direction of the Company and the power to issue the necessary directives; (ii) determining the organization of the Company; (iii) the organization of its accounting, its internal control system (ICS), its financial control and its financial planning as well as the performance of a risk assessment; (iv) the appointment and removal of the persons entrusted with the executive management and representation of the Company, as well as the determination of their signatory power; (v) the ultimate supervision of the persons entrusted with the management of the Company, in particular with respect to their compliance with the law, the Articles of Association, regulations and directives; (vi) the preparation of financial reports and the AGM, including the implementation of the resolutions adopted by the AGM; (vii) the preparation of the compensation report; (viii) the notification of the judge in case of over-indebtedness; (ix) the passing of resolutions regarding the subsequent payment of capital with respect to non-fully-paid-in shares and the respective amendments of Articles of Association; (x) the passing of resolutions concerning an increase of the share capital and regarding the preparation of capital increase reports as well as the respective amendments to the Articles of Association; (xi) the examination of compliance with the legal requirements regarding the appointment, election and professional qualifications of the Company's auditors; and (xii) the non-transferable and inalienable duties and powers of the Board of Directors pursuant to the Swiss Federal Merger Act on Merger, Demerger, Transformation and Transfer of Assets of 01 July 2004, as amended.

In addition, Swiss law and the Organizational Regulations reserve the Board's powers, inter alia, (i) to approve the annual budget of the Company and the Group as well as any budget overrun of EUR 1 million or more per fiscal year, (ii) to approve certain major transactions exceeding specified

thresholds, (iii) to appoint and remove the CEO and the other members of the EM of the Company and (iv) to adopt or amend the Company's compensation and benefits strategy upon proposal by the NCC.

5.7.6 Information and controlling instruments for supervising the EM

The EM reports to the BoD and its Committees. It informs the BoD of the status of business matters and financial results, presents relevant strategic initiatives as well as major business transactions. The BoD and the EM discuss the company's strategy and the long term financial plan. Committees receive information in the form of group reports relevant to their needs.

Telephone conferences are held as required between BoD members and the CEO and/or CFO. Furthermore, each member of the BoD may request information on all matters concerning the Company.

5.7.7 Risk and compliance

In order to identify and manage its risks, the KLINGELNBERG Group has implemented a holistic risk management system to identify and assess strategic, operational, financial, legal and compliance risks related to its activities. The risk management directive has been rolled out throughout the entire Group.

The risks identified by the risk owners in the different business units and administrative departments are summarized in a Group wide risk map. The risk map contains the probability of occurrence and possible extent of damage. The risks are assessed in detail by the Risk Management Board and measures are defined to reduce the risk. The members of the Risk Management Board are the CFO, the COO, and the Head of Controlling. They ensure continuous monitoring of the risks. Risk status reports are regularly submitted to the AC and, after discussion with and assessment by the AC, to the BoD of the Company for review. For information about risks please refer to the management report.

The Head of Finance assumes responsibility for the internal control system (ICS) for financial reporting risks. The AC and the BoD receive updates on compliance with the ICS guidelines. The AC approves the annual work plans of the auditors and ensures that the relevant Group companies are adequately reviewed according to their risk scoring. The AC also reviews and discusses the reports on completed audits.

The Group compliance program supports KLINGELNBERG's core values of ethical behavior and unquestionable integrity. Compliance is overseen by both the CFO and the Head of Legal. Compliance reports are given to the AC as well as to the BoD. The Head of Legal reports to the Chairman of the Board regarding compliance issues.

6 The Group Executive Board

6.1 Members of the Group Executive Board

The BoD has delegated the operative management to the EM headed by the CEO, subject to the duties and powers reserved to the BoD under Swiss law, the Articles and the Organizational Regulations. The EM is responsible for implementing and achieving the Company's corporate objectives and for the management and control of all Group companies. The EM is supervised by the BoD and its Committees.

The EM is responsible for the business of the Company and the preparation, implementation and monitoring of the strategic roadmap and the preparation, implementation and delivery of the annual plan and budget. The EM also prepares for and executes decisions made by the BoD. The EM is chaired by the CEO and comprises the CFO and the COO.

Pursuant to the Organizational Regulations and the charters of the NCC, the CEO is appointed and removed by the BoD via a motion by the NCC. The other members of the EM are appointed and removed by the BoD via a motion by the CEO and the NCC. All members of the EM are evaluated on an annual basis by the NCC.

The members of the EM are as follows:

Jan Klingelberg

is the CEO and a Swiss citizen born in 1971. Mr. Klingelberg has been the CEO of the Group since 2004. From 2002 until 2004, he was the Director of the Cylindrical Gears business unit of KLINGELNBERG GmbH, Germany. Between 2000 and 2002, Mr. Klingelberg held various roles at ZF Passau GmbH in Brazil and in the US. Before that, he was a manager for corporate strategy planning at SMS Demag AG in Germany. Since 2008, Mr. Klingelberg has also been a member of the Managing Board of the VDMA for machine tools and production systems, a trade association for the industrial sector in which the Company is active. Mr. Klingelberg holds a degree in industrial management from Carnegie Mellon University in Pittsburgh, USA.

Christoph Küster

is the CFO and a German citizen born in 1974. Mr. Küster has been the CFO of the Group since 2015, after having been a managing director of KLINGELNBERG GmbH, Germany, since 2014. He serves as a member of the Advisory Council of HDI Global. From 2003 until 2013, he occupied various positions in finance and controlling at the Salzgitter Group in Germany. Mr. Küster started his career in 1995 at V+M Tubes in Germany, where he stayed until he left to study at university in 1998. Mr. Küster holds a degree in business administration from Heinrich-Heine-University in Düsseldorf, Germany.

Martin Boelter

is the COO and a German citizen born in 1961. Mr. Boelter has been the COO of the KLINGELNBERG Group since 2015. From 2010 until 2015, he was COO and Managing Director at the Sterling SIHI Group and between 2007 and 2009 he worked as Managing Director for the production of turning machines at Gildemeister AG, Germany (today: DMG Mori) and from 2005 until 2007 as overall production manager at INDEX group in Germany. Mr. Boelter started his career at Heidelberger Druckmaschinen AG, Germany, in 1989 where he rose to Head of Operations of a business unit by the time of his departure in 2005. Mr. Boelter holds a degree in mechanical engineering from the Technical University of Munich.

6.2 Other activities and functions

Except as disclosed in the biographies of the members of the EM, no member of the EM holds any position in a governing or supervisory body of any important private or public sector organization, institution or foundation; none holds any permanent management or consulting position with an important interest group or any public or political office.

6.3 Mandates outside KLINGELNBERG AG

The Articles limit the number of functions in superior management or administrative bodies of legal units other than the Company or its subsidiaries which members of the EM are allowed to hold at one time.

Pursuant to Article 23 of the Articles, members of the EM may hold up to two mandates in publicly traded companies and, in addition, up to three mandates in other legal entities, subject to the approval of the BoD.

In addition, each member of the EM may have up to ten mandates in the superior management or administrative bodies of legal entities obliged to register themselves in a Swiss commercial register or a foreign equivalent, which exclusively serve as entities for the private administration and management of real estate and other assets of the respective member of the EM. For further details, in particular regarding mandates which are not subject to the above mentioned limitations please see Article 23 of the Articles available at:

https://www.klingelberg.com/Articles_of_Association_Klingelberg.pdf

All members of the EM adhere to the aforementioned limitations.

6.4 Management contracts

The BoD and the EM conduct business directly and have not delegated any management tasks to companies outside the Group.

7 Compensation, shares and loans

All details of compensation, shareholdings and loans are listed in the Compensation Report.

8 Shareholders' participation rights

8.1 Voting rights restrictions

Except for the limitation on voting rights described under 4.6 et seq. which concern Company's share register and Nominees there are no other voting rights restrictions in place. For rules regarding registration in the Company's share register and Nominees, please see Article 5 of the Articles https://www.klingelInberg.com/Articles_of_Association_KlingelInberg.pdf and the detailed explanations under clauses 4.6 et seq. above. As outlined above no exceptions to the above-listed rules were granted, during the reporting period.

8.2 Rules on participation in the AGM

In AGMs, each share carries one vote and each shareholder has equal rights, including equal voting rights. Such voting rights and rights associated therewith are only exercisable with respect to those shares for which a shareholder (or a usufructuary, as applicable) has been recorded in the share register with voting rights until a specific qualifying day designated by the BoD. According to the Articles, acquirers of shares will be recorded in the share register as shareholders with the right to vote, subject to certain conditions and restrictions (see 4.6 et seq. and 8.1 above).

Each shareholder may personally participate in the AGM and cast his/her vote(s), or be represented by a proxy appointed in writing. According to Article 11 of the Articles, such proxy needs not be a shareholder. Each shareholder also has got the possibility to be represented by the independent proxy.

8.3 Independent Proxy and electronic voting

The shareholders' meeting held prior to the IPO on 09 June 2018, elected Ernst A. Widmer (Wiederkehr Rechtsanwälte) as the independent proxy for the term ending at the conclusion of the next AGM. The AGM elects the independent proxy. His/her term of office always terminates at the conclusion of the next AGM. Re-election is possible. Should the Company have no independent proxy, the BoD shall appoint a substitute for the time period until the conclusion of the next AGM. Shareholders may issue their power of attorney and instructions to the independent proxy by mail or electronically.

8.4 Statutory quorums

According to Article 11 of the Articles, to the extent that neither the law nor the Articles provide otherwise, the AGM passes its resolutions and carries out its elections with the absolute majority of the votes cast, whereby abstentions, empty votes and invalid votes will not be taken into account for the calculation of the required majority. According to Article 12 of the Articles a resolution of the General Meeting passed by at least two thirds of the represented share votes and the absolute majority of the nominal value of the represented shares is required for: (I) the cases listed in Article 704 para. 1 CO and in Article 18 and Article 64 of the Federal Act on Merger, Demerger,

Transformation and Transfer of Assets (Merger Act) dated 3 October 2003; (II) the easement or abolition of the restriction of the transferability of the registered shares; (III) the amendment or cancellation of Article 31 (opting-out); and (IV) any change to Article 12.

8.5 Convening the AGM

The ordinary AGM shall be held annually within six months after the close of the business year. The BoD determines the time and location of the AGM. The AGM is convened by the BoD or, if necessary, by the Company's statutory auditors. Extraordinary Shareholders' Meetings may be held when deemed necessary by the BoD or the Company's auditors. Liquidators may also call a shareholders' meeting. Extraordinary Shareholders' Meetings shall be called as often as necessary, in particular, in all cases required by law. Extraordinary Shareholders' Meetings shall be convened by the BoD within 2 months if shareholders representing at least ten percent of the share capital request such meeting in writing, setting forth the items to be discussed and the proposals to be decided upon (Article 7 of the Articles).

An AGM is convened by publishing a notice of such meeting in the Swiss Official Gazette of Commerce (Schweizerisches Handelsamtsblatt, SHAB) at least 20 calendar days before the date of the meeting. Registered shareholders may be invited by letter and/or e-mail. Such publication and letters of invitation must indicate the date, time and place of the meeting, the items on the agenda, the wording of any motions proposed by the BoD or by shareholders who have requested the convening of a shareholders' meeting or the inclusion of an item on the meeting's agenda.

For details regarding form of notice please see Article 8 of the Articles:

https://www.klingelberg.com/Articles_of_Association_Klingelberg.pdf

8.6 Agenda

According to Article 9 of the Articles, the BoD shall state the items on the agenda. Registered shareholders with voting rights individually or jointly representing at least shares with a nominal value of CHF 1.000.000 may demand that items be put on the agenda. Such demands have to be submitted to the Chairman of the BoD at least 45 calendar days before the date of the AGM and shall be in writing, specifying the item and the proposals.

8.7 Entry in the share register

Only shareholders who are registered in the share register as shareholders with voting rights at a specific qualifying date (record date) designated by the BoD are entitled to attend an AGM and to exercise their voting rights.

9 Changes of control and defense measures

9.1 Duty to make an offer

Article 31 of the Articles contains the following provision regarding opting-out:

The duty to submit a public takeover offer pursuant to Article 135 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading of 19 June 2015 (FMIA) shall be excluded in accordance with Article 125 paragraph 2 FMIA.

https://www.klingelberg.com/Articles_of_Association_Klingelberg.pdf

9.2 Change-of-control clauses

In case of a change of control the BoD shall determine the consequences regarding the bonus plans of the EM (subject to the approval of the AGM, where applicable). For further provisions see clause 1.4.3 of the Compensation Report.

10 Auditors

10.1 Duration of mandate and term of office of the auditor-in-charge

PricewaterhouseCoopers AG (hereinafter "PwC") was elected auditor of KLINGELNBERG AG and the KLINGELNBERG Group at the AGM on 04 June 2018. PwC has served as auditor for the existing auditing mandate since fiscal year 2009/10. The lead auditor of PwC responsible for Klingelberg changed in the fiscal year 2016/17.

10.2 Fees

PwC charged the following fees during fiscal year 2018/19

EUR	2018/19
Audit services	275.985
Audit-related services	264.982
Tax services	62.662
Non-audit services	120.423
Total	724.052

Audit services are defined as the standard audit work performed each year in order to issue an au-

dit opinion on the parent company and consolidated financial statements of the KLINGELNBERG Group as well as opinions on the local statutory financial accounts or statements. Also included is extra work within the audit that can only be provided by the KLINGELNBERG Group auditor in particular with regards to support of the IPO, which constitutes a one-off cost.

Audit-related services consist of support to the audit such as providing advice on new accounting rules; this could be provided by sources other than the auditor who signs the audit report. Tax services consist of services in connection with compliance with tax laws. Non-audit services mainly consisted of consulting fees in connection with local regulatory requirements.

