SUCCESS THROUGH INNOVATION

Annual Report
2017

komax

The Komax Group is a pioneer as well as the market and technology leader in automated wire processing solutions. It is aiming to consolidate this leading position and set the pace on the trends that are important today, such as electro-mobility and autonomous driving. To this end, it is channeling above-average investment into research and development.

For the period 2017–2021, Komax has set itself ambitious targets – for growth, profitability, and return on capital. Through its business strategy, which is geared to long-term success, Komax aims to create sustainable value. This approach also benefits shareholders – in the form of an attractive dividend policy and corresponding stock market valuation.

KEY FIGURES

in TCHF	2017	2016[1]	+/– in %
Order intake[2]	**449 736**	370 246	21.5
Gross profit	**256 476**	247 943	3.4
in % of revenues	**62.8**	63.3	
Investments in non-current assets	**22 201**	22 827	–2.7
Free cash flow	**–7 582**	441	–1 819.3
Net working capital[3]	**168 361**	136 540	23.3
in % of revenues	**37.3**	33.8	
Total assets	**414 458**	357 060	16.1
Net debt (–) / net cash (+)	**–10 544**	17 008	–162.0

409m

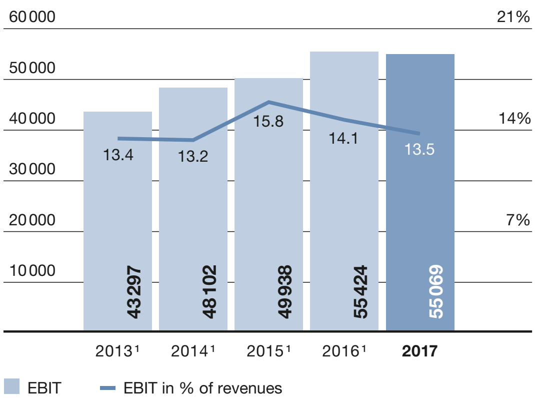
Revenues in CHF (2016: 373m)[4]

23.8%

RONCE (2016: 26.6%)[1]

Operating profit (EBIT)

in TCHF



1841

Headcount as at 31.12.2017
(31.12.2016: 1633 employees)

2.0%

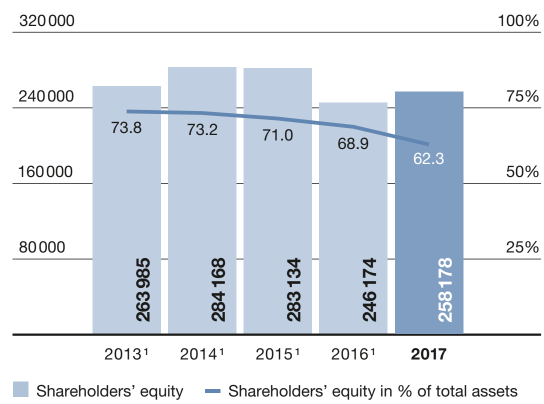
Dividend yield as at 31.12.2017
(31.12.2016: 2.6%)

59.2%

Payout ratio
(2016: 63.4%)[1]

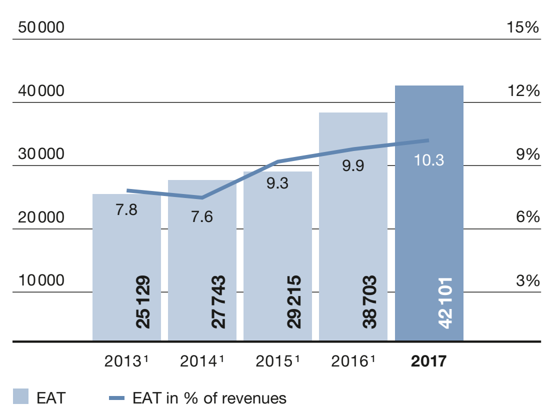
Shareholders' equity

in TCHF



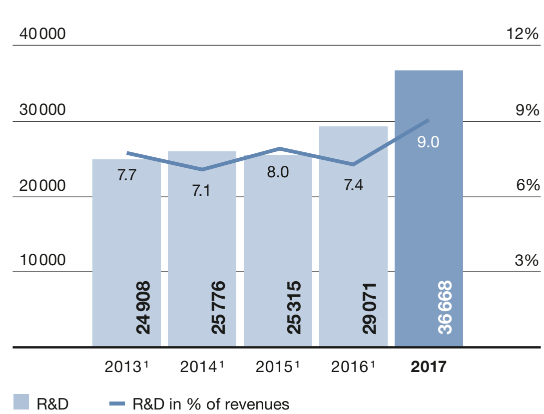
Group profit after taxes (EAT)

in TCHF



R&D expenditure

in TCHF



[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly. The years 2013–2015 are reported according to IFRS.
[2] Order intake of the Medtech business unit, which was sold in April 2016, is not included.
[3] Net working capital: receivables + inventories ./. current liabilities.
[4] Revenues of the Medtech business unit, which was sold in April 2016, are not included.

DEAR SHAREHOLDER

In 2017, the Komax Group further expanded its position as market and technology leader. The financial year was characterized by strong growth in order intake and revenues, numerous successful product launches, two acquisitions, significant investment in research and development as well as digitalization, a number of projects to expand production capacity, and the breakthrough in the aerospace market segment. Komax considers itself to be on track with implementation of its 2017–2021 strategy, and is confident about business development in 2018.

The sharp rise in both order intake and revenues underlines the point: Komax once again grew more strongly than the market in 2017. While revenues increased by 9.6% to CHF 408.5 million (2016: CHF 372.7 million), the order intake rose by as much as 21.5% to CHF 449.7 million (2016: CHF 370.2 million). The growth in revenues comprises internal growth (+6.0%) and acquisition-driven growth (+2.2%), as well as the positive foreign currency influence (+1.4%). In 2017, Komax changed its accounting standard from IFRS to Swiss GAAP FER, and revised the prior-year figures accordingly. These prior-year figures now exclude both the revenues (CHF 19.1 million) and the order intake (CHF 9.3 million) of the Medtech business unit, which was sold in April 2016.

Europe (+8.0%), Asia (+10.3%), and Africa (+47.1%) all contributed to the strong revenue growth. By contrast, Komax recorded a slight decline in revenues in North/South America (–2.1%). However, following a sharp decline in the first half of the year (–5.8%), North/South America then recovered in the second half, almost reaching the prior-year level. In the US in particular, investment activity picked up as the year progressed, with the result that the decline in revenues in the earlier part of the year was partly reversed. The new Alpha 530/550 machine platform for the core business of Komax (crimp to crimp) penetrated the market in all regions in 2017, making a significant contribution to growth. In addition, our customers responded to the various new solutions we launched in 2017 – which cover the entire value chain – very rapidly and positively.

26% rise in R&D expenditure

In order to further expand its leading position over the next few years, Komax invested CHF 36.7 million in research and development (R&D). This equates to 9.0% of revenues (2016: 7.4%), and an increase of CHF 7.6 million on the previous year. The two acquisitions executed in 2017 (Laselec and Practical Solution) also contributed to this increase. Issues such as electro-mobility and autonomous driving give Komax further opportunities to develop unique selling features. Komax is keen to grasp these opportunities, which is why it intends to channel some 8%–9% of revenues into research and development over the coming years too.

Despite this significant rise in proactive investment to ensure a sustainably successful future, Komax nonetheless generated operating profit (EBIT) of CHF 55.1 million, thereby essentially matching the prior-year figure (CHF 55.4 million). The additional R&D expenditure had the effect of reducing the EBIT margin by 1.8 percentage points. Yet despite this, Komax was still able to report an EBIT margin of 13.5% in 2017 (2016: 14.1%). Another drag on profitability was the strong increase in inventories to CHF 92.0 million (2016: CHF 70.4 million). Around half of this increase relates to machinery that is now either complete or nearly complete, but has yet to be converted into revenues.

Long delivery times of customer-specific systems

This delayed conversion into revenue is one of the reasons for the Group's high book-to-bill ratio of 1.10 (2016: 0.99). Another contributory factor was the large number of customer-specific systems ordered in 2017. Orders of this type tend to have longer delivery times than serial production machines. A good example of this is the large order received by Komax at the end of 2017 from the aerospace industry. The delivery of the corresponding systems to automate wire processing for this customer will extend over the years 2018 to 2020. This large order represents a milestone both for Komax and for the aerospace industry. For Komax, this is the first order worth millions from this market segment, while for the aerospace industry the degree of automation in wire processing that will be achieved through the ordered systems represents a pioneering development.

Financial base remains strong

Group profit after taxes (EAT) rose by 8.8% to CHF 42.1 million (2016: CHF 38.7 million). This result was reduced by the sum of CHF 3.6 million as a result of a value adjustment on a loan to an associated company. By making this value adjustment, Komax has drawn a line under the participation that dates back to the Komax Solar era. Basic earnings per share increased to CHF 11.05 (2016: CHF 10.34). Komax continues to be very robustly financed. As at 31 December 2017, shareholders' equity totaled CHF 258.2 million (2016: CHF 246.2 million) while the equity ratio stood at 62.3% (2016: 68.9%). Free cash flow amounted to CHF –7.6 million (2016: CHF 0.4 million), while net debt stood at CHF 10.5 million (2016: net cash of CHF 17.0 million).

Investment in capacity expansion

Both the two acquisitions made in 2017 and the investment in capacity expansion had an impact on free cash flow. Thanks to the takeover of the assets of Practical Solution (as per 3 March 2017), Komax has strengthened its position in the growing market in Asia, acquiring a third Asian development site in Singapore to join its existing sites in Shanghai and Tokyo. To strengthen its presence in the aerospace market segment, Komax acquired Laselec SA as per 1 October 2017; this French company develops laser-supported solutions for the stripping and marking of wires and intelligent assembly boards for wire harness production.

In order to deliver the growth it has planned for the coming years, Komax is investing in the expansion of its production capacity in a targeted way. In 2017, work began on a new building at the Group's headquarters in Switzerland, and three further construction projects are planned for 2018 – two in Germany, and one in Hungary. In total, Komax will be investing more than CHF 90 million in new infrastructure between 2017 and 2019. The new building in Switzerland should be ready for occupation in the second half of 2019, while the three other buildings are expected to be ready towards the end of 2018.

High payout ratio

The Board of Directors is proposing to the Annual General Meeting an unchanged distribution of CHF 6.50 per share. This represents a substantial payout ratio of 59.2%. Due to the strong result and the positive outlook, the proposed distribution is at the upper end of the strategic bandwidth of 50%–60%, and this despite the significant investment in the expansion of capacity. The distribution comprises a dividend of CHF 5.00 and a distribution from capital contribution reserves of CHF 1.50. The latter is tax-free for persons domiciled in Switzerland who hold shares as part of their private assets. The dividend yield (calculated on the basis of the 2017 year-end closing price of the Komax share) amounts to 2.0%.

Outlook

The Komax Group remains very well positioned, and considers itself to be on track with the implementation of its 2017–2021 strategy. For the 2018 financial year, Komax is confident of delivering a result that will support the attainment of its ambitious medium-term targets. Komax expects to grow more strongly than the market and to increase profitability slightly – despite continuing to invest heavily in research and development. Demand for automation solutions in the area of wire processing continues to rise. Thanks to its innovative strength and broad spectrum of solutions, Komax is ideally placed to seize the growth opportunities that present themselves.

Yours sincerely,

Dr. Beat Kälin **Chairman of the** **Board of Directors**	**Matijas Meyer** **CEO**

8 March 2018

AROUND THE WORLD

The Komax Group has a presence in all key production regions of its customers. Having had its finger on the pulse of industry for more than 40 years, Komax is able to develop appropriate, high-value and innovative automation solutions for local requirements in global markets.

Komax produces in Europe, Asia, North and South America, and Africa, and provides sales and service support in more than 60 countries through its subsidiaries and independent agents.

- ■ Komax production, sales and service
- ● Komax sales and service
- ○ Sales representative
- ▲ Participation

Headquarters:
Komax Holding AG
Dierikon, Switzerland

60

countries with sales and service support

38

Komax companies worldwide

GLOBAL PRODUCTION, LOCAL DISTRIBUTION AND SERVICE NETWORK

Komax produces standardized products as well as customer-specific systems at 19 locations worldwide, and has a unique global distribution and service network. Customer proximity together with short reaction and supply times are crucial to success. For that reason, Komax has consistently been applying the motto “global local” for many years. More than 1800 employees currently work in the 38 companies of the Komax Group worldwide.

The latest North American site is located in Irapuato in the Bajío region in the Federal State of Guanajuato in Mexico.

Komax produces standardized (off-the-shelf) products for wire processing at locations in Switzerland, Germany, France, China, Japan, and Singapore. The test systems of the TSK brand are manufactured in Germany, Bulgaria, Turkey, the US, Mexico, Brazil, Tunisia, and China. Customer proximity is very important when it comes to ensuring short supply times for testing adapters. Customer-specific systems are produced at sites in Switzerland, Germany, France, and Hungary. With production sites in all the most important market regions of the world, Komax is well positioned to meet the expectations of its global customers, who require suppliers to have a local presence.

The extension building in Dierikon will have total floor space of more than 20000 m², spread across seven floors (lower ground floor, ground floor, five stories).

Ongoing expansion of production capacity

The demand for automation solutions continues to rise, which means Komax is coming up against its capacity limits at a number of locations. For this reason, Komax has consistently been investing in the expansion of its production capacity in recent years, such as in 2016 in the case of Komax SLE in Grafenau, Germany, and TSK in Ergene/Tekirdag, Turkey.

In 2017, Komax opened a newly built plant in Irapuato, Mexico, which specializes in the production of TSK test systems. The site lies right at the heart of the Mexican automotive market. This region is home not only to a number of different automotive plants, but also to the major automotive suppliers – which means the customers of Komax.

In order to further expand the production of TSK test systems in Europe too, Komax founded a company in Bulgaria at the end of 2017. This is located in Yambol. Employees commenced production operations in December.

Investment of more than CHF 70 million at headquarters

The very strong order situation means that Komax is also increasingly reaching the limits of its capacity in Switzerland, and already in 2016 rented a third location in central Switzerland (Küssnacht am Rigi). In order to optimize the collaboration of staff in Switzerland as well as improve logistics, Komax is investing more than CHF 70 million in an extension building at its headquarters in Dierikon. The goal is for all employees in Switzerland to be working at this site one day.

The ground-breaking ceremony for this major project took place in mid-August 2017. The new production and office building will be situated right next to the existing buildings. It is designed so that each floor can be used for both production and administration. Thanks to the high-density building design, Komax is using the available space optimally, and will therefore have a vertical factory that should be ready for occupation in the second half of 2019.

Komax SLE in Grafenau is the center of competence for infotainment and high-frequency technology in the automotive sector.

Expansion in Germany and Hungary

In addition to the extension building in Switzerland, Komax will be investing in three further locations in 2018: at Komax SLE in Grafenau, Germany, at Kabatec in Burghaun, Germany, and at Komax Thonauer in Budakeszi, Hungary.

Komax SLE has already quadrupled its original production and office area with a new-build completed in 2016, and is now about to embark on the next extension project. This will have the effect of more than doubling the existing floor space of some 5000 m^2. At its location in Grafenau, Komax produces customer-specific systems for the manufacture of data lines and antennae. The production of these systems takes up a large amount of space for a long period of time. At the same time, the demand for machinery made in Grafenau has risen significantly – and will rise further, making a new building essential. The principal reason for the rise in demand is the fact that vehicles are becoming increasingly integrated, with driver assistance systems becoming widespread and autonomous driving on public roads not that far off in the future.

At the end of 2018, Kabatec will have a new production and assembly plant as well as a separate three-stories office building in Burghaun.

As the demand for taping and assembly technology also continues to rise, Komax is also investing in a new-build for Kabatec, a company it acquired in 2016. The new site, which will likewise be located in Burghaun, offers Kabatec the option of a further expansion at a later date. In 2017, Komax amalgamated its two companies active in the area of taping technology – Kabatec and Ondal Tape Processing – under the name Kabatec, and the employees of these two companies will now jointly occupy the new site.

The rising demand for electric vehicles is an opportunity for Komax, as new solutions are required for the automated processing of high-voltage wires. Komax develops and produces these at its electromobility center of competence in Budakeszi, Hungary. Komax Thonauer brought the first machines to market in this field in 2017. Global production of hybrid and electric vehicles will rise significantly over the next few years. This in turn entails an increase in demand for solutions for the automatic processing of the wires in these vehicles. In order to meet this demand, Komax is erecting a new building in Budakeszi.

All three buildings in Germany and Hungary are expected to be ready for occupation at the end of 2018, and have an aggregated investment volume of more than CHF 20 million.

Komax is close to its customers

The Komax Group provides sales and service support in more than 60 countries through its subsidiaries and independent agents. Around 150 employees work in Komax's global service organization. This gives Komax a unique global presence that enables it to provide efficient and competent support to its customers – both local and global – at all times. Customers can also submit their orders via the e-commerce platform Komax Direct.

Customer proximity as well as short reaction and supply times are crucial. This allows Komax to keep its finger on the pulse of industry and develop needs-driven, high-value and innovative automation solutions for local requirements in global markets by drawing on over 40 years' experience.

This global orientation reduces the impact of currency fluctuations. Moreover, Komax seeks to ensure that costs and revenues are generated/incurred in the same currencies to the greatest extent possible.

DYNAMIC MARKET

Demand for automation solutions in the area of wire processing increased further in 2017. Komax benefited greatly from this development, recording a significant rise in both order intake and revenues. Momentum was particularly dynamic in the automotive market segment, although the aerospace, telecom & datacom, and industrial market segments likewise contributed to growth.

The automotive industry showed itself to be in robust shape once again in 2017. Global production of cars and light commercial vehicles increased by 2.2% to some 95 million vehicles (source: IHS Markit). According to IHS Markit, the largest automotive market remains China, which produced some 28 million vehicles last year. That was 1.8% more than in 2016. In comparison to 2016 (+15.4%), growth has slowed significantly. The European market is in good health, having produced 22.1 million vehicles (+3.5%).

North America was one of the few regions to record no growth in 2017. The world's third-largest market produced 17.2 million vehicles, or 3.9% less than in 2016. South America recorded growth of 19.7% (3.3 million vehicles produced). This is almost exclusively attributable to the production performance of Brazil (+26.2%), which has returned to the path of growth (2016: –10.3%). For 2018, IHS Markit is forecasting a 1.8% increase in global vehicle production.

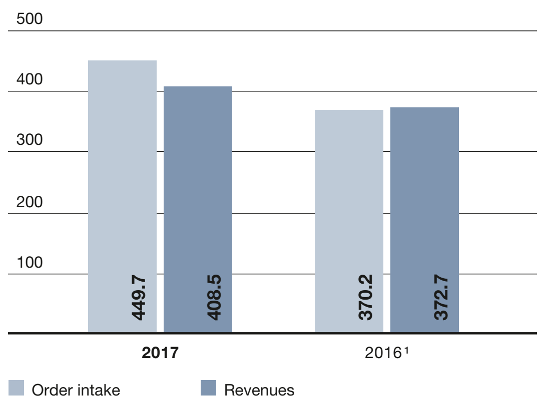
Strong growth in order intake and sales

The rise in vehicle production and the sharp increase in pressure to automate wire processing ensured a powerful rise in both the order intake and the revenues of Komax. While revenues rose by 9.6% to CHF 408.5 million, the order intake rose by as much as 21.5% to CHF 449.7 million. The aerospace, telecom & datacom, and industrial market segments likewise benefited from the ever-strengthening trend towards automation, making their own significant contribution to Komax's growth.

The book-to-bill ratio came in at a high 1.10, a significant rise on the prior-year figure of 0.99. One of the reasons for this rise is the significant number of customer-specific systems ordered in 2017. Orders of this type often have longer delivery times than serial production machines. A good example is the major order received from the aerospace industry for a number of systems for automated wire processing. The delivery dates for these systems range from 2018 to 2020. To ensure that the revenues from these systems are appropriately booked over the period in question, in keeping with their degree of completion, Komax applies the POC (percentage of completion) method to large orders of this kind.

Order intake and revenues

in CHF million



Komax enjoyed stronger growth than the market as a whole. A contributory factor here was the significant growth rates seen in Europe, Asia and Africa. The strongest rise of all was recorded in Africa (+47.1%). Due to the increasing scarcity of personnel resources in Eastern Europe, a number of wire harness manufacturers have been strengthening their presence in North Africa. In North/South America, Komax recorded a slight decline in revenues (–2.1%). Following a sharp decline in the first half of the year, North/South America then recovered in the second half, almost matching the prior-year figure. In the US in particular, investment activity picked up as the year progressed, with the result that the decline in sales in the earlier part of the year was partly reversed. In South America, Brazil remains by far the most important market for Komax. The strong momentum in China meant that Komax sold more in Asia than in North/South America for the first time ever, to the point where Asia has now become the second-strongest region for the Group. Market observations suggest that this dynamism will persist in the individual regions, at least for the first half of 2018.

Revenues by region	2017	2016[1]	+/– in %
in CHF million			
Switzerland	**8.8**	7.5	17.3
Europe	**199.3**	184.5	8.0
Asia/Pacific	**81.4**	73.8	10.3
North/South America	**76.2**	77.8	–2.1
Africa	**42.8**	29.1	47.1
Total	**408.5**	372.7	9.6

The strong growth recorded in China is also reflected in the breakdown of revenues by currency. The proportion of revenues booked in CNY increased from 11.5% to 14.1%. The changes in the key currencies are set out on page 100.

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly; order intake and revenues of the Medtech business unit, which was sold in April 2016, are not included.

Market segments and service

Komax focuses on four market segments. The core business is the automotive market segment, which accounts for more than 85% of revenues. Komax is continuously strengthening its presence in the other three segments – aerospace, telecom & datacom, and industrial – and exploiting the synergy potential with the core business. All segments benefit from the global service network of the Komax Group and from service offerings such as the Komax Academy.

Automotive
The automotive segment is by far the most important market segment for Komax. There are a number of reasons for this. In no other industry is the volume of wires to be processed so large; over the next five years, the volume of wires to be processed in the automotive industry is expected to rise by 2%–3% annually. In addition, the number of vehicles being produced continues to rise. In 2017, some 95 million vehicles were produced. Although the automotive industry has no peer when it comes to the degree of standardization and automation in the production process, there is still plenty of potential for additional automation steps, as wire harnesses are still manufactured by hand to a large extent.

Aerospace
Issues such as safety, lightweight construction, and lower emissions have been at the forefront of developments in aerospace for many years. Komax can draw on these experiences when it comes to its core business too, as these issues are also gaining in importance in the automotive industry. Komax secured expertise in the aerospace area in a targeted way through its acquisition of Laselec in 2017 (see page 30). The degree of automation of wire processing in the aerospace industry is at a very low level. However, as the barriers to entry in this market are very high for suppliers, it has taken several years for Komax to record its first major success. The breakthrough was made in 2017. Following negotiations lasting many years, Komax succeeded in winning new orders for several large-scale systems from two leading companies in this field.

Telecom & Datacom

Large volume data transfer and the permanent networking of people have become standard practice in the telecom & datacom market segment. The wiring used for these applications is being increasingly used in vehicles too, as cars become evermore interconnected, with comprehensive information systems that will facilitate autonomous driving in future. Komax can therefore also use the experience gained from the telecom & datacom market segment in the automotive segment.

Industrial

The processing of wires for industrial applications, such as electric control cabinets, for example, often involves working with very small batches. To ensure that automation is nevertheless a cost-efficient option for control cabinet manufacturers, Komax has developed specific machines of the Zeta type. These machines manufacture all the various different wires that are needed automatically, ensuring that they are in the right sequence and of the right length. This has the effect of reducing manual labor to a minimum. Manual processes such as cutting, stripping, marking, and sleeve insertion are rendered obsolete. Automation of this kind has proven its worth in the area of wire processing in the automotive industry for many years, and is now increasingly finding its way into industrial applications.

Service

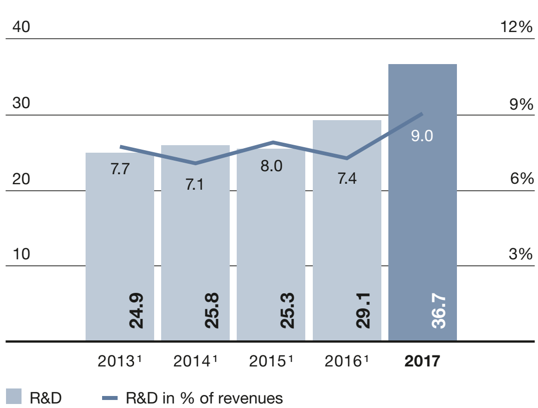
In all market segments, customers benefit from Komax's global distribution and service network. Among other things, the service offering includes the Komax Academy, which provides a modular training program, including final certification. The training modules are tailored to customers' needs. Training programs are currently offered for all machines offered by Komax. These are broken down into the following modules: Basic (operators), Advanced (machine setters and maintenance technicians), Specialist (shift managers, production heads, service technicians), and Expert (future instructors). Participants receive certification based on both theoretical and practical learning assessments – involving standardized global criteria with identical quality levels. Komax offers training courses in nine countries: Brazil, China, Germany, Mexico, Romania, Switzerland, Singapore, Tunisia, and the US. Training is available in German, English, Chinese, Spanish, and Portuguese.

HIGH DEGREE OF INNOVATION

In order to consolidate its market and technology leadership, Komax has been investing in research and development at an above-average rate – and will do so even more in future. Global developments such as electro-mobility and autonomous driving give Komax the opportunity to demonstrate once again its exceptional ability to innovate.

Over the last few years, Komax has invested some 7%–8% of Group revenues in research and development (R&D), and it will increase this figure to around 8%–9% over the next few years. In 2017, Komax invested 9.0% (2016: 7.4%) of Group revenues – or CHF 36.7 million – in research and development. That is some 26% more than the previous year. This figure includes expenditure on both internal development services (CHF 29.6 million) and the development services of third parties (CHF 7.1 million).

R&D expenditure
in CHF million



[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly. The years 2013–2015 are reported according to IFRS.

Electro-mobility and autonomous driving

The automotive industry is currently in a state of flux, and the race to develop the "mobility of the future" is also having an impact on Komax. Issues such as electro-mobility and autonomous driving give Komax further opportunities to develop unique selling features. But if these opportunities are to be seized, the course needs to be set today. For this reason, Komax is increasing its investment in research and development. The technological transformation of the automotive industry means a rise in manufacturing demands, and the customers of Komax are confronted with a number of unusual challenges. In order to ensure the latest customer requirements are met in the best possible way, Komax often works with leading companies from the automotive industry on development projects.

366 staff employed in research and development and engineering

As at 31 December 2017, the Komax Group employed a total of 200 employees (2016: 166) in the area of research and development. The majority (142 employees) work in Switzerland. In addition, Komax has development units in China, Germany, France, Japan, and Singapore. This innovative strength is additionally bolstered through 166 engineers (2016: 177) who make a key contribution through the development of customer-specific applications. The personnel costs of these employees are not contained in research and development expenditure if the staff in question have worked directly on customer projects. There are a number of reasons for the year-on-year increase of approximately 20% in headcount in the research and development area. In addition to the two acquisitions made in 2017 (Laselec and Practical Solution), this increase is also attributable to Komax's determination to consistently seize the opportunities that present themselves in the current market environment. This increase in headcount should be viewed as a form of investment in a sustainably successful future.

Multiple awards

The innovative successes of Komax have convinced not only the company's customers in 2017, but also a number of specialist juries. These juries have conferred upon Komax the Red Dot Design Award, the Productronica Innovation Award, and the Innovation Prize of the Chamber of Commerce and Industry of Central Switzerland (IHZ). Komax received the renowned Red Dot Design Award for its design of the Mira 230, a benchtop machine for the professional stripping of electrical wires. Another jury singled out the Sylade 7H laser wire stripper from Laselec (see page 17) for the Productronica Innovation Award. Two other innovations were also nominated: the Mira 340 developed by Komax Japan and the completely new operating software Komax HMI (see page 16). Furthermore, Komax was awarded the IHZ Innovation Prize for the first time since 1987. This was for its Alpha 530/550 machine platform (fully automatic crimping machine), the development of which required the deployment of around 50 employees over many years.

New products

Thanks to its targeted investment in research and development, Komax succeeds in bringing a variety of new products and product enhancements to market every year. 2017 was no different in this regard. Komax was able to demonstrate its technology leadership impressively, setting new standards with numerous market launches. Below we provide a selection of these new products.

Komax HMI
Fully automated, high-performance wire processing machines are complex things. In order to allow these machines to nonetheless be operated in a way that is as straightforward, efficient and error-free as possible, Komax has spent many years developing its operating software Komax HMI (Human Machine Interface). Thanks to consistent logic and direct guidance, operation of this software can be learned in a short space of time. It helps the user avoid errors during setup and changeover, as well as during the production process itself, and assists with the manufacture of products of reliably high quality. At the same time, the reject rate is minimized. Thanks to an open interface, Komax HMI can be linked to a manufacturing execution system such as Komax MES. This facilitates the transparent analysis of production data in real time – and at any time. All data is documented and traceable without exception.

Lambda 240 SP
The significance of electro-mobility continues to rise, and this development will become even more accentuated over the next few years. Produced by Komax Thonauer in Hungary, the Lambda 240 SP is a compact, semi-automatic solution for processing the shielded braid of high-voltage wires. Ultimate precision is called for if the shielded wires that are used in electrical vehicles are to avoid being damaged during processing. The cutting tube ensures that the inner insulation is not damaged during stripping, while the shielded braid is trimmed with the utmost precision. The reliable, controlled stripping of inner conductors and the removal of filling material is then executed by a freely configurable, rotating cutting unit.

Omega 740 / 750

For wire harness production with double-sided insertion of housings, Komax has developed fully automatic block loader machines in the form of the Omega 740 (five process modules) and Omega 750 (eight process modules). As manual steps, i.e. interim storage of individual wires and transport, are no longer required with the Omega, savings are made in both time and logistics. Cutting, crimping, and loading of the terminals all take place on the same machine. The Omega series is the economical answer to ongoing miniaturization and ever smaller production batches. Thanks to these machines, a variety of stand-alone wire harnesses can be manufactured simultaneously. The automatic wire changer provides up to 36 different wires from the entire cross-section range without any need for changeovers.

Sylade 7H

The Sylade 7H from Laselec is the handheld version of the Sylade 7 benchtop laser wire stripper. The patented Sylade laser technology uses high-precision semiconductor lasers that rotate around the wire perfectly and cut the insulation to the programmed depth with great repetition accuracy. At the touch of a button, the laser beam can process round, non-round, shielded, and twisted-pair wires with even the thinnest of insulation. Sylade 7H is perfectly suited for processing the wires used in the aerospace industry, but it is also suitable for industrial applications – such as the processing of aluminum wires for cars where the sensitive braids must not be damaged under any circumstances.

KTR 160

Kabatec has developed the KTR 160 taping machine for taping wire harnesses and modules, such as door wire harnesses, battery wire harnesses, and roof wire harnesses. It is also well suited to the taping of high-voltage wires with large cross-sections. As cost considerations require wire harness manufacturers to develop their products ever more efficiently and with ever higher quality, requirements as regards the operability and process accuracy of the corresponding machinery are continually rising. With the KTR 160, Kabatec has developed a stable, agile machine that significantly increases efficiency in the manufacture of wire harnesses – thanks to the high-precision belt feed system, operational assistance in the form of an intuitive touch screen and an automatically closing protective hood.

