



ANNUAL REPORT

2019/20

KLINGELNBERG AG

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Dear Shareholders,

Your company, KLINGELNBERG AG, is looking back on a business year during which the Board of Directors, Executive Management and all employees have been confronted with enormous and unique challenges rarely seen before in the long history of the company. Whereas in the first six months of the financial year under report the company had to face a significant slowdown in major markets mainly initiated by unclear political guidance on the future of mobility – the situation in the second half of the business year was dramatically and completely unexpectedly exacerbated by the corona pandemic.

In retrospect: the first six months had already seen remarkable changes in the global economy:

- Worldwide decline in growth rates
- Onset of recession in numerous markets and industries
- Increasing uncertainty about the consequences of Brexit and trade conflicts
- Political preference for electric mobility despite missing infrastructure, unsolved technical challenges and doubtful strategy for clean power generation

In the second half of 2019, this constellation and numerous other factors led to a trend reversal in the global economy, which had performed positively for so long. The prospects were that the economic slowdown would continue – and as always in such situations, the machine building industry promptly registered the impact.

Inevitably, the overall global decline in passenger car sales has had far-reaching consequences for the entire industrial production sector, which is tightly connected far beyond just the vehicle manufacturers and their direct suppliers. This in turn led to a further spreading of uncertainty and consequently to investment backlogs in significant parts of the manufacturing industries.

In response, KLINGELNBERG had already adjusted its cautious forecast at the beginning of the financial year, reacting early to withstand the economic headwind – and was quite successful in doing so. A comprehensive program to enhance efficiencies was drawn up dedicated to cutting costs, optimizing processes and simultaneously penetrating new markets. As part of that program, the production and manufacturing capacities of 3 locations (Hückeswagen, Ettlingen, Győr) will now be concentrated at the main facility in Hückeswagen.

In addition to lower costs, other benefits are:

- Entire production chain at a single location
- Exploitation of synergies and economies of scale
- Increased efficiency of the entire process chain

The implementation of these initiatives is in full swing – first successes will become evident in the current financial year already.

Exacerbating this plethora of existing challenges, the world is now confronted by a pandemic, first striking Asia, then Europe and subsequently the USA and the rest of the world. One country after another closed its borders, sending their economies and societies into what in some cases was a total lockdown. Markets and supply chains have collapsed; unemployment has risen dramatically in many countries, while governments are attempting to counteract these challenges with debt programs that were hitherto inconceivable. None of us knows where all this will ultimately lead. What we do know is: that we must and will steer KLINGELNBERG AG through this most difficult of global economic phases in decades.

KLINGELNBERG AG has reacted promptly and with determination to these corona-related developments. The primary goal is to secure the company and its future, while at the same time remaining accessible to our customers. Equally, responsibility for the health of all employees is an absolute priority. To ensure and safeguard liquidity and earnings, KLINGELNBERG has adopted extensive measures:

- Introduction of short-time working wherever possible
- Reduction/postponement of investments
- Hiring freeze and cutbacks in subcontracting and overtime

As a result of the Corona impact, it was no longer possible to achieve the previously adjusted targets by the end of the financial year. Incoming orders have declined sharply since the beginning of the year. Key customer markets, starting with China since January, then including northern Italy, Europe, America and India were or still are in a lockdown status. At present, only the markets in China and Korea are showing initial signs of recovery. In the other parts of the world, however, this will likely take longer. Moreover, owing to restrictions imposed by the corona crisis, many ordered machines could not be delivered to customers in the course of this financial year – our KLINGELNBERG service engineers were simply not permitted to travel.

We are currently anticipating recovery beginning in the fall of this year, from which point on economic activities will resume at improved levels, possibly with corresponding catch-up effects.

As a consequence of the combined developments described above, the financial year of KLINGELNBERG AG ultimately took a completely different course than was either planned or expected. Nevertheless, at EUR 212,1 million, net sales were achieved which, in view of the impact of the Corona pandemic, demonstrate the effort and – given the circumstances – just how successfully the company and its employees have fought for orders. Whereas the operating result of EUR -18,8 million, of which EUR -14,0 million are attributable to the efficiency-enhancing

program described above, is hardly gratifying, in view of what has occurred in the markets, it is a clear indication of the sustained strength of KLINGELNBERG AG.

Outlook

In a global economic environment such as the current one, KLINGELNBERG is simply not able to provide a reliable outlook. We are steering the company through a profound global economic crisis. A widespread recession has taken hold and none of us can estimate when and how the economy will return to the path of growth. It is therefore all the more vital that KLINGELNBERG AG continues on the course it has adopted in recent months: securing liquidity, tightly controlling its costs and at the same time continuing with its efficiency-enhancing program. Executing all of the above will ensure that KLINGELNBERG will remain with a strong balance sheet and one of the most stable and sustainable companies in the market segment. We would like to remind you that we do have highly qualified employees and industry leading technical experts. We have spent an impressive 11% of Sales in R&D projects developing new products and applications within our industry and for new markets even last year. Together with our current world class product line we will be able to benefit from any market recovery when ever and where ever it occurs. In the long run disproportional gains can be expected as we are prepared to serve our customers around the globe with even better products, services and technical expertise as soon as markets return to normal.