The values of audit, audit-related, tax and non-audit services are in line with ratios suggested by commonly applied good practice standards that relate to the independence of auditors.

10.3 Information instruments pertaining to the external audit

The AC assesses the professional qualification, independence and expertise of the auditors (see duties of the AC above in 5.7.2).

Prior to the audit, the auditors agree the proposed audit scope and approach, staffing and fees for the audit with the AC.

The external auditors report their comprehensive findings in a detailed report to the BoD. The findings are discussed in detail with the CFO and the AC. In the FY 2018/19, the external auditors attended one out of the two AC meetings.

The AC reviews the performance, compensation and independence of the external auditors on a regular basis. The AC reports its findings to the BoD.

Additional services or consulting assignments are delegated to the auditors only if they are permitted by law and the auditor's code of independence. PwC monitors its independence throughout the year and annually confirms its independence to the AC.

11 Information policy

The KLINGELNBERG Group pursues an open and active information policy. The company complies with its obligations under the rules of the SIX Swiss Exchange, including the requirements on the dissemination of material and price-sensitive information.

The Group publishes an annual report that provides audited consolidated financial statements, audited statutory financial statements and information about the Company including the busi-

ness results, strategy, products and services, corporate governance and executive compensation. The annual report is published within four months after the 31 March balance sheet date. The annual results are also summarized in the form of a press release. In addition the Company releases results for the first half of each year within three months after the 30 September balance sheet date. The published half year and annual consolidated financial statement comply with the requirement of Swiss company law, the listing rules of SIX Swiss Exchange and the Swiss GAAP FER.

The Company's annual report and half year report are distributed pursuant to the rules and regulations of the SIX Swiss Exchange and are announced via press releases and investor conferences in person or via telephone.

The Group reports in accordance with the disclosure requirements of Article 124 FMIA and the ad hoc publication requirements of Article 53 of the listing rules of SIX Swiss Exchange. Ad-hoc announcements may be viewed at <https://www.klingelberg.com/en/investors/news> at the same time as notification to SIX Swiss Exchange and for two years thereafter.

All publications are made available to all shareholders, the media and the stock exchange at the same time. All shareholders entered in the share register automatically receive an invitation to the AGM and a copy of the annual report of KLINGELNBERG AG on request. Notices to shareholders are made via publications in the Swiss Official Gazette of Commerce (SHAB).

KLINGELNBERG Group uses a news service that delivers finance related press releases to interested stakeholders.

The website of the KLINGELNBERG Group contains information on the Company results and the financial calendar as well as current investor presentations: <https://www.klingelberg.com>

On the KLINGELNBERG website <https://www.klingelberg.com/en/investors/financial-newsletter/>, it is possible to subscribe to news alerts about the KLINGELNBERG Group via e-mail.



Compensation Report

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1 Introduction

This Compensation Report provides a summary of the compensation structure and the compensation paid to the Executive Management (EM) and the Board of Directors (BoD).

This Compensation Report contains all information required under the Swiss Code of Obligations, the Ordinance Against Excessive Compensation (VegüV) and the SIX Exchange Regulations. The KLINGELNBERG Group has also observed the Swiss Code of Best Practice issued by *economiesuisse*, the umbrella association for Swiss business and industry.

2 Compensation policy/guiding principles

The KLINGELNBERG Group's compensation approach is based on the following principles:

- reward employees for their contribution to the successful development of the KLINGELNBERG Group
- motivate and retain qualified and talented professionals
- be attractive in order to recruit professionals in the future
- strive to ensure that both employee and shareholder interests are aligned in a sustainable manner.

Pursuant to Article 25 of the Articles of Association of KLINGELNBERG AG, the members of the BoD receive a fixed base fee and fixed fees for memberships in committees or for roles of the BoD, subject to and within the limits of the aggregate maximum amounts approved by the Annual General Meeting (AGM). BoD compensation can be awarded in cash or shares. Mandate agreements with members of the BoD have a fixed term until the conclusion of the next AGM (i.e. one year).

The total compensation for members of the EM consists of fixed compensation as well as variable compensation (Article 26 of the Articles of Association). The fixed compensation comprises the base compensation and additional compensation elements (pension, benefits in kind, etc.). All elements of the fixed compensation are settled in cash. The variable compensation consists of a short-term variable compensation in cash as well as a long-term variable compensation that can be settled in cash or in the form of shares or a combination of both. The maximum annual compensation for members of the EM is subject to approval by the AGM.

The base compensation of the EM ensures a regular and predictable salary paid out in cash in regular installments. The salary level is based on the scope and complexity of the position, market norms and benchmarks, and the individual's profile in terms of experience and skills. Salary progression depends primarily on the individual's performance, as well as market developments and the economic environment.

The short-term variable compensation in cash (Short Term Incentive Plan; STIP) depends on the

financial result of the KLINGELNBERG Group as well as the achievement of certain individual targets. Such targets are set in advance by the BoD upon recommendation by the NCC, typically over the course of a one-year performance period, which generally corresponds with the fiscal year of KLINGELNBERG AG (the "Company"). The individual targets are determined for each member of the EM, taking into account his position, responsibilities, and tasks, as well as market conditions. This determination process occurs prior to the start of the one-year performance period and is performed by the BoD upon recommendation of the NCC, to the extent decision-making power has been delegated. The maximum total amount of the short-term variable compensation is limited to 130% of the participant's base compensation.

The long-term variable compensation in the form of a Long Term Incentive Plan (LTIP) for the Chief Financial Officer (CFO) and the Chief Operating Officer (COO) takes into account the sustainable long-term performance of the KLINGELNBERG Group. The CEO does not participate in the LTIP as he is already a main shareholder of the Company. Upon recommendation by the NCC, the BoD defines the design of the LTIP as well as the grant to be made to eligible employees. The Company may procure any required shares or other securities through purchases in the market or by using conditional share capital. The maximum total amount of the granted long-term variable compensation is limited to 100% of the base remuneration. Compensation may be paid by the Company or companies controlled by it.

3 Organization and competences

According to the Organizational Regulation of KLINGELNBERG AG, one of the currently two permanent committees of the BoD is the Nomination and Compensation Committee (NCC). The members of the NCC are nominated by the BoD and individually elected on an annual basis by the AGM.

Article 19 of the Articles of Association determines that the NCC shall consist of two or more members of the BoD. As required by Swiss Law, the term of office of the members of the NCC shall be one year and shall end at the conclusion of the next AGM. Re-election is possible. The NCC constitutes itself and has the following main duties based on the Articles of Association with regards to compensation matters:

- preparation and periodic review of the Company's compensation policy and principles, and performance criteria related to compensation, periodic review of their implementation, as well as submission of proposals and recommendations to the BoD
- proposals to the BoD regarding the determination of compensation-related targets for the EM
- proposals to the BoD regarding the approval of the individual compensation of all members of the BoD

- proposals to the BoD regarding the individual maximum compensation (fixed and variable) as well as further terms of employment of the members of the EM.

The main duty of the NCC is to support the BoD in the area of personnel and compensation policy. The NCC has its own regulations that have been approved by the BoD (NCC Regulation) and that provide for further duties such as:

- submission of proposals to the BoD regarding the approval by the shareholders' meeting of the maximum aggregate compensation for the members of the BoD until the next annual ordinary shareholders' meeting as well as the maximum aggregate compensation of the members of the EM for the then-next following fiscal year
- assessment of the performance of the members of the EM on an annual basis
- submission of proposals to the BoD regarding the mandate or employment agreements with the members of the BoD and the EM
- submission of proposals to the BoD regarding the approval of, and any amendments to, compensation plans and other compensation regulations, persons eligible for participation in compensation plans, as well as assessment of such compensation plans
- review of the draft compensation report prepared by the EM and submission of the compensation report to the BoD for approval
- issue of recommendations on BoD composition and balance, establishment of criteria for the assessment of the independence of BoD members, submission of proposals to the BoD regarding the criteria to be applied for the selection of the Chairman, other members of the BoD and its committees as well as for the nomination of candidates for positions in the EM
- identification and assessment of candidates for membership in the BoD and for the position of Chief Executive Officer and submission of proposals to the BoD regarding the appointment and removal of the Chief Executive Officer
- assessment of candidates proposed by the Chief Executive Officer for other positions in the EM and submission of proposals to the Board regarding the appointment of such persons
- communication with the BoD at least annually on succession and contingency plans in relation to the members of the EM and other key employees
- review of the acceptance of mandates outside the Group by members of the Board or the EM.

The current members of the NCC are Dr. Jörg Wolle, Diether Klingelberg and Dr. Hans-Martin Schneeberger. The members of NCC have suitable experience in the areas of succession planning, performance evaluation as well as the nomination and compensation of members of boards of directors. Pursuant to the Organizational Regulations and NCC Regulation, meetings of the NCC are held as often as required but always at least twice a year. In the fiscal year 2018/19, two NCC meetings were held and attended by all NCC members.

Recommendations regarding compensation for the EM and the BoD must comply with the Company's regulations and must be approved by the BoD (and ultimately by the AGM). In any vote on the compensation to be determined for a particular member of the BoD, the Board member concerned must observe the relevant general withdrawal/abstention procedures. The EM does not participate in the determination of its own compensation. The CEO is, however, consulted on the compensation proposed for the other members of the EM.

The NCC utilizes independent external consultants when required. External consultants are generally utilized to benchmark compensation and assist with the design of compensation plans. In 2018, a leading independent firm with expertise in the areas of compensation and value-based management provided benchmark data for the LTIP.

At the AGM, the BoD submits to the shareholders the maximum amount of compensation of the BoD and the EM for binding approval. The voting mechanism set forth by the Articles of Association provides for approval of the following items by the AGM:

- the maximum compensation of the BoD for the term of office until the next AGM
- the maximum compensation of the EM (fixed and variable components) that may be paid or allocated in the subsequent fiscal year.

https://www.klingelberg.com/Articles_of_Association_Klingelberg.pdf

The following table illustrates the organization and competencies regarding the compensation of the EM and the BoD:

Decisions on maximum compensation	Proposed	Approved	Ultimate Approval
- of BoD, annually from AGM to AGM	NCC	BoD ²	AGM
- of EM, annually for subsequent fiscal year	NCC	BoD ²	AGM

² Approval for submission to AGM and subsequent submission to AGM

4 Compensation components

4.1 General description of compensation components/architecture

As described in 2 above (with references to the Articles of Association), the BoD members receive a fixed base fee. The maximum annual compensation of the Board is approved by the AGM. The compensation of members of the BoD is subject to mandatory employee and employer social security contributions (AHV/ALV) or VAT, depending on the individual situation.

Further information regarding the planned total compensation of the BoD for the period from the 2019 to the 2020 AGM is provided in the invitation to the 2019 AGM and is also subject to the say on pay vote.

The members of the EM receive fixed compensation as well as variable compensation in the form of the STIP and the CFO and the COO also in the form of an LTIP.

Further information regarding the planned total compensation of the EM for the subsequent fiscal year is provided in the invitation to the 2019 AGM and is also subject to the say on pay vote.

As outlined in 2 above, the STIP is paid out in cash only and depends on the achievement of personal targets as well as on the achievement of the financial results of the Group (% of the earnings before taxes (EBT)). For the EM, annual percentages of the EBT achievement are defined for the determination of the amounts to be paid out under the STIP, taking into account the achievement of the personal targets.

Individual target achievement is typically measured over the course of a one-year performance period, which generally corresponds with the fiscal year of the Company and taking into account the relevant member's position, responsibilities and tasks as well as market conditions. The maximum total amount of the short-term variable compensation is limited at 130% of the participant's base compensation.

The aim of the STIP is to ensure participation of the EM in the respective results of the fiscal year on the one hand via a certain percentage of the respective EBT and on the other hand via annual individual targets that are selected based on relevant targets of the KLINGELNBERG Group to ensure that the fulfilment of those targets supports the achievement of the Group's overall aims and targets. Individual targets are chosen in alignment with the Company's general overall aims and business targets and focus on the most relevant areas of development of the Company. As described above, payments are not made in full unless targets of the individuals are fully met.

The above mentioned individual targets are generally considered sensitive information. Disclosing those targets would allow confidential insight into the strategy of the KLINGELNBERG Group and therefore create a competitive disadvantage to the KLINGELNBERG Group. Consequently, such targets are not communicated at the time they are set but their achievement or non- achievement will be commented on in connection with the overall target achievement.

Individual targets are carefully chosen on an annual basis and in alignment with the Company's most relevant projects and targets in line with the Company's ambitious plans. Setting three to four demanding and ambitious targets helps the Company to deliver best-in-class performance. Currently one member of the EM has one additional fixed target for covering one specific field in addition to his normal duties.

As outlined in 2 above, the LTIP may be awarded in cash, shares or a combination of both. The Company may procure any required shares or other securities through purchases in the market (if possible) or by using conditional share capital. The maximum total amount of the granted long-term variable compensation is limited at 100% of the participant's base compensation.

The LTIP shall take into account the sustainable long-term performance of the Group. The BoD determines the detailed conditions of the LTIP. The LTIP was designed in cooperation with an external consultant, a leading independent firm with experience in the areas of compensation and value-based management. The original long term incentive agreement with the CFO and the COO already demonstrated a long-term-view, the amendments made upon IPO are intended to reinforce and encourage this. In the future, the BoD may extend participation in the LTIP to further key employees of the Group, excluding non-executive Board members.

The LTIP participant is granted a number of Performance Share Units (PSUs) on an annual basis. The number of PSUs to be granted is calculated as follows: amount granted to the relevant participant under the LTIP divided by the volume-weighted average price of the shares for the last 20 trading days before the end of the fiscal year of the Company preceding the fiscal year for which the grant is made. The amount granted to each participant will be determined on an annual basis and at the discretion of the BoD before the start of the relevant LTIP period. The grant amount is limited to an amount equal to 100% of the participant's base compensation for the relevant fiscal year. The PSUs are granted to each participant on the first day of the relevant fiscal year.