2017 financial year and 2017–2021 strategy

INVESTING TO GENERATE FURTHER GROWTH

Komax strengthened its market leadership in 2017, putting itself in a good position to exploit the growth opportunities offered by new technologies such as electro-mobility and autonomous driving.

Beat Kälin, Chairman

Beat Kälin, how would you assess the 2017 financial year?
Beat Kälin: In 2017, Komax reached a number of important milestones on its way to fulfilling its ambitious medium-term targets for 2017–2021. These include the successful launch of numerous new products, the step-by-step integration of the companies acquired in 2016, the expansion of the Group's market presence in Asia, the acquisition of Laselec, the booking of the first major order from the aerospace industry, and the start of work on the capacity expansion in Dierikon.

So is Komax on track from a strategic perspective?
Beat Kälin: The automotive market, which is by far the most important market for us, is going through a fascinating period right now. Themes such as electro-mobility and autonomous driving will change the industry. As market and technology leader, we have the opportunity to actively shape this transformation and further strengthen our leading position. In 2017, we took a number of steps to achieve this and thus lay the groundwork for lasting success.

Matijas Meyer, what have you done specifically?
Matijas Meyer: New technologies bring new challenges. If we are to meet these challenges, it is crucial that we get to grips with them at an early stage. This is the only way of ensuring that we can bring new solutions to market. A good example of this is electro-mobility. True, only just over 1%

of the 95 million vehicles produced globally in 2017 had electric engines. So the number of high-voltage wires requiring incorporation into car engines is still relatively low. But we have nonetheless been preoccupied with this theme for quite a while now, and were therefore able to bring a number of convincing solutions for the processing and testing of high-voltage wires to the market in 2017. Thanks to the high-voltage center of competence we established in Hungary last year, we are well positioned to deal with the eventuality of electric vehicle production rising dramatically over the next few years.

What kind of potential do you see in autonomous driving?
Matijas Meyer: Autonomous driving essentially offers us far greater opportunities than electro-mobility. Because the former phenomenon requires a very large number of sensors, which accordingly means additional wires to be processed. What's more, the very highest quality – to the point of zero tolerance in the error rate – is called for, as is the seamless traceability of the individual process stages. This by definition requires the deployment of automation solutions, which is very positive for us. Thanks to our targeted investment in research and development, I am confident that we are very well equipped to meet the challenges of autonomous driving.

> "As market and technology leader, we have the opportunity to actively shape the transformation and further strengthen our leading position."
>
> **Beat Kälin**

You spent a record CHF 36.7 million on research and development in 2017. Was that a strategic decision?
Beat Kälin: Due to the developments mentioned earlier, the automotive industry is currently in a state of upheaval. In addition, there are a number of trends unfolding that will keep ratcheting up the pressure on manufacturers to automate wire processing. So the companies that want to be successful in the future need to be investing now – because the next few years will decide who has the edge in these new technologies. Obviously we are determined to remain the number 1 and increase our advantage even further. It was therefore a strategically important decision to increase our investment in research and development to 8%–9% of revenues.

Matijas Meyer, CEO

But that will squeeze margins ...
Matijas Meyer: In the short term, this higher expenditure will mean slightly less strong growth in EBIT. But we are absolutely convinced that this investment will pay off in the medium to long-term, thus enabling us to achieve our ambitious 2021 EBIT target of CHF 80–100 million.

What does that mean for 2018?
Matijas Meyer: We are continually working to improve our operational excellence and thereby increase profitability. For 2018, we are anticipating an increase in EBIT in absolute figures. However, given the very high sums we are continuing to channel into research and development and the ever-greater proportion of customer-specific systems, there will be limits to our ability to increase the EBIT margin this year.

Are these customer-specific systems comparable to the systems business of the Medtech business unit, which you divested back in 2016?
Beat Kälin: Our first response to new challenges in the market is typically to develop customer-specific solutions. Only once demand has reached a certain critical size do we start the cost-intensive process of developing a serial production machine. We therefore aim to develop a serial production machine or at least a modular solution once it

has become clear that demand is sufficiently great, as well as standardized. At the moment, for example, we are proceeding with the development of the first solutions for the processing of high-voltage wires. However, these customer-specific systems are not comparable to the high-risk systems business, as the corresponding orders are significantly smaller than they were for Medtech. Moreover, the orders we receive now always relate to our core area, in other words, the automation of wire processing.

How did the business with serial production machines develop in 2017?
Matijas Meyer: Our new Alpha 530/550 machine platform has enabled us to successfully penetrate the market in our core business (crimp to crimp) in all regions. The new machines are proving very popular with our customers, and have replaced existing products much more quickly than we had expected. In 2017, we launched a number of new products along the entire value chain. This investment of personnel and financial resources has been rewarded: The market has received our new solutions very quickly and positively. As is customary after all new product launches, we will now set about optimizing our production processes continuously so that we can gradually improve profitability.

> "The market has received our new solutions very quickly and positively."
>
> **Matijas Meyer**

In 2017 you received your first major order from the aerospace industry. Did the client in question order serial production machines or customer-specific systems?
Matijas Meyer: Basically these are customer-specific systems, though they are based on the serial production machines of the Zeta type. The receipt of this seven-figure order in 2017 was a milestone that we have been working for years to achieve. This project is only implementable because we can bring together experts from different fields who possess great expertise and offer outstanding solutions for individual process stages. These also include the laser applications of our subsidiary Laselec. Thanks to our systems, the automation of wire processing in the aerospace industry will reach unprecedented levels. That's why we are confident of being able to win further customers and generate further orders in this market segment over the next few years.

Are large orders of this kind the reason why the order intake has risen more strongly than revenues?
Matijas Meyer: Customer-specific systems tend to have longer delivery times, which is one of the reasons for the high current book-to-bill ratio of 1.10. Another reason is that some CHF 10 million worth of machinery is already complete or nearly complete, but has not yet fed through into revenue. That makes it all the more impressive that we have still been able to boost revenues by 9.6%. Of that figure, the lion's share – or 6.0% – was organic. I was particularly pleased to see the order intake increase by 21.5% to some CHF 450 million. This rise shows that we were able to increase our market share, and that we are on course to achieve our ambitious targets for 2017–2021. This is all down to the work of more than 1 800 Komax employees, who played such a large part in our ability to excite our customers time and again with new solutions in 2017. So many thanks for this outstanding commitment!

Komax generated higher Group profit after taxes (EAT) in 2017 than it did in 2016. So why have you not increased the dividend?
Beat Kälin: In our 2017–2021 strategy, we specified that the payout ratio would amount to 50%–60% of EAT. With the distribution proposed by the Board of Directors, we are paying out more than 59%, right at the top end of that bandwidth. In addition, you should not forget that we will be investing more than CHF 90 million in infrastructure projects over the period 2017–2020. So it's actually a very positive sign that we can distribute more than 59% of profit to our shareholders, despite this high level of investment.

Is that investment a response to capacity issues?
Matijas Meyer: There are a number of different reasons for the various construction projects. At our headquarters in Switzerland, work began in August 2017 on a large new production and office building encompassing some 20 000 m^2. The goal is for all employees in Switzerland – who are currently spread across three different sites – to be based at our headquarters one day. The new building is expected to be ready for occupation in the second half of 2019. As I mentioned earlier, we are currently in the process of building up our high-voltage center of competence in Hungary. In order to meet the rising demand for high-voltage solutions in the future, we need significantly more capacity. As things stand, we are expecting the new building to be completed by the end of 2018.

> “Our success is all down to the work of our more than 1800 employees, who played such a large part in our ability to excite our customers time and again with new solutions in 2017.”
>
> **Matijas Meyer**

And why are you building in Germany?
Matijas Meyer: Komax SLE in Grafenau is our center of competence for infotainment and high-frequency technology in the automotive sector. The customer-specific systems we build there will be increasingly in demand, particularly in connection with the theme of autonomous driving. We will be more than doubling the existing space with an extension that will provide enough room to build all the systems we require. In addition, the demand for taping and assembly technology is also on the rise. We are therefore constructing a new building for Kabatec in Burghaun. We are planning to complete both of these construction projects by the end of 2018.

In addition to your building projects, you are also investing in digitalization. Which has the greater priority?
Beat Kälin: We need both! In 2017, we introduced a new ERP system in Switzerland and in Singapore, which will be important if we are to simplify processes and increase efficiency. However, we have a fair bit of homework to complete before we reach that stage, which is not uncommon for a large ERP project of this kind. We will be introducing ERP at other locations over the next few years. Digital transformation is essentially a key strategic theme for Komax. It encompasses not just internal digitalization, but also supporting customers during this transformation.

How do you support your customers?
Matijas Meyer: By developing solutions that enable them to implement industry 4.0 in their production processes.
For example, our operating software Komax HMI, which we launched in 2017, allows our customers to network their machines with a manufacturing execution system. This means they can analyze their production data in real time, at any time. All data is documented and therefore traceable without exception. So in the event of a vehicle model being subject to a general recall due to an error in its wire processing, this traceability is a huge benefit. Because this means the problem can be better contained, which in turn means a significant reduction in the number of vehicles that have to be recalled. We are currently working on a number of different digitalization themes that will help us to offer our customers greater added value over the coming years.

What are the big themes on your agenda in 2018?
Matijas Meyer: As mentioned earlier, we are investing strongly in research and development, as well as in new production sites. Adhering to our budgets and achieving our targets will require us to maintain a sharp focus here. The optimization of our processes is an ongoing theme. We have had to work on that continuously as a result of the huge growth – both organic and acquisition-based – achieved over the last few years. Process optimization is a crucial aspect for us if we are to continue to increase profitability. The integration of the companies and employees acquired in 2017 is another area of focus. There are numerous other themes that I could mention too. But in summary, I can confirm that I am very confident that we will make further progress in the implementation of our 2017–2021 strategy in 2018 too.

GLOBAL MEGATRENDS

The demand for automation solutions is rising continuously and accelerating the growth of Komax. Global megatrends such as environmental awareness, safety, and integrated and affordable vehicles are major drivers of this phenomenon. Each of these trends is resulting in more and new types of wire being installed into vehicles, and automated processing is increasingly required for reasons of quality, efficiency, complexity, cost, miniaturization, and traceability.

Global megatrends support Komax's business in the long term. These include growing environmental awareness on the part of consumers and the associated goal of emission-free vehicles. A key role will be played in this respect by electro-mobility. Another megatrend is increasing interconnectedness. Infotainment systems in vehicles are becoming increasingly comprehensive and complex, while integrated information systems are laying the basis for the future: autonomous driving. The need for greater road traffic safety represents a further megatrend. Here the emphasis is now no longer just on protection in the event of an accident, but above all on avoiding accidents. As a consequence, the number of sensors in vehicles will continue to rise. Finally, a global megatrend towards affordable vehicles is emerging. This requires greater cost efficiency in manufacturing, which in turn is increasing the pressure to automate wire processing further.

More wires per vehicle

Together, these megatrends are driving the ongoing electrification of vehicles. Accordingly, the number of wires that need to be assembled per vehicle is on the rise. The electrical systems in today's compact passenger cars comprise as many as 1300 wires, 2300 crimp contacts, and 250 plug housings. Full-size vehicles require as many as 1800 wires, 3200 crimp contacts, and 300 plug housings. Innovations in vehicle construction, new functionalities, and an ever-rising fit-out level in all vehicle classes are leading to a further increase in demand for wires and crimp contacts. This trend, which has been perceptible for a number of years now, will accelerate and strengthen further in the future.

Pressure for automation

A large part of the wire harness manufacturing process is still done by hand, but rising wage costs and an increasing scarcity of personnel resources are driving the trend towards automation solutions. As systems become increasingly complex, the potential sources of error in manual wire processing and assembly become more numerous. Manual processes are becoming less capable of meeting these demands. Furthermore, the end-to-end traceability of the individual process steps cannot be ensured with the same degree of reliability that comes with automation solutions. For example, in the absence of automation, the retrospective search for a source of error is more complicated. Intelligent automation solutions, quality assurance tools, and systems for testing harnesses before they are installed in vehicles help to guarantee and increase the efficiency and reliability of the production process. This has been recognized by automotive manufacturers, who are therefore increasingly calling on their suppliers to further automate their production processes.

Increasing complexity and miniaturization

The automotive industry is increasingly demanding subsystems and components that deliver more, weigh less, take up less space, and operate extremely reliably, while at the same time being cheap to procure. These demands are not only confronting direct suppliers to the automotive industry, but also upstream suppliers and business partners. Furthermore, the individual subsystems and assemblies, particularly harnesses, are becoming ever more complex. At the same time, the process of miniaturization is being driven forward. In order to reduce manufacturing costs, weight, and fuel consumption, the individual components to be processed are becoming ever smaller, which makes manual processing more difficult or even impossible.

Advantages for Komax

In recent years, Komax has benefited from the overall boom in the automotive industry. Thanks to its global presence, it has not only been able to balance out differences in regional cycles, it has also grown much more strongly than the automotive industry. Forecasts for global automotive demand indicate average annual growth of around 2% to 3% over the next few years. However, the demand for automation solutions for wire processing is only partly determined by the number of vehicles produced and sold. For Komax, the factors referred to above – the increasing complexity of electrical systems, the ongoing process of miniaturization, and greater quality and efficiency demands on the part of automotive manufacturers – are just as important as drivers of automation solutions. Moreover, due to the emergence of new types of wire (e.g. for infotainment systems or electrical vehicles) and new materials (e.g. aluminum), Komax is being presented with the opportunity to develop additional unique selling features and therefore generate further growth. When viewed together, these factors give Komax additional growth potential of some 2% to 3% annually.

Furthermore, the increasingly widespread principle of zero-error tolerance is driving up demand for testing systems capable of ensuring that the wire harnesses and assemblies installed in vehicles work perfectly. This is understandable, as defective wire harnesses require considerable time and expense – at the cost of productivity and profitability – to repair or replace once they have been fitted in a vehicle. Moreover, functional defects in the electronic systems of delivered vehicles can result in serious reputational damage.

Komax possesses a broad spectrum of solutions that provides its customers with convincing answers to the current global megatrends. Komax is also seeing a number of trends from the automotive industry gain momentum in other market segments in which it is active. Thanks to its expertise and the market proximity of its product range, Komax is in a very good position to generate growth outside the automotive industry, too.

GLOBAL MEGATRENDS

Safety

Environmental awareness

Affordable vehicles

Integrated vehicles

GROWTH DRIVERS

Number of wires	Complexity of vehicle power supply systems	Quality and efficiency demands	Miniaturization	New types of wires and new materials

ADVANTAGES OF KOMAX

Technology leader

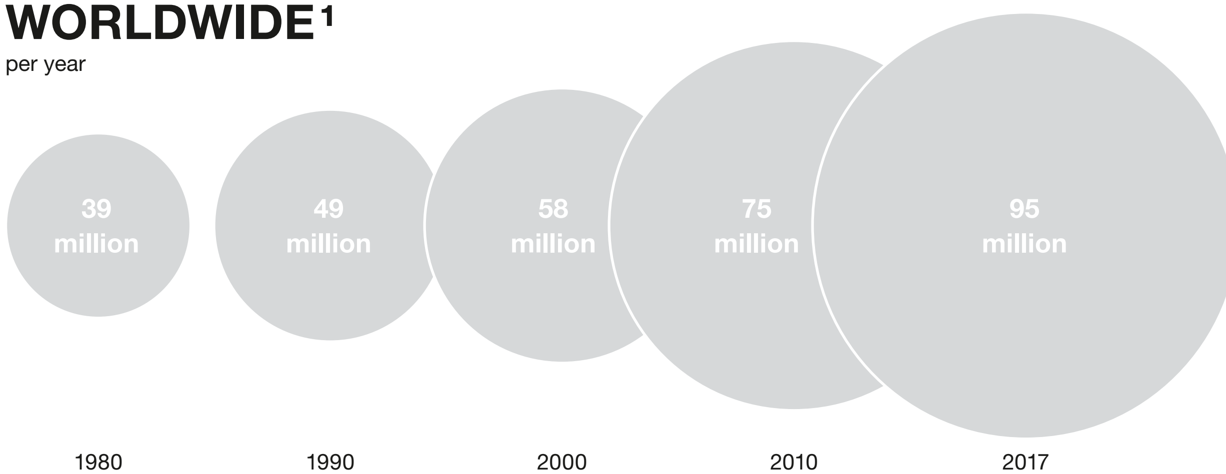
Broadest solution portfolio

High degree of innovation

Global distribution and service network

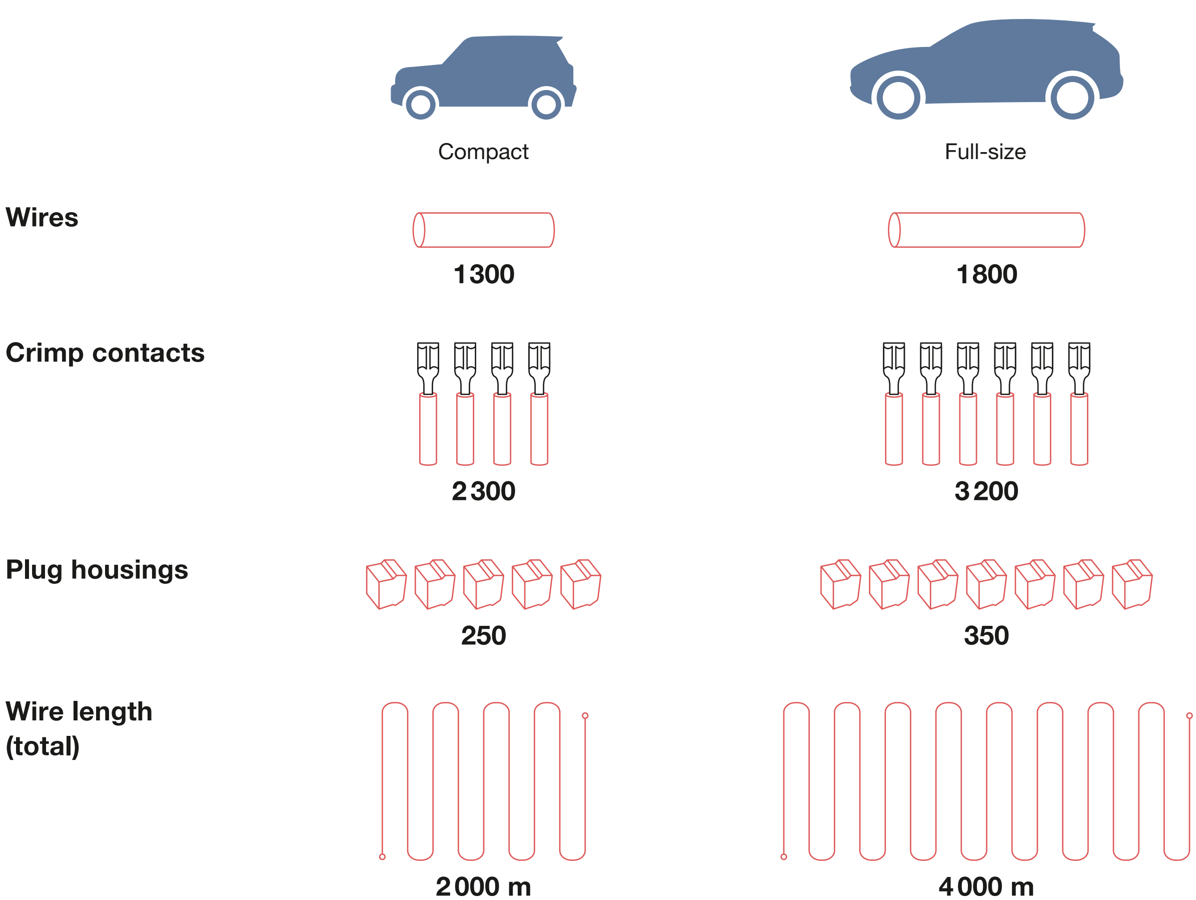
NUMBER OF VEHICLES PRODUCED WORLDWIDE[1]

per year



[1] Passenger cars and light commercial vehicles (source: IHS Markit).

INCREASING ELECTRIFICATION



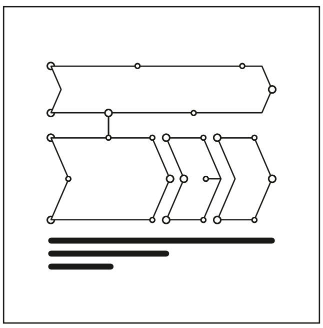
BUSINESS MODEL AND STRATEGY

Developing solutions for automated wire processing in four market segments is Komax's strength. Here Komax is a pioneer, as well as a market and technology leader, and is looking to further consolidate this leading global position. To this end, it pursues four key strategic priorities. Above-average profitability and further sustainable growth are important objectives here. This goes hand in hand with environmentally conscious, socially aware, and responsible conduct towards all stakeholder groups.

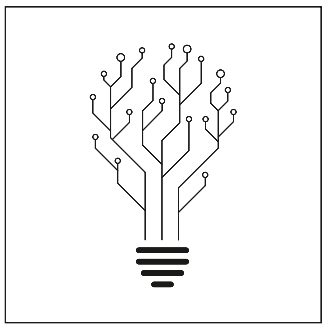
Komax specializes in innovative solutions for all wire processing applications and for the testing of wire harnesses. The emphasis is on processes such as measuring, cutting, stripping, crimping, taping wires, block loading, and testing wire harnesses. Komax offers its customers fully automated and semi-automated serial production models as well as customer-specific systems (for all degrees of automation and individualization), which optimize processes while at the same time increasing productivity. These are supplemented by an extensive range of quality assurance modules, testing devices and networking solutions for the reliable and efficient production of wire harnesses. Solutions that increase the availability of installed systems and test their productivity also form part of the range, as does intelligent software. All of this gives Komax's customers the ideal armory with which to consolidate and increase their competitive advantage.

Four key strategic priorities

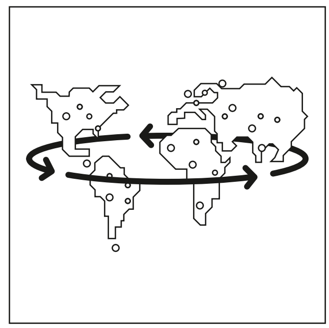
Komax has more than 40 years' experience in the development of customer-oriented solutions for wire processing. The company is both the technology and market leader in its field, with a market share more than twice that of its nearest competitor. In order to further strengthen this global leadership position, Komax pursues a growth strategy that involves four key priorities:



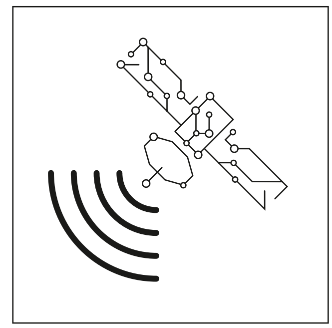
Solutions along the value chain



Innovative production concepts



Increase in global reach



Development of non-automotive markets

Solutions along the value chain
Thanks to many decades of experience and its proximity to its customers, Komax understands their needs and offers them a comprehensive range of innovative and reliable automation solutions. The offering covers the most capital-intensive and critical processes of customer value chains – from measuring and cutting wires to the taping process and finally the testing of the completed wire harness (see pages 32 and 33). Komax relies not only on its proprietary developments, but also on the expertise of established partners. As a result, customers receive solutions for the key wire processing applications from a single source. This approach is unique in the world. Thanks to a number of acquisitions in recent years, Komax has succeeded in closing the existing gaps in its spectrum of products and solutions, with the result that it can now offer its customers end-to-end solutions. To enable its customers to continue to increase productivity in the future, Komax works with a number of partners in the fields of logistics and software, among others. Komax strives to network and manage the individual processes in the value chain, such as through the Komax MES (Manufacturing Execution System), a form of production control software for the wire processing industry 4.0 launched in collaboration with iTAC Software.

Innovative production concepts
For a market leader like Komax, innovations are of maximum strategic importance. Komax has therefore been investing in innovations to optimize its existing product range, as well as in new developments, for many years (see pages 16 and 17). Every year, Komax channels some 8%–9% of revenues into research and development. All activities are systematically geared to customer needs and expectations. That is why Komax typically employs interdisciplinary teams – consisting of marketing experts, product managers and development engineers – on innovation projects. For example, skillfully combining different processes and technologies reduces interfaces and lead times. At the same time, processing reliability is increased.

Increase in global reach

Komax has 19 production sites located in Europe, Asia, North and South America, and Africa. The company provides sales and service support in more than 60 countries through its subsidiaries and independent agents, which gives it a unique global presence. It has set itself the goal of being close to its customers so that it can provide outstanding service combined with the shortest possible response and supply times.

To remain competitive, Komax customers need to be flexible and select the optimal economic locations for their production processes – in other words, set up operations wherever their end customers are. This is also true for Komax. To ensure it stays close to its customers, including when these customers choose to relocate their operations, Komax likewise has to show flexibility. For this reason, Komax seeks to expand its global reach in a targeted way, be it through acquisitions – as described in the section entitled "Selective acquisitions" – or through the establishment of new sites (see from page 6). Komax's strong global presence is also reflected in the percentage breakdown of its revenues by region. The individual regions – Europe (including Africa), Asia/Pacific, and North/South America – each generated between 19% and 61% of Komax revenues in 2017.

R+D expenditure accounts for

8%–9%

of revenues

Development of non-automotive markets

Komax now generates more than 85% of its revenues through customers in the automotive industry. Market estimates indicate that some 60% of globally processed wiring is used in automotive manufacturing. This high proportion is explained by the fact that the automotive industry is peerless when it comes to standardization and automation. The high volume of wires needed for large-batch processing and the stringent requirements in place with regard to finish quality are key arguments in favor of automated solutions.

In addition to the automotive industry, there are countless other markets in which numerous wires are processed. Komax focuses predominantly on three additional market segments (see pages 12 and 13), all of which have synergy potential with the core business: aerospace, telecommunications, and data communication (telecom & datacom) and industrial applications (industrial). These areas currently account for a relatively minor share of sales. However, Komax is seeking to increase penetration in these markets, as they offer attractive growth opportunities in the longer term. If these opportunities are to be harnessed, targeted investment in marketing and sales will continue to be essential. The success of this approach over many years is bearing fruit, as is evident from the fact that a first major order was received in 2017 from the aerospace industry, for example. Thanks to the large-scale systems that Komax will deliver to the customer between 2018 and 2020, the automation of wire processing will be raised to a level that has never been seen before in the aerospace industry.

The megatrends evident in the automotive sector are influencing these three market segments in different ways. However, the potential for synergies with the existing core business in the automotive industry is considerable. The three new market segments are already addressing issues such as safety, lightweight construction, multimedia, small-batch production, and integrated production/Industry 4.0, and in some cases have been doing so for years. Komax draws on these experiences when developing automation solutions for the automotive industry. Conversely, the aerospace, telecom & datacom and industrial market segments benefit from Komax's great expertise in the core business: in particular, Komax can adapt existing automotive solutions and, where necessary, specifically develop new products for particular segments.

Selective acquisitions

The primary goal of the Komax Group is to grow organically. In addition, potential candidates and opportunities for acquisitions are carefully examined as part of a clearly defined acquisition strategy that revolves around its four key strategic priorities. Komax intends to strengthen its leading market position with further acquisitions and participations.

The acquisitions made in recent years have played a significant role in the implementation of the strategic priorities. Examples of such acquisitions include the TSK Group (2012; solutions along the value chain), SLE quality engineering (2014; innovative production concepts) and Thonauer Group (2016; increase in global reach). In the reporting year, Komax acquired the assets of Practical Solution (incl. some 30 employees working at the development and production site in Singapore and the distribution site in Shanghai), as well as the French company Laselec (see page 30). Practical Solution strengthens Komax's position in the growth market that is Asia, while Laselec opens up the aerospace market segment for Komax as well as facilitating the further development of non-automotive markets.

Brands of Komax Group

The acquisitions of recent years mean that the Komax Group is present in the market with four further brands in addition to the Komax brand itself.

Komax manufactures innovative serial production machines as well as customer-specific systems for automated wire processing. These are used for the automation of various processes, such as cutting, stripping, labelling, crimping, and twisting, but they can also be used for the fully automatic production of entire wire harnesses. Komax's customers are active primarily in the automotive, aerospace, telecom & datacom, and industrial market segments.

When it was founded by Max Koch in 1975, Komax was just a three-man operation. But even in these very early days, the company was noted for its pioneering spirit. It launched the first cutting and stripping machine with a stepping motor drive after just one year, and would go on to develop the world's first microprocessor-controlled fully automatic crimping machine in 1982. Expansion abroad likewise started at an early stage – with the foundation of Komax USA in 1981.

Komax's headquarters and largest production site are located in Dierikon, Switzerland. Outside of Europe, Komax has production sites in Asia.

A KOMAX GROUP COMPANY

TSK develops and sells test systems and adaptation units for testing wire harnesses and further electrical-electronic assemblies and components. TSK products are used predominantly in the automotive supplier industry and wherever the functionality of complex assemblies needs to be tested in order to recognize errors within the manufacturing process at an early stage.

TSK has decades of experience in quality assurance in wire assembly. The company was founded in 1983 by Helmut Kahl as Test Systeme Kahl, or TSK for short, and has its headquarters in Porta Westfalica, Germany. The TSK Group manufactures in Europe, North and South America, Africa, and Asia. It has been part of the Komax Group since August 2012.

Thonauer was founded in 1988 by Friedrich Thonauer in Austria, and is headquartered in Vienna. In addition to Austria, Thonauer is also represented in Romania, the Czech Republic, Hungary, and Slovakia. The main focus of its activities is the sale of machines for wire processing, particularly for the automotive, electric systems, and electronics industries.

The Thonauer Group employs around 70 people and has been part of Komax since 2016. Prior to this acquisition, the two companies had been working together very successfully as partners for decades. Thonauer has been Komax's representative in seven countries in Central and Eastern Europe right from the start.

Kabatec is a global market leader in the field of taping technology systems. This leading technology company, which is headquartered in Burghaun, Germany, specializes in taping, bundling, and fixing of holding parts to wire harnesses.

Founded in 2008, its core expertise involves the development and production of semi-automatic and fully automatic machines for processing adhesive and non-adhesive tapes. It mainly serves customers in the automotive supply industry, offering them both serial production machines and customized systems.

Kabatec employs around 70 people and has been part of Komax since July 2016. The two companies had enjoyed a strategic partnership for several years prior to that.

Headquartered in Toulouse (France), Laselec develops laser-based solutions for stripping and marking wires as well as intelligent assembly boards for wire harness manufacturing. These are used mainly in the aerospace industry. The company was founded in 2001 and has a subsidiary in the US, among others.

Laselec is one of the leading companies in the world for the development and production of serial production machines and customized solutions for laser-based wire processing. The company meets all significant international quality standards in the aviation industry and counts renowned aircraft manufacturers among its customers.

Laselec employs around 70 people and has been part of Komax since October 2017. Komax acquired a 20% stake in Laselec back in 2015, and the two companies have been working successfully together on various projects since then. Thanks to this partnership, Laselec's solutions have increasingly found their way into the automotive industry.

Ambitious targets for 2017–2021

The Komax Group is distinguished by its very robust equity base and strong profitability. This solid foundation enables Komax to systematically pursue opportunities to develop the company further. As an additional benefit, it offers security in challenging times.

For the strategy period 2017–2021, Komax has set itself ambitious targets for growth, profitability, and return on capital. These are designed to consolidate its leading position and increase the value of the company further via profitable growth.

500–600	80–100	Avg. 25	50–60
Revenues 2021 in CHF million	**EBIT 2021 in CHF million**	**RONCE (return on net capital employed) in %**	**Payout ratio in % of EAT**

Through a business strategy that is geared to long-term success, Komax is seeking to create sustainable value that will benefit investors, too. It has set itself the goal of distributing 50%–60% of Group profit after taxes (EAT) to its shareholders every year until 2021.

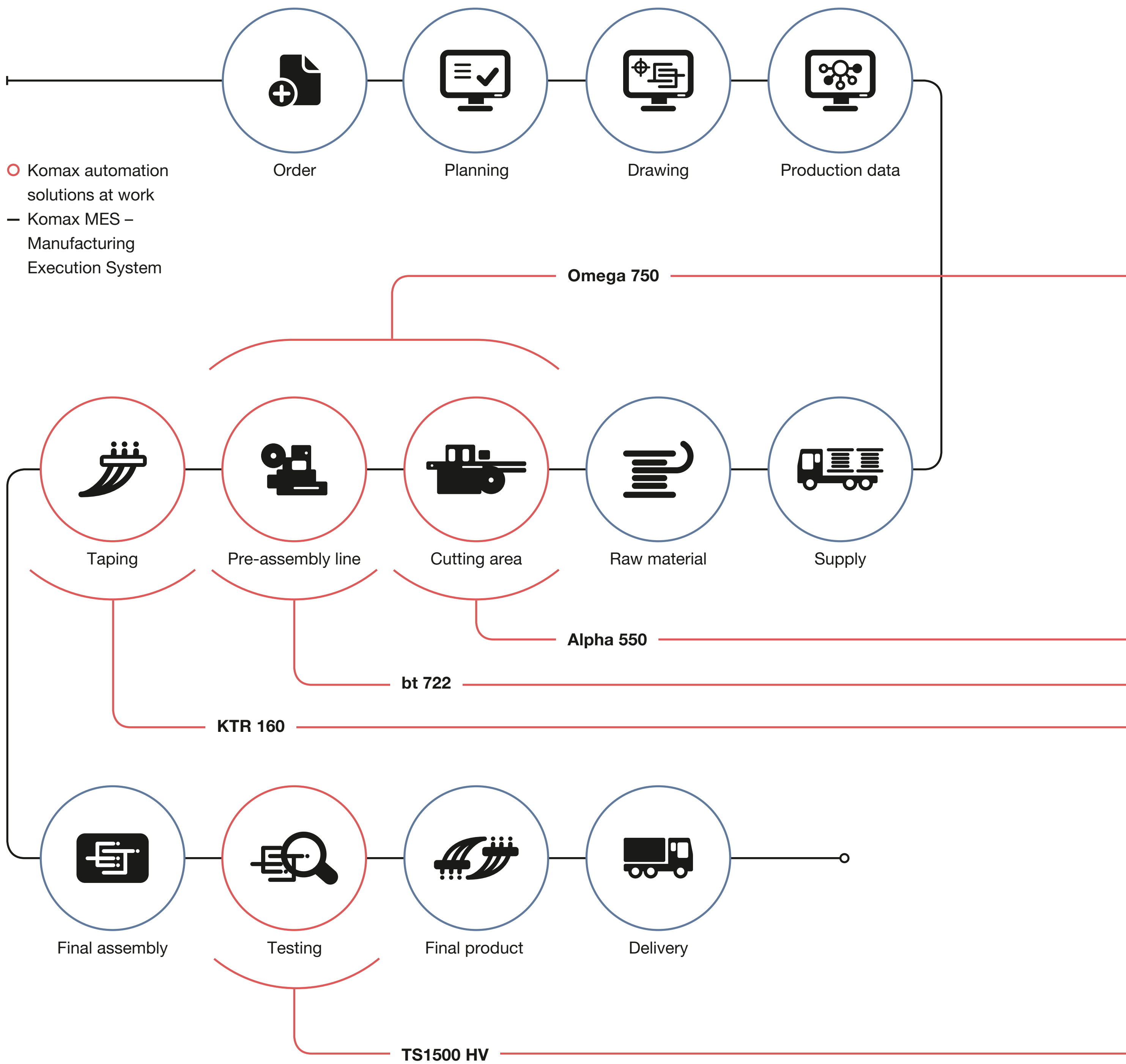
The targeted revenues figure of CHF 500–600 million by 2021 is to be achieved through both organic and acquisition-based growth. Here Komax is anticipating that it can deliver, between now and 2021, an annual organic growth rate that at least matches the continuous rise in automotive production and the increasing number of wires in vehicles (CAGR: 4%–6%).

Komax has positioned itself as a total solution provider. It supports its customers with solutions along the entire value chain. Since the profitability of the solutions it supplies can fluctuate, Komax's focus is not on the EBIT margin, but on increasing absolute EBIT (to CHF 80–100 million) by 2021.

	2017	2016[1]
Revenues (in CHF million)[2]	**408.5**	372.7
EBIT (in CHF million)	**55.1**	55.4
RONCE (in %)[3]	**23.8**	26.6
Payout ratio (in % of EAT)	**59.2**	63.4

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly.
[2] The revenues of the Medtech business unit, which was sold in April 2016, are not included.
[3] The return on net capital employed (RONCE) is calculated on the basis of EBIT and average net capital employed. Average net capital employed is the sum of all current and non-current operating assets (excluding intangible assets and deferred tax assets), adjusted for non-interest-bearing liabilities. Non-interest-bearing liabilities are the short-term debt capital amounts available to the operating business on which no interest is payable (excluding provisions and accruals/deferrals).

SOLUTIONS ALONG THE VALUE CHAIN



The majority of Komax customers are wire harness manufacturers whose business consists of processing the individual wires – predominantly by hand – into wire harnesses and delivering these to vehicle manufacturers (OEMs). Komax offers its customers a wide range of solutions and systems for the automated and efficient processing of wires and for the taping and testing of wire harnesses. These are used in the cutting room, at the pre-assembly stage, and when taping and testing. In addition, Komax supports its customers along the entire value chain – from planning through to delivery – with the Komax MES. This software automates the planning, controlling, monitoring and analysis of all resources and production processes. This has the effect of optimally deploying machines, materials, and employees, so that wire harnesses can be completed to deadline, as well as to the requisite quality.

Cutting, stripping, crimping, block loading
With the Omega 750, the cutting, stripping, crimping, and loading of terminals is undertaken with just one machine. The end product is a wire harness fitted with contact housings on both sides, produced in a fully automated way.

Cutting, stripping, crimping
Fully automatic crimping (crimp to crimp) and twisting machines at work in the cutting room. For the double-sided crimping and fitting of seals, Komax customers use the fully automated Alpha 550 crimping machine, which among other things can also twist and tinplate the braids.

Semi-automatic crimping
In order to be able to process individual lines at the pre-assembly stage, customers use a machine like the bt 722 benchtop crimping press. The programmable crimp height, integrated crimp force analysis and bad crimp cutter ensure a final product of top quality.

Taping
In order to reduce sources of noise and prevent electromagnetic disruptions, wire harnesses are taped; such as with the KTR 160 from Kabatec, for example. The act of bundling wires or attaching clips to wire harnesses is likewise covered by this section of the value chain.

Testing
Before Komax customers deliver the completed wire harnesses to the OEM, they subject every single wire harness to a connection test (electrical test). For this they resort to the test systems of TSK, such as the TS1500 HV for high-voltage wires.

BOARD OF DIRECTORS

Beat Kälin (1957)
Non-executive, dependent member and Chairman of the Board of Directors since 2015, elected until 2018, Swiss national, resident in Birmensdorf, member of the Board of Directors of the listed company Huber+Suhner AG, Pfäffikon ZH, and member of the Investment Committee of the Valyou investment foundation, Neuhaus.

Beat Kälin holds a master's degree and a doctorate in engineering from ETH Zurich. He also holds an MBA from INSEAD. Up until 1999, he held various management positions in the Elektrowatt Group, from 1999 to 2004 he was a member of the Group Executive Board of SIG Schweizerische Industrie-Gesellschaft Holding AG, Neuhausen, from 2004 to 2006 he was a member of the Board of Management responsible for the Packaging Technology Division at Robert Bosch GmbH, Stuttgart (DE), and from 2007 until May 2015 he was CEO of the Komax Group.

Daniel Hirschi (1956)
Non-executive, independent member of the Board of Directors since 2005, Vice-Chairman since 2014, elected until 2018, Swiss national, resident in Biel, member of the Board of Directors of the listed company Schaffner Holding AG, Luterbach, and the listed company Gavazzi Holding AG, Steinhausen.

Daniel Hirschi holds a degree in engineering. From 1983 to 2005 he held various management functions at Saia-Burgess in Murten, where he was CEO from 2001, and Delegate of the Board of Directors from 2003. From 2006 to 2009, Daniel Hirschi was CEO and Delegate of the Board of Directors of Benninger AG in Uzwil; he was a member of the Board of Directors of the same company from 2009 to August 2016. In the last three years, Daniel Hirschi has not been a member of the Executive Committee or had any material business relationships with the Komax Group.

David Dean (1959)
Non-executive, independent member of the Board of Directors since 2014, elected until 2018, Swiss national, resident in Meilen, member of the Board of Directors of listed company Agta Record AG, and member of the Industry Executive Advisory Board of the Executive MBA in Supply Chain Management at ETH Zurich.

David Dean has been CEO of the Bossard Group since 2005. He was the company's CFO from 1998 to 2004, and its Corporate Controller before that. David Dean is an expert in accounting and controlling. He holds a federal diploma and is a certified accountant. Furthermore, he has also completed management training at Harvard Business School and IMD Lausanne. In the last three years, David Dean has not been a member of the Executive Committee or had any material business relationships with the Komax Group.

As at 31 December 2017

Andreas Häberli (1968)
Non-executive, independent member of the Board of Directors since 2017, elected until 2018, Swiss national, resident in Bubikon.

Andreas Häberli holds a master's degree in electrical engineering from ETH Zurich. He then went on to obtain a doctorate (Dr. sc. tech.) at ETH Zurich's Laboratory for Physical Electronics. Since 2003, he has held various management roles at the dormakaba Group (formerly Kaba Group), where he has been Chief Technology Officer (CTO) and a member of the Executive Committee since 2011. He was a member of the Executive Board of Sensirion AG in Stäfa from 1999 to 2003, and worked for Invox Technology (Canada/USA) from 1997 to 1999. In the last three years, Andreas Häberli has not been a member of the Executive Committee or had any material business relationships with the Komax Group.

Kurt Haerri (1962)
Non-executive, independent member of the Board of Directors since 2012, elected until 2018, Swiss national, resident in Birrwil.

Kurt Haerri holds a degree in mechanical engineering from Lucerne University of Applied Sciences as well as an Executive MBA HSG from the University of St. Gallen. He has worked for Schindler since 1987, and was based in China from 1996 to 2003. He returned to Shanghai in 2017, where he currently manages the new installations business of Schindler China. From 2006 to 2013, Kurt Haerri was the President of the Swiss-Chinese Chamber of Commerce. He is also a lecturer at ETH Zurich, where he is responsible for the Asia module of an Executive MBA program. In the last three years, Kurt Haerri has not been a member of the Executive Committee or had any material business relationships with the Komax Group.

Roland Siegwart (1959)
Non-executive, independent member of the Board of Directors since 2013, elected until 2018, Swiss national, resident in Schwyz. Member of the Board of Directors of Evatec Holding AG, Trübbach, GE Inspection Robotics AG, Zurich, and NZZ Mediengruppe (owner of the Neue Zürcher Zeitung), Zurich, Trustee of the Gebert Rüf Foundation, Basel.

Roland Siegwart holds a master's degree in mechanical engineering as well as a doctorate from ETH Zurich. He was professor at EPFL Lausanne from 1996 to 2006, and Vice-President of Research and Corporate Relations at ETH Zurich from 2010 to 2014. He has been Professor of Robotics at ETH Zurich since July 2006 and Co-Director of the newly founded Wyss Translational Center Zurich, a joint research center of ETH Zurich and the University of Zurich, since 2015. In the last three years, Roland Siegwart has not been a member of the Executive Committee or had any material business relationships with the Komax Group.

EXECUTIVE COMMITTEE

Matijas Meyer (1970)
Chief Executive Officer (CEO) since 2015, at Komax since 2007, Swiss national, resident in Ebikon.

Matijas Meyer holds a degree in engineering from ETH Zurich and an MBA from Cranfield University (UK). Prior to his current position, he was Head Business Unit Wire and Head of the site in Rousset (FR). Before joining Komax, he worked at Tornos SA in Moutier and OC Oerlikon/ESEC in Cham.

Andreas Wolfisberg (1958)
Chief Financial Officer (CFO) since 1996, at Komax since 1991, Swiss national, resident in Adligenswil, Chairman of the Board of Directors of Kowema Beteiligungs AG, Baar.

Andreas Wolfisberg is a Swiss Certified Expert in Accounting and Controlling. Before joining Komax, he worked at von Moos Stahl in Lucerne.

SUSTAINABILITY AND SOCIAL RESPONSIBILITY

Sustainability and social responsibility are core elements of Komax's corporate strategy. They are incorporated not only into the Group's long-term targets, but also into its operating activities. Komax is determined to develop its competencies in questions of sustainability and social responsibility on an ongoing basis – for the benefit of its stakeholders and the environment.

The way Komax is perceived by its customers, business partners, shareholders, and other stakeholders depends to a significant extent on the conduct of its employees. For this reason, Komax has a code of conduct that is binding for all employees of the Group and reviewed on a regular basis. The code of conduct defines general rules of behavior and guidelines on how to act towards the Group's business partners and competitors. In addition, it addresses issues such as discrimination, safety, health, and environmental protection. All employees are given training on the code of conduct when they join the company.

5 times

less energy required to cool a control cabinet

Product sustainability

The machines developed by Komax are characterized by their exceptionally high quality and longevity. The Group's own global service network and its collaboration with partners ensure that these machines are professionally maintained. This has a positive impact on their performance, value retention, and life span, as well as saving resources generally. Komax also ensures servicing and the availability of upgrades and replacement parts years beyond its contractual obligations. Thanks to their modular construction, the machines can usually be adapted to new technological developments or changing needs.

Increasing energy efficiency

When developing new machines, Komax goes to great lengths to ensure that the consumption of resources is continuously reduced – both in the production process and during the life cycles of the machines at the factories of its customers. For example, in a recently developed type of machine now sold in large numbers, particular attention was paid to the consumption of electricity for the ventilation of a control cabinet. The ventilation of the new machines requires only a fifth of the electricity of the previous model. Thanks to the optimized cooling concept and the improved performance of the fans, the new machines are able to work at higher environmental temperatures, despite their lower energy consumption. If one extrapolates the energy saving achieved on one single machine to the annual production of these two machine models, the annual saving works out at more than 300 MWh. Moreover, Komax has also ensured oil-free pneumatics for this new generation of machine, which likewise has positive repercussions for the environment.

Declining consumption of fuel and materials

Komax supplies solutions for wire processing applications, in particular for the automotive supply industry. These solutions are also used to process wiring for new fuel-saving propulsion concepts such as electric and hybrid vehicles. Moreover, the innovative technologies mean that ever smaller wire cross-sections and innovative materials such as aluminum can be machine-processed, thereby contributing to a reduction in vehicle weight and, as a result, fuel consumption. In addition, the automated taping solutions, for example, help Komax customers to use less adhesive tape then they would in the case of manual taping.

Komax's products do not contain any ecologically harmful components. The attainment of customers' expectations and the extent of their loyalty are measured by means of regular satisfaction analyses conducted in conjunction with external partners. Komax sets particular store by customer feedback on improvement potential.

In 2011, Komax launched its "Oekomax" program in Switzerland with the aim of continually optimizing environmental protection. Ever since, a team comprising employees from various areas of the company has been looking at sustainability issues. The spectrum of themes ranges from campaigns that motivate employees to be sparing in the use of resources through to ideas as to how the energy efficiency of newly developed machinery can be increased.

Sustainability in procurement

5 %

reduction in consumption of electricity and drinking water by 2021

The company believes in long-term partnerships, and selects suppliers which demonstrate an environmentally aware approach and whose products conform to sustainability criteria. This is ascertained with the assistance of a supplier evaluation questionnaire, which evaluates new as well as existing partners on the basis of uniform criteria. These criteria include the status that suppliers attach to sustainability, quality, price, supply chain, delivery reliability, and production technology. Furthermore, in a code of conduct drawn up specially for suppliers, Komax obliges its suppliers to comply with legislation and to act in an environmentally aware and ethical way. Compliance with agreed guidelines and indicators is reviewed in regular supplier audits. If violations are uncovered, a supplier partnership may be immediately terminated as a result.

In addition to the investment volume, key criteria when evaluating and selecting new production systems include energy efficiency, environmental friendliness, and the economical use of resources.

Sustainability in production

The Komax Group's business focuses mainly on the production of machines and systems, as well as provision of the corresponding maintenance services. A large proportion of the company's value creation consists of engineering services. The majority of components are manufactured and supplied by third parties, which means that actual production at Komax primarily comprises the assembly of components. Accordingly, Komax generates relatively few emissions compared to other industrial companies.

Operational Excellence

Highly automated, state-of-the-art production systems are used for strategically important components that Komax manufactures in-house. These are based on lean management concepts, the aims of which include the avoidance of errors and minimization of rejects. The careful and efficient use of resources has top priority: wherever possible, waste materials and wastewater are recycled or then disposed of appropriately. Waste volumes are continuously reduced as part of optimization programs. Wherever possible, Komax uses renewable energies such as solar or hydroelectric power. For example, in Switzerland – the country in which Komax has the highest production volume – the company obtains natural energy from Central Switzerland's RegioMix scheme, and has its own photovoltaic power plant on the roof of its production building in Rotkreuz.

Key factors in Komax's pursuit of Operational Excellence include safety and the protection of its employees' health. Management attaches high priority to this issue, which is why internal processes are regularly reviewed for safety and health risks. Furthermore, employees are sensitized to possible risks in the workplace at the individual production sites in a targeted way. The low number of occupational accidents over a period of many years is testimony to the success of initiatives in this area. In 2017, the number of registered occupational accidents throughout the Komax Group recorded a slight year-on-year decline from a low level – from 34 to 32 incidents. This trend should be viewed all the more positively since the Komax workforce completed some 10% more working hours in 2017 than it did in 2016, as a result of the Group's strong growth and the associated rise in headcount. As in previous years, reported absences due to accidents in 2017 were mainly the result of accidents suffered by employees while engaging in leisure activities. Komax has set itself the target of reducing occupational accidents by 10% (compared with the average for 2016 and 2017) by 2021.

Certification status and integrated management system

The key production locations of the Komax Group, namely in Brazil, China, Germany, France, Switzerland, Tunisia, Turkey, Hungary, and the US, are all ISO 9001-certified. In addition, Komax AG's sites in Dierikon, Rotkreuz, and Küssnacht am Rigi, Komax SLE in Grafenau, TSK in Porta Westfalica, and SC Thonauer Automatic in Bucharest all have ISO 14001 certification. These six sites employ around 890 people. All have integrated management systems that encompass all company processes, the environment, health protection, and workplace safety.

Country	Company	Certification		
Switzerland	Komax AG	ISO 9001	ISO 14001	OHSAS 18001
Brazil	TSK do Brasil Ltda.	ISO 9001		
China	Komax Shanghai Co. Ltd.	ISO 9001		
Germany	Komax SLE GmbH & Co. KG	ISO 9001	ISO 14001	DE AEOC 104360
	TSK Prüfsysteme GmbH	ISO 9001	ISO 14001	
France	Laselec SA	ISO 9001		
Austria	Thonauer Gesellschaft m.b.H.	ISO 9001		
Romania	SC Thonauer Automatic s.r.l.	ISO 9001	ISO 14001	OHSAS 18001
Czech Republic	Thonauer spol. s.r.o.	ISO 9001		
Tunisia	TSK Tunisia s.a.l.	ISO 9001		
Turkey	TSK Test Sistemleri Ltd. Şti.	ISO 9001		
Hungary	Komax Thonauer Kft.	ISO 9001		
USA	Komax Corporation	ISO 9001		
	TSK Innovations Co.	ISO 9001		

Resource and energy savings targets

In collaboration with the Energy Agency for the Economy (Energie-Agentur der Wirtschaft, EnAW), Komax has established resource and energy savings targets for 2018 and 2020 for the Swiss sites in Dierikon and Rotkreuz. For example, the target is to reduce energy consumption by at least 6% by the end of 2018 (2014 basis: 2 822 MWh or 5.9 MWh per head). Despite the strong growth in revenues since 2014, which was related to a substantial rise in headcount, Komax had largely stabilized its electricity consumption by the end of 2017: in total, consumption rose only slightly to 2 888 MWh; in per head terms, however, consumption was down by around 17% to 4.9 MWh. EnAW pursues a systematic approach to help more than 3 800 manufacturing firms, industrial plants and service companies increase energy efficiency and reduce their CO_2 emissions.

Komax is successively expanding its reporting on sustainability issues. In the table below, for instance, it is disclosing consumption data for production sites outside of Switzerland for the first time. This data details consumption figures for the majority of large production sites where 60% of all Komax Group employees work. In extending its reporting in this way, Komax has also set itself targets for reducing the consumption of electricity and drinking water at these production sites. By 2021, the aim is to have lowered the consumption of electricity and drinking water by 5% versus 2017.

Sustainability key figures	2017	2016
Consumption[1]		
Electricity in MWh	**4 517**	4 087
Electricity per head in MWh	**4.0**	3.9
Drinking water in m^3	**7 457**	7 900
Drinking water per head in m^3	**6.6**	7.5
Waste[2]		
Refuse in kg	**39 099**	36 134
Refuse per head in kg	**60.7**	60.4
Accidents[3]		
Number of occupational accidents	**32**	34
Number of occupational accidents for every 1 000 employees	**22.2**	26.0

[1] Covering the production sites in Dierikon (CH), Rotkreuz (CH), Küssnacht am Rigi (CH), Grafenau (DE), Porta Westfalica (DE), El Paso (US), Colombo (BR), Shanghai (CN), Tokyo (JP).
[2] Covering the production sites in Dierikon (CH), Rotkreuz (CH), Küssnacht am Rigi (CH).
[3] Covering all production sites of the Komax Group.

Contribution to regional development

Komax has been firmly rooted in the Canton of Lucerne, Switzerland, since 1975, where it is one of the region's biggest employers. The Group is committed to Switzerland as a business location because it offers a good environment, facilitates very high productivity, and has a large pool of highly qualified labor. As well as being an important employer in the region, Komax is also committed to advancing young people in a number of different areas (including education, sport, the arts, and social involvement).

The production and distribution sites that the Group has established around the world since 1975 remain in their original locations, which generates a strong sense of identification with local areas. Among other things, this manifests itself in the fact that a large number of employees can be recruited regionally and preference can be given to local suppliers wherever this is feasible and makes commercial sense.

Attractive employer

At the end of 2017, Komax employed 1 841 staff worldwide (2016: 1 633). Average headcount in 2017 worked out at 1 720 employees (2016: 1 609 employees). This increase is primarily explained by the two acquisitions, the persistently strong development of business, and the corresponding new appointments at various locations. Personnel expenses in the year under review amounted to CHF 137.0 million (2016: CHF 131.6 million).

2017

	CH[1]	Europe[1]	Americas[1]	Asia[1]	Africa[1]	Total
Production	231	263	67	72	41	**674**
Research and development	142	35	0	23	0	**200**
Engineering	30	87	23	16	10	**166**
Marketing and sales	194	182	110	110	29	**625**
Administration[2]	47	66	31	26	6	**176**
Total headcount as at 31 December 2017	**644**	**633**	**231**	**247**	**86**	**1841**

2016

	CH	Europe	Americas	Asia	Africa	Total
Production	225	227	66	60	39	**617**
Research and development	130	20	1	15	0	**166**
Engineering	28	95	35	9	10	**177**
Marketing and sales	171	140	86	94	27	**518**
Administration[2]	44	50	30	26	5	**155**
Total headcount as at 31 December 2016	**598**	**532**	**218**	**204**	**81**	**1 633**

[1] The individual companies and their locations are listed on page 106.
[2] Including management.

The companies of the Komax Group ensure that their employees enjoy equal opportunities, equal treatment and fair employment conditions, receive pay that is in line with the market, and benefits that are in line with national and industry standards. Participation in the pay comparison survey conducted by industry association Swissmem showed that pay at the Swiss production sites is in line with market averages and that men and women receive equal pay. The proportion of women in the Group's global workforce remained unchanged at around 19% in 2017 (2016: 19%). Komax is not alone within the industry in having a relatively low proportion of women in its workforce. The main reason for this phenomenon is the large number of technical positions within the company, for which the recruitment potential among women is limited.

Active employee development

The Group's staff turnover rate has been gratifyingly low for many years. In 2017 it amounted to just over 7% (2016: less than 6%). Komax has a very good reputation as an attractive employer, which is partly explained by its corporate culture. This is characterized by mutual respect, trust, and awareness of the paramount importance of quality. Moreover, the needs of employees themselves are not neglected, despite ambitious targets. As part of an active staff development policy, Komax organizes regular management seminars and training for its employees, as well as providing financial support for individual training activities. Komax also encourages international exchanges to allow its staff to gain new experiences and career perspectives.

Major investment in tomorrow's workforce

Komax is committed to the training of tomorrow's professional specialists as a way of safeguarding its global market and technology leadership. In 2017, 44 apprentices (2016: 41) were undergoing training in seven professions at the Group's Swiss sites. 35 apprentices (2016: 33) were being trained in Germany (Grafenau, Porta Westfalica, and Burghaun).

Komax offers its apprentices a wide-ranging training experience. The young professionals are right at the heart of the action, actively following every step of a machine's development from inception through to production readiness. During their training, they get an insight into the various departments' activities and thus gain an understanding of the numerous processes that take place in a company. Komax has state-of-the-art workstations as well as well-equipped mechanical workshops and assembly areas for the specific apprenticeship subjects. The budding professionals are supervised by a motivated team of trainers who not only possess strong technical and teaching skills, but also sensitivity to the social needs of the young people in their charge.

In addition to professional training, Komax also offers apprentices a number of interesting benefits such as language courses, cultural events, preventive health measures, and its own team building events. Once apprentices have completed their training, Komax helps them make the transition into full professional life, either at the site where they trained or at one of the company's locations abroad. Moreover, the company supports the people it has trained in their professional development and further vocational training.

Satisfied and healthy employees

Employee satisfaction is systematically measured and evaluated in the course of annual performance review meetings. Komax uses the results of regular employee surveys as a valuable basis for developing and implementing improvement measures. The results of the surveys conducted with external partners were for the most part highly positive, and in many cases were significantly above the industry average. In 2017, employee surveys were conducted at all sites in Switzerland and Germany.

It goes without saying that Komax satisfies all legal requirements with respect to working conditions in the countries it operates in. Furthermore, it actively promotes the health of its staff at the various locations by means of various measures. In Switzerland, for example, the occupational health management scheme "fit@work" means that staff benefit from free sports offers, fruit campaigns, and workshops and specialist talks, among other things. In order to promote the health of its workforce, Komax also takes part in the "bike to work" initiative that takes place in Switzerland every year. This involves Komax encouraging its employees to commute by bike as often as possible in the month of June. In 2017, 108 employees participated in this initiative, racking up more than 29 000 kilometers in the saddle.

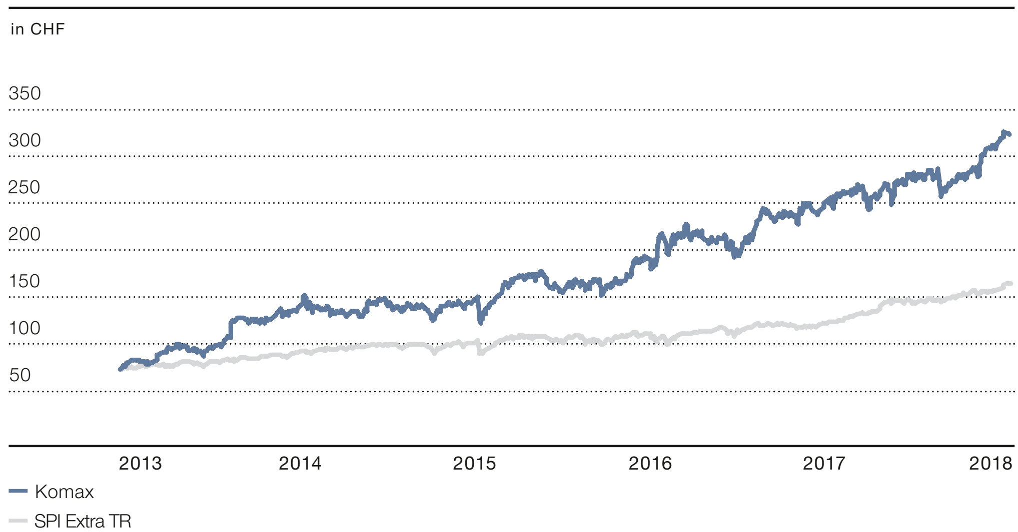
fit@work

INFORMATION FOR INVESTORS

Komax cultivates a policy of open and transparent communication with its investors. It allows shareholders to participate in the company's success through its attractive, sustainable dividend policy (payout ratio 50%–60%).

Over the course of 2017, the daily closing price of the Komax share ranged between CHF 243.50 and CHF 319.50. The year-end closing price was CHF 319.50. This represents an increase of 27.2% on the closing price of the previous year. The value of the Komax share has risen by a multiple of roughly 4.5 over the last five years. The SPI Extra slightly more than doubled its points tally over the same timeframe.

Share price development



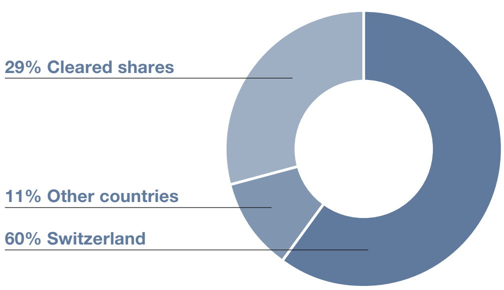
Listing

Komax is listed on SIX Swiss Exchange. The market capitalization of the Komax Group at the end of 2017 was CHF 1.225 billion.

ISIN	CH0010702154
Security number	1070215
Bloomberg code	KOMN SW
Thomson Reuters code	KOMN.S

Geographical distribution of shareholdings

The majority of shares not held in Switzerland are held in the United Kingdom, Germany, Luxembourg, and the United States.



Breakdown of shareholders by number of registered shares held

1–100	3 082
101–1 000	1 713
1 001–10 000	220
10 001–100 000	28
> 100 000	5

The shareholder base widened significantly in 2017. At the end of 2017, 5 048 shareholders were entered in the share register. This represents an increase of 1 898 shareholders compared to the end of 2016.