The LTIP period is three years and the PSUs vest on a cliff basis, i.e. the PSUs granted at the start of a three-year period vest on the last day of the third fiscal year after the award was granted. The vesting of the PSUs is calculated as follows: number of PSUs multiplied by the volume-weighted average price of the shares for the last 20 trading days before the end of the fiscal year at which the PSUs have vested multiplied by an LTI factor. This LTI factor is determined by the BoD, who applies the LTI factor table that is calculated for each plan before the start of the respective LTIP period

and takes into account the long-term operating and share-price performance of the Group. The vesting is approved by the BoD and may be settled in cash or shares or in a combination of cash and shares at its discretion.

In general, all unvested PSUs will be forfeited in the event of a participant's termination of employment. However, if a participant has not given cause for the termination of the employment, the BoD may approve an accelerated vesting of unvested PSUs on a pro-rated basis, but no participant can claim rights to such a vesting.

The first regular grant of PSUs under the LTIP was granted on 01 April 2019, with a vesting at the end of the fiscal year of the Company ending on 31 March 2022. As a transitional arrangement in the context of the IPO and in order to guarantee a fair transition from the pre-IPO long term incentive plan, the current members of the EM (excluding the CEO) have been granted a number of PSUs determined by the BoD, which will vest at the end of the fiscal year of the Company ending on 31 March 2021, subject to and in accordance with the principles set out above.

Further details with respect to the LTI targets, such as the applied LTI factor table, are considered sensitive information. As in the case of the STIP targets, disclosing those targets would allow confidential insight into the strategy of the KLINGELNBERG Group and therefore create a competitive disadvantage to the KLINGELNBERG Group. Please refer to the compensation table of the EM with respect to the number of PSUs granted.

4.2 Loans/credits to the BoD/EM members

Article 28 of the Articles of Association stipulates that the Company shall refrain from granting loans, credits, pension benefits (other than in the context of occupational pension) or securities in favor of the members of the BoD or the EM. Therefore, no loans and credits were granted to or are still outstanding with current and former members of the BoD, the EM, or their related parties.

4.3 Change of control clauses

Upon a change of control, it is at the discretion of the BoD to decide the effects on compensation. It may decide in particular that payments under the STIP and the LTIP shall be made prematurely, that individual targets are amended or assessed as achieved despite non-achievement, or that certain parameters under both plans are altered.

4.4 Information on notice periods

According to Article 24 of the Articles of Association, mandate agreements of the members of the BoD have a fixed term expiring at the conclusion of the next AGM. The Company reserves the right to early termination or removal from office. The Articles of Association further provide that the employment agreements of the members of the EM shall in principle be concluded for an indefinite period.

With respect to employment agreements entered into for an indefinite period, the maximum notice period shall not exceed 12 months. If the BoD considers a fixed term appropriate, such fixed term shall not exceed one year. All individual agreements with the BoD and the EM comply with the aforementioned rules.

The Company may enter into non-compete agreements with members of the BoD and the EM for an agreed period of time after termination of employment to the extent that is justified from a business perspective. Pursuant to Article 24 of the Articles of Association, the consideration paid for a non-compete undertaking must not exceed the average total annual compensation of such member during the last three years.

5 Compensation for fiscal year under review

The IPO of the Company took place on the 20 June 2018 (first day of trading), which means it is a listed company as of that date that must comply with the obligations of the VegüV, which include the publication of an annual compensation report among other obligations. Compensation of the BoD and EM for the 2018/19 fiscal year is shown as of the first date of trading until the end of the respective fiscal year.

5.1 Compensation of the members of the Board of Directors (audited)

The pre-IPO General Meeting of 09 June 2018 voted for a maximum compensation of the BoD in the amount of CHF 700.000 until the end of the next AGM.

As of the first day of trading, the compensation of the members of the BoD - with the exception of Diether Klingelberg - comprised a fixed fee in the amount of CHF 60.000 per annum or CHF 180.000 per annum in the case of the Chairman, plus an additional amount of CHF 10.000 per annum for membership in a committee or CHF 20.000 per annum for the chairman of a committee.

The following table shows the compensation as of the date of the IPO (20 June 2018) until the end of the fiscal year (31 March 2019):

CHF (as of IPO dated 20 June 2018)	Committee Membership			Compensation in cash, CHF		
	Board Membership	Audit	Nomination & Compensation	Fixed base fee	Fixed fees for memberships in committee/roles	Employer social security payments ³
Dr. Jörg Wolle	Chair		Chair	140.500,00	15.611,14	8.859,37
Diether Klingelberg	▪		▪	9.366,67	not applicable	not applicable
Dr. Hans-Martin Schneeberger	▪		▪	46.833,33	7.805,62	3.691,25
Hans-Georg Härter	▪			46.833,33	not applicable	not applicable
Roger Bailod	▪	Chair		46.833,33	15.611,14	4.808,22
Prof. Dr. Michael Hilb	▪	▪		46.833,33	7.805,62	4.207,20
Total				337.199,99	46.833,52	21.566,04

No severance payments have been made. No compensations, loans, or credits that were not at market conditions - were paid to related persons.

5.2 Compensation of the members of the Executive Management (audited)

The pre-IPO AGM of 09 June 2018 voted for a maximum compensation of the EM in the amount of EUR 4.500.000 for the fiscal year 2018/19 (and EUR 4.500.000 for the fiscal year 2019/2020). The following table shows the compensation as of the date of the IPO (20 June 2018) until the end of the fiscal year (31 March 2019):

CHF (as of IPO dated 20 June 2018) ⁴	EM	of which Jan Klingelberg, CEO
Base compensation	853.538,45	390.280,90
STIP	726.470,46	292.637,99
LTIP ⁵	308.571,96	not applicable
Other compensation ⁶	145.479,39	82.364,63
Employer social security	90.280,37	39.854,21
Total	2.124.340,63	805.137,73

³ Any value added tax is treated as the employer contribution for social security

⁴ All conversions from EUR to CHF in the above tables have been made at the balance sheet exchange rate (EUR 1 : CHF 1,11835)

⁵ Fair value PSU CHF 34,49, date of grant 19 March 2019, number of PSUs granted: 8.948

⁶ Fringe benefits of all EM members and consultancy fees for consultation of subsidiaries by CEO

The Company has no outstanding loan or guarantee commitments to members of the EM or related parties.

No severance payments have been made. No compensations, loans, or credits that were not at market conditions - were paid to related persons.

5.3 Share ownership information [CO 663c]

Please see note 5.9 of the statutory financial statements.

5.4 Transactions with members of the Board of Directors or the Executive Management

For information regarding related party transactions with members of the Board of Directors and Executive Management, see note 6.2 of the consolidated financial statements.

Klingelberg AG

Zürich

***Report of the
statutory auditor to the
General Meeting***

***on the remuneration report
2018/2019***





Report of the statutory auditor to the General Meeting of Klingelberg AG

Zürich

We have audited the accompanying remuneration report of Klingelberg AG for the year ended 31 March 2019. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables in chapters 5.1 and 5.2 on page 65 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 against Excessive Compensation in Stock Exchange Listed Companies (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 accompanying 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.

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Opinion

In our opinion, the remuneration report of Klingelberg AG for the year ended 31 March 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Blaženka Kovács-Vujević
Audit expert
Auditor in charge



Dano Bollier
Audit expert

Zürich, 8 July 2019

Consolidated Financial Statements

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Consolidated balance sheet

EUR 000	Note	31.03.2019	31.03.2018
Assets			
Current assets			
Cash and cash equivalents		28.695	8.632
Receivables from goods and services	4.1	70.981	72.183
Derivative financial instruments	4.2	81	191
Other short-term receivables	4.3	5.472	9.112
Inventories	4.4	82.870	76.248
Prepayments and accrued income		1.264	879
Total current assets		189.363	167.245
Non-current assets			
Tangible fixed assets	4.5	52.876	51.737
Loans and other receivables	4.6	350	1.509
Investments in joint ventures		2.123	1.537
Deferred tax assets	4.7	8.159	10.779
Other financial assets	4.8	796	540
Intangible assets	4.9	1.705	1.688
Total non-current assets		66.009	67.790
Total assets		255.372	235.035

The enclosed notes are part of the consolidated financial statements.

Consolidated balance sheet

EUR 000	Note	31.03.2019	31.03.2018
Liabilities			
Current liabilities			
Short-term financial liabilities	4.10	1.735	22.035
Payables from goods and services	4.11	16.259	15.805
Derivative financial instruments	4.2	457	126
Other short-term liabilities	4.12	29.055	29.629
Accrued liabilities and deferred income		16.335	14.735
Short-term provisions	4.13	7.757	7.846
Total current liabilities		71.598	90.176
Non-current (long-term) liabilities			
Long-term financial liabilities	4.10	4.722	6.295
Deferred tax liabilities	4.13	1.703	2.657
Long-term provisions	4.13	14.381	15.646
Total non-current (long-term) liabilities		20.806	24.598
Total liabilities		92.404	114.774
Equity			
Share capital	4.14/4.15	28.639	26.726
Capital reserves	4.14	51.267	33.410
Retained earnings		83.062	60.125
Total equity		162.968	120.261
Total liabilities and equity		255.372	235.035

The enclosed notes are part of the consolidated financial statements.

Consolidated income statement

EUR 000	Note	2018/19	2017/18
Net sales from goods and services	5.1/6.2	278.214	257.027
Other operating income	5.2/6.2	7.424	2.917
Change in inventory of finished and unfinished goods as well as unbilled goods and services		-419	5.480
Raw material expense	6.2	-108.330	-100.873
Personnel expense	5.3	-101.248	-94.808
Depreciation on tangible fixed assets	4.5	-5.902	-6.106
Amortization on intangible assets	4.9	-472	-450
Other operating expense	5.4/6.2	-39.875	-41.451
Share of result from joint ventures		587	322
Operating result		29.979	22.058
Financial result	5.5/6.2	-3.167	-773
Profit before income taxes		26.812	21.285
Income taxes	5.6	-7.596	-7.053
Net profit		19.216	14.232

Earnings per share

EUR			
Basic earnings per share	5.7	2,20	1,69
Diluted earnings per share	5.7	2,20	1,69

Additional information – non-GAAP measures

EUR 000			
EBITDA	2.2	36.353	28.614

The enclosed notes are part of the consolidated financial statements.

Consolidated cash flow statement

EUR 000	Note	2018/19	2017/18
Net profit		19.216	14.232
Depreciation / amortization / write-up of tangible fixed assets and intangible assets	4.5/4.9	6.374	6.556
Increase in provisions (including deferred taxes)	4.13	-2.307	-838
Profit / loss from the disposal of tangible fixed assets and intangible assets	4.5/4.9	-716	317
Decrease / increase of receivables from goods and services	4.1	3.083	-8.012
Increase of inventories	4.4	-7.310	-8.038
Decrease / increase of other receivables and prepayments and accrued income (including deferred tax)	4.3/4.6/4.7	6.202	-2.826
Share profits from the application of the equity method		-586	-322
Increase of payables from goods and services	4.11	454	1.596
Increase of other short-term liabilities and accrued liabilities and deferred income	4.12	2.040	4.131
Other non-cash items		1.137	-387
Cash flow from operating activities		27.587	6.409
Inflows for investment in financial assets (including loans, participations, securities, etc.)		815	236
Outflows for investment in tangible fixed assets	4.5	-7.268	-5.463
Inflows from the sale of tangible fixed assets	4.5	1.366	436
Outflows for investment in intangible assets	4.9	-500	-770
Cash flow from investing activities		-5.587	-5.561
Distribution of profits		0	-2.800
Repayment / issuance of short-term financial liabilities	4.10	-21.949	4.402
Inflows from capital increase	4.14	19.770	0
Cash flow from financing activities		-2.179	1.602
Currency translation effects		242	-487
Net change in cash		20.063	1.963
Opening balance of cash and cash equivalents at 01.04.		8.632	6.669
Closing balance of cash and cash equivalents at 31.03.		28.695	8.632
Net change in cash		20.063	1.963

The enclosed notes are part of the consolidated financial statements.

Consolidated statement of changes in equity

EUR 000	Note	Share capital	Capital reserves	Retained earnings				Total equity
				Goodwill offset with equity	Other retained earnings	Cumulative foreign currency differences	Total retained earnings	
Balance as at 01.04.2017 - restated	4.15	26.726	14.157	-20.517	64.688	7.714	51.885	92.768
Capital increase		0	19.253	0	0	0	0	19.253
Currency translation differences		0	0	0	0	-3.300	-3.300	-3.300
Net result from cash flow hedges		0	0	0	108	0	108	108
Dividends		0	0	0	-2.800	0	-2.800	-2.800
Net profit		0	0	0	14.232	0	14.232	14.232
Balance as at 31.03./01.04.2018		26.726	33.410	-20.517	76.228	4.414	60.125	120.261
Capital increase	4.14	1.913	17.857	0	0	0	0	19.770
Currency translation differences		0	0	0	0	3.808	3.808	3.808
Net result from cash flow hedges		0	0	0	-87	0	-87	-87
Net profit		0	0	0	19.216	0	19.216	19.216
Balance as at 31.03.2019		28.639	51.267	-20.517	95.357	8.222	83.062	162.968

The enclosed notes are part of the consolidated financial statements.

Notes to the consolidated financial statements

1 General information

The KLINGELNBERG Group comprises KLINGELNBERG AG and its consolidated subsidiaries. KLINGELNBERG AG is a limited company according to Swiss law, incorporated and domiciled in Zürich, Switzerland. The shares of the KLINGELNBERG AG are listed in Switzerland in the Swiss Reporting Standard of the SIX Swiss Exchange.