Free float

The free float as defined by SIX Swiss Exchange stands at 95%.

59%
payout ratio

Disclosure of shareholdings / significant shareholders

Under Art. 110 of the Financial Market Infrastructure Act, FinMIA, anyone who acquires or sells equity securities on their own account and thereby attains, falls below or exceeds the threshold of 3, 5, 10, 15, 20, 25, 33⅓, 50 or 66⅔% of the voting rights in a company (whether or not such rights may be exercised), is subject to a reporting obligation. Information on these significant shareholders can be found on page 48 of this report.

The reporting obligation applies to anyone who directly, indirectly or in concert with third parties acquires or disposes of shares in a company incorporated in Switzerland whose equity securities are listed in whole or in part in Switzerland. It also applies to anyone who can exercise the voting rights attached to such equity securities at their own discretion. Disclosure must be made to the company and stock exchanges on which the equity securities in question are listed.

Dividend policy

The Board of Directors defined an attractive dividend policy in its 2017–2021 strategy. Based on the very pleasing 2017 result, the Board of Directors is proposing to the Annual General Meeting of 19 April 2018 a distribution at the upper end of the strategic bandwidth (payout ratio 50%–60%): CHF 6.50 per share (2016: CHF 6.50), of which CHF 1.50 will be distributed from capital contribution reserves. The payout ratio is therefore 59.2% (2016: 63.4%), and the dividend yield as of 31 December 2017 stood at 2.0%. Dividend payments from the capital contribution reserves are tax-free for natural persons living in Switzerland who hold shares as part of their private assets.

Financial calendar

Annual General Meeting	19 April 2018
Dividend payment	25 April 2018
Half-year results 2018	21 August 2018
Investors Day	26 October 2018
Preliminary information on 2018 financial year	22 January 2019
Annual media and analyst conference on the 2018 financial results	14 March 2019
Annual General Meeting	16 April 2019

Key data Komax registered share

		2017	2016[1]	2015[1]	2014[1]	2013[1]
Share capital as at 31 Dec.	in TCHF	**383**	377	369	361	352
Number of shares as at 31 Dec.	No.	**3 834 482**	3 774 148	3 691 651	3 605 101	3 523 780
Average number of outstanding shares	No.	**3 810 276**	3 741 364	3 652 728	3 552 840	3 458 379
Par value per share	CHF	**0.10**	0.10	0.10	0.10	0.10
Basic earnings per share	CHF	**11.05**	10.34	8.00	7.64	7.33
EBITD per share	CHF	**17.35**	17.22	16.19	15.99	14.92
EBIT per share	CHF	**14.45**	14.81	13.67	13.34	12.29
Shareholders' equity per share	CHF	**67.33**	65.23	76.70	78.82	74.92
Distribution per share	CHF	**6.50**[2]	6.50	6.00	5.00	4.50
Highest price	CHF	**319.50**	251.25	194.90	152.40	138.00
Lowest price	CHF	**243.50**	180.10	122.90	124.60	72.35
Closing price as at 31 Dec.	CHF	**319.50**	251.25	194.90	144.50	135.30
Average daily trading volume	No.	**12 274**	8 191	7 881	8 613	9 999
P/E (price-earnings ratio) as at 31 Dec.		**28.9**	24.3	24.4	18.9	18.5
Dividend yield as at 31 Dec.	%	**2.0**[2]	2.6	3.1	3.5	3.3

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly. The years 2013–2015 are reported according to IFRS.
[2] Proposal of the Board of Directors of Komax Holding AG: distribution of CHF 6.50 per registered share.

Further information on the Komax registered share can be found on the Internet at www.komaxgroup.com.

CORPORATE GOVERNANCE

Ensuring good corporate governance is very important to Komax. Objectives in this area include safeguarding company value and success in the interest of customers, shareholders, staff, creditors, suppliers, and the public, as well as the provision of transparent, rapid, and simultaneous information to all stakeholder groups. Komax takes as its starting point the principles and regulations of the "Swiss Code of Best Practice" of Economiesuisse and the Directive on Information Relating to Corporate Governance (Directive Corporate Governance, DCG) of SIX Exchange Regulation, and gives account of developments in this area each year in the Annual Report. The key elements are laid down in the Articles of Association, the Organizational Regulations, and the Regulations on the Remuneration Committee and the Audit Committee. In addition, the Board of Directors regularly looks at the issue of corporate governance and initiates the corresponding adjustments where appropriate.

1 Corporate structure and shareholders

Corporate structure

The Group structure and subsidiaries belonging to the Group are set out on pages 106 and 107 of the Annual Report. With the exception of Komax Holding AG, no companies with listed participation securities form part of the scope of consolidation.

Komax Holding AG, the holding company of the Komax Group, has its headquarters in Dierikon, Switzerland. Details on the place of listing, market capitalization, security and ISIN numbers are set out on pages 43 to 46 ("Information for investors").

Major shareholders

Shareholders whose share of the company's share capital exceeds or falls below the thresholds of 3, 5, 10, 15, 20, 25, 33⅓, 50 and 66⅔% have a reporting obligation under the Financial Market Infrastructure Act (FinMIA). According to the disclosure reports submitted, the company had the following major shareholders holding more than 3% of the votes as at 31 December 2017:

Shareholder / Shareholder group	**Number of shares 31.12.2017**	**Share in % 31.12.2017**[1]
Veraison SICAV, Zurich, Switzerland	196 229[2]	5.199
Max Koch, Meggen, Switzerland	190 285	5.042
Swisscanto Fondsleitung AG, Zurich, Switzerland	132 410[3]	3.508
Leo Steiner, Steinhausen, Switzerland	126 954	3.364

[1] The calculation is based on the 3 774 148 registered shares listed in the Commercial Register as at 31 December 2017.
[2] Notification of breach of 5% threshold on 23 May 2015.
[3] Notification of breach of 3% threshold on 16 December 2016.

All shareholdings reported to Komax Holding AG and the Disclosure Office of SIX Swiss Exchange during the 2017 financial year as per Art. 120 of the Financial Market Infrastructure Act have been published on SIX Swiss Exchange AG's electronic publication platform, and can be viewed at www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

Cross-shareholdings

There are no cross-shareholdings.

2 Capital structure

Capital

in CHF

Ordinary capital	383 448.20
Conditional capital	1 551.80
Authorized capital	0.00

Further details are provided in the sections below.

Authorized and conditional capital in particular

For detail on conditional capital, please see page 99 of the consolidated financial statements of Komax Holding AG as well as Art. 3.2 of the Articles of Association.

The Annual General Meeting of 13 May 2009 approved the creation of new conditional capital up to a maximum of CHF 18 000, thereby allowing the share capital of the company at that time to rise by up to CHF 46 248 to cover the exercising of option or subscription rights issued as part of the Executive and Employee Participation Programs of Komax Holding AG. The subscription and advance subscription rights of the remaining shareholders in the company are excluded.

The allocation of options was undertaken in a framework determined by the Remuneration Committee. The option plan of Komax Holding AG was authoritative. The individual allocation of options was at the discretion of the Board of Directors and senior management. These options have a duration of five years and are subject to a three-year lock-in period. The predetermined exercise price of the option corresponds to the lower of the following two values: the average price of the fourth quarter of the preceding year, or the average price in March of the year the option was issued. The allocation of share options was discontinued in 2015 and replaced by share-based programs. Further information on the Komax Group's employee participation programs, can be found on pages 66 and 67 and 109 to 111 of the Annual Report.

In 2010, 13 360 options were converted into shares with a par value of CHF 0.10. In 2011, no options were exercised, and in 2012, 42 909 options were exercised. The number of options exercised in 2013 amounted to 79 991; the figure for 2014 was 81 321, for 2015 86 550, 2016 82 497 and for 2017 60 334. Conditional capital therefore amounted to CHF 1 551.80 as at 31 December 2017.

The new capital created in 2017 was reported within the deadline stipulated under Art. 635h of the Swiss Code of Obligations (CO).

The Komax Holding AG has no authorized capital.

Capital changes

Details of capital changes in 2016 and 2017 can be found on page 76 of the Financial Report. The corresponding information for 2015 can be found on page 85 of the financial section of the 2016 Annual Report.

Shares, participation certificates, and bonus certificates

As at 31 December 2017, Komax Holding AG had fully paid-up capital of CHF 383 448.20 and distributed over 3 834 482 registered shares with a par value of CHF 0.10 each. Each registered share entitles the holder to vote at the Annual General Meeting as long as the shareholder is listed in the share register as a "voting shareholder" (see also "Restrictions on transferability of shares and nominee registrations" on page 50). Registered shares are fully entitled to receive dividends. Komax Holding AG has not issued any participation certificates or bonus certificates.

Restrictions on transferability of shares and nominee registrations

The Komax Holding AG share register is divided into the categories of "non-voting shareholders" and "voting shareholders." "Non-voting shareholders" may exercise all property rights, but not the right to vote or rights associated with that of voting. "Voting shareholders" may exercise all rights associated with the share (Articles of Association, Section 6 para. 2).

Registration of an acquirer of shares as a "voting shareholder" may be refused under Komax Holding AG's Articles of Association (Section 6 para. 4) if, as a result of such recognition, the acquirer would directly or indirectly hold more than 15% of the total number of shares recorded in the Commercial Register. Legal entities and groups with joint legal status which are connected through capital, voting rights, management or in some other manner, along with all natural persons, legal entities and groups with joint legal status which act in concert by virtue of agreement, syndicate or in some other manner, are regarded as a single acquirer for the purposes of this provision. This limitation also applies in the case of the acquisition of registered shares through the exercising of subscription rights, option rights or conversion rights. No requests for an exception were made in the year under review. This restriction does not apply to the acquisition of shares through inheritance, division of an estate or joint marital property.

Komax Holding AG's Articles of Association (Section 6 paras. 5 and 6) also empower the Board of Directors to refuse entry in the share register if the acquirer does not expressly declare, at the request of the Board, that the shares were acquired in his/her own name and for his/her own account. Nominees are listed in the share register as "non-voting shareholders." After hearing the affected party, Komax Holding AG may delete entries in the share register if such entries occurred in consequence of false statements by the acquirer. The acquirer must be informed of the deletion immediately.

Convertible bonds and options

Komax Holding AG has no outstanding convertible bonds. Details on employee options can be found above under "Authorized and conditional capital in particular" as well as on page 109 of the Annual Report.

Management transactions

The Listing Rules of SIX Swiss Exchange stipulate a disclosure obligation for management transactions. The Board of Directors has issued a set of regulations to comply with these provisions. Members of the Board of Directors and Executive Committee have a disclosure obligation towards the company in this respect. A total of 28 notifications were submitted in the 2017 financial year. Published notifications can be found at www.six-exchange-regulation.com/en/home/publications/management-transactions.html (website of SIX Swiss Exchange).

3 Board of Directors

The Board of Directors comprised six individuals as at 31 December 2017. Other than the Chairman, no member of the Board of Directors was a member of the Executive Committee in the three financial years prior to the reporting period, and no member of the Board of Directors has any material business relationship with any Group companies.

Members of the Board of Directors

	Appointed	Term expires	Committees
Beat Kälin, Chairman	2015	2018	RC
Daniel Hirschi, Vice-Chairman	2005	2018	RC (Chairman)
David Dean	2014	2018	AC (Chairman)
Andreas Häberli	2017	2018	
Kurt Haerri	2012	2018	AC
Roland Siegwart	2013	2018	RC

AC: Audit Committee
RC: Remuneration Committee

There are no cross-involvements among the Board of Directors. Biographies of the individual Board members and details of their other activities and interests are provided on pages 34 and 35 of the Annual Report.

Statutory regulations with respect to the number of permissible activities as per Art. 12 para. 1 point 1 ERCO

According to Section 21 para. 3 of the Articles of Association, the number of permissible mandates of members of the Board of Directors in the highest management or administrative bodies of legal entities which are obliged to have themselves entered in the Commercial Register or in a corresponding foreign register and which are not controlled by the company or do not control the company shall be four additional mandates for listed companies, five additional mandates for non-listed companies, and five additional mandates for charitable organizations, as long as this does not involve any breach of statutory provisions and in particular the due diligence obligations of the Board of Directors. Mandates with different companies that belong to the same corporate group count as a single mandate. Mandates undertaken by a member of the Board of Directors at the behest of a Group company or to exercise an office under public law are not covered by the restriction on additional mandates described above. The assumption of mandates other than those stipulated above is permissible without numerical restriction, as long as these mandates are unremunerated and do not interfere with the Board member’s fulfilment of his/her obligations in respect of the company. The reimbursement of expenses does not count as compensation.

Election and term of office

According to the Articles of Association (Section 14 para. 1), the Board of Directors consists of three to seven members. It is predominantly composed of independent, non-executive members, who are elected individually by the Annual General Meeting for a term lasting until the end of the next Annual General Meeting. The Annual General Meeting also elects the Chairman. Members may be re-elected. There is no restriction on the length of a member’s term of office. The Articles of Association provide no regulations regarding the appointment of the Chairman and the members of the Board of Directors that deviate from statutory provisions.

The Chairman and all other members of the Board of Directors will be proposed for re-election at the next Annual General Meeting on 19 April 2018.

Internal organization

The Board of Directors consists of the Chairman and a maximum of six other Board members. With the exception of the Chairman, who is also elected by the Annual General Meeting unless that position becomes vacant during the year, the Board of Directors organizes itself. If the office of Chairman becomes vacant during the period of office, the Board of Directors will nominate a new Chairman for the remaining period of office, whereby this person must be an existing member of the Board of Directors.

The Chairman is responsible for chairing meetings. The Board of Directors additionally appoints a Secretary, who does not need to be a member of the Board of Directors. The Board of Directors meets as often as business requires, but no less than four times per year. It convenes at the invitation of the Chairman. Each member of the Board of Directors is also entitled to demand that a meeting be called to discuss a particular topic. In this case, the Chairman convenes the meeting within 14 days of receiving the request.

The Board of Directors is deemed to have a quorum if an absolute majority of its members are present in person. The resolutions of the Board of Directors are adopted by an absolute majority of votes present. In the event of a tie, the Chairman casts the deciding vote. All resolutions are minuted. In cases of urgency, a meeting of the Board of Directors may be held by telephone or other appropriate medium. Resolutions by circular letter are permissible provided no Board member calls for verbal discussion. Five ordinary meetings of the Board of Directors took place in 2017, with all members being present on all occasions. On average, these meetings lasted around eight hours. However, these average times pertain to the actual duration of the meetings themselves, and do not take into account the preparatory and follow-up work done by the individual members. Within the Board of Directors, there are two committees that are exclusively made up of non-executive Board members:

– Remuneration Committee

This committee amalgamates the tasks of a remuneration and nomination committee. The Remuneration Committee consists of a maximum of three non-executive members. The Committee is elected by the Annual General Meeting. Members' term of office ends with the conclusion of the next Annual General Meeting. Re-election is permissible. The current members are Daniel Hirschi (Chair), Beat Kälin, and Roland Siegwart. The Board of Directors is proposing to the Annual General Meeting of 19 April 2018 the re-election of Beat Kälin and Roland Siegwart, and the election of Andreas Häberli as a new Committee member.

The Articles of Association provide no regulations regarding the appointment of Committee members that deviate from statutory provisions. If a member leaves the company prior to completing his term of office, the Board of Directors will appoint a replacement from among its number for the remaining period of office.

The Remuneration Committee meets as often as business requires, but at least twice a year. The invitation, which contains details of the agenda items, is issued in writing at least ten days prior to the meeting. The CEO and other members of the Executive Committee may attend these meetings in an advisory capacity. However, they do not take part in discussions concerning their own compensation. The Committee Chairman reports to the Board of Directors on the activities of the Committee after every meeting. The minutes of Committee meetings are made available to members of the Board of Directors.

In 2017, the Committee held two ordinary meetings as well as one extraordinary meeting; in each case, all members were present. On average, these meetings lasted a good four hours. These average times do not include the preparatory and follow-up work done by the individual members.

The tasks of the Remuneration Committee include supporting the Board of Directors in the fulfilment of the compensation and staff policy duties assigned to it by current legislation and the Articles of Association. In particular, the Remuneration Committee puts forward proposals on remuneration policy and prepares all relevant decision-making material for the Board of Directors with respect to the appointment and remuneration of members of the Board of Directors and the Executive Committee. The detailed tasks and competencies of the Remuneration Committee are formulated in a set of Regulations for the Remuneration Committee. Further details on the Remuneration Committee can be found in the Compensation Report on pages 59 to 71.

– **Audit Committee**

The members of the Audit Committee are David Dean (Chair) and Kurt Haerri. The Committee meets at least twice a year. Two ordinary meetings took place in 2017, with all members being present on both occasions. On average, these meetings lasted four hours. These average times do not include the preparatory and follow-up work done by the individual members.

The tasks of the Audit Committee include the overall supervision of the external and internal auditors, as well as financial reporting. The Audit Committee sets out the scope and schedule of the audits to be carried out by the two auditing bodies and also coordinates their work.

Both the external and internal auditors draw up a report on their audit work, and the Audit Committee monitors implementation of the audit findings. Furthermore, the Audit Committee evaluates the reliability of the internal control system and risk management, and acquires a picture of the extent to which statutory and internal regulations are being adhered to (compliance).

The CEO and the CFO both attend meetings of the Audit Committee. The external auditor is invited to attend. The CFO represents the internal audit unit. Both bodies have access to the minutes of the meetings of the Board of Directors and Executive Committee. The detailed tasks and competencies of the Audit Committee are set out in the Organizational Regulations for the Audit Committee.

Definition of areas of responsibility

According to Art. 716a para. 1 CO and Section 19 of the Articles of Association, the Board of Directors must fulfil the following tasks:

- Overall management of the company and issuance of the necessary directives
- Defining the company's organizational structure
- Determining the principles of accounting, financial controlling and financial planning, insofar as this is necessary for the management of the company
- Appointing and removing the persons entrusted with managing and/or representing the company
- Ultimate supervision of the persons entrusted with managing the company, specifically with respect to prevailing legislation, the Articles of Association, regulations, and directives
- Producing the Annual Report, making preparations for the Annual General Meeting and executing the resolutions passed by the Annual General Meeting
- Drawing up the Compensation Report
- Informing the courts in the event of excessive indebtedness
- Passing resolutions on supplementary contributions for shares not fully paid in
- Resolutions for the approval of capital increases and the resulting amendments to the Articles of Association

The tasks, obligations and powers of the Board of Directors, its Chairman, and the above-mentioned Committees are set out in detail in the Articles of Association, the Organizational Regulations of Komax Holding AG, and the Regulations for the Remuneration Committee and the Audit Committee. These also define the rights, obligations and competencies of the CEO and Executive Committee. The relevant regulations are reviewed on a regular basis and amended where necessary. The most recent adjustments have been in force since 1 January 2017.

To the extent permitted by law and by the Articles of Association, the Board of Directors has delegated operational management of the company to the CEO of the Komax Group. The Executive Committee is made up of the CEO and the CFO. The members of the Executive Committee are appointed by the Board of Directors at the proposal of the Remuneration Committee.

Information and control instruments in respect of the Executive Committee

The CEO informs the Board of Directors at each ordinary meeting about the course of business, the Group's most important transactions and the status of the tasks delegated to the Executive Committee. In addition, the key data generated by the management information system (MIS) is discussed at length with the CEO and CFO at these meetings. The Board of Directors is provided with full details of the current course of business and the financial situation of the Group between each meeting. In addition, the Chairman of the Board of Directors and the CEO are in regular contact to discuss important questions of company policy.

The risks associated with the Group's commercial activities are systematically identified, analyzed, monitored and managed through an institutionalized risk management function. These risks are amalgamated into groups according to their nature, namely general external risks, business risks, financial risks, risks arising in connection with corporate governance, and IT risks. The Executive Committee is responsible for the operational side of risk management, whereby specially appointed process owners are assigned responsibility for the management of key individual risks. These process owners take specific measures and monitor their implementation. Every year, the Executive Committee informs the Audit Committee of the risks identified and measures taken as part of risk management activities.

The MIS of the Komax Group is organized as follows: each subsidiary's key balance sheet and profit and loss figures are compiled and consolidated once a month. The subsidiaries' balance sheets, income statements, cash flow statements and various indicators are compiled and consolidated on a quarterly, half-yearly and yearly basis. A comparison is then made with the previous year and the budget. The budget forecast is checked for attainability against the quarterly statements for each individual company and on a consolidated basis.

Using key controls, the internal control system (ICS) ensures proper and efficient management, safeguards assets, prevents and identifies offences and errors, and ensures accurate and complete accounting records as well as timely preparation of reliable financial information. A report setting out the results of these investigations and the corresponding measures taken is submitted to the Audit Committee.

The internal audit function evaluates the effectiveness of the ICS as well as management and monitoring processes. It also supports the Executive Committee in the risk management process. Internal audit duties are performed by the Finance & Accounting unit of Komax Management AG, Dierikon. This unit scrutinizes the individual operating units of the Group and the various business areas of the parent entity at regular intervals, and on the basis of an annually updated audit plan. The internal auditors report the results of their investigations to the Audit Committee. The Audit Committee reviews and approves the scope of the audit, the audit plan, and the corresponding responsibilities. It also decides on any measures to be implemented as a result of internal audit findings.

4 Executive Committee

The Executive Committee of the Group comprises the CEO and the CFO.

	Function exercised since
Matijas Meyer, CEO	2015
Andreas Wolfisberg, CFO	1996

Biographies of the individual members of the Executive Committee are provided on page 35.

Other activities and interests

Aside from the mandates listed on page 35, the members of the Executive Committee did not exercise any activities on management or supervisory bodies of significant Swiss and foreign corporate entities, institutions or foundations under private or public law outside the Komax Group as at 31 December 2017.

Statutory regulations with respect to the number of permissible activities as per Art. 12 para. 1 ERCO

The number of permissible mandates of members of the Executive Committee in the highest management or administrative bodies of legal entities which are obliged to have themselves entered in the Commercial Register or in a corresponding foreign register and which are not controlled by the company or do not control the company shall be two additional mandates for listed companies, two additional mandates for non-listed companies, and five additional mandates for charitable organizations, as long as this does not involve any breach of statutory provisions and in particular the applicable due diligence obligations and the duty of loyalty. Mandates with different companies that belong to the same corporate group count as a single mandate. Mandates undertaken by a member of the Executive Committee at the behest of a Group company are not covered by the additional mandate restriction. Executive Committee members may not accept any of the above-mentioned mandates without the prior written approval of the Board of Directors. The assumption of mandates other than those stipulated above is permissible without numerical restriction, as long as these mandates are unremunerated and do not interfere with the Executive Committee member’s fulfilment of his obligations regarding the company. The reimbursement of expenses does not count as compensation.

Management contracts

No management agreements exist with companies or natural persons outside of the Group in relation to transferred management responsibilities.

5 Compensations, shareholdings and loans

Details of compensations, shareholdings and loans are set out in the Compensation Report on pages 59 to 71 of this Annual Report.

6 Shareholder participation rights

The fundamental participation rights of shareholders are set out in the Swiss Code of Obligations (CO) and supplemented by the provisions of the company's Articles of Association. There are no regulations on participation in the Annual General Meeting that deviate from statutory provisions. The Articles of Association of Komax Holding AG are available in electronic form on the website www.komaxgroup.com/articles-of-association.

Voting rights and representation restrictions
Shareholders registered in the Komax Holding AG share register are entitled to vote; each share is entitled to one vote. Treasury shares do not confer the right to vote. No single shareholder may directly or indirectly exercise the votes of more than 15% of the total number of shares recorded in the Commercial Register for his/her own registered shares and shares voted by proxy. Legal entities and groups with joint legal status which are connected through capital, voting rights, management, or in some other manner, along with all natural persons, legal entities, and groups with joint legal status which act in concert by virtue of agreement, syndicate, or in some other manner, are regarded as one person for the purposes of this provision. Representation by the independent proxy remains reserved.

Shareholders may be represented at the Annual General Meeting by another shareholder with voting rights on the basis of a written power of attorney, and by the independent proxy on the basis of electronic or written power of attorney. The Chair of the Annual General Meeting shall decide on the permissibility of representation. The independent proxy is elected by the Annual General Meeting up until the end of the next Annual General Meeting. The Articles of Association provide no regulations regarding the appointment of the independent proxy that deviate from statutory provisions. The statutory voting rights limitation may be removed by a resolution by the Annual General Meeting. Such a resolution must be carried by an absolute majority of voting shares represented.

Statutory quorums
The Annual General Meeting votes and passes its resolutions with the absolute majority of votes represented, unless prevailing legislation or the Articles of Association contain mandatory provisions under which resolutions have to be passed in a different way. In addition to the resolutions specified in CO Art. 704, under the Articles of Association of Komax Holding AG, a two-thirds majority of votes cast and an absolute majority by value of shares voted is required to dismiss members of the Board of Directors.

Convocation of the Annual General Meeting of shareholders and agenda
The convocation of the Annual General Meeting is governed by applicable law. Shareholders representing at least 1% of the share capital can request that items be placed on the agenda for discussion by submitting the proposed motions in writing by the deadline published by the company.

Entries in the share register

Any person acquiring shares is listed as a "shareholder with voting rights" up to a maximum of 15% of the total number of shares published in the Commercial Register. Any person owning more than 15% of the published shares will be entered as a "non-voting shareholder" for the portion in excess of 15% (Komax Holding AG Articles of Association, Section 6 para. 4). This restriction does not apply to the acquisition of shares through inheritance, division of an estate or joint marital property. The Board of Directors can refuse entry in the share register if the acquirer does not expressly declare, at the request of the Board, that the shares were acquired in his/her own name and for his/her own account. After hearing the affected party, the company may delete entries in the share register if such entries occurred in consequence of false statements by the acquirer. The acquirer must be informed of the deletion immediately. Nominees are listed in the share register as "non-voting shareholders."

Invitation to the Annual General Meeting of 19 April 2018

All shareholders registered in the Komax Holding AG share register as at 5.00 p.m. on 12 April 2018 are entitled to vote in respect of the number of shares registered in their name at the Annual General Meeting of 19 April 2018. Shareholders registered on 14 March 2018 will receive an invitation indicating the proposals of the Board of Directors together with a reservation and entry ticket coupon. Shareholders who acquire shares later and whose registration application is received by the Komax Holding AG share register no later than 12 April 2018 will receive the invitation at that time, or ballot materials will be waiting for them at the front desk of the Annual General Meeting. Shareholders who dispose of their shares before the Annual General Meeting are not entitled to vote. In the event of a partial sale or purchase of additional shares, the entry ticket received should be exchanged at the front desk on the date of the Annual General Meeting.

7 Changes of control and defense measures

Duty to make an offer

Upon reaching or exceeding a threshold of 33⅓, a shareholder must submit an offer to all shareholders for the purchase of their shares (Art. 135 FinMIA). The Articles of Association do not contain any opting-out or opting-up regulations.

Clauses on change of control

At the Komax Group, change-of-control clauses are not included in employment contracts. However, the members of the Board of Directors, Executive Committee, and middle management are entitled to exercise their options or share-based remuneration in part or in full, without regard to the applicable time limits, in the event of a change in control.

8 Auditors

Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers AG, Basel, has been the statutory auditor of Komax Holding AG and the Komax Group's consolidated financial statements since 1994. Pursuant to the provisions of the Swiss Code of Obligations, the lead auditor is replaced after a maximum term of seven years. The lead auditor has been responsible for the audit mandate since 2017.

Audit fee

PricewaterhouseCoopers invoiced the Komax Group CHF 702 963 in the 2017 financial year for services in connection with auditing the annual statements of Komax Holding AG and the Group companies, as well as the consolidated statements of the Komax Group.

Additional fees

During the 2017 financial year, PricewaterhouseCoopers invoiced additional fees amounting to total CHF 87 644. This breaks down into fees of CHF 30 292 for tax and legal advice and CHF 57 352 for transaction services and other consultancy fees.

Information instruments of the external audit

The Audit Committee is responsible for evaluating the external auditors, who submit an audit report to the Board of Directors and senior management. At least two consultations are held each year between the external auditors and the Audit Committee, at which the material findings for each company (management letters) and the consolidated financial statements covered by the audit report are discussed in detail. The auditors also explain the audits conducted (audit and review) for each company along with recent changes in Swiss GAAP FER standards and their impact on the Komax Group's consolidated annual statements. The services provided by the statutory auditors are evaluated by the Audit Committee on the basis of the quality of reporting and the audit reports, the implementation of the audit plan and the level of cooperation with the internal audit team. The independence of the auditors is verified by comparing the fee for additional services charged by the external auditors with the audit fee, taking into account the scope of these additional services.

9 Information policy

Komax Holding AG informs all stakeholders transparently, rapidly, and simultaneously. The CEO, CFO, and the Head of Investor Relations and Corporate Communications are available as contact partners for information purposes.

The consolidated financial statements are compiled in conformity with Swiss GAAP FER standards. Komax Holding AG publishes comprehensive financial results twice a year, for the first half and the full year. In addition to the financial results, shareholders and the financial markets are also regularly informed of significant changes and developments.

Komax Holding AG publishes facts relevant to its share price in conformity with the disclosure policies of SIX Swiss Exchange Ltd. (ad hoc publicity, Art. 72 of the Listing Rules). The Listing Rules can be downloaded at www.six-exchange-regulation.com. The official publication for company notices is the "Swiss Official Gazette of Commerce" ("Schweizerisches Handelsamtsblatt").

Information on share price trends, annual and half-year reports, the financial calendar, the minutes of the most recent Annual General Meeting, media releases, and Komax Holding AG's Articles of Association and Organizational Regulations are available at www.komaxgroup.com. Media and analyst conferences are held at least once a year. Anyone who wants to receive all media releases of Komax Holding AG by e-mail should sign up to the mailing list on the Komax website.

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COMPENSATION REPORT

This Compensation Report provides an overview of the compensation policy and compensation systems of Komax Holding AG, as well as the principles used to determine the compensation of the Board of Directors and the Executive Committee. In addition, the compensation paid in 2017 is disclosed in detail. The Compensation Report has been drawn up in accordance with the provisions of the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO), the Directive Corporate Governance (DCG) of SIX Swiss Exchange, and the principles of the "Swiss Code of Best Practice for Corporate Governance" of Economiesuisse.

1 Introduction by the Chairman of the Remuneration Committee

Dear Shareholder,

The 2017 financial year developed very positively for Komax, and showed that the company is on track to meet its strategic objectives. The Remuneration Committee looked at a number of personnel issues in 2017, as well as reviewing the compensation system. On behalf of the Remuneration Committee, I would like to provide you with more detail on this over the following paragraphs.

In 2017, we evaluated several potential members for the Board of Directors, all of whom possess considerable expertise in the area of digital transformation. In the person of Dr. Andreas Häberli, we have found a proven specialist who was elected to our Board of Directors with a resounding majority at the 2017 Annual General Meeting. Given the continuous growth of recent years, we have also looked at the organizational structure of the Komax Group. With an eye on good corporate governance, we have decided to expand the Executive Committee from two to five members. The planned change will enter into force with effect from 1 January 2019, assuming the 2018 Annual General Meeting approves the proposed compensation for the expanded Executive Committee. Three heads of core business areas that focus primarily on the development and production of automation solutions along the value chain are being promoted to the Executive Committee: Marc Schürmann (wire processing), Marcus Setterberg (test systems), and Günther Silberbauer (customer-specific solutions).

We reviewed the compensation systems of the Board of Directors and the Executive Committee in 2017, and have geared the performance indicators of the Executive Committee to the 2017–2021 strategic targets. These performance indicators (revenues, EBIT, RONCE, individual targets) are now aligned with the medium-term financial targets. There was no need to adjust the compensation system of the Board of Directors.

At the next Annual General Meeting on 19 April 2018, we will be proposing approval of the maximum possible total compensation for the Board of Directors and the Executive Committee for the 2019 financial year. In addition, you will as usual be given the opportunity at the Annual General Meeting to cast an advisory vote on this Compensation Report and thereby express your opinion on our compensation system. We are aware of our responsibility in this area. I can therefore assure you that we will continue to adopt a restrained approach to the budget available. When you read the Compensation Report, you will see that the compensation granted to both the Board of Directors and the Executive Committee in 2017 was in keeping with the provisions of the Articles of Association.

You can find detailed information on our compensation model and the compensation granted to the Board of Directors and the Executive Committee in 2017 on the following pages.

Yours sincerely,

Daniel Hirschi
Chairman of the Remuneration Committee

2 Tasks and competencies of the Remuneration Committee

Under the Articles of Association, Organizational Regulations and Regulations of the Remuneration Committee of Komax Holding AG, the Remuneration Committee is the supervisory body for staff and compensation policy within the Komax Group. The Committee amalgamates the tasks of a remuneration and nomination committee.

It has the following responsibilities and competencies:

- Development and regular review of staff policy and compensation policy, including the principles of variable compensation and shareholding program
- Annual review of and determination of the maximum total compensation amounts payable to the Board of Directors and the Executive Committee, as well as preparation of the related proposals to the Annual General Meeting
- Proposal on the individual compensation payable to members of the Board of Directors and the CEO within the limits approved by the Annual General Meeting
- Resolutions on the compensation payable to the other members of the Executive Committee within the limits approved by the Annual General Meeting
- Succession planning for the Board of Directors, Executive Committee, and other key functions
- Annual assessment of the independence of the members of the Board of Directors
- Annual assessment of the performance of the CEO and the members of the Executive Committee
- Preparation of the Compensation Report

The Committee monitors and regularly discusses trends and developments in the area of compensation, including any changes to statutory provisions or changes to provisions on corporate governance.

Delineation of competencies

	CEO	Committee	BoD	AGM
Compensation policy, including the principles of variable compensation and participation program		proposes	approves	
Maximum total compensation for the Board of Directors and the Executive Committee		proposes	submits	approves (binding vote)
Individual compensation of the members of the Board of Directors		proposes	approves	
Evaluation of the performance of the CEO		proposes	approves	
Compensation of the CEO		proposes	approves	
Evaluation of the performance of the other members of the Executive Committee	proposes	approves		
Individual compensation of the other members of the Executive Committee	proposes	approves		
Compensation Report		proposes	approves	confirms (advisory vote)

Under the Articles of Association, the Remuneration Committee consists of a maximum of three non-executive members of the Board of Directors. The Committee is elected by the Annual General Meeting. Members' term of office ends with the conclusion of the next Annual General Meeting. Re-election is permissible. The 2017 Annual General Meeting elected Daniel Hirschi (Chairman), Beat Kälin, and Roland Siegwart to the Committee.

The Remuneration Committee meets as often as business requires, but at least twice a year, generally in March and December. Compensation issues are discussed at the March meeting. These discussions include the assessment of the individual performance of the CEO and other members of the Executive Committee for the previous year, the determination of the individual compensation payable to members of the Board of Directors and the Executive Committee, and the approval of the Compensation Report. At the December meeting, staffing questions are discussed, along with corporate governance issues. In addition, the performance targets for the CEO and the other members of the Executive Committee are set for the following year. In the reporting year, the Committee held two ordinary meetings and one extraordinary meeting; in each case, all members were present. The Chairman of the Committee may invite the CEO and other members of the Executive Committee to meetings in an advisory (non-voting) capacity. However, they do not take part in discussions concerning their own performance and compensation. The Committee Chairman reports to the Board of Directors on the activities of the Committee after every Committee meeting. The minutes of Committee meetings are made available to all members of the Board of Directors.

Furthermore, the Committee may call in external consultants and draw on their assistance when fulfilling its duties.

3 Provisions of the Articles of Association on compensation

In compliance with the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO), the Articles of Association contain provisions relating to remuneration which are reproduced below in abbreviated form (as an excerpt) and set out in detail in sections 13 and 25 of the Articles of Association:

Principles for the compensation of members of the Board of Directors	– Members of the Board of Directors receive fixed compensation in cash as well as in shares and/or options under the company's employee participation program. – The calculated value (fair value) of the shares and/or options at the time of allocation may not exceed the amount of compensation paid in cash. – The Board of Directors determines the conditions that apply to shares and/or options. – The lock-in periods are at least three years.
Principles for the compensation of members of the Executive Committee	– Members of the Executive Committee receive a fixed base salary, variable performance-related compensation, and shares and/or options under the company's employee participation program. – The Board of Directors determines the conditions for the performance-related compensation component on an annual basis. These are linked to the attainment of one or more performance criteria, whereby these criteria are either company-related and/or individual in nature. – The target amount may not exceed 50% of the annual fixed compensation. If targets are not attained, the performance-related compensation may fall to zero. If all targets are significantly exceeded, it may go up to a maximum of 100% of the annual fixed compensation. – The Board of Directors determines the conditions that apply to shares and/or options. The calculated value (fair value) of the shares and/or options at the time of allocation may not exceed 100% of the annual fixed compensation. – The lock-in periods are at least three years.
Binding vote on the compensation paid to the Board of Directors and Executive Committee	– The Annual General Meeting holds a separate vote each year on the total amount of compensation payable to the Board of Directors and to the Executive Committee. – The vote has binding effect, and applies for the coming financial year to the relevant total maximum amounts that may be paid to members of the Board of Directors and the Executive Committee.
Additional sum for payments to members of the Executive Committee appointed after the binding vote of the AGM	– The additional amount for the compensation of members of the Executive Committee appointed after the Annual General Meeting may not exceed 30% of the approved total amount of compensation payable to the Executive Committee.
Pension benefits	– The pension benefits of members of the Executive Committee are only paid within occupational domestic and foreign pension plans provided by the company or its Group companies. – The benefits and the employer contributions are solely drawn from the above-mentioned occupational plans. – Retirement benefits are provided solely within the context of the company's ordinary pension plans.

The Articles of Association of Komax Holding AG can be found at www.komaxgroup.com/articles-of-association.

4 Principles of compensation policy

Board of Directors

The members of the Board of Directors only receive fixed compensation. This ensures that they are independent in their supervision of the Executive Committee. Their compensation is paid in cash and restricted shares, thereby ensuring alignment with the long-term interests of shareholders. The amount of compensation reflects the importance of the mandate in question, and is generally based on the typical levels of compensation paid to board members of other listed Swiss industrial companies of comparable size and complexity.

Executive Committee

The compensation policy for members of the Executive Committee is determined by the Board of Directors. It is geared to key principles that take into account the corporate strategy of the Komax Group, which aims for profitable growth, as well as the company's wider values with respect to sustainability and social responsibility. The compensation system is intended to provide an incentive to create and preserve value for shareholders. It is also designed to motivate top managers to achieve exceptional performance and to retain them in the long term. The amount of compensation awarded reflects the company's long-term financial success.

Performance orientation	A significant proportion of compensation is directly linked to the operating and financial performance of the company and the attainment of individual objectives.
Alignment with shareholder interests	A proportion of compensation consists of Performance Share Units, which are intended to align the interests of management more closely with the long-term interests of the shareholders. Furthermore, there is a direct correlation between the amount of compensation paid and the long-term success of the company.
Market comparability	The compensation rates are in line with the market when compared with similar positions in comparable companies.
Fair compensation	The compensation reflects the job profile, the responsibility, the capabilities and the experience of the function holder.
Transparency	The compensation system is straightforward and transparent.

The compensation paid to the Executive Committee is determined on the basis of the following key factors:

Practice of competitors	Compensation paid by other listed international Swiss industrial companies of comparable complexity, size, and geographic reach. The sources used for the benchmark comparison are publicly accessible data such as compensation reports and the Ethos study on remuneration in Swiss companies. With no benchmark comparison having been undertaken in recent years, various specific benchmarks studies were conducted in 2017, on the basis of which the compensation of the members of the Executive Committee was reviewed. The results of the study indicate that there is no need to adjust the target amounts for compensation.
Performance	The financial performance of the company and its relevant business areas, and the attainment of individual targets agreed as part of the annual performance management process.
Available financial resources of the company and market situation	Budget-related considerations, inflation, and wage trends in the local market.

5 Structure of the compensation system

5.1 Board of Directors

The members of the Board of Directors only receive fixed compensation. To strengthen the alignment of their interests with the long-term interests of shareholders, their compensation is paid partly in cash and partly in restricted shares. The allocation of share options to members of the Board of Directors has been discontinued.

The amount of compensation depends on the responsibilities of the individual as well as the time taken up by their mandate, and is based on the following structure:

in CHF	Basic annual fee	Attendance fee	Annual allocation of restricted shares[1]
Chairman of the Board of Directors	187 500	5 000	60 000
Vice-Chairman of the Board of Directors	75 000	2 500	30 000
Board member and Chairman of a committee	75 000	5 000	25 000
Board member without committee chairmanship	75 000	2 500	25 000

[1] Fixed amount in CHF: is divided by the share price as per allocation date (average closing price over the last 40 trading days prior to allocation) and rounded up to the nearest number of full shares.

The basic annual fee in cash (incl. expense allowance) and attendance fees are paid out in June and December for the current calendar year. Restricted shares are allocated at the end of the member's period of office shortly before the Annual General Meeting; the lock-in period is three years. In the event of retirement, death, or disability, the entitlement to restricted shares is calculated on a pro rata temporis basis. In such cases, the lock-in period may be either continued or rescinded at the discretion of the Board of Directors. In the event of a change in company control, the lock-in period is automatically rescinded.

Additional compensation may be paid for exceptional efforts that cannot be considered part of the ordinary Board of Directors activity. No such additional compensation was paid in 2017.

The Compensation granted to members of the Board of Directors is subject to the standard social security deductions. The members of the Board of Directors do not participate in the staff pension plans of Komax.

5.2 CEO and Executive Committee

In keeping with the principles of performance orientation and alignment with the long-term interests of shareholders, the CEO and the other members of the Executive Committee receive a fixed salary component, a variable, performance-related cash bonus, a long-term incentive component in the form of Performance Share Units, and occupational benefits.

	Purpose	Driver	Performance criterion	Period	Instrument
Fixed compensation	Attract, retain, motivate	Function, market comparability	–	Ongoing	Monthly cash payments
Cash bonus	Pay for performance	Financial and individual performance	Revenues, EBIT, individual objectives	One year	Yearly cash payment
Long-term incentive system	Align with shareholder interests, pay for performance	Function	RONCE	Three years	Performance Share Units (PSUs)
Occupational benefits	Protect against risks	Market comparability	–	Ongoing	Retirement savings / insurance plan

a) Fixed compensation

The fixed compensation component consists of a fixed base salary and a fixed company car allowance, to which members of the Executive Committee are entitled according to the current expense regulations. Expense allowances are not included, as these are not considered compensation.

The fixed salary component and the cash bonus for 100% target attainment form the so-called target salary. The target salary is determined on the basis of the following factors:

- the tasks and responsibilities of the individual functions
- the standard market compensation rate for the function in question (external benchmark)
- an internal peer comparison (internal benchmark)
- the individual profile of the function holder, e.g. skills, capabilities, experience, and performance
- the company’s available financial affordability

b) Cash bonus

The cash bonus depends on the financial performance of the company and its business areas as well as the attainment of the individually agreed objectives in the year under assessment. The target value (target bonus) is expressed as a proportion of fixed annual basic salary, and amounts to 50% for the CEO and for the other members of the Executive Committee.

CEO and CFO

The cash bonus for the CEO and CFO is based entirely on the financial performance of the Komax Group. The reference values relevant to the 2017 financial year were Group revenues and Group EBIT. The Board of Directors determines the performance achievement level and the amount of the cash bonus payable to the CEO annually on the recommendation of the Remuneration Committee. This also forms the basis for determining the performance achievement level and cash bonus of the CFO, which is likewise determined by the Remuneration Committee. If performance objectives are not attained, the cash bonus may fall to zero. If all objectives are significantly exceeded, the cash bonus may amount to a maximum of 175% of the target bonus or a maximum of 100% of annual fixed compensation.

Target attainment

The attainment of financial targets is evaluated after the end of the financial year; it may fall anywhere within a bandwidth of 0% to 200%.

The individual performance component is based on the attainment of personal objectives agreed as part of the annual performance management process. These objectives may also include non-quantitative objectives of a predominantly strategic nature, such as the opening up of new markets, the development of new products, the management of key projects, and leadership objectives. Attainment of personal objectives is evaluated after the end of the financial year and may fluctuate within a range of 0% to 100%.

	CEO and CFO
Financial performance	25% Revenues (Group) 50% EBIT (Group)
Individual performance	25% individual objectives
Payout bandwidth	0%–175%

The cash bonus is generally paid in April of the following year.

c) Long-term incentive system

To ensure that the interests of the Executive Committee are aligned with long-term shareholder interests, the Komax Group has a long-term incentive system linked to the company's financial performance. This plan comprises Performance Share Units (PSUs) with a three-year vesting period that are dependent on the attainment of a performance target (average RONCE figure over three years) and the continuation of the employment relationship. The Board of Directors determines the allocation amounts in CHF, taking account of the importance of the function and its impact on corporate results.

Calculation of PSU allocation

The number of PSUs allocated is calculated by dividing a fixed CHF amount by the average closing share price during the 60 days preceding the start of the vesting period. The allocation may amount to a maximum of 66⅔% of fixed base salary. The actual payout at the end of the vesting period takes the form of shares, and is dependent on the average RONCE figure over three years compared to the target margin determined in advance by the Board of Directors. The payout factor may range between 0% and 150%. The actual value of the allocation at the end of the vesting period depends therefore on the payout factor and the development of the share price over the course of the vesting period.
Shares are definitively issued according to the following vesting rule:

- RONCE figure below threshold value: 0% of PSUs are converted into shares (forfeiture rate of 100%)
- RONCE figure achieved: 100% of PSUs are converted into shares
- RONCE figure at maximum performance level: 150% of PSUs are converted into shares (cap)

The payout factor between the threshold value, the target level, and the cap is obtained by linear interpolation.

Number of shares allocated at time of vesting	=	Number of PSUs originally granted to the individual in question	X	Vesting factor (0%–150%)

Duration of plan

Plan period (2017 – 2019)		
2017 plan year	2018 plan year	2019 plan year
Average RONCE figure		

1 January 2017
allocation of PSUs

31 December 2019
vesting: allocation of shares
(payout factor between 0% and 150%)

In the event of any termination of the employment, pro rata vesting applies at the ordinary vesting date. The calculation is based on the number of whole months that have elapsed within the vesting period until the departure date. Dismissals for cause are excluded from this regulation; in such cases, all unvested PSUs immediately forfeit and become worthless.

In the event of a change in control, accelerated pro rata vesting applies. The calculation is based on the number of whole months that have elapsed until the date of change in control. This date is determined at the discretion of the Board of Directors.

d) Occupational benefits

Members of the Executive Committee are insured under Komax's ordinary staff pension scheme in Switzerland. The amount insured is the annual fixed base salary multiplied by a factor of 1.2 in order to additionally insure at least a proportion of the variable compensation. Contributions are graduated by age, and are shared equally between the insured and the employer. The benefits of the plan go beyond the statutory requirements of the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans, and are in line with the market practice of other industrial companies in Switzerland.

e) Other provisions in employment contracts

The employment contracts of members of the Executive Committee are concluded for an indefinite period and stipulate a maximum notice period of 12 months. They do not contain any severance agreement or change of control provisions.

6 Compensation, shareholdings and options held by the Board of Directors in 2017

Section 6 of the Compensation Report was audited by the company's external auditor.

6.1 Compensation

In 2017, members of the Board of Directors received total compensation of CHF 898 274 (2016: CHF 904 330), of which CHF 661 250 was paid out in cash (2016: CHF 673 750), CHF 181 667 in the form of restricted shares (2016: CHF 175 417) and CHF 55 357 as social benefit contributions (2016: CHF 55 163). Contributions to pensions plans amounted to CHF 0 (2016: CHF 0).

in CHF		Basic annual fee[1]	Allocation restricted shares[2]	Social benefits[3]	Total compensation 2017	Total compensation 2016
Beat Kälin	Chairman	220 000	60 000	11 537	**291 537**	300 287
Daniel Hirschi	Member	102 500	30 000	10 314	**142 814**	149 551
David Dean	Member	97 500	25 000	9 536	**132 036**	136 078
Andreas Häberli[4]	Member	53 750	16 667	5 482	**75 899**	n.s.
Kurt Haerri	Member	92 500	25 000	9 147	**126 647**	130 689
Roland Siegwart	Member	95 000	25 000	9 341	**129 341**	134 731
Leo Steiner[5]	Member	n.s.	n.s.	n.s.	**n.s.**	52 994
Total Board of Directors		**661 250**	**181 667**	**55 357**	**898 274**	**904 330**

[1] Basic annual fee in cash (incl. expense allowance) and attendance fees.
[2] Fixed amount in CHF: is divided by the share price as per allocation date (average closing price over the last 40 trading days prior to allocation) and rounded up to the nearest number of full shares. The share price applied in 2017 was CHF 259.07.
[3] Includes mandatory employer contributions to social insurance. This amount entitles members of the Board of Directors to draw the maximum insured pension benefits in the future.
[4] Member of the Board since 12 May 2017.
[5] Member of the Board until 12 May 2016.

No compensation was paid to former members of the Board of Directors for the 2016 and 2017 financial years. Komax Group companies had not granted any guarantees, loans, advances, or credits to members of the Board of Directors or parties closely linked to such persons as at 31 December 2017. No members of the Board of Directors or persons closely linked to them are or were involved in Komax Group transactions outside their normal duties.

6.2 Holdings of shares and options as at 31 December 2017

As at the end of 2016 and 2017, members of the Board of Directors had the following holdings of shares and/or options in the company:

Assets in units		31.12.2017		31.12.2016	
		Shares	Options	Shares	Options
Beat Kälin	Chairman	8 507	4 000	9 135	13 000
Daniel Hirschi	Member	4 429	1 000	3 713	2 000
David Dean	Member	1 830	0	1 068	666
Andreas Häberli[1]	Member	0	0	n.s.	n.s.
Kurt Haerri	Member	1 799	1 000	703	2 000
Roland Siegwart	Member	940	1 000	844	1 000
Total Board of Directors		**17 505**	**7 000**	**15 463**	**18 666**

[1] Member of the Board since 12 May 2017.

7 Compensation, shareholdings and options held by the Executive Committee in 2017

Section 7 of the Compensation Report was audited by the company's external auditor.

7.1 Compensation

In 2017, members of the Executive Committee received total compensation of CHF 1 363 710 (2016: CHF 1 546 147). Of this amount, CHF 749 383 was paid in the form of fixed compensation (2016: 780 626), CHF 245 278 in the form of cash bonuses (2016: CHF 383 959), CHF 230 000 were granted in the form of Performance Share Units (2016: CHF 226 806) and CHF 139 049 comprised social security and pension fund contributions (2016: CHF 154 756).

in CHF		Fixed compensation[1]	Cash bonus[2]	Allocation Performance Share Units[3]	Social benefits[4]	Total compensation 2017	Total compensation 2016
Matijas Meyer[5]	CEO	433 500	155 268	160 000	78 007	**826 775**	846 403
Total other members of the Executive Committee[6]		315 883	90 010	70 000	61 042	**536 935**	699 744
Total Executive Committee		**749 383**	**245 278**	**230 000**	**139 049**	**1 363 710**	**1 546 147**

[1] Expense allowances are not included in the fixed compensation as these are not considered as compensation.
[2] Bonus for 2017, to be paid in April 2018.
[3] Fixed amount in CHF: is divided by the share price as per allocation date (average closing price over the last 60 trading days prior to allocation) and rounded up to the nearest number of full shares. The share price applied in 2017 was CHF 241.98.
[4] Includes mandatory employer contributions to social insurance of CHF 28 483 as well as contributions to occupational benefits (BVG). This amount entitles members of the Executive Committee to draw the maximum state-insured pension benefits in the future.
[5] Highest compensated member of Executive Committee in 2017.
[6] With the sale of the Medtech business unit on 15 April 2016, the Head of the Medtech business unit left the Executive Committee. The CFO is therefore the only other member of the Executive Committee.

Notes on the compensation overview

In 2017, the CEO's cash bonus amounted to 36% of fixed compensation (2016: 52%). This payout level is due to the development of revenues and EBIT and the attainment of individual objectives. For the other member of the Executive Committee (CFO), the cash bonus amounted to 28% of fixed compensation (2016: 46%).

The PSUs granted to the CEO in the year under review corresponded to 37% of annual fixed compensation (2016: 37%) and 22% for the CFO (2016: 23%).

The overall variable compensation of the CEO in 2017 therefore amounted to 73% of the annual fixed compensation (2016: 89%) and that of the CFO 50% (2016: 69%). This is in line with the provisions of the company's Articles of Association, which allows for a maximum level of 100% of annual fixed base salary for each element of variable compensation. Further details on the participation plans can be found in the notes to the consolidated financial statements, on pages 109 to 111 of the Financial Report.

No compensation was paid to former members of the Executive Committee for the 2016 and 2017 financial years. Komax Group companies had not granted any guarantees, loans, advances or credits to members of the Executive Committee or parties closely linked to such persons as at 31 December 2017. No members of the Executive Committee or persons closely linked to them are or were involved in Komax Group transactions outside their normal duties.

7.2 Holdings of shares and options as at 31 December 2017

As at the end of 2016 and 2017, members of the Executive Committee had the following holdings of shares and/or options in the company:

Assets in units		31.12.2017		31.12.2016	
		Shares	Options	Shares	Options
Matijas Meyer	CEO	4 000	0	2 000	3 000
Andreas Wolfisberg	CFO	600	0	600	3 000
Total Executive Committee		**4 600**	**0**	**2 600**	**6 000**

Report of the statutory auditor to the Annual General Meeting of Komax Holding AG, Dierikon

We have audited the accompanying remuneration report (Art. 6 and 7) of Komax Holding AG for the year ended 31 December 2017.

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.

Opinion

In our opinion, the remuneration report of Komax Holding AG for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Thomas Brüderlin Audit expert Auditor in charge	Korbinian Petzi Audit expert

Basel, 9 March 2018

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Consolidated income statement

in TCHF	Notes	2017	%	2016[1]	%
Net Sales		407 275		389 455	
Other operating income	1.2	1 234		2 365	
Revenues	1.2	**408 509**	**100.0**	**391 820**	**100.0**
Change in inventory of unfinished and finished goods		8 076		5 911	
Cost of materials		–160 109		–149 788	
Gross profit		**256 476**	**62.8**	**247 943**	**63.3**
Personnel expenses	1.3	–136 982		–131 588	
Depreciation on property, plant, and equipment	2.4	–7 705		–6 914	
Depreciation on intangible assets	2.6	–3 341		–2 082	
Other operating expenses	1.3	–53 379		–51 935	
Operating profit (EBIT)		**55 069**	**13.5**	**55 424**	**14.1**
Financial result	1.4	–819		–2 148	
Ordinary profit		**54 250**	**13.3**	**53 276**	**13.6**
Non-operating result	1.5	–99		–198	
Extraordinary result	1.5	–3 601		–3 688	
Group profit before taxes (EBT)		**50 550**	**12.4**	**49 390**	**12.6**
Income taxes	1.6	–8 449		–10 687	
Group profit after taxes (EAT)		**42 101**	**10.3**	**38 703**	**9.9**
Of which attributable to:					
– Shareholders' of Komax Holding AG		42 101		38 703	
– Non-controlling interest		0		0	
Basic earnings per share (in CHF)	1.7	11.05		10.34	
Diluted earnings per share (in CHF)	1.7	10.99		10.22	

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Consolidated balance sheet

in TCHF	Notes	31.12.2017	%	31.12.2016[1]	%
Assets					
Cash and cash equivalents		59 291		48 531	
Securities		21		0	
Trade receivables	2.1	99 723		85 190	
Other receivables	2.1	29 459		25 319	
Inventories	2.2	92 020		70 410	
Accrued income and prepaid expenses		3 803		2 429	
Assets held for sale	2.3	6 785		0	
Total current assets		**291 102**	**70.2**	**231 879**	**64.9**
Property, plant, and equipment	2.4	93 719		83 741	
Non-operating properties	2.5	0		5 311	
Intangible assets	2.6	14 480		14 294	
Investments in associates	4.3	0		670	
Deferred tax assets	1.6	13 021		12 169	
Other non-current receivables	2.7	2 136		8 996	
Total non-current assets		**123 356**	**29.8**	**125 181**	**35.1**
Total assets		**414 458**	**100.0**	**357 060**	**100.0**
Liabilities					
Current financial liabilities	3.1	0		78	
Trade payables		22 348		18 776	
Other payables	2.8	34 438		28 146	
Current provisions	2.8	2 359		2 222	
Accrued expenses and deferred income		19 361		21 097	
Total current liabilities		**78 506**	**18.9**	**70 319**	**19.7**
Non-current financial liabilities	3.1	69 856		31 445	
Other non-current liabilities		2 710		3 922	
Deferred tax liabilities	1.6	5 208		5 200	
Total non-current liabilities		**77 774**	**18.8**	**40 567**	**11.4**
Total liabilities		**156 280**	**37.7**	**110 886**	**31.1**
Share capital	3.2	383		377	
Capital surplus		28 649		27 670	
Treasury shares	3.2	–4 054		–2 105	
Retained earnings		233 200		220 232	
Equity attributable to shareholders' of Komax Holding AG		**258 178**	**62.3**	**246 174**	**68.9**
Total liabilities and shareholders' equity		**414 458**	**100.0**	**357 060**	**100.0**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Consolidated statement of shareholders’ equity

in TCHF	Notes	**Share capital**	**Premium**	**Treasury shares**	Goodwill offset	Currency differences	Other retained earnings	**Total retained earnings**	**Equity shareholders’ of Komax Holding AG**
Balance on 31 December 2015 (according to IFRS)		**369**	**25 548**	**–2 191**	0	–29 760	289 168	**259 408**	**283 134**
Swiss GAAP FER adjustments[1]		0	0	0	–38 866	29 760	–32 861	–41 967	–41 967
Balance on 1 January 2016 Swiss GAAP FER		**369**	**25 548**	**–2 191**	–38 866	0	256 307	**217 441**	**241 167**
Group profit after taxes							38 703	38 703	38 703
Capital increase from exercise of options	3.2	8	5 457					0	5 465
Distribution out of reserves from capital contributions			–5 623					0	–5 623
Dividend paid							–16 870	–16 870	–16 870
Purchase of treasury shares	3.2			–2 105				0	–2 105
Sale of treasury shares	3.2		2 288	2 060				0	4 348
Share-based payments				131			1 583	1 583	1 714
Goodwill offset with shareholders’ equity	2.6				–19 893			–19 893	–19 893
Currency translation differences recorded in the reporting period						–732		–732	–732
Balance on 31 December 2016		**377**	**27 670**	**–2 105**	–58 759	–732	279 723	**220 232**	**246 174**
Balance on 1 January 2017		**377**	**27 670**	**–2 105**	–58 759	–732	279 723	**220 232**	**246 174**
Group profit after taxes							42 101	42 101	42 101
Capital increase from exercise of options	3.2	6	6 707					0	6 713
Distribution out of reserves from capital contributions			–5 728					0	–5 728
Dividend paid							–19 094	–19 094	–19 094
Purchase of treasury shares	3.2			–2 098				0	–2 098
Share-based payments				149			772	772	921
Goodwill offset with shareholders’ equity	2.6				–13 267			–13 267	–13 267
Currency translation differences recorded in the reporting period						2 456		2 456	2 456
Balance on 31 December 2017		**383**	**28 649**	**–4 054**	–72 026	1 724	303 502	**233 200**	**258 178**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Consolidated cash flow statement

in TCHF	Notes	2017	2016[1]
Cash flow from operating activities			
Group profit after taxes		42 101	38 703
Adjustment for non-cash items			
– Taxes	1.6	8 449	10 687
– Depreciation and impairment of property, plant, and equipment	2.4/2.5	7 898	7 105
– Depreciation and impairment of intangible assets	2.6	3 341	2 082
– Profit (–) / loss (+) from sale of non-current assets		–50	–190
– Expense for share-based payments		921	1 714
– Net financial result	1.4	819	2 148
– Other non-cash items		2 475	1 333
Interest received and other financial income		1 345	1 507
Interest paid and other financial expenses		–2 566	–6 631
Taxes paid		–10 101	–11 766
Increase (+) / decrease (–) in provisions		7	–1 149
Increase (–) / decrease (+) in trade receivables		–11 409	3 703
Increase (–) / decrease (+) in inventories		–15 526	–7 154
Increase (+) / decrease (–) in trade payables		2 691	2 420
Increase (–) / decrease (+) in other net current assets		–3 628	–7 606
Total cash flow from operating activities		**26 767**	**36 906**
Cash flow from investing activities			
Investments in property, plant, and equipment	2.4/2.5	–18 742	–18 171
Sale of property, plant, and equipment		259	1 086
Investments in intangible assets	2.6	–3 459	–4 656
Sale of intangible assets		6	6
Investments in associates		0	–34
Investments in Group companies and participations[2]		–17 163	–36 428
Sale of Group companies[3]		4 100	23 589
Purchase of minority interests		0	–2 233
Decrease in granted loans		650	357
Sale of securities		0	19
Total cash flow from investing activities		**–34 349**	**–36 465**
Free cash flow		**–7 582**	**441**
Cash flow from financing activities			
Decrease in current financial liabilities		–153	–2 483
Decrease in non-current financial liabilities		–1 075	0
Increase in current financial liabilities		0	78
Increase in non-current financial liabilities		37 795	14 309
Capital increase (share-based payments)		6 713	5 465
Distribution out of reserves from capital contributions		–5 728	–5 623
Dividend paid		–19 094	–16 870
Purchase of treasury shares	3.2	–2 098	–2 105
Sale of treasury shares	3.2	0	4 349
Total cash flow from financing activities		**16 360**	**–2 880**
Effect of currency translations on cash and cash equivalents		1 982	87
Increase (+) / decrease (–) in funds		**10 760**	**–2 352**
Cash and cash equivalents at 1 January		48 531	50 883
Cash and cash equivalents at 31 December		59 291	48 531

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).
[2] Less cash and cash equivalents acquired.
[3] Less cash and cash equivalents sold.

Notes to the consolidated financial statements

General information
Headquartered in Dierikon, Switzerland, Komax Holding AG (parent company), together with its subsidiary companies (the Komax Group), is a pioneer and market leader in the field of automatic wire processing, providing clients with innovative, future-oriented solutions in any situation that calls for precise contact connections.