The consolidated financial statements as at and for the year ended 31 March 2019 were authorized for release by the Chairman of the Board at 08 July 2019 and are subject to be approved by the Annual General Meeting.

2 Accounting principles

2.1 Basis for the preparation of the financial statements

The consolidated financial statements of KLINGELNBERG Group have been prepared in accordance with Swiss GAAP FER as a whole and give a true and fair view of the assets, liabilities, earnings and cash flows of KLINGELNBERG Group. In addition, the provisions of the Listing Rules of the SIX Swiss Exchange and Swiss accounting law were complied with. The consolidated financial statements are prepared applying the principle of historical cost accounting, with the exceptions of derivative financial instruments, which are measured at fair value. The preparation of the consolidated financial statements requires management to make estimates and assumptions. If in the future such estimates and assumptions, which are based on management's best judgement, change, the original estimates and assumptions will be modified as appropriate in the year in which the change occurred.

2.2 Definition of alternative performance measures

EBITDA:

Earnings before interest, income tax, depreciation and amortization (EBITDA) as a subtotal includes the operating result (EBIT) plus depreciation on tangible fixed assets and amortization on intangible assets.

EBIT:

The operating result (Swiss GAAP FER) excluding non-operating and extraordinary results.

2.3 Scope and principles of consolidation

The consolidated financial statements of KLINGELNBERG Group include KLINGELNBERG AG, as well as all entities as at 31 March of the current financial year for which the parent company holds, directly or indirectly, the majority of the voting rights or by having the power to govern their operating and financial policies in some other way. Consolidation ends when control by the parent company ceases.

Capital consolidation is based on the purchase method. Companies acquired by the Group are included in the consolidated financial statements from the date of obtaining control. The net assets acquired are revalued at fair value at the acquisition date, using uniform Group accounting principles. Companies sold are excluded from the scope of consolidation as at the date on which control ceases, with any gain or loss recognized in the income statement.

All intragroup balances and transactions including accounts receivables, accounts payables, income, expenses, and any unrealized gains and losses resulting from transactions between Group companies are eliminated.

Investments in joint ventures in which KLINGELNBERG Group exercises joint control together with a joint venture partner (e.g. with 50% voting rights) are recognized using the equity method.

The financial statements of the Group companies are prepared using the same accounting and valuation methods and on the same balance sheet date as the parent company's financial statements.

The KLINGELNBERG Group has no minority interests.

For a list of consolidated companies and investments see following table. Any change to the scope of consolidation is outlined in note 3.

Company, head office	Currency	Capital	Share of capital and voting rights	
			31.03.2019	31.03.2018
KlingelInberg AG, Zürich, Switzerland	CHF	44.200.000		
KlingelInberg GmbH, Hückeswagen, Germany	EUR	15.338.755	100%	100%
KlingelInberg (France) SAS, Saint Germain en Laye, France	EUR	215.000	100%	100%
KlingelInberg Imexma SA, Barcelona, Spain	EUR	750.000	100%	100%
KlingelInberg Italiana Srl., Milano, Italy	EUR	80.000	100%	100%
KlingelInberg Hungaria Kft., Győr, Hungary	HUF	12.200.000	100%	100%
KlingelInberg (Japan) Ltd., Yokohama, Japan	JPY	50.000.000	100%	100%
KlingelInberg Mexico S.A. de C.V., Queretaro, Mexico	MXP	500.000	100%	100%
KlingelInberg America Inc., Saline, USA	USD	200	100%	100%
The KlingelInberg Corporation, Cincinnati, Ohio, USA	USD	254	100%	100%
HMET Grundstücksverwaltungsgesellschaft mbH, Hückeswagen, Germany	EUR	25.000	100%	100%
KlingelInberg India Private Ltd., Pune, India	INR	27.700.000	100%	100%
Höfler Yantai Service Co., Ltd., China	CNY	748.657	100%	100%
KlingelInberg do Brasil, Sao Paulo, Brazil	BRL	3.950.000	100%	100%
KLA Real Estate, LLC., Saline, USA	USD	0	100%	100%
KlingelInberg Hungaria Service Kft., Győr, Hungary	HUF	15.000.000	100%	100%
DKSH KlingelInberg Service Ltd., Shanghai, China *	CNY	5.585.020	50%	50%

* Joint venture consolidated at equity

2.4 Business combinations

Net assets acquired are revalued at fair value at the acquisition date. Any unrecognized intangible assets are not separated and identified and therefore allocated to goodwill. Goodwill is calculated as the difference between the purchase price (incl. transaction costs) and the revalued net assets. The positive or negative goodwill resulting from business combinations is offset against equity at the date of acquisition. At the disposal of the company, the goodwill previously offset in equity is transferred to the income statement. The consequences of the theoretical capitalization and amortization of goodwill are explained in note 4.9.

2.5 Segment reporting

Notwithstanding the additional recommendations for listed companies (Swiss GAAP FER 31), the Board of Directors of the KLINGELNBERG Group decided not to publish any detailed segment re-

sults in order to protect the interests of its shareholders.

As a globally active Group, Klingelberg manages its activities on a business unit based approach on one side and a synergy optimization on the other. The reporting system reflects this structure and the activities of KLINGELNBERG Group are split into four main business units:

- Bevel Gear
- Cylindrical Gear
- Measuring Centers
- Drive Technology

Disclosing operating results by business unit would lead to competitive disadvantages in terms of the profitability and distribution margins as well as the cost calculations. The KLINGELNBERG Group would be the only company in the industry showing detailed profitability information at business unit level. Most of the relevant competitors are privately held companies which do not have to follow international disclosure requirements and, therefore, do not publish any detailed financial information. Some other competitors are large, international companies, which apply a broader definition of reporting segments in which specific data relevant of the core industry is not accessible.

Therefore, the disclosure of business unit operating results would lead to significant competitive disadvantages for the KLINGELNBERG Group. Moreover, such information would result in negative consequences in the KLINGELNBERG Group's negotiating power with various stakeholders such as clients, suppliers, etc. For all these reasons, the KLINGELNBERG Group firmly believes that disclosing operating results by business units would have a significant negative impact on its overall performance.

2.6 Conversion of foreign currency items and transactions

Translation of financial statements to be consolidated

In light of the significant share of the business activities taking place in Germany, the consolidated financial statements of KLINGELNBERG Group are presented in Euros (EUR). The financial statements of Group companies are prepared in their respective functional currencies and translated into Euro as follows:

- assets and liabilities are converted at the year-end exchange rate
- income and expense are converted using the average exchange rate of the reporting year
- the conversion differences arising on the translation of the balance sheet items have no effect on the income statement and are recognized in the equity as cumulative foreign currency differences. When a subsidiary with a foreign currency is de-consolidated, the accumulated conversion differences recognized in the equity are reclassified to the income statement.

Foreign currency transactions in Group companies

Foreign currency effects on intragroup and equity-like loans, which are a significant part of the company's net investments in foreign subsidiaries, are recognized in equity as cumulative foreign currency differences until the disposal of the net investment. From this point in time, the foreign currency differences are recognized in the income statement as a profit or loss on the sale of investments.

Transactions in foreign currencies are converted at the average exchange rate of the month of the transaction. Exchange rate differences arising from financial transactions are recorded in the income statement. All monetary assets and liabilities in a foreign currency are converted at the exchange rate as at the balance sheet date and the resulting gains/losses are recognized in the income statement.

The table below outlines the main exchange rates used in the preparation of our consolidated financial statements as at and for the years ended 31 March 2019 and 31 March 2018.

	Year-end exchange rate		Average exchange rate	
	31.03.2019	31.03.2018	2018/19	2017/18
CHF/EUR	1,11835	1,17875	1,14682	1,13548
USD/EUR	1,12305	1,23230	1,15812	1,17046
JPY/EUR	124,37215	131,32005	128,41348	129,68701

2.7 Cash and cash equivalents

Cash and cash equivalents are measured at nominal value and comprise cash on hand, deposits in bank accounts and with similar institutions and fixed-term deposits with an original term of up to 90 days.

2.8 Receivables from goods and services and other short-term receivables

Receivables are measured at nominal value less any value adjustments for doubtful accounts. Value adjustments are established for cases where the Group faces a risk of not collecting the outstanding amount.

2.9 Derivative financial instruments

The Group uses derivatives mainly as hedges against foreign currency risks. These derivatives are primarily foreign exchange forwards. Derivatives are recognized initially at acquisition cost and subsequently valued at fair value. Except for derivatives that are designated as hedging instruments for future cash flows, all changes in the fair values of derivatives are to be recognized in the result of the period.

Instruments for hedging future cash flows are recognized at fair value. Changes in the fair value of such cash flow hedges are recorded in equity. Changes in the fair value of hedges recorded in equity are recorded in the period in which the cash flows from the underlying hedged asset are recognized.

2.10 Inventories

Inventories are measured at the lower of acquisition and manufacturing cost and net realizable value. Acquisition cost is measured net of cash discounts. Manufacturing cost includes direct labor and materials used, as well as a commensurate share of the related production overhead costs excluding any borrowing costs.

If the net realizable value of inventories is lower than the book value or if inventories have a low turnover rate, the necessary value adjustments are recognized.

2.11 Tangible fixed assets

Tangible fixed assets are measured at acquisition cost excluding any borrowing costs less accumulated depreciation and impairment. Depreciation is recognized on a straight-line basis over the following estimated useful life of the asset:

- Land: No depreciation
- Buildings: 40 years
- Machines and equipment: 10 years
- Other tangible fixed assets: 3 to 10 years

Assets under construction are not depreciated until completion.

Expenditure on maintaining and repairing tangible fixed assets is charged to the income statement. Capital expenditure for existing tangible fixed assets is capitalized if classified as value-adding and depreciated over the useful life.

2.12 Loans and other receivables, other financial assets

Loans and other receivables as well as other financial assets are measured at nominal value less any value adjustments required.

2.13 Investments in joint ventures

Investments are carried at historical cost less required impairments.

2.14 Taxes

Current and deferred taxes are accrued for all tax obligations, irrespective of their due date. Current income taxes are calculated on the taxable profit for the financial year. Deferred taxes are calculated by applying the balance sheet method for any temporary difference between the carrying amount and the tax basis of assets and liabilities. For that calculation the current tax rates applicable in each jurisdiction are used while already identified future changes in the tax rates are taken into consideration.

Deferred tax assets for tax loss carry-forwards are recognized to the extent that it is probable that they can be offset against future taxable profits.

Deferred taxes are calculated on the basis of the tax rates applicable in each country.

Current and deferred tax assets and liabilities are offset if they concern the same taxable entity or group of entities and tax jurisdiction and if the Group has a legally enforceable right to offset current tax assets and liabilities.

No deferred tax is provided for temporary differences on investments in subsidiaries where the timing of the reversal of the temporary difference is controlled by the Group and it is not probable that the temporary difference will be reversed in the foreseeable future.

2.15 Intangible assets

Acquired intangible assets are measured at acquisition cost less accumulated amortization and impairment. Intangible assets are amortized on a straight-line basis over their useful life as follows:

- Software: 3 to 5 years
- Licenses: 3 to 10 years

Internally generated intangible assets including research and development costs are recognized as a cost in the income statement in the financial year in which they occurred.

Goodwill from the acquisition of consolidated entities is offset with equity at the date of the acquisition. Goodwill is theoretically amortized on a straight-line basis over a useful life of 7 to 15 years.

2.16 Impairment of assets

Assets (especially tangible fixed assets, intangible assets and financial assets) are subject to an impairment test at each balance sheet date. If there is any indication of impairment, a detailed test is performed immediately. If the carrying amount exceeds the recoverable amount (fair value less cost to sell), an impairment loss is recognized in the income statement. If, subsequently, an increase in the asset's value can be demonstrated, the impairment charge is reversed accordingly via the operating result.

As the goodwill is already offset with equity at the date of the acquisition, an impairment of the goodwill does not affect the income statement but leads to a disclosure in the notes only.

2.17 Financial liabilities

Financial liabilities are measured at nominal values.

2.18 Payables from goods and services and other liabilities

Payables from goods and services and other liabilities are measured at nominal value.

2.19 Provisions

Provisions take into account all identifiable and measurable risks from warranties and penalties for non-performance, expected losses from pending transactions and process risks which management deems likely to occur. Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and if it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

2.20 Revenue recognition

Revenue is recognized when the principal risks and rewards incidental to ownership are transferred to the customer, the amount of the proceeds can be reliably determined and when it is sufficiently probable that the economic benefits from the sale will flow to the Group.

Revenues are stated at the fair value of the consideration entitled to be received. This is after the deduction of discounts, rebates and credits and before value-added and sales tax.

2.21 Off-balance sheet transactions

Contingent liabilities as well as other non-recognized obligations are assessed at each balance sheet date and are disclosed in the notes to the financial statements. A provision is recorded if the relevant conditions are met.

2.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are transferred from the lessor to the lessee are classified as finance leases. The leased assets are carried at cost not higher than the minimum lease payments and depreciated along with other tangible fixed assets. The corresponding leasing obligations are shown as liabilities.

Leasing payments are allocated accordingly as either capital repayments or interest expenses presented in the financial result.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

2.23 Share-based payments

Share-based payments are treated as a cash-settled plan. Provisions must be recognised as an expense over the vesting period. The fair value of the liability must be determined at each balance sheet date and the provision adjusted to this fair value.

2.24 Pension benefit obligation

The employee benefit plans of the KLINGELNBERG Group comply with the legislation in force in each country. Employee benefit plans are mostly institutions and foundations that are legally independent of KLINGELNBERG Group. They are usually financed by both employee and employer contributions.