The present consolidated financial statements were adopted by the Board of Directors of Komax Holding AG on 8 March 2018 and released for publication. Their approval by the Annual General Meeting, scheduled for 19 April 2018, is pending.

Accounting policies
The consolidated financial statements of the Komax Group are based on the individual financial statements of the Group companies, compiled in accordance with uniform standards, as at 31 December 2017. With effect from 1 January 2017, the consolidated financial statements have been drawn up in accordance with the entire existing guidelines of Swiss GAAP FER (Swiss Accounting and Reporting Recommendations). Furthermore, the provisions of the Swiss company law have been complied with. The consolidated financial statements are based on the principle of historic acquisition cost (with the exception of securities and derivative financial instruments, which are recorded at their fair values), and have been drawn up under the “going concern” assumption.

The accounting and valuation principles relevant to an understanding of the annual financial statements are described in the relevant explanatory notes.

Adjustments in connection with the change of accounting principles
In its media release of 21 March 2017, Komax announced that it was changing its accounting standard from IFRS to Swiss GAAP FER with effect from the 2017 financial year. The change was driven by the following key considerations:
- The constant widening of the scope of regulation under IFRS and the ever-increasing number of complex and formal detailed regulations.
- The Swiss GAAP FER accounting standard is particularly suited to the needs of medium-sized companies like the Komax Group.
- The latter standard continues to guarantee shareholders transparent reporting in keeping with the “true and fair” principle.

The accounting standards applied in the preparation and presentation of the consolidated financial statements for 2017 deviate from the consolidated financial statements for 2016 drawn up in accordance with IFRS in the following key points:

a) Goodwill from acquisitions and associated companies
Goodwill and technologies from acquisitions and associated companies are directly offset against retained earnings in shareholders’ equity, in keeping with the option that applies at the point of acquisition under Swiss GAAP FER 30 “Consolidated financial statements.” Under IFRS, goodwill was capitalized and reviewed for impairment on an annual basis, whereas prior to acquisitions not capitalized technologies were separately capitalized as part of the purchase price allocation process and amortized over their estimated economic lifetime. According to Swiss GAAP FER, they are not separately recognized, but remain subsumed under goodwill. Under Swiss GAAP FER, transaction costs incurred in connection with acquisitions are treated as a component part of acquisition costs. Under IFRS, transaction costs were recognized in the income statement.

b) Employee benefits

Under Swiss GAAP FER 16 “Pension benefit obligations,” the economic obligations and benefits of Swiss pension schemes are ascertained on the basis of figures drawn up in accordance with Swiss GAAP FER 26 “Accounting of pension plans.” The economic impact of the pension schemes of foreign subsidiaries is ascertained in accordance with locally applied valuation methods. Employer contribution reserves and comparable items are capitalized under Swiss GAAP FER 16. Under IFRS, defined-benefit pension plans were calculated according to the “projected unit credit method” and recorded in the balance sheet in accordance with IAS 19.

c) Tax-loss carry forwards

Komax has elected not to capitalize future tax savings from offsettable tax-loss carry forwards. The use of these tax-loss carry forwards is recorded upon realization. Under IFRS, deferred tax claims in connection with tax losses were taken into account to the extent that it was deemed probable that future taxable profits would be generated so that these losses could be used in the foreseeable future.

d) Deferred income taxes

The above-mentioned valuation and accounting adjustments have the corresponding repercussions for deferred income taxes in the balance sheet and the income statement.

e) Reclassification in shareholders’ equity

As part of the changeover to Swiss GAAP FER, the cumulative currency translation differences were reset/reversed as of 1 January 2016 and offset against retained earnings. Under Swiss GAAP FER, the result from divestments (discontinued operations) therefore only contains the currency translation differences arising after 1 January 2016.

The presentation and format of the balance sheet, income statement, statement of shareholders’ equity, and cash flow statement were adjusted in keeping with the requirements of Swiss GAAP FER. Prior periods were adjusted accordingly to facilitate comparability with the new presentation of the current reporting period (restatement). The repercussions of the above-mentioned adjustments for shareholders’ equity and the income statement of Komax are summarized in the following tables:

Adjustment effects – shareholders’ equity

in TCHF	31.12.2016	01.01.2016
Shareholders’ equity under IFRS	311 910	283 134
Adjustments under Swiss GAAP FER		
Offsetting of goodwill against shareholders’ equity	–47 441	–30 662
Offsetting of technology against shareholders’ equity as component part of goodwill (incl. deferred taxes)	–9 712	–8 204
IAS 19 adjustments (incl. deferred taxes)	7 732	13 919
Non-capitalization of deferred taxes from offsettable tax-loss carry forwards	–16 315	–17 020
Shareholders’ equity under Swiss GAAP FER	**246 174**	**241 167**

Adjustment effects – Group profit after taxes (EAT)

in TCHF	2016
Group profit after taxes (EAT) under IFRS	35 489
Adjustments under Swiss GAAP FER	
Transaction costs from acquisitions	192
Amortization of intangible assets	1 492
IAS 19 adjustments (incl. deferred taxes)	–963
Discontinued operations (effect of currency translation differences)	944
Impact of non-capitalization of deferred taxes from offsettable tax-loss carry forwards	1 549
Group profit after taxes (EAT) under Swiss GAAP FER	**38 703**

Key recognition and measurement assumptions

Preparation of the consolidated financial statements requires the Board of Directors and Group Management to make estimates and assumptions, whereby such estimates and assumptions have an effect on the accounting principles applied and are reflected in the amounts stated under assets, liabilities, income, expenses, and related disclosures. Their estimates and assumptions are based on past experience and on various other factors deemed applicable in the current situation. These form the basis for reporting those assets and liabilities that cannot be measured directly from other sources. The actual values may differ from these estimates. The following material estimates are included in the consolidated financial statements:

	Page
Recognition of revenue according to POC method	83
Current and deferred income taxes	88
Impairment of property, plant, and equipment	91
Impairment of intangible assets and goodwill	95
Contingent consideration	96
Provisions	96

Key events of the reporting period

As mentioned in the Shareholders' letter on pages 2 and 3, the year 2017 was characterized by strong growth in order intake and revenues, the acquisitions of Laselec and Practical Solution, as well as significant investment in research and development. The operating profit matches almost the prior-year figure and Group profit after taxes rose by 8.8%.

The credit line of the syndicated loan agreement was increased from CHF 100 million to CHF 140 million in order to ensure the financing of the high investments. Mainly due to these investments, free cash flow resulted in a negative figure. With an equity ratio of more than 62%, Komax continues to be very robustly financed.

With effect from 1 January 2017, Komax changed the accounting standard from IFRS to Swiss GAAP FER. The accounting policies disclose in detail that this change mainly had an impact on the valuation of goodwill, the employee benefits and the deferred tax assets.

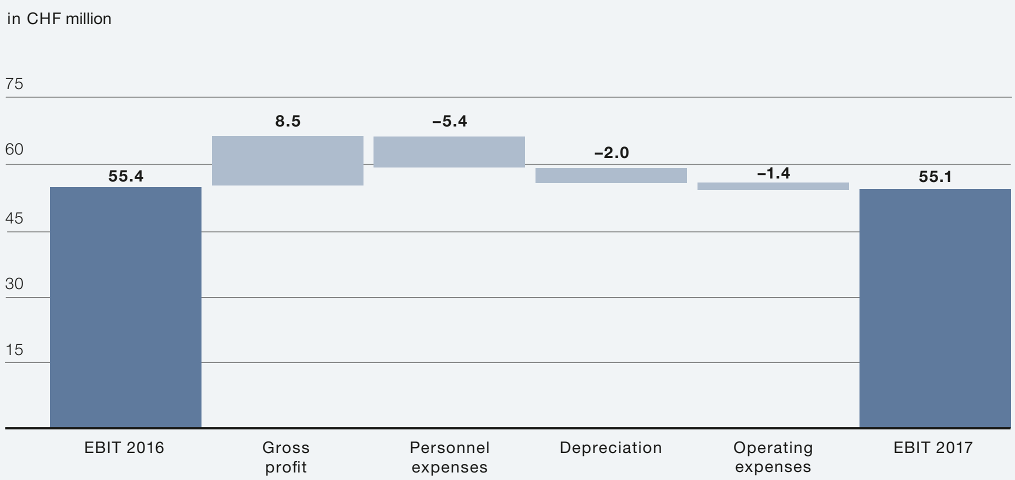
Events after the balance sheet date

No significant events occurred between the balance sheet date and the approval of the consolidated financial statements by the Board of Directors on 8 March 2018 which might adversely affect the information content of the 2017 consolidated financial statements or which would require disclosure.

1 Performance

In this section, we provide details of the 2017 result of the Komax Group. In addition to earnings per share, we also provide details on revenues, expenses, the financial result, and taxes.

The operating profit (EBIT) of the Komax Group decreased from CHF 55.4 million in 2016 to CHF 55.1 million in 2017. The chart below illustrates the year-on-year change between the current reporting period and the prior-year.



1.1 Segment information

The Komax Group is a global technology company that focuses on markets in the automation sector. As a manufacturer of innovative and high-quality solutions for the wire processing industry, Komax helps its customers implement economical and safe manufacturing processes, especially in the automotive supply sector. All Group companies are active in wire processing, have a uniform client base, and are centrally managed. The Board of Directors and the Group Executive Committee, which make the key strategic and operating decisions, manage the Komax Group primarily on the basis of the financial statements of the individual companies, the Management Information System, and the consolidated financial statements. Due to the commercial similarity and interconnections of the Group companies, Komax presents its business in amalgamated form as a single segment, in accordance with Swiss GAAP FER 31.

Up until the sale of the Medtech business unit in April 2016, the Komax Group had two segments. The corresponding segment information is set out below:

in TCHF	2017			2016[1]		
	Wire[2]	**Medtech**	**Group**	Wire[2]	Medtech	Group
Net sales from external customers	407 275	–	407 275	370 398	19 057	389 455
Net sales from other segments	–	–	–	0	0	0
Total net sales	**407 275**	**–**	**407 275**	**370 398**	**19 057**	**389 455**
EBIT	**55 069**	**–**	**55 069**	**55 202**	**222**	**55 424**

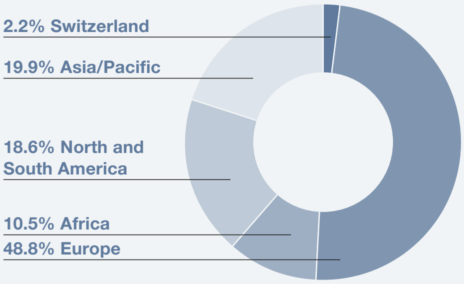
[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).
[2] Including elimination of intersegment revenues and corporate costs.

1.2 Revenues

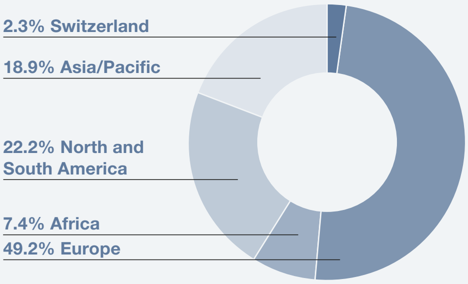
a) Revenues by region

The percentage breakdown of revenues by region is as follows:

2017



2016



b) Construction contracts

In the current reporting period, sales of CHF 11.7 million (2016: CHF 23.3 million) were recorded from long-term construction contracts on the basis of the POC method.

c) Other operating income

in TCHF	**2017**	2016[1]
Own work capitalized	820	1 630
Government grants	184	68
Gains from the disposal non-current assets	116	305
Other income	114	362
Total other operating income	**1 234**	**2 365**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Key recognition and measurement assumptions

Automated assembly and production contracts are measured according to the POC method, provided the assessment meets the requirements of Swiss GAAP FER 22 “Long-term contracts”. Although projects are assessed monthly and in good faith in accordance with comprehensive project management guidelines, subsequent corrections may be required. These corrections are made in the following period and may have a positive or negative impact on revenue in this period.

Recognition and measurement

Revenue recognition: The Komax Group's consolidated income statement is compiled using the nature of expense method. Net sales comprise the fair value of considerations received or receivable for the sale of goods and services in the course of ordinary business activities after deducting VAT, returns, discounts, and price reductions, and eliminating intragroup sales. Revenues are recognized as described below. For any intermediated transactions, only the value of services provided by Komax itself is reported. Transactions with a number of individually identifiable component parts are recorded and valued separately.

Sale of goods: Revenue from the sale of goods is recognized when risk and rewards of ownership have been transferred to the buyer. All expenses connected with sales are recognized on an accrual basis.

Sale of services: Revenue from the sale of services is recognized in accordance with progress on the service according to the ratio of completed to still outstanding services to be performed during the financial year in which the services are rendered.

Manufacturing contracts: Manufacturing contracts in the automated assembly and production business units, involving the customer-specific manufacture of systems, are valued according to the "percentage of completion" method (POC method) in accordance with Swiss GAAP FER 22. On the balance sheet, these are reported either under "Trade receivables" or "Other payables," depending on the degree to which they are underfinanced or overfinanced. The percentage of completion is calculated according to the "cost-to-cost method" (costs incurred in relation to overall estimated costs of the contract). Anticipated project losses are recognized in full in the income statement. Any costs of debt capital are capitalized provided debt capital is raised for the purpose of financing the project and its costs can be directly attributed to a manufacturing contract.

Leases with Komax as lessor: Contractual relationships in which Komax acts as lessor are reported as financial leases if all risks and returns associated with ownership are essentially transferred to the lessee. At the beginning of the lease, lease payments are recognized in the balance sheet in the amount of the net investment value arising from the lease. Revenue is recorded in the same way as the direct sale of goods. Financial income is spread over the term of the lease.

Assets that are the subject of operating leases are reported in the balance sheet in accordance with their characteristics, and are written down at the normal rates that apply to assets of that type. Lease income is recognized in the income statement on a linear basis over the term of the lease.

Leases with Komax as lessee: Only in exceptional cases does Komax act as lessee in financial lease agreements. A financial lease arises when the lessor transfers virtually all the risks and benefits associated with ownership of the leasing object to the lessee. At the beginning of the contract term, the object in question is recorded on the balance sheet as both an investment asset and a liability at its fair value or (if lower) at the net cash value of future leasing payments. Every lease instalment is broken down into financing costs on the one hand and repayment of the residual debt on the other, so that the interest rate remains constant for the residual liability. Financing costs are booked directly to the income statement as an expense. Capitalized leasing objects are depreciated over their estimated economically useful lives, or (if lower) over the contractual period in question.

An operating lease agreement arises when a substantial proportion of the risks associated with ownership remain with the lessor. Payments for operating leasing agreements are booked to the income statement as an expense in a linear way for the entire duration of the agreement.

Government grants: Government grants are recognized if it is likely that the payments will be received and Komax can fulfil the conditions attached to such subsidies. These are recognized in "Other operating income," regardless of when payment is received, and on a pro rata basis in the period in which the associated costs are incurred, and charged to the income statement as an expense. Grants relating to an asset are deducted from the carrying amount.

1.3 Expenses

a) Personnel expenses

in TCHF	2017	2016[1]
Wages and salaries	–109 448	–102 369
Share-based payments settled with equity instruments	–1 090	–1 777
Share-based payments settled in cash	–284	–1 541
Social security and pension contributions	–21 581	–21 271
Other personnel costs (in particular training and development)	–4 579	–4 630
Total personnel expenses	**–136 982**	**–131 588**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

b) Other operating expenses

in TCHF	2017	2016[1]
Expenditure on operating equipment and energy	–2 238	–2 266
Rental expenses	–3 078	–2 886
Repair and maintenance expenses	–13 955	–12 542
Third-party services for development expenses	–7 128	–6 064
Representation and marketing expenses	–11 593	–11 338
Legal and consultancy expenses	–4 225	–5 040
Shipping and packaging expenses	–6 114	–6 649
Expenditure on administration and sales	–2 921	–3 102
Other expenditure	–2 127	–2 048
Total other operating expenses	**–53 379**	**–51 935**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

1.4 Financial result

in TCHF	2017	2016[1]
Financial income		
Interest income	454	333
Exchange rate gains on foreign currencies	7 078	6 245
Total financial income	**7 532**	**6 578**
Financial expenses		
Interest expenses	–1 241	–1 802
Exchange rate losses on foreign currencies	–7 636	–6 984
Change in fair value of contingent consideration arrangements	0	–79
Total financial expenses	**–8 877**	**–8 865**
Result from associated companies	**526**	**139**
Total financial result	**–819**	**–2 148**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Recognition and measurement

Interests: Interest income and expenses are accrued using the effective interest rate method.

1.5 Non-operating and extraordinary result

The non-operating result includes the income and expenses from non-operating properties.

The extraordinary result contains expenses of CHF 3.6 million relating to an impairment of a loan granted to an associated company. In the corresponding prior-year period, the expenses incurred in connection with the restructuring at the Porta Westfalica site in Germany (CHF 2.4 million) and the result from the sale of the former Medtech business unit (CHF 1.3 million) are contained in the extraordinary result.

Recognition and measurement

Non-operating result: Non-operating result is expense and income which arise from events or transactions that clearly differ from the usual business activities of the organisation.

Extraordinary result: Expense and income which arise extremely rarely in the context of the ordinary operations and which are not predictable are considered as extraordinary.

1.6 Taxes
a) Income taxes

in TCHF	**2017**	2016[1]
Current income taxes	–8 766	–10 636
Deferred tax income (+) / tax expenses (–)	317	–51
Total income taxes	**–8 449**	**–10 687**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Analysis of the tax rate

in TCHF	**2017**	**%**	2016[1]	%
Group profit before taxes (EBT)	50 550		49 390	
Expected tax expenses	**–7 521**	**14.9**	**–7 959**	**16.1**
Impact of non-capitalized tax-loss carry forwards	–1 475	2.9	–4 516	9.1
Utilization of non-capitalized tax-loss carry forwards	384	–0.8	1 228	–2.5
Effect of changes in tax rate	45	–0.1	–17	0.0
Tax credits / charges from prior-years	161	–0.3	1 293	–2.6
Effect of non-deductible expenses	–189	0.4	–287	0.6
Effect of non-taxable income	136	–0.3	67	–0.1
Non-reclaimable withholding taxes	–119	0.2	–563	1.1
Others	129	–0.2	67	–0.1
Effective tax expenses	**–8 449**	**16.7**	**–10 687**	**21.6**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

As the Group is internationally active, its income taxes are dependent on a number of different tax jurisdictions. The expected income tax rate is equivalent to the weighted average of tax rates of those countries in which the Group is active. Due to the composition of the taxable income of the Group, as well as changes in local tax rates, this Group tax rate varies from year to year.

The expected tax rate based on the ordinary result was at 14.5% (2016: 15.5%).

b) Deferred tax assets and liabilities

in TCHF	**31.12.2017**	31.12.2016[1]
Property, plant, and equipment / intangible assets	9 870	9 666
Trade receivables and inventories[2]	4 107	3 160
Provisions	1 146	1 145
Other items	684	1 080
Total deferred tax assets (gross)	**15 807**	**15 051**
Offset against deferred tax liabilities	–2 786	–2 882
Balance sheet deferred tax assets	**13 021**	**12 169**
Property, plant, and equipment / intangible assets	3 137	3 722
Trade receivables and inventories	3 534	2 715
Provisions	1 152	726
Other items	171	919
Total deferred tax liabilities (gross)	**7 994**	**8 082**
Offset against deferred tax assets	–2 786	–2 882
Balance sheet deferred tax liabilities	**5 208**	**5 200**
Net deferred tax assets (+) / tax liabilities (–)	**7 813**	**6 969**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).
[2] Including unrealized intragroup profit.

The non-capitalized and unused tax-loss carry forwards expire as follows:

in TCHF	Within 5 years	After more than 5 years	**Total**
Expiry of unutilized tax-loss carry forwards			
31 December 2017	3 382	65 888	**69 270**
31 December 2016	2 034	62 379	**64 413**

This results in a deferred tax claim (not recognized in the balance sheet) for as yet unutilized tax-loss carry forwards of CHF 19.6 million (31 December 2016: CHF 22.0 million) as well as CHF 3.4 million (31 December 2016: CHF 3.5 million) not recognized tax credits.

Key recognition and measurement assumptions

In determining the assets and liabilities from current and deferred income taxes, estimates must be made on the basis of existing tax laws and ordinances. Numerous internal and external factors may have favorable and unfavorable effects on the assets and liabilities from income taxes. These factors include changes in tax laws and ordinances, as well as the way they are interpreted, in addition to changes in tax rates and the total amount of taxable income for the particular location. Any changes may affect the assets and liabilities from current and deferred income taxes carried in future reporting periods.

Recognition and measurement

Deferred taxes: Deferred and future tax expenses are calculated on the basis of the comprehensive liability method. This method is based on the tax rates and tax regulations applicable on the balance sheet date or which have in essence been enacted and are expected to apply at the time the deferred tax claim is realized or the deferred tax liability is settled. Deferred and future taxes are calculated on the basis of the temporary differences in value between the individual balance sheets and balance sheets for tax purposes. Such differences primarily exist in the case of non-current assets, inventories, and some provisions. Deferred tax assets are recognized in the amount corresponding to the probability that the Group companies in question will generate sufficient future taxable income to absorb the relevant positive differences in the tax assets.

Loss carry forwards: Future tax savings from offsettable tax-loss carry forwards are not capitalized. The use of these tax-loss carry forwards is recorded upon realization.

Temporary differences on investments in subsidiaries and associates: Deferred tax liabilities are provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference cannot be determined by the Group and it is consequently probable that the temporary difference will not reverse in the foreseeable future.

1.7 Earnings per share (EPS)

in CHF	2017	2016[1]
Group profit (attributable to equity holders of the parent company)	**42 100 813**	**38 703 234**
Weighted average number of outstanding shares	3 810 276	3 741 364
Basic earnings per share	**11.05**	**10.34**
Group profit (attributable to equity holders of the parent company)	**42 100 813**	**38 703 234**
Weighted average number of outstanding shares	3 810 276	3 741 364
Adjustment for dilution effect of share options	22 094	46 729
Weighted average number of outstanding shares for calculating diluted earnings per share	3 832 370	3 788 093
Diluted earnings per share	**10.99**	**10.22**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Recognition and measurement

Earnings per share: Basic earnings per share are calculated by dividing the consolidated net earnings by the average number of shares outstanding during the fiscal year, excluding treasury shares. Diluted earnings per share are calculated by adding all option rights and non-vested equity rights which would have had a dilutive effect to the average number of shares outstanding.

2 Operating assets and liabilities

In this section we describe the current and non-current operating assets and liabilities. Among other things, this includes further details on receivables, inventories, tangible assets, and intangible assets.

2.1 Current receivables

a) Trade receivables

in TCHF	**31.12.2017**	31.12.2016[1]
Trade receivables	94 413	83 519
less provision for impairment	–302	–1 142
Accruals for construction contracts	12 516	6 125
less prepayments for construction contracts	–6 904	–3 312
Receivables arising from POC	**5 612**	**2 813**
Total	**99 723**	**85 190**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Overdue trade receivables that had not been written down amounted to CHF 21.6 million on 31 December 2017 (31 December 2016: CHF 19.2 million). Their maturity structure is set out in the following table:

in TCHF	Number of days					
	1–30	31–60	61–90	91–120	>120	**Total**
as at 31 December 2017	8 698	6 134	2 532	1 646	2 631	**21 641**
as at 31 December 2016[1]	8 275	2 653	3 658	2 659	1 923	**19 168**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

b) Other receivables

In addition to prepayments to suppliers of CHF 1.1 million (31 December 2016: CHF 0.7 million), other receivables mainly comprise credits due from government organizations (tax authorities) and bills receivable.

Recognition and measurement

Current receivables: Receivables are recorded at nominal value. Impaired receivables are value-adjusted on an individual basis; no flat-rate value adjustments are calculated for the remaining portfolio.

For manufacturing contracts of systems, the inventory includes all costs associated with the systems as well as the production costs. The order costs comprise all costs attributable to the contract from the date the order is received until the balance sheet date. The order proceeds per manufacturing contract are recorded as at 31 December according to the POC.

2.2 Inventories

in TCHF	**31.12.2017**	31.12.2016[1]
Manufacturing components and spare parts	53 336	41 724
Semi-finished goods / work in process	13 974	9 038
Finished goods	33 371	28 037
Gross value inventories	**100 681**	**78 799**
less impairment	–8 661	–8 389
Inventories	**92 020**	**70 410**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Recognition and measurement

Inventories: Inventories are valued at the lower of acquisition / production costs and net market value. Acquisition / production costs encompass all direct and indirect expenses incurred in bringing inventories to their current location or state (full costs). Discounts are treated as acquisition price reductions. For all inventory components, the ascertainment of value is undertaken for the most part in accordance with the FIFO method. The current market price in the sales market in question is assumed when determining net market value.

2.3 Assets held for sale

The building in York (USA) that was reported under non-operating properties in the past, is shown as held for sale since the end of 2017. The sales process has been started at the end of 2017 and was already concluded in January 2018. In addition, the building in S. Domingos de Rana (Portugal) is also reported as held for sale and was therefore regrouped from the property, plant, and equipment. The sales process has also been started at the end of 2017 and is expected to be completed in the first quarter 2018.

2.4 Property, plant, and equipment

in TCHF	Undeveloped property	Land	Buildings	Machines and equipment	Other tangible fixed assets	Assets under construction	**Total property, plant, and equipment**
Costs							
As at 31 December 2015[1]	**1 141**	**15 727**	**72 057**	**37 391**	**7 756**	**4 770**	**138 842**
Additions	0	13	7 851	5 458	2 243	2 606	18 171
Disposals	0	–467	–310	–2 015	–377	0	–3 169
Change in scope of consolidation	494	0	5	–4 566	–944	0	–5 011
Reclassifications	0	0	3 358	458	0	–3 816	0
Currency differences	0	–76	–537	–73	–26	0	–712
As at 31 December 2016[1]	**1 635**	**15 197**	**82 424**	**36 653**	**8 652**	**3 560**	**148 121**
Additions	0	189	670	3 269	1 915	12 520	18 563
Disposals	0	0	–76	–769	–477	0	–1 322
Change in scope of consolidation	0	84	379	1 285	55	0	1 803
Reclassifications	0	–633	–3 810	30	13	–95	–4 495
Currency differences	0	112	628	–6	165	0	899
As at 31 December 2017	**1 635**	**14 949**	**80 215**	**40 462**	**10 323**	**15 985**	**163 569**
Depreciation							
As at 31 December 2015[1]	**0**	**0**	**–38 485**	**–20 571**	**–4 687**	**0**	**–63 743**
Additions	0	0	–2 543	–3 044	–1 327	0	–6 914
Disposals	0	0	73	1 952	318	0	2 343
Change in scope of consolidation	0	0	0	3 060	948	0	4 008
Currency differences	0	0	–55	–14	–5	0	–74
As at 31 December 2016[1]	**0**	**0**	**–41 010**	**–18 617**	**–4 753**	**0**	**–64 380**
Additions	0	0	–2 756	–3 461	–1 488	0	–7 705
Disposals	0	0	0	479	381	0	860
Change in scope of consolidation	0	0	–116	–979	–36	0	–1 131
Reclassifications	0	0	2 802	0	0	0	2 802
Currency differences	0	0	–207	–20	–69	0	–296
As at 31 December 2017	**0**	**0**	**–41 287**	**–22 598**	**–5 965**	**0**	**–69 850**
Book values							
As at 31 December 2015[1]	**1 141**	**15 727**	**33 572**	**16 820**	**3 069**	**4 770**	**75 099**
As at 31 December 2016[1]	**1 635**	**15 197**	**41 414**	**18 036**	**3 899**	**3 560**	**83 741**
As at 31 December 2017	**1 635**	**14 949**	**38 928**	**17 864**	**4 358**	**15 985**	**93 719**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Key recognition and measurement assumptions

Property, plant, and equipment are tested for impairment at least once a year. To determine whether impairment exists, estimates are made of the expected future cash flows arising from use. Actual cash flows may differ from the discounted future cash flows based on these estimates.

Recognition and measurement

Property, plant, and equipment: Property, plant, and equipment are accounted for at historical acquisition or production cost less accumulated depreciation. Borrowing costs that incurred during the construction phase through the financing of assets under construction, are part of the acquisition cost if they are material. Depreciation is linear over the expected service lifetime.

Depreciation period

Asset category	Years
Machinery	7–10
Tools	7
Measuring, testing, and controlling devices	5
Operating installations	10
Warehouse installations	10–14
Vehicles	5–8
Office equipment	3–10
Information technology	3–5
Factory buildings	33
Office buildings	40
Land	no depreciation

2.5 Non-operating properties

Changes in gross values

in TCHF	2017	2016
Total as at 1 January	**6 860**	**6 660**
Additions	179	0
Regrouping to assets classified as held for sale	–6 771	0
Currency differences	–268	200
Total as at 31 December	**0**	**6 860**

Changes in depreciation

in TCHF	2017	2016
Total as at 1 January	**–1 549**	**–1 311**
Depreciation	–193	–191
Regrouping to assets classified as held for sale	1 679	0
Currency differences	63	–47
Total as at 31 December	**0**	**–1 549**
Net value non-operating properties	**0**	**5 311**

Recognition and measurement

Non-operating properties: Investment property encompasses land and buildings held with a view to generating rental income or for purposes of capital appreciation, and not for internal production purposes, the delivery of goods or the provision of services, administrative purposes, or sales in the context of ordinary business activity. Investment property is valued at acquisition or construction cost less cumulative depreciation.

2.6 Intangible assets
a) Movements in the intangible assets

in TCHF	Software	Patents	Software in implementation	**Total intangible assets**
Costs				
As at 31 December 2015[1]	**14 868**	**4 051**	**6 416**	**25 335**
Additions	2 499	0	2 157	4 656
Disposals	–163	0	0	–163
Change in scope of consolidation	–1 987	11	0	–1 976
Reclassifications	22	0	–22	0
Currency differences	–24	0	0	–24
As at 31 December 2016[1]	**15 215**	**4 062**	**8 551**	**27 828**
Additions	3 074	0	385	3 459
Disposals	–66	0	0	–66
Change in scope of consolidation	141	0	0	141
Reclassifications	8 518	0	–8 518	0
Currency differences	149	1	0	150
As at 31 December 2017	**27 031**	**4 063**	**418**	**31 512**
Depreciation				
As at 31 December 2015[1]	**–9 192**	**–4 050**	**0**	**–13 242**
Additions	–2 072	–10	0	–2 082
Disposals	131	0	0	131
Change in scope of consolidation	1 650	0	0	1 650
Currency differences	9	0	0	9
As at 31 December 2016[1]	**–9 474**	**–4 060**	**0**	**–13 534**
Additions	–3 339	–2	0	–3 341
Disposals	60	0	0	60
Change in scope of consolidation	–117	0	0	–117
Currency differences	–99	–1	0	–100
As at 31 December 2017	**–12 969**	**–4 063**	**0**	**–17 032**
Book values				
As at 31 December 2015[1]	**5 676**	**1**	**6 416**	**12 093**
As at 31 December 2016[1]	**5 741**	**2**	**8 551**	**14 294**
As at 31 December 2017	**14 062**	**0**	**418**	**14 480**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

b) Goodwill

Goodwill is offset against Group shareholders' equity upon the acquisition of a subsidiary or the interest in an associated company. Assuming a useful life of 5 years for trading companies acquired and 10 years for production operations acquired plus depreciation on a straight-line basis, the theoretical capitalization of goodwill would have the following impact on the consolidated balance sheet:

in TCHF			2017			2016
	Goodwill subsidiaries	Goodwill associated companies	Total	Goodwill subsidiaries	Goodwill associated companies	Total
Historical costs as at 1 January	**57 308**	**1 530**	**58 838**	**37 362**	**1 504**	**38 866**
Additions	14 797	0	14 797	32 016	26	32 042
Disposals	0	–1 530	–1 530	–12 102	0	–12 102
Currency differences	–41	0	–41	32	0	32
Historical costs as at 31 December	**72 064**	**0**	**72 064**	**57 308**	**1 530**	**58 838**
Theoretical accumulated depreciation as at 1 January	**–17 781**	**–303**	**–18 084**	**–24 574**	**–150**	**–24 724**
Theoretical depreciation	–6 673	–115	–6 788	–5 282	–153	–5 435
Theoretical depreciation on disposals	0	418	418	12 102	0	12 102
Currency differences	88	0	88	–27	0	–27
Theoretical accumulated depreciation as at 31 December	**–24 366**	**0**	**–24 366**	**–17 781**	**–303**	**–18 084**
Theoretical net book value 31 December	**47 698**	**0**	**47 698**	**39 527**	**1 227**	**40 754**

The capitalisation and depreciation of the goodwill would have the following theoretical impacts on the shareholders' equity and the group profit after taxes:

in TCHF	31.12.2017	31.12.2016
Shareholders' equity according to balance sheet	258 178	246 174
Theoretical capitalization of net book value of goodwill	47 698	40 754
Theoretical tax impacts	715	985
Theoretical shareholders' equity	**306 591**	**287 913**

in TCHF	2017	2016
Group profit after taxes (EAT) according to income statement	42 101	38 703
Theoretical goodwill depreciation	–6 788	–5 435
Theoretical impact of goodwill disposals	418	12 102
Theoretical tax impacts	–235	28
Theoretical Group profit after taxes (EAT)	**35 496**	**45 398**

Key recognition and measurement assumptions

Intangible assets and Goodwill are tested for impairment if indicators reflect a possible impairment. To determine whether impairment exists, estimates are made of the expected future cash flows arising from use. Actual cash flows may differ from the discounted future cash flows based on these estimates.

Recognition and measurement

Software: Purchased software licenses are capitalized at acquisition or production cost plus costs incurred in readying them for use. The total acquisition cost is amortized on a linear basis over three to seven years. Costs associated with the development or maintenance of software are recorded as expenses at the time they are incurred.

Patents: Patents are recognized at historical acquisition cost less cumulative amortization. Acquisition costs are written down in a linear way over patent life.

Research and development: Research and development expenditure is fully charged to the income statement. These costs are contained in the positions "Personnel expenses" and "Other operating expenses."

Goodwill: Companies acquired over the course of the year are revalued and consolidated at the point of acquisition in keeping with standardized Group principles. The difference between the acquisition cost (including material transaction costs) and the prorated fair value of the net assets acquired is described as goodwill. Any potentially existing but not previously capitalized intangible assets taken over as part of the acquisition – such as brands, technology, rights of use, or client lists – are not separately recognized, but remain subsumed under goodwill. Goodwill can also arise from investments in associated companies, whereby this amounts to the difference between the acquisition cost of the investment and the prorated fair value of the net assets acquired. The goodwill resulting from acquisitions is directly offset against Group shareholders' equity. If the purchase price contains components that are dependent on future results, these components are estimated as accurately as possible at the point of acquisition and then capitalized. In the event of deviations when the purchase price is definitively settled at a later date, the goodwill offset against shareholders' equity is adjusted accordingly. In case of disposal, acquired goodwill offset with equity at an earlier date is to be considered at original cost to determine the profit or loss recognised in the income statement.

2.7 Other non-current receivables

in TCHF	**31.12.2017**	31.12.2016[1]
Present value of minimum lease payments	0	46
Non-current loans to associates	1 337	5 501
Contingent consideration	0	2 000
Rent deposit and other non-current receivables	799	1 449
Total	**2 136**	**8 996**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

2.8 Other liabilities
a) Other payables

in TCHF	31.12.2017	31.12.2016
Prepayments by customers	11 355	7 456
Contingent consideration	4 357	3 900
Current income tax liabilities	4 978	5 628
Prepayments on construction contracts	5 077	2 640
less accruals / deferrals in respect of construction contracts	–2 451	–1 955
Liabilities arising from POC	**2 626**	**685**
Other positions	11 122	10 477
Total other payables	**34 438**	**28 146**

Key recognition and measurement assumptions

For the determination of the fair value of a contingent consideration, profit and revenue forecasts as well as the current exchange rates are used that might result in a higher or lower fair value measurement. In addition, the continued employment of certain selling shareholders was assumed.

b) Current provisions

in TCHF	2017	2016
Total as at 1 January	**2 222**	**3 666**
Additional provisions	2 126	2 141
Change in scope of consolidation	113	–287
Amounts utilized during the year	–1 448	–2 588
Unused amounts reversed	–672	–711
Currency differences	18	1
Total as at 31 December	**2 359**	**2 222**

Current provisions are warranty provisions that include material and personnel costs in relation to warranty work.

Key recognition and measurement assumptions

In relation to machines and systems already delivered, Komax calculates the necessary warranty provisions on the balance sheet date on the basis of analysis and estimates. The actual costs may differ from the provisions stated. Any differences may affect the provision carried for warranty events in future reporting periods and therefore the reported result for the period.

Recognition and measurement

Provisions: Provisions are formed if the Group has a current legal or constructive obligation arising from an event in the past, if it appears probable that the asset base will be negatively impacted by settlement of the obligation, and if the amount of the provision can be reliably determined. Provisions for warranties are based on past payments, revenues in prior-years and current contracts. Komax normally gives a one-year warranty on machines and systems.

3 Capital and financial risk management

In addition to details on shareholders' equity, details are also provided on financial risk management at the Komax Group.

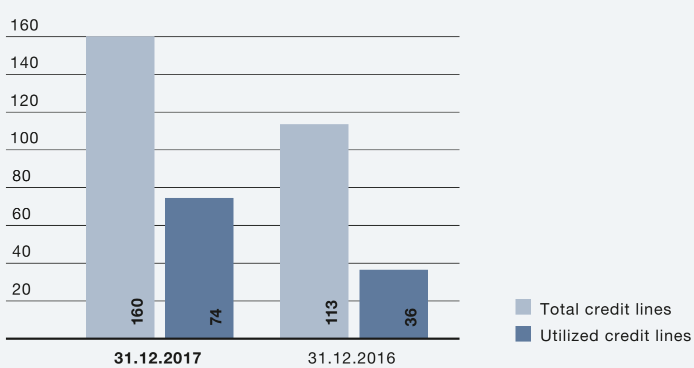
3.1 Financial liabilities

in TCHF	Currency	**31.12.2017**	31.12.2016[1]
Current account liabilities	EUR	0	78
Bank liabilities	CHF	46 000	16 000
Bank liabilities	EUR	18 906	9 265
Bank liabilities	USD	4 950	6 180
Total financial liabilities		**69 856**	**31 523**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Komax Holding AG finalized an agreement with a bank syndicate for credit line amounting to CHF 140 million. Additionally there are further local credit lines for subsidiaries available amounting to CHF 20 million (up to a maximum of CHF 25 million). As at 31 December 2017 the Group has drawn on this credit limit to the amount of CHF 74.2 million (31 December 2016: CHF 35.5 million).

Credit lines Komax Group
in CHF million



The maturities of the financial liabilities (without interests) are as follows:

in TCHF	less than 1 year	1–5 years	Over 5 years	**Total**
as at 31 December 2017	966	67 592	1 298	**69 856**
as at 31 December 2016[1]	514	29 374	1 635	**31 523**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

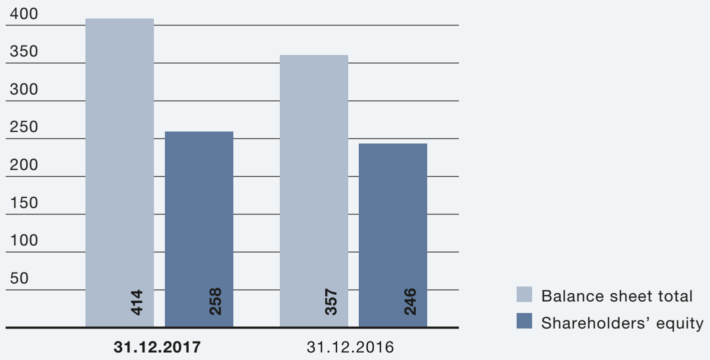
Recognition and measurement

Financial liabilities: Financial liabilities comprising bank loans, mortgages, and bonds are valued at amortized cost. Financial liabilities are recorded as current liabilities in the balance sheet unless the Group has the unconditional right to defer settlement of the liability to a point in time at least twelve months after the relevant balance sheet date.

3.2 Shareholders' equity

This section shows the change in shareholders' equity compared to the prior-year.

Shareholders' equity
in CHF million



a) Share capital

Balance sheet date	Number of shares	Par value in CHF	Par value in CHF
31 December 2017	**3 834 482**	**0.10**	**383 448**
31 December 2016	3 774 148	0.10	377 415
31 December 2015	3 691 651	0.10	369 165

All registered shares are fully paid up. The share capital increased due to the exercise of options compared to the prior-year.

b) Treasury shares

			2017			2016
	Number	**Average price in CHF**	**Purchase costs (avg.) in TCHF**	Number	Average price in CHF	Purchase costs (avg.) in TCHF
Total as at 1 January	**9 000**	**233.85**	**2 105**	**19 522**	**112.27**	**2 191**
Purchases	8 000	262.27	2 098	9 000	233.85	2 105
Sales	0	0.00	0	–18 355	112.27	–2 060
Transfer (share-based compensation)	–636	233.85	–149	–1 167	112.27	–131
Total as at 31 December	**16 364**	**247.75**	**4 054**	**9 000**	**233.85**	**2 105**

Both at the end of the reporting year and at the end of the prior-year period, all treasury shares were envisaged for share-based compensation programs. All treasury shares are held by Komax Holding AG. Neither the other Group companies nor the staff pension scheme of Komax AG hold any shares of Komax Holding AG.

c) Conditional capital

	2017			2016		
	Number	Par value in CHF	Conditional share capital in CHF	Number	Par value in CHF	Conditional share capital in CHF
Total as at 1 January	**75 852**	**0.10**	**7 585**	**158 349**	**0.10**	**15 835**
Exercise of options	–60 334	0.10	–6 033	–82 497	0.10	–8 250
Total as at 31 December	**15 518**	**0.10**	**1 552**	**75 852**	**0.10**	**7 585**

There was no increase in conditional capital either in 2016 or in 2017. Conditional capital is created for management and employee share ownership schemes.

d) Reserves

The non-distributable reserves amounted to CHF 8.0 million as at 31 December 2017 (31 December 2016: CHF 4.5 million).

Recognition and measurement

Treasury shares: Treasury shares are recognized at the average weighted cost of acquisition, including the transaction costs assignable to them, and are then offset against shareholders' equity. When treasury shares are sold or issued, the consideration received is credited to shareholders' equity.

Issuance of shares: Costs that are directly assignable to the issuance of new shares are recognized in shareholders' equity in net form as a deduction from the issue proceeds.

Preferred shares: No preferred shares have been issued to date.

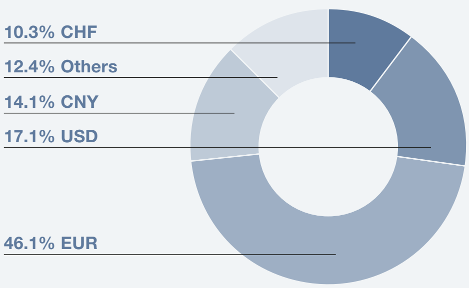
3.3 Financial risk management

The Komax Group is exposed to various financial risks, for example currency, credit, liquidity, and interest rate risks, through its business activities. The Group's overall risk management strategy is focused on the unpredictability of developments in the financial markets and is intended to minimize the potential negative impact on the Group's financial position. The Group uses derivative financial instruments to protect itself against interest rate, currency, and credit risks. Risk management is conducted by the finance department of Komax Holding AG in conformity with the guidelines issued by the Board of Directors. These guidelines set out procedures for the use of derivatives as well as dealing with foreign currency, interest rate, and credit risks. The guidelines are binding for all subsidiaries of the Komax Group.

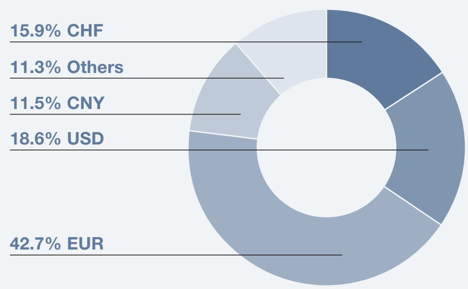
a) Currency risk

The Komax Group operates internationally and is therefore exposed to a variety of foreign exchange risks. Foreign currency risks arise from future cash flows, assets, and liabilities recognized in the balance sheet, and investment in foreign companies. Komax Group generates its revenues in the following currencies:

2017



2016



The most important year-end and average exchange rates were as follows:

Currency	**Year-end rate 31.12.2017**	**Average rate 2017**	Year-end rate 31.12.2016	Average rate 2016
USD	0.990	1.000	1.030	0.990
EUR	1.180	1.110	1.090	1.100
CNY	0.152	0.147	0.148	0.151

Komax is mainly exposed to currency risks relating to the USD, the EUR, and the CNY. Assuming that the average rates 2017 against the CHF had been 10% lower respectively higher and that all other parameters remained largely unchanged, the EBIT margin would have been changed as follows:

	Change EBIT margin 2017	Change EBIT margin 2016
EUR/CHF average rate +/– 10%	+/– 1.0%-pt.	+/– 1.1%-pt.
USD/CHF average rate +/– 10%	+/– 0.8%-pt.	+/– 0.7%-pt.
CNY/CHF average rate +/– 10%	+/– 0.8%-pt.	+/– 0.6%-pt.

b) Credit risk

Credit risks may exist with regard to bank account balances, derivative financial instruments, and receivables from customers. Komax regularly reviews the independent ratings of financial institutions. Moreover, all risks pertaining to cash and cash equivalents are further minimized by using a variety of banks rather than one single bank.

c) Capital risk

In the management of its capital, the Komax Group pays special attention to ensuring that the Group is able to continue to operate, that shareholders receive an appropriate return for their risks, and that financial ratios are optimized, taking the cost of capital into account. To achieve these targets, Komax may adjust its dividend payment, issue new shares, or sell assets in order to scale back its debt.

d) Liquidity risk

Prudent liquidity risk management involves maintaining sufficient reserves of cash and cash equivalents and liquid securities as well as financing capacity through an adequate volume of approved lines of credit. The amount of cash required for operations is reviewed annually and monitored on a monthly basis by the finance department. Given the business environment in which Komax operates, it is also essential for the Group to maintain the necessary flexibility in financing by maintaining sufficient unused lines of credit.

e) Interest rate risk

Neither at 31 December 2017 nor at the prior-year's balance sheet date did the Komax Group possess any assets that were subject to any material rate of interest. The Group's financial risk policy is to finance long-term investments with long-term liabilities, which gives rise to an interest rate risk. If there is a significant interest rate risk, the related cash flow risks are hedged through interest rate swaps.

4 Group structure

This section contains details on the scope of consolidation, including any changes (acquisitions, business areas to be discontinued). The list of investments additionally contains all direct and indirectly held investments as per 31 December 2017.

4.1 Scope of consolidation

The consolidated financial statements incorporate the individual financial statements of Komax Holding AG, Dierikon, and its subsidiaries.

In addition to the acquisitions listed under Note 4.2, two further subsidiaries were founded in 2017, namely Komax Manufacturing de México S. de R.L. de C.V., Mexico, and Komax Bulgaria EOOD, Bulgaria. In the prior-year period, other than the acquisitions listed in Note 4.2 and the sale of the former Medtech business unit (see Note 4.4), there were no changes in the scope of consolidation.

Recognition and measurement

Subsidiaries: Subsidiaries are fully consolidated if Komax Holding AG exercises control over their financial and business policies. As a rule, this is the case if Komax Holding AG directly or indirectly holds more than 50% of the subsidiary's voting capital.

Date of consolidation: Subsidiaries are included in the consolidated financial statements from the date on which the Group assumes control. They are deconsolidated from the date on which control is ceded.

Intragroup eliminations: Intragroup transactions, intragroup balances, and unrealized gains or losses from transactions between Group companies are eliminated from the scope of consolidation.

4.2 Business combinations

a) Acquisitions 2017

in TCHF	Practical Solution	Laselec	Total
Acquired net assets at fair value			
Cash and cash equivalents	0	579	**579**
Securities	0	22	**22**
Trade receivables	0	891	**891**
Other receivables	0	365	**365**
Inventories	1 176	3 700	**4 876**
Accrued income and prepaid expenses	0	1 276	**1 276**
Property, plant, and equipment	54	618	**672**
Intangible assets	0	17	**17**
Deferred tax assets	0	346	**346**
Other non-current receivables	0	88	**88**
Total assets	**1 230**	**7 902**	**9 132**
Current financial liabilities	0	–74	**–74**
Trade payables	0	–863	**–863**
Other payables	0	–316	**–316**
Current provisions	0	–113	**–113**
Accrued expenses and deferred income	0	–1 450	**–1 450**
Non-current financial liabilities	0	–1 655	**–1 655**
Other non-current liabilities	0	–386	**–386**
Deferred tax liabilities	0	–38	**–38**
Total liabilities	**0**	**–4 895**	**–4 895**
Acquired net assets	**1 230**	**3 007**	**4 237**
Acquisition costs	**0**	**198**	**198**
Goodwill	**4 499**	**10 298**	**14 797**
Total consideration	**5 729**	**13 305**	**19 034**
Contingent consideration	1 597	1 006	**2 603**
Investment in associates	0	2 755	**2 755**
Transferred consideration	4 132	9 544	**13 676**
less acquired cash and cash equivalents	0	–579	**–579**
Net cash out 2017	**4 132**	**8 965**	**13 097**

Laselec

As at 1 October 2017 Komax has taken over 100% of Laselec SA in Toulouse (France) and its subsidiary in Grand Prairie (USA). The acquired company generated in the fourth quarter revenues of CHF 3.9 million and a profit after taxes of around CHF 0.9 million.

Practical Solution

As at 3 March 2017 Komax has taken over the business of Practical Solution Pte Ltd, Singapore, as well as Practical Solution Trading (Shanghai) Co., Ltd, China, by means of an asset deal. With the business acquired Komax generated revenues of CHF 1.0 million and a profit after taxes of CHF 0.1 million in 2017.

b) Acquisitions 2016[1]

in TCHF	Thonauer Group	Ondal Tape Processing GmbH	Kabatec GmbH & Co. KG	SLE Electronics USA, Inc.	Total
Acquired net assets at fair value					
Cash and cash equivalents	6246	84	300	0	**6630**
Securities	19	0	0	0	**19**
Trade receivables	11467	479	1235	0	**13181**
Other receivables	178	17	158	0	**353**
Inventories	1816	807	1586	469	**4678**
Accrued income and prepaid expenses	38	7	17	0	**62**
Property, plant, and equipment	720	33	312	1432	**2497**
Intangible assets	59	19	14	0	**92**
Deferred tax assets	186	22	6849	0	**7057**
Other non-current receivables	97	0	53	0	**150**
Total assets	**20826**	**1468**	**10524**	**1901**	**34719**
Current financial liabilities	0	0	–2483	0	**–2483**
Trade payables	–8982	–587	–205	0	**–9774**
Other payables	–2363	–74	–439	0	**–2876**
Current provisions	0	0	–20	0	**–20**
Accrued expenses and deferred income	–331	–89	–438	0	**–858**
Other non-current liabilities	0	–580	0	0	**–580**
Deferred tax liabilities	–65	0	–16	0	**–81**
Total liabilities	**–11741**	**–1330**	**–3601**	**0**	**–16672**
Acquired net assets	**9085**	**138**	**6923**	**1901**	**18047**
Acquisition costs	**0**	**0**	**192**	**0**	**192**
Goodwill	**9350**	**4987**	**16863**	**816**	**32016**
Total consideration	**18435**	**5125**	**23786**	**2717**	**50063**
Contingent consideration	1504	0	5297	204	**7005**
Transferred consideration	16931	5125	18489	2513	**43058**
less acquired cash and cash equivalents	–6246	–84	–300	0	**–6630**
Net cash out 2016	**10685**	**5041**	**18189**	**2513**	**36428**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Thonauer Group

Komax acquired 100% of Thonauer Gesellschaft m.b.H. in Vienna, Austria, including all its subsidiaries with effect from 1 January 2016. The acquired company achieved CHF 38.7 million revenues in 2016, as well as CHF 2.9 million profit after taxes.

Ondal Tape Processing GmbH

Komax acquired 100% of Ondal Tape Processing GmbH in Hünfeld, Germany, with effect from 1 January 2016. The acquired company achieved CHF 4.4 million revenues in 2016, as well as CHF 0.4 million profit after taxes.

Kabatec GmbH & Co. KG

Komax acquired 100% of Kabatec GmbH & Co. KG in Burghaun, Germany, with effect from 1 July 2016. The acquired company achieved CHF 4.9 million revenues in the second half of 2016, as well as CHF 0.9 million profit after taxes.

SLE Electronics USA, Inc.

With effect from 1 February 2016, Komax acquired SLE Electronics USA, Inc., in El Paso, USA, by means of an asset deal. The repercussions of the acquisition of the business of SLE Electronics USA, Inc., for the presentation of the consolidated year-end results are not significant.

4.3 Investments in associates

Komax holds interests in Xcell Automation Inc., York (USA), which is accounted for as associated company. The valuation of investments as at 31 December 2017 was based on the unaudited financial statements. Any changes in these statements will be taken into account in the following period.

As at the end of 2016 Komax still held 20.8% on Laselec SA, Toulouse (France). As at 1 October 2017 Komax acquired 100% of Laselec SA whereupon such company will be fully consolidated.

in TCHF	Participation	**31.12.2017**	31.12.2016[1]
Xcell Automation Inc., USA	25.0%	0	77
Laselec SA, France	–	0	593
Total investments in associates		**0**	**670**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Recognition and measurement

Investments in associates: Companies in which the Komax Group holds at least 20% of voting rights but in which it has a stake of less than 50% or on which it exerts a key influence in other ways are recognized by the equity method, and initially recorded at the corresponding acquisition cost.

4.4 Discontinued operations

Komax did not divest or discontinue any business areas in the current reporting period. By contrast, in 2016 Komax sold the Medtech business unit, comprising the three companies Komax Systems LCF SA, Switzerland, Komax Systems Malaysia Sdn. Bhd., Malaysia, and Komax Systems Rockford Inc., USA.

In 2016, the sales generated by the discontinued business areas amounted to CHF 19.1 million, while the operating profit amounted to CHF 0.2 million. The following net assets were sold in 2016:

in TCHF	**Medtech**[1]
Cash and cash equivalents	6 865
Other current assets	49 510
Non-current assets	16 374
Total assets	**72 749**
Current liabilities	–34 714
Non-current liabilities	–598
Total liabilities	**–35 312**
Total net assets sold	**37 437**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

4.5 Equity holdings

Direct and indirect equity participation as at 31 December 2017

Company	Place
Switzerland	
Komax Management AG	Dierikon, Switzerland
Komax AG	Dierikon, Switzerland
Europe	
Kabatec GmbH & Co. KG	Burghaun, Germany
Komax Bulgaria EOOD	Yambol, Bulgaria
Komax Deutschland GmbH	Nuremberg, Germany
Komax France Sàrl.	Epinay-sur-Seine, France
Komax Kabatec Verwaltungs GmbH	Burghaun, Germany
Komax Portuguesa S.A.	S. Domingos de Rana, Portugal
Komax SLE GmbH & Co. KG	Grafenau, Germany
Komax SLE Verwaltungs GmbH	Grafenau, Germany
Komax Thonauer Kft.	Budakeszi, Hungary
Laselec SA	Toulouse, France
Ondal Tape Processing GmbH	Hünfeld, Germany
SC Thonauer Automatic s.r.l.	Bucharest, Romania
Thonauer Gesellschaft m.b.H.	Vienna, Austria
Thonauer spol. s.r.o.	Brno, Czech Republic
Thonauer s.r.o.	Bratislava, Slovakia
TSK Beteiligungs GmbH	Porta Westfalica, Germany
TSK Prüfsysteme GmbH	Porta Westfalica, Germany
TSK Test Sistemleri San. Ltd. Şti.	Ergene / Tekirdag, Turkey
TSK Test Systems SRL	Bistrita, Romania
Africa	
Komax Maroc Sàrl.	Mohammédia, Morocco
TSK Tunisia s.a.l.	Tunis, Tunisia
North/South America	
Komax Comercial do Brasil Ltda.	São Paulo, Brazil
Komax Corp.	Buffalo Grove, Illinois, USA
Komax de México S. de R.L. de C.V.	Irapuato, Mexico
Komax Manufacturing de México S. de R.L. de C.V.	Irapuato, Mexico
Komax Holding Corp.	Buffalo Grove, Illinois, USA
Komax York Inc.	York, Pennsylvania, USA
Laselec Inc.	Grand Prairie, Texas, USA
TSK Sistemas de Testes do Brasil Ltda.	Colombo, Brazil
TSK Innovations Co.	El Paso, Texas, USA
Xcell Automation Inc.	York, Pennsylvania, USA
Asia	
Komax Automation India Pvt. Ltd.	Gurgaon, India
Komax Japan K.K.	Tokyo, Japan
Komax Shanghai Co. Ltd.	Shanghai, China
Komax Singapore Pte. Ltd.	Singapore
TSK Test Systems (Shanghai) Co. Ltd.	Shanghai, China

Komax Holding AG
Dierikon, Switzerland

Purpose: Holding of equity interests
Listed on: SIX Swiss Exchange
Swiss security ID code: 001070215
Share capital: CHF 383 448
Market capitalization: CHF 1.225 billion

Purpose	Participation	Consolidation	Ordinary capital	
Group services and management	100%	Full consolidation	CHF	100 000
R&D, engineering, production, marketing, sales	100%	Full consolidation	CHF	5 000 000
R&D, engineering, production, marketing, sales	100%	Full consolidation	EUR	100 000
Engineering, production, marketing, sales	100%	Full consolidation	BGN	600 000
Sales	100%	Full consolidation	EUR	400 000
Sales	100%	Full consolidation	EUR	1 500 000
Administration	100%	Full consolidation	EUR	25 000
Sales	100%	Full consolidation	EUR	1 500 000
R&D, engineering, production, marketing, sales	100%	Full consolidation	EUR	5 700 000
Administration	100%	Full consolidation	EUR	25 000
Engineering, production, sales	100%	Full consolidation	HUF	10 000 000
R&D, engineering, production, marketing, sales	100%	Full consolidation	EUR	545 280
R&D, engineering, production, marketing, sales	100%	Full consolidation	EUR	30 000
Sales	100%	Full consolidation	RON	2 200 000
Sales	100%	Full consolidation	EUR	36 336
Sales	100%	Full consolidation	CZK	200 000
Sales	100%	Full consolidation	EUR	6 639
Holding of equity interests	100%	Full consolidation	EUR	4 000 000
R&D, engineering, production, marketing, sales	100%	Full consolidation	EUR	1 764 700
Engineering, production, marketing, sales	100%	Full consolidation	TRY	265 500
Sales	100%	Full consolidation	RON	110 152
Sales	100%	Full consolidation	MAD	10 000 000
Engineering, production, marketing, sales	100%	Full consolidation	TND	366 000
Sales	100%	Full consolidation	BRL	200 000
Sales	100%	Full consolidation	USD	1 000 000
Sales	100%	Full consolidation	MXN	3 000
Production	100%	Full consolidation	MXN	3 000
Holding of equity interests	100%	Full consolidation	USD	8 160 000
Administration	100%	Full consolidation	USD	150
Sales	100%	Full consolidation	USD	1
Engineering, production, marketing, sales	100%	Full consolidation	BRL	362 500
Engineering, production, marketing, sales	100%	Full consolidation	USD	1 000 000
R&D, engineering, production, marketing, sales	25%	Equity method	USD	560 000
Sales	100%	Full consolidation	INR	10 000 000
R&D, production, marketing, sales	100%	Full consolidation	JPY	90 000 000
R&D, production, sales	100%	Full consolidation	USD	4 410 000
R&D, production, sales	100%	Full consolidation	SGD	2 600 000
Engineering, production, marketing, sales	100%	Full consolidation	CNY	3 275 902

5 Other information

This section contains all the information not addressed in the previous sections, e.g. information on employee benefits and share-based compensation.

5.1 Employee benefits

in TCHF		2017	2016
	Surplus cover as per FER 26	**Economic share within the Group**	Economic share within the Group
Pension plans with surplus cover	2 816	0	0
Total	**2 816**	**0**	**0**

in TCHF			2017	2016
	Change compared to prior-year / expense of reporting period	Contributions accrued for the period	**Employee benefits expenditure in personnel expenses**	Employee benefits expenditure in personnel expenses
Pension plans with surplus cover	0	4 168	4 168	3 883
Total	**0**	**4 168**	**4 168**	**3 883**

The employee benefits expenditure stated only comprises contributions made to the benefit schemes at the expense of the company.

The pension plans with surplus cover are related to the staff pension scheme of Komax AG in Switzerland. The coverage rate amounted to 117.4% as at 31 December 2017 (31 December 2016: 115.2%). The actuarial calculations are based on a technical interest rate of 2.5% (31 December 2016: 2.75%) as well as the technical basis of BVG 2015 (31 December 2016: BVG 2015).

There were no material employer contribution reserves neither as at 31 December 2017 nor as at 31 December 2016.

Recognition and measurement

Employee benefits: The key companies are based in Switzerland, where employee benefits are amalgamated in a legally independent foundation regulated by the Federal Law on Old-Age, Survivors' and Disability Insurance ("BVG"). No significant pension plans are managed abroad. The ascertainment of any surplus or shortfall in respect of Swiss pension plans is undertaken on the basis of the annual financial statements of the corresponding pension schemes in accordance with Swiss GAAP FER 26. Any benefit arising from employer contribution reserves is recognized as an asset. The capitalization of an additional economic benefit (as a result of a pension scheme having surplus cover) is not intended, nor are the prerequisites for such a step met. An economic obligation is carried as a liability if the prerequisites for the creation of a provision are met.

5.2 Share-based compensation

As per 31 December 2017, the Komax Group had the following share-based compensation agreements:

a) Share option plan of the Komax Group

The share option plan takes the form of share-based compensation settled in equity instruments by means of a capital increase (equity-settled plan) for the board of directors and the Komax Group management. The number of options allocated depends on the individual performance of the entitled employee. The options granted entitle holders to subscribe one Komax Holding AG share per option and are valid for five years. They have a predetermined exercise price and are subject to a three-year lock-in period.