The economic impact of the employee benefit plans is assessed each year. Surpluses or deficits are determined by means of the annual statements of each specific benefit plan, which are based either on Swiss GAAP FER 26 (Swiss benefit plans) or on the accepted methods in each foreign country (foreign plans). An economic benefit is capitalized if it is permitted and intended to use the surplus to reduce the employee contributions. If employer contribution reserves exist, they are also capitalized. An economic obligation is recognized as a liability if the conditions for a provision are met. They are reported under "Provision for pension benefit obligation". Changes in the economic benefit or economic obligation, as well as the contributions incurred for the period, are recognized in "Personnel expense" in the income statement.

3 Changes in the scope of consolidation

There were no changes in the scope of consolidation in the current financial year under review. In the previous financial year, on 20 December 2017 KLINGELNBERG Hungaria Service Kft. was founded as a subsidiary of KLINGELNBERG AG with a share capital of HUF 15.000.000 (EUR 48 thousand).

4 Substantial information on the consolidated balance sheet items

4.1 Receivables from goods and services

EUR 000	31.03.2019	31.03.2018
Receivables from third parties	70.852	72.330
Receivables from joint ventures	426	197
Receivables from other related parties	101	185
Value adjustments	-398	-529
Receivables from goods and services	70.981	72.183
Thereof:		
- Not due	61.239	60.725
- Up to 90 days overdue	7.571	10.226
- Over 90 days overdue	2.171	1.232

4.2 Derivative financial instruments

EUR 000	31.03.2019			31.03.2018		
	Asset	Liability	Purpose	Asset	Liability	Purpose
Basic value:						
Foreign exchange	81	457	Hedging	191	126	Hedging
Total	81	457		191	126	

4.3 Other short-term receivables

This position includes mainly decreases in taxes other than income taxes of EUR 2,7 million and prepayments to suppliers of EUR 1,5 million. The value adjustments for the year under review amounted to EUR 0,1 million (as at 31 March 2018: EUR 0,1 million).

4.4 Inventories

EUR 000	31.03.2019	31.03.2018
Finished products	8.150	8.244
Work in progress	38.933	40.619
Acquired parts	51.973	46.998
Supplies	126	71
	99.182	95.932
Value adjustments	-16.312	-19.684
Inventories	82.870	76.248

4.5 Tangible fixed assets

EUR 000	2018/19					Total
	Undeveloped property	Land and buildings	Machines and equipment	Other assets	Tangible fixed assets under construction	
Acquisition cost						
Gross value as at 01.04.	2.167	43.957	48.515	22.278	114	117.031
Additions	0	184	5.189	1.797	98	7.268
Disposals	0	-3	-2.117	-383	-4	-2.507
Foreign currency effects	0	412	188	214	-3	811
Reclassifications	0	0	9	24	-33	0
Gross value as at 31.03.	2.167	44.550	51.784	23.930	172	122.603
Accumulated depreciation as at 01.04.	0	11.679	37.255	16.360	0	65.294
Depreciation	0	1.138	2.897	1.867	0	5.902
Disposals	0	-1	-1.490	-376	0	-1.867
Foreign currency effects	0	99	141	158	0	398
Accumulated depreciation as at 31.03.	0	12.915	38.803	18.009	0	69.727
Net carrying amount as at 01.04.	2.167	32.278	11.260	5.918	114	51.737
Net carrying amount as at 31.03.	2.167	31.635	12.981	5.921	172	52.876

	2017/18					
EUR 000	Undeveloped property	Land and buildings	Machines and equipment	Other assets	Tangible fixed assets under construction	Total
Acquisition cost						
Gross value as at 01.04.	2.172	42.815	47.499	21.547	1.108	115.141
Additions	0	1.680	1.929	1.820	34	5.463
Disposals	-5	0	-1.107	-696	0	-1.808
Foreign currency effects	0	-593	-735	-431	-6	-1.765
Reclassifications	0	55	929	38	-1.022	0
Gross value as at 31.03.	2.167	43.957	48.515	22.278	114	117.031
Accumulated depreciation as at 01.04.	0	10.709	35.159	15.218	0	61.086
Depreciation	0	1.135	3.124	1.847	0	6.106
Disposals	0	0	-647	-410	0	-1.057
Foreign currency effects	0	-165	-381	-295	0	-841
Accumulated depreciation as at 31.03.	0	11.679	37.255	16.360	0	65.294
Net carrying amount as at 01.04.	2.172	32.106	12.340	6.329	1.108	54.055
Net carrying amount as at 31.03.	2.167	32.278	11.260	5.918	114	51.737

4.6 Loans and other receivables

In the year under review, this item consists of agreements for the sale of machinery of EUR 0,4 million (as at 31 March 2018: EUR 1,5 million) on long-term installment purchase.

4.7 Deferred tax assets

The deferred tax assets mainly result from divergent valuations of pension provisions as well as provisions for partial retirement obligations, service anniversaries, taxes from loss carry forwards, and provisions for warranties.

In the two consecutive financial years, the following tax loss carry forwards were capitalized:

EUR 000			
Tax loss carry forwards as at 31.03.2019	Capitalized	Not capitalized	Total
No expiry	5.543	0	5.543
Total losses carried forward	5.543	0	5.543
Potential tax effect on non-capitalized losses carried forward	0		
Deferred taxes capitalized	1.399		
<hr/>			
Tax loss carry forwards as at 31.03.2018	Capitalized	Not capitalized	Total
No expiry	12.372	0	12.372
Total losses carried forward	12.372	0	12.372
Potential tax effect on non-capitalized losses carried forward	0		
Deferred taxes capitalized	3.641		

4.8 Other financial assets

In the year under review, this item mainly comprises of insolvency-protected life insurance policy to cover pension liabilities in connection with partial-retirement obligations in the amount of EUR 0,7 million (as at 31 March 2018: EUR 0,4 million). The amount is calculated in accordance with the local legal requirements of the company that recognizes these assets.

4.9 Intangible assets

EUR 000	2018/19			2017/18		
	Software	Other intangible assets	Total	Software	Other intangible assets	Total
Acquisition cost						
Gross value as at 01.04.	7.357	426	7.783	8.014	345	8.359
Additions	493	7	500	657	113	770
Disposals and derecognitions	-36	-12	-48	-1.195	-1	-1.196
Foreign currency effects	47	16	63	-119	-31	-150
Reclassifications	113	-113	0	0	0	0
Gross value as at 31.03.	7.974	324	8.298	7.357	426	7.783
Accumulated amortization as at 01.04.	5.793	302	6.095	6.655	334	6.989
Amortization	472	0	472	450	0	450
Disposals and derecognitions	-36	-3	-39	-1.195	-1	-1.196
Foreign currency effects	48	17	65	-116	-31	-147
Accumulated amortization as at 31.03.	6.277	316	6.593	5.793	302	6.095
Net carrying amount as at 01.04.	1.564	124	1.688	1.359	11	1.370
Net carrying amount as at 31.03.	1.697	8	1.705	1.564	124	1.688

A theoretical capitalization of goodwill would have the following effects on the consolidated financial statements.

EUR 000	2018/19	2017/18
Theoretical statement of changes in goodwill		
Acquisition cost		
Gross value as at 01.04.	20.517	20.517
Gross value as at 31.03.	20.517	20.517
Accumulated amortization at 01.04.		
Amortization	1.804	1.804
Accumulated amortization at 31.03.	15.292	13.488
Theoretical impact on equity		
Theoretical net carrying amount at 31.03.	5.225	7.029
Effect on equity		
Equity according to balance sheet	162.968	120.261
Theoretical net carrying amount goodwill	5.225	7.029
Theoretical equity incl. net carrying amount of goodwill	168.193	127.290
Theoretical impact on net income		
Effect on income statement		
Net profit	19.216	14.232
Theoretical amortization of goodwill	-1.804	-1.804
Theoretical net profit	17.412	12.428

4.10 Financial liabilities

EUR 000	31.03.2019	31.03.2018
Short-term financial liabilities	1.735	22.035
Long-term financial liabilities	4.722	6.295
Total financial liabilities	6.457	28.330
Thereof in:		
- EUR	5.352	27.174
- USD	840	839
- JPY	241	286
- INR	24	31
Thereof matures in:		
- 2 to 5 years	4.345	5.870
- > 5 years	377	425
Average interest rate	2,46%	1,37%
Unused credit facilities	53.264	32.661
Long-term financial liabilities include mortgages secured using mortgage notes		
Carrying amount of property	33.802	34.445
- thereof pledged	12.603	12.571
- thereof used	5.132	6.541

As part of the capital increase, funds amounting to CHF 22,7 million (EUR 19,8 million) were paid into KLINGELNBERG AG, which was to be used for acquisitions. Since these acquisitions have not yet taken place, the money will be used until further notice for internal financing and repayment of short-term fixed advances (previous year: CHF 20,3 million or EUR 17,2 million). The remaining amounts of EUR 1,7 million (previous year: EUR 1,7 million) are the current portion of long-term loans for property financing. The interest rate now only reflects the property financing.

4.11 Payables from goods and services

EUR 000	31.03.2019	31.03.2018
Payables from goods and services		
- with third parties	16.107	15.644
- with joint ventures	3	144
- with other related parties	149	17
Payables from goods and services	16.259	15.805
Thereof:		
- Payment terms up to 90 days	15.383	14.639
- Payment terms over 90 days	876	1.166

4.12 Other short-term liabilities

This position contains mainly advance payments from customers EUR 16,3 million (as at 31 March 2018: EUR 15,6 million) and taxes and social insurance withholdings EUR 9,2 million (as at 31 March 2018: EUR 9,3 million).

4.13 Provisions

EUR 000	2018/19				
	Provision for warranties	Provision for pension benefit obligation	Other provisions	Total provisions excl. deferred tax	Deferred tax
Carrying amount as at 01.04.	8.299	11.656	3.537	23.492	2.657
Creation of provisions	3.801	597	1.311	5.709	12
Utilization of provisions	-4.175	-456	-425	-5.056	0
Release of provision recognized in the income statement	-1.719	0	-481	-2.200	-1.040
Foreign currency effects	136	0	57	193	74
Carrying amount as at 31.03.	6.342	11.797	3.999	22.138	1.703
of which, short-term	5.445	456	1.856	7.757	0
of which, long-term	897	11.341	2.143	14.381	1.703

EUR 000	2017/18				
	Provision for warranties	Provision for pension benefit obligation	Other provisions	Total provisions excl. deferred tax	Deferred tax
Carrying amount as at 01.04.	7.589	12.043	3.710	23.342	3.645
Creation of provisions	6.191	60	700	6.951	30
Utilization of provisions	-4.219	-447	-505	-5.171	0
Release of provision recognized in the income statement	-1.043	0	-260	-1.303	-802
Foreign currency effects	-219	0	-108	-327	-216
Carrying amount as at 31.03.	8.299	11.656	3.537	23.492	2.657
of which, short-term	5.827	447	1.572	7.846	0
of which, long-term	2.472	11.209	1.965	15.646	2.657

The valuation of provisions in all categories is based on latest available data (e.g. claims that have occurred or been reported) or on the experience of recent years and management estimates.

Provisions for warranties

During the financial year 2018/19 management has revised the process by using an IT system supported approach, which resulted in more granulated information and a release of warranty provision of EUR 1,7 million. In the same event and for comparability reasons the gross disclosure in the warranty movement table of the prior year has been amended accordingly.

Provision for pension benefit obligation

EUR 000	Economical benefit/ economical obligation and pension benefit expenses	Surplus/deficit		Economical part of the organization	Change to prior year period or recognized in the current result of the period, respectively	Contributions concerning the business period	Pension benefit expense as part of personnel expense	
		31.03.2019	31.03.2019				31.03.2018	2018/19
	Pension funds without deficit or surplus (1)	0	0	0	0	-346	-346	-343
	Pension funds without own assets (2)	0	-11.797	-11.656	-141	-456*	-597	-60
	Total	0	-11.797	-11.656	-141	-802	-943	-403

*Pension payments according to pension plan in the current financial year.

(1) The Swiss entity is affiliated to a collective pension plan where the surplus/deficit cannot be determined on the basis of the individual contract but it can be stated that based on the audited figures of the pension fund as per 31 December 2018 the coverage of the collective plan as a whole amounts to 106,4% (as at 31.12.2017: 114,1%). The technical interest rate used amounted to 2,0% (prior year: 2,0%). The underlying mortality table remained unchanged (BVG 2015 GT). Furthermore, a supplementary pension plan exists, which does not bear the risks due to full insurance as part of a collective insurance contract.

(2) The economical obligation from pension funds without own funds contains primarily the obligation from employee benefit plans in Germany. The discount rate used in the calculation was 2,02% (2017/18: 2%). A provision for pension benefit obligation at the level of the economical obligation has been recorded. Pension benefit expense as part of the personnel expense include the increase and decrease of provisions recorded in the income statement including changes of discount rates. The increase compared to prior year was mainly driven due to the application of the new mortality table (Richttafeln 2018 G, prior year: Richttafeln 2005 G) and the higher number of insured employees.

Other provisions

Other provisions include, among others, a provision for fire prevention measures of EUR 0,4 million (as at 31 March 2018: EUR 0,4 million), part-time phased retirement obligations EUR 1,8 million (as at 31 March 2018: EUR 1,4 million) and provisions for long-service awards of EUR 0,3 million (as at 31 March 2018: EUR 0,3 million).

Since financial year 2018/19 there is a long-term incentive plan for the members of the executive board (CFO/COO) in the form of Performance Share Units (PSU) in place. The first regular grant of PSUs under the LTIP will be granted on 01 April 2019, with a vesting at the end of the fiscal year of the Company ending on 31 March 2022. As a transitional arrangement in the context of the IPO and in order to guarantee a fair transition from the pre-IPO long term incentive plan, the current members of the Executive Management (excluding the CEO) have been granted an extraordinary number of PSUs determined by the Board of Directors at the beginning of the financial year 2018/19 which will vest at the end of the fiscal year of the Company ending on 31 March 2021.

In 2018/19, a total of 8.948 PSU at a fair value of CHF 34,49 per share were granted relating to the extraordinary allocation. Personnel expenses in the current period for share-based payments amounted to CHF 102.857.

4.14 Share capital and capital reserves

Share capital

The paid-in capital of KLINGELNBERG AG as at 31 March 2019 is composed of 8.840.000 registered shares (as at 31 March 2018: 42.000) with a nominal value of CHF 5 each (as at 31 March 2018: CHF 1.000). The share split is shown in section 4.3 of the Corporate Governance report.

Capital reserves

Due to the capital increase, KLINGELNBERG AG received an additional amount of CHF 20,537 million (EUR 17,857 million), which is shown in the capital reserve.

4.15 Restatement financial year 2017/18

As part of the initial public offering management re-assessed the financial statements in order to change the presentation of the financial statements and accounting policies to ensure better comparability with listed peers applying Swiss GAAP FER.

Changes in accounting policies

Instead of capitalizing and amortizing, goodwill is offset against equity. Any unrecognized intangible assets are identified and allocated to goodwill, which is common practice under Swiss GAAP FER. Refer to note 4.9 for further details regarding the effect of offsetting goodwill. Value adjustments of receivables from goods and services changed from making a general provision of the total outstanding amount to specific value adjustments established for cases where the Group faces a risk of not collecting the outstanding amount. In line with market practice this is a more adequate and informative accounting policy within the options offered by Swiss GAAP FER.

For the calculation of pension liabilities in Germany in year 2017/18 the Group used the interest rate specified by German law. The Group decided to use an interest rate as described in international accounting standards.

The change of the above accounting policies was applied retrospectively in accordance with the framework of Swiss GAAP FER. The impact of the changes on the previous financial year was as follows:

Adjustments to equity	
EUR 000	31.03.2017
Equity before restatements	99.920
Adjustments due to accounting policy changes	
Gross value	-20.517
Accumulated amortization	11.684
Offset goodwill	-8.833
Change value adjustment method for receivables	1.358
Change measurement method pension liability	-3.126
Deferred tax assets and liabilities, net	3.449
Equity after restatements	92.768

5 Substantial information on the consolidated income statement items

5.1 Net sales from goods and services

EUR 000						2018/19
Segments	Service location					Total
	Germany	Switzerland	Japan	USA	Rest of the world	
Bevel Gear	23.613	70.875	4.818	13.659	9.509	122.474
Cylindrical Gear	31.036	3.099	6.917	9.120	2.947	53.119
Measuring Centers	53.226	4.699	9.962	6.365	6.136	80.388
Drive Technology	13.181	0	0	0	127	13.308
Other	425	0	125	0	8.375	8.925
Total	121.481	78.673	21.822	29.144	27.094	278.214

EUR 000						2017/18
Segments	Service location					Total
	Germany	Switzerland	Japan	USA	Rest of the world	
Bevel Gear	14.224	79.006	2.953	22.804	5.834	124.821
Cylindrical Gear	23.959	913	7.637	3.730	2.207	38.446
Measuring Centers	48.575	5.156	6.771	6.109	6.557	73.168
Drive Technology	12.880	0	0	0	271	13.151
Other	591	0	40	0	6.810	7.441
Total	100.229	85.075	17.401	32.643	21.679	257.027

For explanations regarding the segment reporting refer to note 2.5.

5.2 Other operating income

Other operating income includes in particular internally produced and capitalized assets, income from lease of machines and others, and gains on the disposal of fixed assets. The increase is basically due to the increase in internally produced and capitalized assets by EUR 3,6 million to EUR 4,1 million compared to the previous year and is attributable to the capitalization of demonstration machines (in particular measuring centers and Speed Viper).

5.3 Personnel expense

The increase in this position is primarily a result of the increase in the number of employees and the tariff increase of KLINGELNBERG GmbH (for more details see Management Report).

5.4 Other operating expense

Other operating expense includes mostly travel expense and representation, freight costs, commission, rent and related costs, warranty provisions, repair and maintenance of tangible fixed assets as well as other expenses. The change comes mainly as a result of the creation and release of warranty provisions (EUR -3,1 million), while at the same time the other positions were slightly higher. Also included are IPO costs in the amount of EUR 1,1 million (in previous year: EUR 0,7 million).

5.5 Financial result

EUR 000	2018/19	2017/18
Interest expense (-)	-646	-2.074
Financial expense	-646	-2.074
Interest income (+)	133	118
Other financial income	0	-7
Financial income	133	111
Currency translation difference and hedging expense	-8.039	-7.437
Currency gains	5.385	8.627
Foreign currency (loss) gain	-2.654	1.190
Financial result	-3.167	-773

Interest expenses were reduced due to internal financing (note 4.10). The negative foreign currency result is due to the currency fluctuations of the USD, CHF and JPY against the EUR (note 2.6).

5.6 Income taxes

EUR 000	2018/19	2017/18
Current tax expense	-5.916	-6.381
Deferred tax expense	-1.680	-672
Tax expense recognized on the income statement	-7.596	-7.053

The expected tax rate for the Group is 27,40% (as at 31 March 2018: 27,67%) and is calculated on the basis of the local tax rates of each local company weighted in proportion to the local company's earnings before tax in the financial year. Deferred taxes are calculated on the basis of the tax rates applicable in each country.

EUR 000	2018/19	2017/18
Profit before income taxes	26.812	21.285
Expected income tax rate	27,40%	27,67%
Expected income tax expense	7.346	5.890
Other effects	250	1.163
Effective income tax expense	7.596	7.053
Effective income tax rate	28,33%	33,14%

In the previous year, the other effects included an additional tax payment on the basis of the tax audit by KLINGELNBERG AG and KLINGELNBERG GmbH of EUR 0,8 million.

5.7 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent company by the average number of ordinary shares outstanding during the year.

EUR 000	2018/19	2017/18
Net profit	19.216	14.232
Average number of outstanding shares	8.744.767	8.400.000*
Basic earnings per share (EUR)	2,20	1,69
Diluted earnings per share (EUR)	2,20	1,69

* Due to the share split, the earnings per share as of 31 March 2018 were adjusted for comparability. Our calculation took this into account with 1/200 of the earnings per share as of 31 March 2019.

6 Additional Information

6.1 Off-balance-sheet transactions

According to the takeover agreement of KLINGELNBERG GmbH / Klingelberg Söhne GmbH & Co. Kommanditgesellschaft, KLINGELNBERG GmbH has an obligation to meet the expense of adjustments to the pensions of the retired employees of Klingelberg Söhne GmbH & Co. Kommanditgesellschaft. In the financial year under review, this resulted in a reimbursement of

EUR 0,1 million (as at 31 March 2018: payment of EUR 0,2 million) and is recognized in personnel expense.

Obligations due to operating leases – KLINGELNBERG Group as the lessee:

EUR 000	31.03.2019	31.03.2018
Up to 1 year	3.234	3.308
1 to 5 years	8.741	9.464
More than 5 years	4.830	6.405
Total obligations from operating leasing	16.805	19.177

This relates mainly to the leasing of buildings used for operational purposes, motor vehicle and machine leasing, and the leasing (rental) of office equipment.

Guarantees:

EUR 000	31.03.2019	31.03.2018
Debt guarantees and guarantee obligations in favor of third parties		
Debt guarantees	0	41
Total debt guarantees and guarantee obligations	0	41

6.2 Transactions with related parties

EUR 000	2018/19	2017/18
Net sales from goods and services	1.914	1.314
Other operating income	1.344	175
Raw material expense	-4.188	-3.955
Other operating expense	-19	-2.318
Financial result	0	-1.232
Total	-949	-6.016

Transactions with related parties include transactions with shareholders, joint ventures and other related parties.

6.3 Events after the balance sheet date

No significant events occurred after the balance sheet date. Events after the balance sheet date were considered until 08 July 2019. On this date, the financial statements were authorized for release by the Chairman of the Board.

Klingelberg AG

Zürich

***Report of the
statutory auditor to the
General Meeting***

***on the consolidated financial
statements 2018/2019***





Report of the statutory auditor to the General Meeting of Klingelberg AG

Zürich

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Klingelberg AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 March 2019 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 71 to 99) give a true and fair view of the consolidated financial position of the Group as at 31 March 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law 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 and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall Group materiality: EUR 1'340'000

We concluded full scope audit work at 3 reporting units in 3 countries. Our audit scope addressed over 82% of the Group's revenue and 82% of the Group's assets.

As key audit matters the following areas of focus have been identified:

Revenue recognition of goods and services in the appropriate period
Valuation of inventories

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Materiality

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

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

<i>Overall Group materiality</i>	EUR 1'340'000
<i>How we determined it</i>	5% of profit before tax
<i>Rationale for the materiality benchmark applied</i>	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above EUR 67'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

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

The Group financial statements are a consolidation of 16 reporting units, each of which is considered to be a component. Following our assessment of the risk of material misstatement, we identified 1 reporting unit in Switzerland, Germany and the United States (US) each which, in our view, require a full scope audit due to their size or risk characteristics. The concluded full scope audit work addressed 82% of the Group's revenue and 82% of the Group's total assets. The remaining 18% of the Group's revenue and 18% of the Group's total assets are contributed by smaller reporting units which are deemed insignificant. Where the audit work was performed by component auditors, we determined the level of involvement needed to review the audit procedures and results relating to significant audit areas. Senior members of the Group audit team visited the component in Germany and discussed with the component auditor the risks identified, challenged the audit approach on significant risk areas, reviewed the audit documentation as well as met with local management. Moreover, the Group audit team had regular calls during the entire year with the US auditor and was involved in all phases of the audit. Furthermore, the Group audit team performed analytical procedures to address the smaller reporting units.

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



Revenue recognition of goods and services in the appropriate period

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>Klingelberg Group recognises revenue from goods and services in the period in which it transfers the risk and reward of ownership.</p> <p>A significant portion of the revenue is recognised during the second half of the Group's financial year. We consider revenue recognition in the appropriate period to be a key audit matter because of the complexity involved when assessing and adhering to the contractually agreed incoterms as well as due to standard intra-year seasonal trends, which, in our view, increase the risk of material misstatement in revenue recognition in the appropriate period.</p> <p>Please refer to the company's accounting principles in note 2.20 and to note 5.1 'Net sales from goods and services' regarding the segment split.</p>	<p>We performed the following audit procedures to assess whether revenue from goods and services was recognised in the appropriate period:</p> <ul style="list-style-type: none"> – We identified transactions occurring close to the balance sheet date and for the months of March 2019 and April 2019 tested, on a sample basis, whether revenue was appropriately recognised in the period in which the risk and reward of ownership were transferred. For the same sample, we assessed whether the contractually agreed incoterms were in agreement with the revenue recognition; – Furthermore, we enquired with Management regarding controls that address the risk of recording revenue from goods and services in the wrong period. <p>We consider the risk of material misstatement in revenue recognition in the appropriate period to be adequately addressed.</p>

Valuation of inventories

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>We consider the valuation of inventories to be a key audit matter because of its significance in the balance sheet (EUR 82.9 million after value adjustments of EUR 16.3 million) as at 31 March 2019 (32.5% of total assets). In addition, the valuation of inventories involves significant judgement by Management when determining the value adjustments for slow-moving products.</p> <p>Inventories are carried at the lower of acquisition or manufacturing cost or net realisable value (lower of cost or market principle). Value adjustments are made for goods with a low stock turnover.</p> <p>Please refer to the company's accounting principles in note 2.10 and see note 4.4 'Inventories'.</p>	<p>We performed the following audit procedures to assess the appropriateness of the valuation of inventories:</p> <ul style="list-style-type: none"> – We tested, on a sample basis, the acquisition and manufacturing costs by comparing them with the last purchase prices incurred; – By comparing the acquisition and manufacturing cost with sales prices realised during the year, we tested, on a sample basis, whether the lower of cost or market principle was respected; – For slow-moving inventories, we challenged Management's assumptions applied when calculating the write-downs by performing look-back procedures and assessed whether the applied assumptions were within the range set in prior years. <p>On the basis of the audit procedures performed, we consider Management's approach for the valuation of inventories to be reasonable.</p>

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

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER 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 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://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 paragraph 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 consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Blaženka Kovács-Vujević

Audit expert
Auditor in charge

Dano Bollier

Audit expert

Zürich, 8 July 2019



Statutory Financial Statements of KLINGELNBERG AG

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Statutory balance sheet

CHF	Note	31.03.2019	31.03.2018
Assets			
Current assets			
Cash and cash equivalents		17.351.059	205.767
Receivables from goods and services from third parties	3.1	17.001.572	28.846.726
Receivables from goods and services from group companies		1.800.246	3.536.879
Other short-term receivables from third parties	3.2	1.640.127	4.862.643
Other short-term receivables from group companies	3.3	51.606.028	30.480.884
Inventories	3.4	1.010.927	914.393
Prepayments and accrued income		199.669	155.781
Total current assets		90.609.628	69.003.073
Non-current assets			
Tangible fixed assets	3.5	1.244.701	1.421.500
Long-term loans to group companies	3.6	0	458.925
Investments	3.7	93.645.083	93.645.083
Intangible assets		45.204	4.496
Total non-current assets		94.934.988	95.530.004
Total assets		185.544.616	164.533.077