	2017	Weighted average exercise price	2016	Weighted average exercise price
	Number	CHF	Number	CHF
Outstanding as at 1 January	**95 173**	**115.46**	**186 637**	**92.67**
Granted	0	0.00	0	0.00
Exercised	–72 134	115.00	–84 047	66.91
Forfeited	0	0.00	–3 757	118.33
Expired	–4 550	67.03	–3 660	66.21
Outstanding as at 31 December	**18 489**	**129.21**	**95 173**	**115.46**

The allocation of share options was discontinued at the end of 2015. As an alternative to selling a registered share of Komax Holding AG, Komax Holding AG has the right to pay the cash sum equivalent to the difference between the market value of the registered share at the point of exercising and the exercise price. A corresponding accrual of CHF 0.6 million (31 December 2016: CHF 2.5 million) for 2 971 options (31 December 2016: 19 321 options) was taken into account as per 31 December 2017. The market value of the Komax Holding AG share as per 31 December 2017 of CHF 319.50 (31 December 2016: CHF 251.25) was used for calculation purposes together with an average exercise price of CHF 129.21 (31 December 2016: CHF 123.55). The expenses were spread over three years, in keeping with the lock-in period.

b) Komax Performance Share Unit Plan (PSU)

The plan (equity-settled plan) for the executive management comprises PSUs with a three-year vesting period which are dependent on the attainment of a performance target and the continuation of the employment relationship. The number of PSUs allocated is calculated by dividing a fixed amount by the average closing share price during the 60 days preceding the start of the vesting period. The actual payout at the end of the vesting period takes the form of shares, and is dependent on the average EBIT margin over three years compared to the target margin determined in advance by the Board of Directors. The payout multiplier may range between 0% and 150%. The actual value of the allocation at the end of the vesting period is therefore dependent on the payout multiplier and the development of the share price over the course of the vesting period. In the event of any termination of the employment relationship, pro rata vesting applies at the ordinary vesting date.

Terms of outstanding rights as at 31 December 2017

		2015–2017	2016–2018	2017–2019
Number of outstanding rights		3948	2758	1999
Vesting period		3 years	3 years	3 years
Allocation		2018	2019	2020
Fair value on the day of granting	CHF	139.45	175.19	241.98
Total fair value at allocation	**TCHF**	**550**	**483**	**484**

c) Komax Long-term Share Incentive Plan

The plan (equity-settled plan) for managers is currently not linked to profitability conditions, and contains a three-year vesting period. The number of shares allocated is calculated by dividing a fixed amount by the average closing share price during the 60 days preceding the start of the vesting period. The actual payout at the end of the vesting period in shares is dependent on the share price development during the vesting period. In the event of any termination of the employment relationship, pro rata vesting applies at the ordinary vesting date.

Number of rights	2017	2016
Total as at 1 January	**6770**	**3612**
Granted 1 January	2495	3158
Forfeited	–154	0
Transferred to participants	0	0
Total as at 31 December	**9111**	**6770**

The fair value on the day of granting amounted to CHF 241.98 (2016: CHF 175.19).

d) Komax Long-term Cash Incentive Plan

The plan (cash-settled plan) for managers is currently not linked to profitability conditions, and contains a three-year vesting period. The actual payout at the end of the vesting period is determined at the end of the performance period, and is based on a multiplication of the allocation amount by the share price performance factor (ratio of final share price to starting share price).

Number of rights	2017	2016
Total as at 1 January	**2 795**	**1 070**
Granted 1 January	1 473	1 725
Forfeited	0	0
Transferred to participants	0	0
Total as at 31 December	**4 268**	**2 795**

The fair value on the day of granting amounted to CHF 222.94 (2016: CHF 166.09).

e) Komax Restricted Share Plan

Restricted shares are allocated to Board members at the end of their period of office shortly before the Annual General Meeting (equity-settled plan); the lock-in period is three years. In the event of resignation from office as a result of retirement, death, or disability, the entitlement to restricted shares is calculated on a pro rata temporis basis. In such cases, lock-in periods may be either continued or rescinded at the discretion of the Board of Directors. In the 2017 financial year, 636 shares (2016: 873 shares) with a fair value of CHF 259.07 (2016: CHF 218.11) on the date of granting were allocated to the Board of Directors.

Recognition and measurement

Share-based compensation: All share-based compensation granted to staff is estimated at fair value as per the date it is granted, and is charged evenly across the vesting period to the corresponding income statement positions within the operating result. In the case of compensation plans involving remuneration in the form of equity instruments, the expense of the granted compensation is booked as an increase in shareholders' equity, and any funds received from the exercise of this compensation following the vesting period are booked as a change in shareholders' equity. The fair value of the amount that is to be paid to employees in respect of share appreciation rights and settled in the form of cash is booked as an expense with a corresponding increase in debt over the period in which employees acquire unrestricted access to these payments.

5.3 Related party transactions

Transactions with associated companies

in TCHF	2017	2016
Sale of goods and services	661	897
Purchase of goods and services	–410	–485
Interest income	125	192
Extraordinary expenses	–3 601	0
Trade receivables as at 31 December	22	110
Other receivables (current and non-current) as at 31 December	0	1 201
Granted loans as at 31 December	1 337	5 501
Trade payables as at 31 December	0	68

Related party transactions include members of the Board of Directors, members of the Executive Committee, pension funds, and key shareholders, as well as companies controlled by the same. In the year under review, no transactions were entered into with closely linked persons in connection with the sale and purchase of goods and services (2016: none). With the exception of the regular employer contributions to the pension fund, no transactions were effected with related parties (2016: none).

5.4 Off-balance-sheet transactions

a) Contingent liabilities

Aside from a service performance guarantee of CHF 1.1 million (31 December 2016: CHF 1.4 million), there were other guarantees of CHF 4.4 million (31 December 2016: CHF 4.0 million) granted, these almost exclusively comprise guarantees granted to customers for advance payments. In addition to the above-mentioned guarantees, there were other contingent liabilities associated with the sale of business units that could protect the buyer against potential tax, legal, and/or other imponderables in connection with the acquired business unit. On the basis of its current risk appraisal, Komax does not expect any cash outflows in connection with the above-mentioned contingent liabilities.

b) Ownership restrictions for own liabilities

in TCHF	31.12.2017	31.12.2016
Book value real estate	8 534	7 721
Lien on real estate	4 248	3 924
Utilization	3 658	3 893

The pledged assets will be used to secure own liabilities.

c) Contractual obligations

As at 31 December 2017, contractual obligations of CHF 28.4 million were existing in respect of the acquisition of property, plant and equipment (31 December 2016: CHF 0.9 million). Future liabilities arising from operating lease agreements amount to CHF 2.5 million due in 2018 and CHF 4.1 million due in 2019–2022 (31 December 2016: CHF 2.0 million due in 2017 and CHF 3.5 million due in 2018–2021).

5.5 Other key accounting principles

a) Key figures not defined under Swiss GAAP FER

By stating its free cash flow in the cash flow statement, the Komax Group is reporting an item that is not in conformity with Swiss GAAP FER but is nonetheless a key figure for Komax, as well as being widely used and recognized in the financial sector. This key figure is an amalgamation of cash flow from operating activities and cash flow from investing activities. In the income statement Komax discloses the revenues as an additional subtotal that is not defined under Swiss GAAP FER. This subtotal includes beside the net sales as well the other operating income and is being used for the calculation of important key figures. As gross profit is an important key figure for Komax, the corresponding interim total is reported separately in the income statement. Gross profit comprises revenues (net sales and other operating income) minus the cost of materials and changes in inventory of unfinished and finished products.

b) Currency conversion

Recognition and measurement

Functional currency and reporting currency: Items included in the financial statements of each entity are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the functional currency). The consolidated financial statements are presented in Swiss francs, which is the functional currency of the parent company, Komax Holding AG.

Transactions and balances: Foreign currency transactions are translated into the functional currency at the rate prevailing on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Group companies: The earnings and balance sheet figures of foreign business units with a functional currency other than the Swiss franc are translated to Swiss francs as follows:
a) Assets and liabilities are translated at the exchange rate on the balance sheet date for each such date.
b) Revenues and expenses are translated at the weighted average exchange rate for each income statement.
c) All exchange rate gains and losses are recognized in shareholders' equity and reported on a separate line within the retained earnings.
Exchange rate differences arising from the translation of net investments in foreign business units are recognized under comprehensive income. When a foreign company is sold, these exchange rate differences are reported in income as part of the gain or loss from the sale.

c) Other important accounting policies

Recognition and measurement

Cash and cash equivalents: Cash and cash equivalents includes banknotes, sight deposits, and other current, highly liquid financial assets with an original maturity of no greater than three months. Utilized current account overdrafts are shown on the balance sheet as payables to credit institutions under current financial liabilities.

Trade payables: Trade payables are valued initially at fair value, which is normally the amount originally invoiced, and subsequently measured at amortized cost.

Transactions with minorities: Changes in ownership interests in subsidiaries are recognized as equity capital transactions provided control remains intact.

Impairment of non-monetary assets: Assets subject to planned amortization are also tested for impairment if events or changes in circumstances create a presumption that the carrying value can potentially no longer be realized. An impairment is recorded in the amount by which the asset's carrying value exceeds its realizable value. The realizable value is the greater of the asset's fair value less disposal costs and its use value. In determining impairments, assets are grouped according to the smallest separately identifiable cash-generating units.

Report of the statutory auditor to the General Meeting of Komax Holding AG, Dierikon

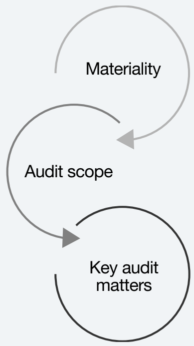
Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Komax Holding AG and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated income statement, consolidated cash flow statement, 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 on pages 74 to 113 give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 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: CHF 2 500 000
- We concluded full scope audit work at six group companies in five countries. Our audit scope addressed 62% of net sales of the Group.
- Additionally, an audit of account balances was performed at one other Group company, which addressed a further 14% of net sales of the Group.
- We obtained additional assurance through the audits of the statutory financial statements of a further eight companies (six different countries). These addressed a further 15% of net sales of the Group.



As key audit matters, the following areas of focus were identified:
- Revenue recognition in the appropriate period
- Change to Swiss GAAP FER

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 consolidated financial statements include within their scope 38 entities. We identified six Group companies for which, in our opinion, an audit of the complete financial information was necessary on the grounds of their size or risk characteristics. For one other Group company, an audit of account balances was performed to address significant items adequately. We obtained additional assurance from the timely performance of audits of the statutory financial statements of eight Group companies.
All of the Group companies in the described audit scope were audited by local national PwC firms. None of the Group companies excluded from our audit of the consolidated financial statements accounted individually for more than 5% of Group net sales.
The Group auditor performed the audit of the consolidation, the acquisition concluded in 2017 and the change of accounting framework from International Financial Reporting Standards (IFRS) to Swiss GAAP FER.
To provide appropriate guidance to and monitor the work of the auditors of the Group companies, the Group audit team performed selected reviews of the audit working papers and held telephone conferences with the auditors of the Group companies.

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 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.

Overall Group materiality	CHF 2 500 000
How we determined it	5% of group profit before taxes, rounded
Rationale for the materiality benchmark applied	We chose group profit before taxes 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 for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 250 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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 in the appropriate period

Key audit matter	How our audit addressed the key audit matter
We consider revenue recognition in the appropriate period to be a key audit matter because of the scope for judgement involved in determining, as required, exactly when the risks and rewards associated with services rendered are transferred in accordance with the Swiss GAAP FER accounting requirements. On the basis of the agreed delivery terms (Incoterms), the expected average delivery times until the effective transfer of the risks and rewards of ownership to the customer and taking into account special cases (e.g. delivery delays), Komax realises revenue from sales of goods in the period in which it transfers the risks and rewards of ownership. Please refer to page 84 of the notes to the consolidated financial statements.	We checked on a sample basis that revenue was recognised in the correct period for the months of December 2017 and January 2018. For the selected samples, we assessed the underlying Incoterms and in critical cases checked the average delivery times. In some cases, we interviewed the persons responsible, including those from other departments. We concluded that the criteria for revenue recognition in the appropriate period in accordance with the Swiss GAAP FER requirements were complied with in the consolidated financial statements for the year ended 31 December 2017.

Change to Swiss GAAP FER

Key audit matter	How our audit addressed the key audit matter

The change in accounting framework from IFRS to Swiss GAAP FER in 2017 resulted in numerous changes to the existing accounting policies. These changes are summarised on pages 78 to 80 of the annual report.
The change in accounting framework affects various items in the consolidated financial statements, notably the treatment of goodwill, intangible assets, deferred tax assets arising from tax loss carry forwards and tax credits, and pension obligations.
The effects of the change in accounting framework have a significant influence on the presentation of the consolidated financial statements and require estimates to be made in exercising the options relating to Swiss GAAP FER; for this reason, they were a focus of the audit procedures performed in the year under review.
	We examined the effects of the change in accounting framework from IFRS to Swiss GAAP FER as follows:
	– We obtained from Management a summary of the effects of the change in accounting framework, which included an analysis of the effects on the consolidated financial statements and, in particular, on the opening balance sheet as at 1 January 2016.
	– On the basis of this assessment by Management, we compared the newly elaborated accounting policies, the information presented in the balance sheet, income statement and cash flow statement, and the disclosures in the notes with the requirements of Swiss GAAP FER and, with the help of one of our specialists, we assessed their correct application. The most significant changes affected the following items on the balance sheet:
	  – Identifiable intangible assets and goodwill relating to various acquisitions were offset against equity in accordance with the chosen option, which led to a decrease of CHF 38.9 million in shareholders' equity as at the opening balance sheet date.
	  – The application of Swiss GAAP FER resulted in a decrease in the pension obligations and a corresponding increase in shareholders' equity of CHF 13.9 million as at the opening balance sheet date.
	  – In accordance with the chosen option, the deferred tax assets arising from tax loss carry forwards were no longer capitalised, which led to a decrease in shareholders' equity of CHF 17.0 million at the opening balance sheet date.
	– We tested the correct calculation and implementation of the effects of the change in accounting framework on the consolidated financial statements for the year ended 31 December 2016 and on the opening balance sheet as at 1 January 2016.
	We concluded that the first-time application of the accounting policies in accordance with Swiss GAAP FER in the accompanying consolidated financial statements was performed and presented correctly.

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.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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

Report on other legal and regulatory requirements

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

Thomas Brüderlin	Korbinian Petzi
Audit expert	Audit expert
Auditor in charge	

Basel, 9 March 2018

Balance sheet of Komax Holding AG

in TCHF	31.12.2017	%	31.12.2016	%
Assets				
Cash and cash equivalents	2011		996	
Other current receivables third parties	2092		3290	
Other current receivables Group	2433		9594	
Other current receivables associates	0		41	
Financial loans Group	74598		29829	
Accrued income / prepaid expenses	40		60	
Total current assets	**81174**	**23.0**	**43810**	**14.2**
Financial investments Group	66066		74996	
Financial investments associates	1238		5057	
Investments in subsidiaries	204870		180705	
Investments in associates	0		2025	
Other non-current receivables third parties	0		2000	
Total non-current assets	**272174**	**77.0**	**264783**	**85.8**
Total assets	**353348**	**100.0**	**308593**	**100.0**
Liabilities and shareholders' equity				
Trade payables	385		315	
Current interest-bearing liabilities Group	0		4120	
Other current liabilities third parties	3389		5332	
Other current liabilities Group	54		82	
Accrued expenses / deferred income	886		3087	
Provisions	144		1025	
Total current liabilities	**4858**	**1.4**	**13961**	**4.5**
Total non-current liabilities	65109		27630	
Total non-current liabilities	**65109**	**18.4**	**27630**	**9.0**
Total liabilities	**69967**	**19.8**	**41591**	**13.5**
Share capital	383		377	
Capital contribution reserves	7350		6371	
Other statutory capital reserves	2000		2000	
Statutory profit reserves	100		100	
Profit reserves determined by resolution	240903		237903	
Retained earnings	262		573	
Profit after taxes	36437		21783	
Treasury shares	–4054		–2105	
Total shareholders' equity	**283381**	**80.2**	**267002**	**86.5**
Total liabilities and shareholders' equity	**353348**	**100.0**	**308593**	**100.0**

Income statement of Komax Holding AG

in TCHF	2017	2016
Dividend income	37 734	38 499
Other financial income	8 759	10 612
Other operating income	637	1 031
Total income	**47 130**	**50 142**
Financial expenses	–4 392	–20 242
Personnel expenses	–419	–4 004
Other operating expenses	–3 262	–3 775
Value adjustment on financial investment	–2 370	0
Direct taxes	–250	–338
Total expenses	**–10 693**	**–28 359**
Profit after taxes	**36 437**	**21 783**

Notes to the 2017 financial statements of Komax Holding AG

1 Principles

1.1 General

These annual financial statements were drawn up according to the provisions of Swiss accounting law (Section 32 of the Swiss Code of Obligations). The key valuation principles applied other than those prescribed by law are described below. Here it should be remembered that use has been made of the option to create and release hidden reserves for the purpose of securing the company's lasting prosperity.

As Komax Holding AG draws up a set of consolidated financial statements in line with a recognized accounting standard (Swiss GAAP FER), it has elected not to include in these financial statements – in keeping with statutory guidelines – explanatory notes on interest-bearing liabilities and audit fees, as well as the presentation of a cash flow statement.

1.2 Financial investments

Financial investments comprise non-current financial loans. Granted loans are valued at the respective balance sheet date, whereby unrealized losses are accounted for but unrealized gains are not (imparity principle).

1.3 Investments

Investments are initially recognized at cost. The valuation of investments is reviewed annually on an individual basis and if necessary adjusted to a lower recoverable amount.

1.4 Treasury shares

Treasury shares are recorded at the time they are acquired as minus items in shareholders' equity, at acquisition cost. In the event of a later resale, the profit or loss is recognized in the income statement as financial income or financial expense.

1.5 Share-based compensation

If treasury shares are used for the share-based compensation of Board members, the difference between the acquisition cost and the actual payment to Board members when the shares are allocated is booked to personnel expenses.

2 Information on balance sheet and income statement positions

2.1 Assets

Other current receivables from Group companies decreased by a total of CHF 7.2 million. This balance sheet item contains open interest receivables in respect of subsidiary companies.

The Group's current financial loans increased by a total of CHF 44.8 million. This balance sheet item likewise encompasses the current account loan of Komax Holding AG towards Komax AG, Switzerland.

Financial investments Group comprise non-current financial loans. The Group's financial investments have decreased as a result of repayments and reclassifications of loans. The "Financial investments associates" item comprises a non-current financial loan to Xcell Automation Inc., USA.

2.2 Liabilities

The amount outstanding from the acquisition of Kabatec GmbH & Co. KG, Germany, is reported under “Other current liabilities third parties.”

The provisions relate to taxes on earnings as well as open tax claims in respect of corporation tax to be paid on the holding in Komax SLE GmbH & Co. KG, Germany.

Komax Holding AG and a syndicate of banks led by Credit Suisse have a valid credit agreement for a credit limit of CHF 140.0 million. The credit agreement is valid until 31 January 2022. In addition, there is an option to extend the credit agreement by one year to 31 January 2023. The credit line provides the Group with the necessary entrepreneurial flexibility, guarantees the financing of commercial operations, and ensures the continued implementation of corporate strategy. As at 31 December 2017, the Group had drawn on this credit limit to the amount of CHF 46.0 million, USD 5.0 million and EUR 12.0 million (total drawing: CHF 65.1 million).

In accordance with the applicable capital contribution principle, capital contributions (share premiums) made after 31 December 1996 are disclosed in the separate equity item “Statutory capital reserves.” Repayments to shareholders from this account are treated in the same way as the repayment of nominal capital and are not subject to withholding tax.

2.3 Income

Dividend income amounted to CHF 37.7 million in the year under review (2016: CHF 38.5 million).

Other financial income contains interest income on granted loans as well as realized and unrealized exchange rate gains on cash and cash equivalents, and loans in foreign currency.

Other operating income comprises billed amounts for holding fees and licences, as well as incidental revenues of third parties and the Group.

2.4 Expenses

The “Financial expenses” item comprises, among other things, interest expenses and commissions, securities losses, and unrealized and realized exchange rate losses on cash and cash equivalents, and loans in foreign currency.

Personnel expenses comprise compensation paid to the Board of Directors as well as the cash settlement of options redeemed.

The “Other operating expenses” item includes patents and licence costs, advisory and legal expenses, investor relations expenses, representation expenses, insurance premiums, and other operating expenditure items.

One individual loan was the subject of an impairment in the year under review. This amount is displayed in the row “Value adjustment on financial investment.”

Direct taxes contain expenses for taxes on earnings and corporation tax.

3 Company and legal form, registered office

Company: Komax Holding AG
Legal form: Aktiengesellschaft (company limited by shares)
Registered office: Dierikon, Canton Lucerne

4 Full-time employees

Komax Holding AG does not have any employees.

5 Participations

The direct and indirect participations of Komax Holding AG are set out on pages 106 and 107 of the consolidated financial statements.

6 Treasury shares

Details of the treasury shares of Komax Holding AG are provided in the consolidated financial statements on page 98.

7 Contingent liabilities

in TCHF	**31.12.2017**	31.12.2016
Joint liability for Group taxation value-added tax	p.m.	p.m.
Guarantees		
in EUR	2 725	3 207
in USD	1 109	1 407
in CHF	570	0
Total	**4 404**	**4 614**

From the total contingent liabilities of CHF 4.4 million (2016: CHF 4.6 million) CHF 3.3 million (2016: CHF 3.2 million) are contingent liabilities in favor of subsidiaries.

8 Conditional capital

Details of the conditional capital of Komax Holding AG are provided on page 99 of the consolidated financial statements.

9 Major shareholders

Shareholder / shareholder group at 31 December 2017	No. of shares	Share in %[1]
Veraison SICAV, Zurich, Switzerland[2]	196 229	5.2%
Max Koch, Meggen, Switzerland	190 285	5.0%

Shareholder / shareholder group at 31 December 2016	No. of shares	Share in %[1]
Veraison SICAV, Zurich, Switzerland[2]	218 329	5.9%
Max Koch, Meggen, Switzerland	187 069	5.1%
Vontobel Fonds Services AG, Zurich, Switzerland[3]	185 127	5.0%

[1] Calculated on the basis of 3 774 148 shares that were registered as at the balance sheet date of 31 December 2017 (31 December 2016: 3 691 651).
[2] Notification of breach of 5% threshold on 23 May 2015.
[3] Reported figure as at 7 October 2016.

10 Externally regulated capital requirements (covenants)

The Group's financial liabilities are subject to the following externally regulated capital requirement (covenant) as per the syndicated loan agreement:

The gearing factor may not exceed 3.25 either at 31 December 2017 or thereafter at each quarter-end balance sheet date.

The Komax Group has complied with all capital requirements since the contract signing date as well as at 31 December 2017. Within the scope of the syndicated loan agreement, Komax Holding AG guarantees for the liabilities of any member of the Komax Group.

11 Holdings of shares and options

Assets in units		31.12.2017		31.12.2016	
		Shares	**Options**	Shares	Options
Board of Directors					
Beat Kälin	Chairman	8 507	4 000	9 135	13 000
Daniel Hirschi	Member	4 429	1 000	3 713	2 000
David Dean	Member	1 830	0	1 068	666
Andreas Häberli[1]	Member	0	0	n.s.	n.s.
Kurt Haerri	Member	1 799	1 000	703	2 000
Roland Siegwart	Member	940	1 000	844	1 000
Total Board of Directors		**17 505**	**7 000**	**15 463**	**18 666**
Executive Committee					
Matijas Meyer	CEO	4 000	0	2 000	3 000
Andreas Wolfisberg	CFO	600	0	600	3 000
Total Executive Committee		**4 600**	**0**	**2 600**	**6 000**

[1] Member of the Board of Directors since 12 May 2017.

12 Net release of hidden reserves

The total amount of the net released hidden reserves amounted to CHF 2.1 million (2016: CHF 1.4 million).

Proposal for the appropriation of profit

The Board of Directors proposes the following appropriation of profit, payout from the capital contribution reserves (which is not subject to withholding tax) as well as a dividend:

in CHF	**31.12.2017**	31.12.2016
Balance carried forward from previous year	262 290	573 368
Profit after taxes	36 437 429	21 783 182
Transfer from capital contribution reserves	5 751 723	5 661 222
Total available for distribution	**42 451 442**	**28 017 772**
Payout from capital contribution reserves of CHF 1.50 per registered share (2016: CHF 1.50) which is not subject to withholding tax[1]	5 751 723	5 661 222
Dividend of CHF 5.00 gross per registered share (2016: CHF 5.00)[1]	19 172 410	18 870 740
Allocation to free reserves	17 000 000	3 000 000
Profit carried forward	527 309	485 810
Total	**42 451 442**	**28 017 772**

[1] The stated amount covers the requirement for the payout from capital reserves for all registered shares outstanding. Registered shares which will be issued after 1 January 2018 upon exercise of options are also entitled to the payout from capital reserves. Therefore, the stated amount may be subject to changes.

Report of the statutory auditor to the General Meeting of Komax Holding AG, Dierikon

Report on the audit of the financial statements

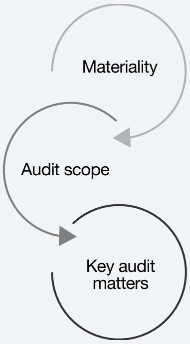
Opinion
We have audited the financial statements of Komax Holding AG which comprise the balance sheet as at 31 December 2017 and the income statement and notes for the year then ended, including a summary of significant accounting policies.
In our opinion, the accompanying financial statements as at 31 December 2017 on pages 118 to 125 comply with Swiss law and the 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 1 400 000
- 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 matter the following area of focus has been identified:
- Valuation of investments in subsidiaries



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

Materiality
The scope of our audit was influenced by our application of materiality. 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.

Overall materiality	CHF 1 400 000
How we determined it	0.5% of net assets, rounded
Rationale for the materiality benchmark applied	We chose net assets as the benchmark for materiality considerations because the Company primarily holds investments and grants loans to Group companies.

We agreed with the Audit Committee that we would report to them misstatements above CHF 140 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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

Key audit matter	How our audit addressed the key audit matter
The shares of the capital of subsidiaries held by the Komax Holding AG are recognised in the financial statements under "Investments in subsidiaries" (CHF 204.9 million). Investments in subsidiaries are valued individually and stated at acquisition cost less necessary impairment charges. The company tests these investments for impairment by comparing the book value of the investment with the shareholders' equity according to Swiss GAAP FER or the value in use of the subsidiary concerned. To determine the value in use, an in-depth valuation analysis is performed using cash flow forecasts based on the business plans approved by Management and the Board of Directors. This valuation analysis is based on Management's assumptions, which involve significant scope for judgement. For this reason, we deemed the impairment testing of investments in subsidiaries to be a key audit matter. Please refer to note 1.3 (Investments in subsidiaries).	Where a book value was higher than the recorded shareholders' equity, we performed a detailed analysis of the impairment test performed by the client. This included: – Discussion with Management of the results and future prospects of specific subsidiaries. – Assessment of the correctness and mathematical accuracy of the applied valuation methods. – Plausibility check of the assumptions applied by Management concerning the discount rate, longterm growth rates and margins. – Where possible, we compared the results of the year under review with the forecasts made in the prior year and assessed the appropriateness of the prior year's assumptions. We consider the valuation process and the assumptions applied by Management to be adequate and a sufficient basis for testing the impairment of investments in subsidiaries.

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.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements
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 available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Thomas Brüderlin Audit expert Auditor in charge	Korbinian Petzi Audit expert

Basel, 9 March 2018

FIVE YEAR OVERVIEW

in TCHF		**2017**	2016[1]	2015[1]	2014[1]	2013[1]
Income statement						
Revenues		408 509	391 820	315 093	363 338	323 959
Gross profit		256 476	247 943	205 941	220 188	196 634
in % of revenues		62.8	63.3	65.4	60.6	60.7
EBITD		66 115	64 420	59 123	57 663	52 577
in % of revenues		16.2	16.4	18.8	15.9	16.2
Operating profit (EBIT)		55 069	55 424	49 938	48 102	43 297
in % of revenues		13.5	14.1	15.8	13.2	13.4
Group profit after taxes (EAT)		42 101	38 703	29 215	27 743	25 129
in % of revenues		10.3	9.9	9.3	7.6	7.8
Depreciation		11 046	8 996	9 185	9 561	9 280
Research and development		36 668	29 071	25 315	25 776	24 908
in % of revenues		9.0	7.4	8.0	7.1	7.7
Balance sheet						
Non-current assets		123 356	125 181	160 940	145 562	136 616
Current assets		291 102	231 879	238 027	242 490	220 975
Shareholders' equity[2]		258 178	246 174	283 134	284 168	263 985
in % of total assets		62.3	68.9	71.0	73.2	73.8
Share capital		383	377	369	361	352
Total liabilities		156 280	110 886	115 833	101 882	92 940
in % of total assets		37.7	31.1	29.0	26.3	26.0
Non-current financial liabilities		69 856	31 445	16 518	23 670	25 543
Current financial liabilities		0	78	0	0	4 044
Net cash (+) / net indebtedness (–)		–10 544	17 008	34 365	29 211	22 616
Total assets		414 458	357 060	398 967	388 052	357 591
Cash flow statement						
Cash flow from operating activities		26 767	36 906	49 612	30 295	31 734
Investments in non-current assets		22 201	22 827	18 850	15 566	8 032
Free cash flow		–7 582	441	24 519	14 412	24 545
Employees						
Headcount as at 31 December	No.	1 841	1 633	1 347	1 498	1 282
Revenues per employee[3]		238	255	248	261	262
Gross value added per employee[3]		118	122	128	126	125
Net value added per employee[3]		112	116	121	119	117
Key data Komax registered share						
Shares[4]	No. 1 000	3 834	3 774	3 692	3 605	3 524
Par value	CHF	0.10	0.10	0.10	0.10	0.10
Highest price	CHF	319.50	251.25	194.90	152.40	138.00
Lowest price	CHF	243.50	180.10	122.90	124.60	72.35
Closing price as at 31 December	CHF	319.50	251.25	194.90	144.50	135.30

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies). The years 2013–2015 are reported according to IFRS.
[2] Equity attributable to equity holders of the parent company.
[3] Calculated on the basis of the average headcount.
[4] Changes resulting from the exercising of option rights.

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Financial calendar

Annual General Meeting	19 April 2018
Dividend payment	25 April 2018
Half-year results 2018	21 August 2018
Investors Day	26 October 2018
Preliminary information on 2018 financial year	22 January 2019
Annual media and analyst conference on the 2018 financial results	14 March 2019
Annual General Meeting	16 April 2019

Forward-looking statements
The present Annual Report contains forward-looking statements in relation to Komax which are based on current assumptions and expectations. Unforeseeable events and developments could cause actual results to differ materially from those anticipated. Examples include: changes in the economic and legal environment, the outcome of legal disputes, exchange rate fluctuations, unexpected market behavior on the part of our competitors, negative publicity, and the departure of members of management. The forward-looking statements are pure assumptions, made on the basis of information that is currently available.

This Annual Report is available in English and German. The original German version is binding.

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