Statutory balance sheet

CHF	Note	31.03.2019	31.03.2018
Liabilities			
Current liabilities			
Short-term financial liabilities to third parties	3.8	262	4.577.438
Short-term financial liabilities to group companies	3.3	11.006.166	6.828.250
Payables from goods and services to third parties	3.9	1.170.691	1.487.937
Payables from goods and services to group companies		11.310.448	20.777.776
Derivative financial instruments		96.526	6.922
Other short-term liabilities to third parties	3.10	8.212.345	7.973.638
Other short-term liabilities to group companies	3.11	574.076	0
Accrued liabilities and deferred income	3.12	8.553.234	7.707.542
Short-term provisions	3.13	759.100	1.917.776
Total current liabilities		41.682.848	51.277.279
Non-current (long-term) liabilities			
Long-term provisions	3.13	963.683	652.292
Total non-current (long-term) liabilities		963.683	652.292
Total liabilities		42.646.531	51.929.571
Equity			
Share capital	3.14	44.200.000	42.000.000
Statutory capital reserves	3.15	64.371.150	43.834.150
- thereof reserves from capital contributions		64.371.150	43.834.150
Statutory retained earnings		34.326.935	26.769.356
- thereof amount brought forward from the previous year		26.769.356	16.734.524
- thereof net profit		7.557.579	10.034.832
Total equity		142.898.085	112.603.506
Total liabilities and equity		185.544.616	164.533.077

Statutory income statement

CHF	Note	2018/19	2017/18
Net sales from goods and services		98.877.290	108.323.966
Other operating income	4.1	4.235.058	890.291
Change in inventory of finished and unfinished goods as well as unbilled goods and services		-370.680	474.355
Raw material expense		-73.139.310	-86.552.906
Personnel expense	4.2	-8.552.397	-7.712.078
Depreciation on tangible fixed assets		-262.740	-264.932
Amortization on intangible assets		-4.577	-1.555
Other operating expense	4.3	-11.109.486	-12.061.225
Operating result		9.673.158	3.095.916
Financial result	4.4	-427.086	8.879.757
Profit before income taxes		9.246.072	11.975.673
Income taxes	4.5	-1.688.493	-1.940.841
Net profit		7.557.579	10.034.832

Notes to the financial statements

1 General information

KLINGELNBERG AG is a limited company under Swiss law and is incorporated and domiciled in Zürich, Switzerland. These financial statements were prepared according to the provisions of Swiss accounting law (Title 32 of the Swiss Code of Obligations). Where not already prescribed by law, the significant accounting policies applied are described below.

KLINGELNBERG AG reports its consolidated financial statements based on the recognized standard (Swiss GAAP FER). In accordance with the legal provisions, it has decided not to provide notes on the audit fees, a cash flow statement or a report on the business situation.

2 Accounting principles

KLINGELNBERG AG's financial statements were prepared in accordance with the provisions on commercial accounting of the Swiss Code of Obligations. The main accounting principles are described below.

2.1 Foreign currency translation

All assets and liabilities denominated in foreign currencies are translated according to the exchange rates as at the balance sheet date. Income and expenses denominated in foreign currencies and all foreign exchange transactions are translated at the monthly average exchange rates as at their respective transaction dates. Resulting foreign exchange differences are recognized in the income statement (financial result).

2.2 Cash and cash equivalents

Cash and cash equivalents include cash and bank balances. These are valued at market value.

2.3 Receivables from goods and services from third parties

Receivables from goods and services are recognized at nominal value. Individual impairment charges are applied to these items, while a general allowance of 20% (foreign) and 10% (domestic) is applied.

2.4 Other short-term receivables/liabilities from/to group companies

These positions contain euro cash-pool balances within the group. Participants of the euro cash-pool are all group companies with a significant transaction volume in Euro. Interest rates are applied at the market rate.

2.5 Inventories

Inventories are measured at the lower of acquisition or manufacturing cost and net realizable value. Production costs comprise all directly attributable material and manufacturing costs as well as indirect costs incurred to bring the inventories to their present location and get them into their current state. Acquisition and production costs are determined using the weighted average cost method. Net realizable value is the estimated proceeds from disposal minus estimated costs of production and selling expenses. Value adjustments are applied in cases of unsaleable inventory and inventory with low turnover rates.

2.6 Tangible fixed assets

Tangible fixed assets are measured at acquisition cost or production cost less accumulated depreciation. Depreciation is recognized on a straight-line basis over the following estimated useful life of the asset:

Machines and equipment: 10 years
Other tangible fixed assets: 3 to 10 years

2.7 Investments

Investments in subsidiaries are carried at historical cost less required impairments. An impairment is considered as soon as the net asset value of all investments falls below total carrying value. In order to evaluate the amount to be impaired, a recognized valuation method is used. Subsidiaries are consolidated as a group for valuation purposes due to their high economical and operational interdependence.

2.8 Revenue recognition

Revenue comprises all proceeds from the sale of the products of KLINGELNBERG AG. Revenue is calculated on the basis of the services rendered to clients as at the balance sheet date. Revenue is recognized when the amount of the proceeds can be reliably determined, when it is sufficiently probable that the economic benefits from the sale will flow to the KLINGELNBERG AG and the risk and reward of ownership is transferred.

2.9 Accrued expenses

Provisions are made when a legal or constructive obligation has arisen from past events as at the reporting date, the discharge of funds to fulfill this obligation is probable and a reliable estimate of the amount of the obligation is possible. The amount of the provision depends on the expected cash outflow to cover the obligation.

2.10 Share capital

The paid-in capital of KLINGELNBERG AG as at 31 March 2019 is composed of 8.840.000 registered shares (as at 31 March 2018: 42.000) with a nominal value of CHF 5 each (as at 31 March 2018: CHF 1.000).

3 Substantial information on the balance sheet items

3.1 Receivables from goods and services from third parties

CHF	31.03.2019	31.03.2018
Receivables from goods and services (gross)	21.250.372	36.058.526
Value adjustments	-4.248.800	-7.211.800
Receivables from goods and services	17.001.572	28.846.726
Thereof:		
- Not due	16.416.772	25.903.882
- Up to 90 days overdue	584.800	2.934.024
- Over 90 days overdue	0	8.820

3.2 Other short-term receivables from third parties

The position includes refunds from VAT declarations from Germany and Switzerland in the amount of CHF 1,3 million (as at 31 March 2018: CHF 4,4 million).

3.3 Other short-term receivables/financial liabilities from/to group companies

The funds from the capital increase were used for internal financing. The cash pool account of KLINGELNBERG GmbH essentially increased from CHF 30 million to CHF 51 million.

3.4 Inventories

CHF	31.03.2019	31.03.2018
Work in progress	1.112.897	1.483.578
Acquired parts	5.289	428.883
	1.118.186	1.912.461
Value adjustments	-107.259	-998.068
Inventories	1.010.927	914.393

3.5 Tangible fixed assets

Assets in the amount of CHF 0,1 million (as at 31 March 2018: CHF 0,1 million) were acquired, whereas depreciation amounts to CHF 0,3 million (as at 31 March 2018: CHF 0,3 million).

3.6 Long-term loans to group companies

The loan to KLINGELNBERG India Private Ltd. was paid back on 09 October 2018.

3.7 Investments

As at 31 March 2019 and the end of previous year, KLINGELNBERG AG held the following investments:

- Klingelberg GmbH, Hückeswagen, Germany (100%)
- Klingelberg Imexma SA, Barcelona, Spain (100%)
- Klingelberg France SAS, Saint German-en-Laye, France (100%)
- Klingelberg Italiana S.R.L., Milano, Italy (100%)
- Klingelberg (Japan) Ltd., Yokohama, Japan (100%)
- The Klingelberg Corporation, Cincinnati, Ohio, USA (100%)
- Klingelberg Mexico S.A. de C.V., Queretaro, Mexico (100%)
- Klingelberg Hungaria Kft., Győr, Hungary (100%)
- Klingelberg India Private Ltd., Pune, India (99.99%)
- DKSH Klingelberg Service Ltd., Shanghai, China (joint venture/50%)
- Klingelberg do Brasil, Sao Paulo, Brazil (99%)
- Klingelberg Hungaria Service Kft., Győr, Hungary (100%)

3.8 Short-term financial liabilities to third parties

The use of the credit line as at 31 March 2019 was not required. As at 31 March 2018, this was CHF 4,6 million.

3.9 Payables from goods and services to third parties

CHF	31.03.2019	31.03.2018
Payables from goods and services	1.160.075	1.487.937
Payables from other related parties	10.616	0
Payables from goods and services to third parties	1.170.691	1.487.937
Thereof:		
- Not due	1.170.217	1.475.813
- Up to 90 days overdue	474	5.717
- Over 90 days overdue	0	6.407

3.10 Other short-term liabilities to third parties

Other short-term liabilities include advance payments from customers, salaries and wages, commissions and taxes/social-insurance withholdings.

3.11 Other short-term liabilities to group companies

As at 31 March 2019 these are only down payments received.

3.12 Accrued liabilities and deferred income

The position essentially involves an increase in income tax in the amount of CHF 1,2 million.

3.13 Short-term and long-term provisions

The process of the warranty provision calculation has been revised. The new calculation is supported by the SAP System. Due to the reduction in sales, utilization and updated process, the warranty provision decreased from CHF 2,4 million to CHF 1,4 million (as at 31 March 2019 long-term: CHF 0,7 million, as at 31 March 2018: CHF 0,6 million). In addition, for the first time the position includes a long-term bonus provision (CHF 0,2 million) based on LTIP for the management and long-term bonus for the extended executives.

3.14 Share capital

The paid-in capital of KLINGELNBERG AG as at 31 March 2019 is composed of 8.840.000 registered shares (as at 31 March 2018: 42.000) with a nominal value of CHF 5 each (as at 31 March 2018: CHF 1.000). The share split is shown in section 4.3 of the Corporate Governance report.

3.15 Statutory capital reserves

As at 31 March 2019, the Company had CHF 64,4 million of reserves from capital contributions, of which CHF 43,8 million has been recognized as such by the Swiss tax authorities. The KLINGELNBERG AG plans to request the recognition of the remaining CHF 20,5 million from the Swiss tax authorities.

4 Substantial information on the income statement items

4.1 Other operating income

Due to lower receivables (note 3.1), general allowances decreased by CHF 3,0 million (as at 31 March 2018: increase CHF 2,4 million). Furthermore, two instances of transport damage in the amount of CHF 0,4 million (2017/18: CHF 0) were covered.

4.2 Personnel expense

The increase in personnel expense is due mainly to the change in the composition of the Board of Directors (Corporate Governance report, section 5.6) and the increase in the number of employees.

4.3 Other operating expense

Other operating expenses include in particular rent expense, legal and consulting expense, travel and representation expense, freight charges, commissions, patent cost and other expenses.

The position includes expense from the IPO in the amount of CHF 1,3 million (2017/18: CHF 0,8 million).

4.4 Financial result

CHF	2018/19	2017/18
Interest expense (-)	-121.969	-1.447.694
Interest income (+)	1.491.665	1.531.035
Financial income	1.369.696	83.341
Currency translation difference and hedging expense	-7.239.280	-6.520.782
Currency gains	4.722.818	11.228.140
Foreign currency loss/gain	-2.516.462	4.707.358
Investment income	719.680	4.089.058
Financial result	-427.086	8.879.757

The interest expense was reduced by using the funds for the repayment of short-term bank loans from the capital increase. The floating of the currency rate EUR/CHF is responsible for the foreign currency loss. Income from investments relates to dividends from subsidiaries.

4.5 Income taxes

The tax expense includes tax on profits. Capital tax is reported under other operating expenses (note 4.3) in the same way as in the consolidated financial statements.

5 Additional information

5.1 Employees

The number of full-time equivalents (FTEs) did not exceed 50 as an annual average (no changes to the prior year).

5.2 Lease liabilities

Operating leases apply mainly to vehicles and building rents.

CHF	31.03.2019	31.03.2018
Up to 1 year	1.405.942	1.413.559
1 to 5 years	5.405.750	5.461.692
More than 5 years	5.400.000	6.750.000
Total operating lease liabilities	12.211.692	13.625.251

5.3 Pension fund obligations

As at 31 March 2019, there are no liabilities to the occupational pension fund due (as at 31 March 2018: CHF 0). Pension benefits are shown in note 4.13 of the consolidated financial statement.

5.4 Release of hidden reserves

During the period under review, hidden reserves of CHF 4,0 million were released (prior year: CHF 0) mainly due to the reduction of the allowance of receivables from goods and services (note 3.1).

5.5 Guarantees

The KLINGELNBERG AG, as the parent company, has taken over joint liability for different subsidiaries and their bank contracts. The contracts are concluded in EUR, JPY and CHF. The conversion into CHF takes place at the closing rate.

CHF 000	31.03.2019	31.03.2018
Guarantees and pledges to group companies in favor of third parties	72.421	112.452
Guaranteed maximum amount	72.421	112.452
Thereof utilized	13.714	33.620

5.6 Contingent liabilities

At the end of the year under review, there were no contingent liabilities (no changes from the previous year).

5.7 Significant shareholders

An overview can be found in section 3.1 of the Corporate Governance report.

5.8 Compensations

Compensations to the Board of Directors and to the Executive Committee are disclosed in section 5 of the Compensation Report.

5.9 Shareholdings of members of the Board of Directors and Executive Committee

Number of shares

	31.03.2019
Jan Klingelberg, CEO*	0
Christoph Küster, CFO	1.000
Martin Boelter, COO	1.000
Dr. Jörg Wolle, Member of the Board of Directors/Chairman	45.000
Diether Klingelberg, Member of the Board of Directors*	10.000
Hans-Georg Härter, Member of the Board of Directors	430

* Another 4.298.349 shares are held by KLINGELNBERG Luxembourg A.G. The shares of this company are directly and indirectly held by Jan and Diether Klingelberg (section 3.1 of the Corporate Governance report).

5.10 Events after the balance sheet date

No significant events occurred after the balance sheet date. Events after the balance sheet date were considered until 08 July 2019. On this date, the financial statements were authorized for release by the Board of Directors.

Appropriation of retained earnings

Proposal by the Board of Directors for the appropriation of retained earnings:

CHF	31.03.2019	31.03.2018
Amount brought forward from prior year	26.769.356	16.734.524
Net profit	7.557.579	10.034.832
Statutory retained earnings	34.326.935	26.769.356
To be carried forward	34.326.935	26.769.356

Proposal of the Board of Directors for the appropriation of legal capital contribution reserves:

CHF	31.03.2019	31.03.2018
Capital contribution reserves	64.371.150	43.834.150
Capital contribution reserves (not yet approved by tax authorities)	-20.537.000	0
Available capital contribution reserves	43.834.150	43.834.150
Withholding tax free distribution	-8.840.000	0
To be carried forward	34.994.150	43.834.150

The Board of Directors will propose to the Annual General Meeting on 27 August 2019 to pay out a dividend of CHF 1 per registered share out of legal capital contribution reserves. In addition, the Board of Directors will propose that the retained earnings of CHF 34,3 million will be carried forward.

In the previous year, no dividend was paid out according to the decision of the Annual Shareholders' Meeting of 04 June 2018.

Klingelberg AG

Zürich

***Report of the
statutory auditor to the
General Meeting***

***on the financial statements
2018/2019***





Report of the statutory auditor to the General Meeting of Klingelberg AG

Zürich

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Klingelberg AG, which comprise the balance sheet as at 31 March 2019, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 107 to 119) as at 31 March 2019 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

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

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 462'000

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

As key audit matters the following areas of focus have been identified:

- Valuation of investments in subsidiaries
- Revenue recognition of goods and services in the appropriate period

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Materiality

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

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

<i>Overall materiality</i>	CHF 462'000
<i>How we determined it</i>	5% of profit before tax
<i>Rationale for the materiality benchmark applied</i>	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 23'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

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

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

Valuation of investments in subsidiaries

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
The balance sheet item 'Investments' includes a number of investments in subsidiaries and amounts to CHF 93.6 million as of 31 March 2019. We consider the valuation of investments in subsidiaries to be a key audit matter due to the significance of the balance (50.5% of total assets). An impairment of investments in subsidiaries could have a significant impact on the equity of the company.	With regard to the valuation of investments in subsidiaries, our audit consisted principally of the following procedures: – We assessed the appropriateness of Management's applied valuation approach (comparison of carrying values against the respective net asset value);



Investments in subsidiaries are carried at historical cost less required impairments. Management considers an impairment as soon as the total net asset value falls below total carrying value. In order to evaluate the amount to be impaired, a recognised valuation method is used.

Due to the high economic and operational interdependence of subsidiaries, Management deemed the consolidation of the investments in subsidiaries as a group for valuation purposes to be appropriate.

Please refer to the accounting principles for 'Investments' in note 2.7 as well as the details of investments held in note 3.7.

– We challenged Management's considerations for applying portfolio valuation;

– We tested the mathematical accuracy of the impairment assessment prepared by Management;

– We compared the current year's business results with Management's prior period forecasts in order to assess in retrospect the accuracy of Management's forecasting process.

On the basis of the work performed, we gained sufficient evidence to address the risk of material misstatement of the valuation of investments in subsidiaries. We consider the valuation of investments in subsidiaries to be appropriately assessed by Management.

Revenue recognition of goods and services in the appropriate period

Key audit matter

Klingelberg AG recognises revenue from goods and services in the period in which it transfers the risk and reward of ownership.

A significant portion of the revenue is recognised during the second half of the Company's financial year. We consider revenue recognition in the appropriate period to be a key audit matter because of the complexity involved when assessing and adhering to the contractually agreed incoterms as well as due to standard intra-year seasonal trends, which, in our view, increase the risk of material misstatement in revenue recognition in the appropriate period.

Please refer to the company's accounting principles in note 2.8.

How our audit addressed the key audit matter

We performed the following audit procedures to assess whether revenue from goods and services was recognised in the appropriate period:

– We identified transactions occurring close to the balance sheet date and for the months of March 2019 and April 2019 tested, on a sample basis, whether revenue was appropriately recognised in the period in which the risk and reward of ownership were transferred. For the same sample, we assessed whether the contractually agreed incoterms were in agreement with the revenue recognition;

– Furthermore, we enquired with Management regarding controls that address the risk of recording revenue from goods and services in the wrong period.

We consider the risk of material misstatement in revenue recognition in the appropriate period to be adequately addressed.

Responsibilities of the Board of Directors for the financial statements

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

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

***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: <http://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 paragraph 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 reserves complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

A handwritten signature in blue ink on a light blue grid background. To the right of the signature is a small red circular stamp with a white cross, indicating a Swiss official seal.

Blaženka Kovács-Vujević

Audit expert
Auditor in charge

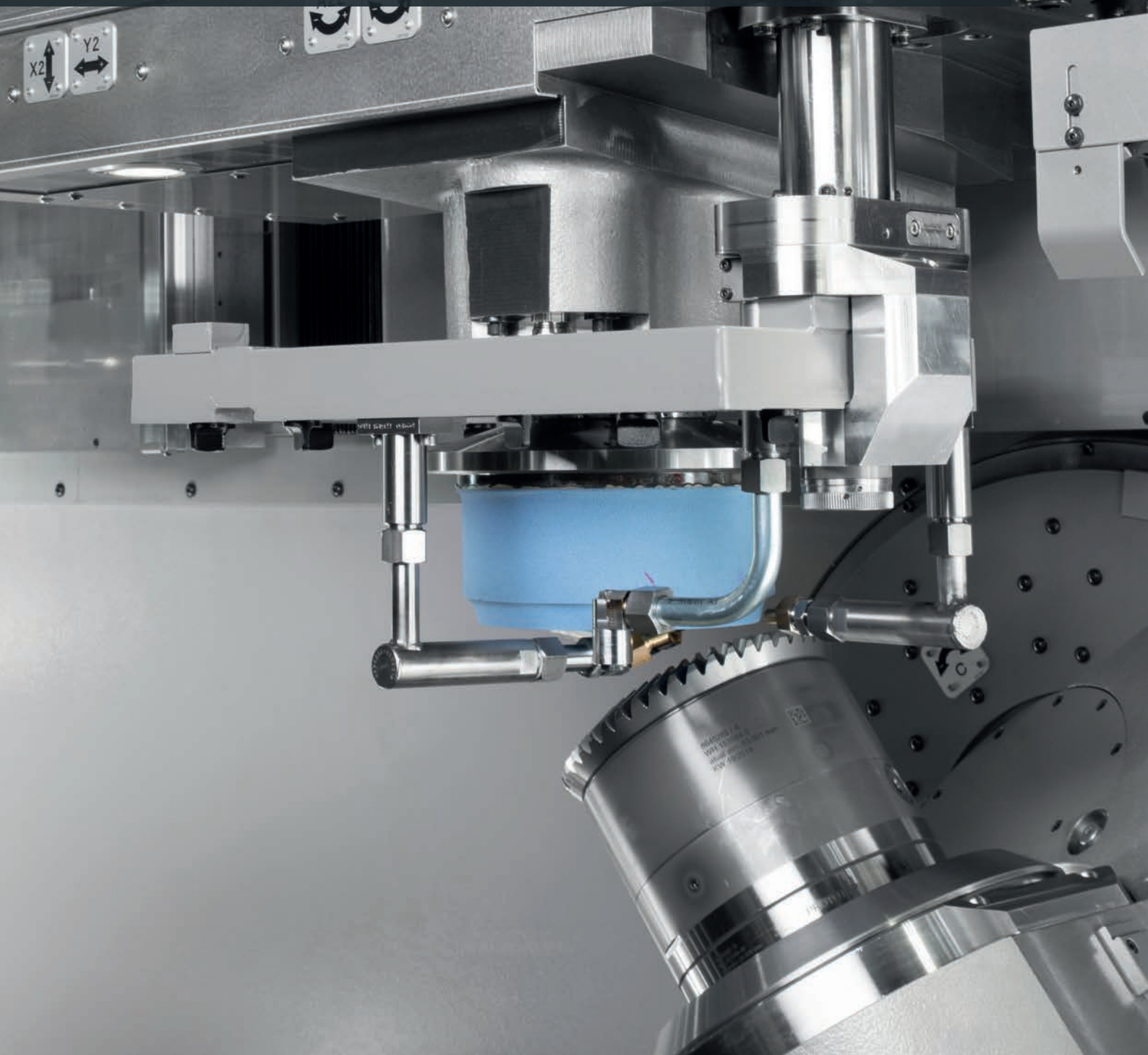
A handwritten signature in blue ink on a light blue grid background. To the right of the signature is a small red circular stamp with a white cross, indicating a Swiss official seal.

Dano Bollier

Audit expert

Zürich, 8 July 2019

Alternative Performance Measures



Alternative Performance Measures

In addition to the key figures defined or specified in the SWISS GAAP FER financial reporting framework, Klingelberg also provides key financial ratios derived from or based on the prepared financial statements. These are known as Alternative Performance Measures (APM).

Klingelberg considers these key financial ratios to be important supplemental information for investors and other readers of the financial reports. The key financial ratios should therefore be seen as an addition to and not a replacement of the information prepared in accordance with SWISS GAAP FER.

With regard to the requirements of the SIX Swiss Exchange guidelines on Alternative Performance Measures (APM), Klingelberg provides an overview of the Alternative Performance Measures used, their definition and their compilation:

EBITDA:

Earnings before interest, income tax, depreciation and amortization (EBITDA) as a subtotal includes the operating result plus depreciation on tangible fixed assets and amortization on intangible assets.

EUR 000	2018/19	2017/18
(1) Operating result	29.979	22.058
(2) Depreciation on tangible fixed assets	-5.902	-6.106
(3) Amortization on intangible assets	-472	-450
EBITDA (1) - (2) - (3)	36.353	28.614

EBIT:

The operating result (Swiss GAAP FER) excluding non-operating and extraordinary results.

EUR 000	2018/19	2017/18
Operating result	29.979	22.058

Operating Result (adjusted, without IPO costs):

The operating result (EBIT) is increased by all IPO costs incurred, such as bank charges, consulting, travel expenses, etc.

EUR 000	2018/19	2017/18
(1) Operating result	29.979	22.058
(2) IPO costs	-1.126	-747
Operating result (adjusted, without IPO costs) (1) - (2)	31.105	22.805

Total Operating Performance:

Total operating performance is the sum of net sales from goods and services and change in inventory of finished and unfinished goods as well as unbilled goods and services.

EUR 000	2018/19	2017/18
(1) Net sales from goods and services	278.214	257.027
(2) Change in inventory of finished and unfinished goods as well as unbilled goods and services	-419	5.480
Total operating performance (1) + (2)	277.795	262.507

Gross Profit:

Gross profit is the sum of total operating performance and raw material expense.

EUR 000	2018/19	2017/18
(1) Total operating performance	277.795	262.507
(2) Raw material expense	-108.330	-100.873
Gross profit (1) + (2)	169.465	161.634

Materials Ratio:

The materials ratio is derived from the division of raw material expense by total operating performance.

EUR 000	2018/19	2017/18
(1) Total operating performance	277.795	262.507
(2) Raw material expense	-108.330	-100.873
Materials ratio (-2) / (1)	39,0%	38,4%

Personnel Expense Ratio:

The personnel expense ratio is derived from the division of personnel expense by total operating performance.

EUR 000	2018/19	2017/18
(1) Total operating performance	277.795	262.507
(2) Personnel expense	-101.248	-94.808
Personnel expense ratio (-2) / (1)	36,4%	36,1%

Adjusted Other Operating Expense:

Other operating expense adjusted by all IPO costs.

EUR 000	2018/19	2017/18
(1) Other operating expense	-39.875	-41.451
(2) IPO costs	-1.126	-747
Adjusted other operating expense (1) - (2)	-38.749	-40.704

Adjusted Other Operating Expense Ratio:

The adjusted other operating expense ratio is derived from the division of other operating expense without all IPO costs by total operating performance.

EUR 000	2018/19	2017/18
(1) Total operating performance	277.795	262.507
(2) Adjusted other operating expense	-38.749	-40.704
Adjusted other operating expense ratio (-2) / (1)	13,9%	15,5%

Ratio of Research and Development Expenses:

Research and development expenses divided by net sales from goods and services.

EUR 000	2018/19	2017/18
(1) Net sales from goods and services	278.214	257.027
(2) Research and development expenses	-24.433	-21.924
Ratio of research and development expenses (-2) / (1)	8,8%	8,5%

Net Debt:

The sum of financial liabilities (long- and short-term) less cash and cash equivalents.

EUR 000	31.03.2019	31.03.2018
(1) Short-term financial liabilities	1.735	22.035
(2) Long-term financial liabilities	4.722	6.295
(3) Cash and cash equivalents	28.695	8.632
Net debt (1) + (2) - (3)	-22.238	19.698

Free Cash Flow:

Cash flow from operating activities plus cash flow from investing activities.

EUR 000	31.03.2019	31.03.2018
(1) Cash flow from operating activities	27.587	6.409
(2) Cash flow from investing activities	-5.587	-5.561
Free cash flow (1) + (2)	22.000	848

Financial Calendar



Dates in the coming financial year

09.07.2019	Publication of figures for the fiscal year ending 31 March 2019
27.08.2019	Annual General Meeting
12.11.2019	Publication of results for the half-year ending 30 September 2019



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