Until then and especially in times like this we would like to thank our customers, employees and shareholders for their support and loyalty. We wish all of you the very best and most importantly best health.



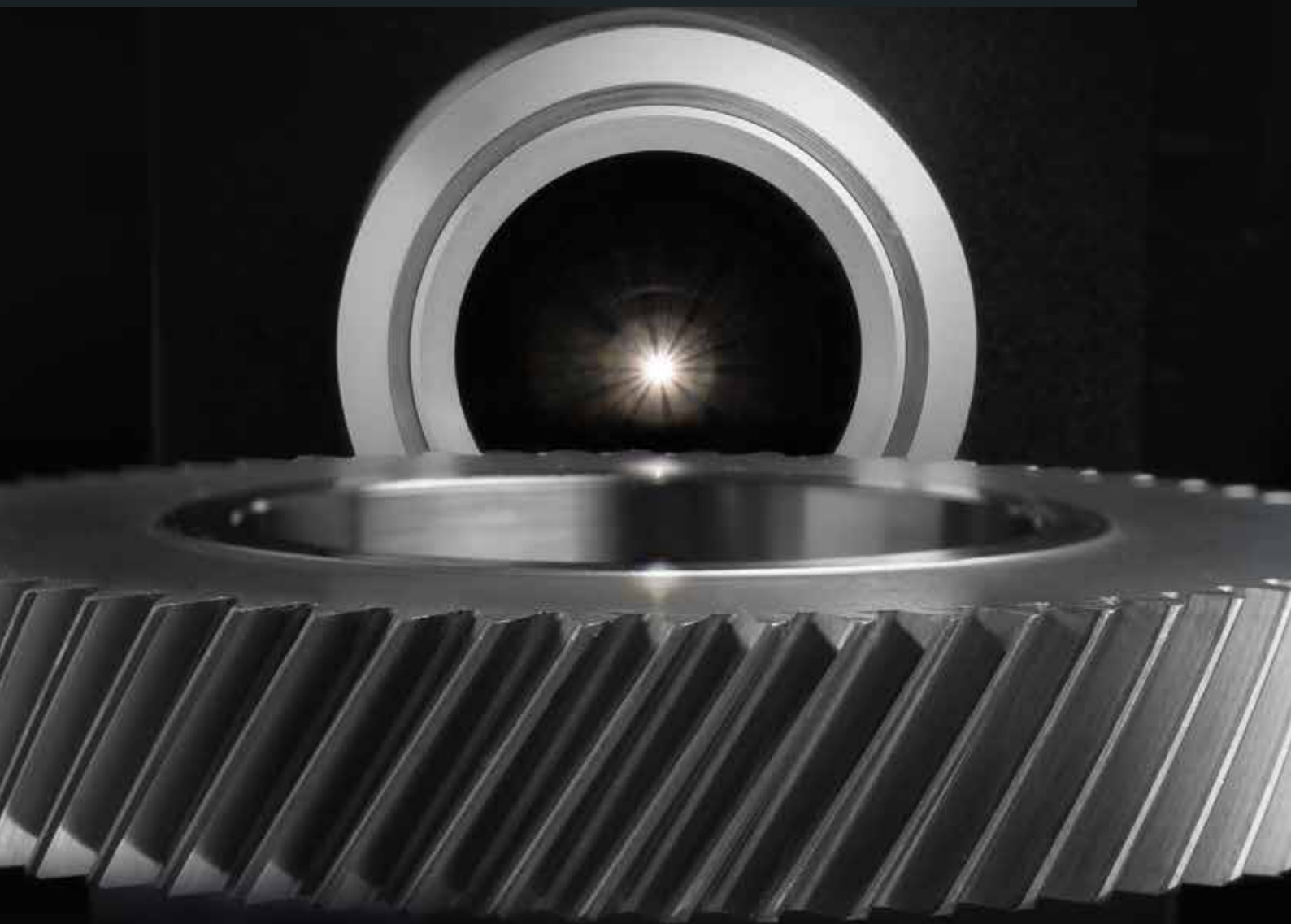
Dr. Jörg Wolle
Chairman of the Board of Directors



Jan Klingelberg
CEO

Zürich, 17 June 2020

At a Glance



Financial overview

Key facts

- Net sales of EUR 212,1 million (-23,8%)
- Order intake fell by EUR 70,7 million (-26,7%) to EUR 194,5 million
- EBIT amounted to EUR -18,8 million (excluding the one-off costs of the efficiency enhancement program of EUR 14,0 million, KLINGELNBERG is reporting a loss of EUR 4,8 million)
- Net profit amounted to EUR -25,4 million
- Equity ratio remained solid at 53,7%
- No dividend payout this year

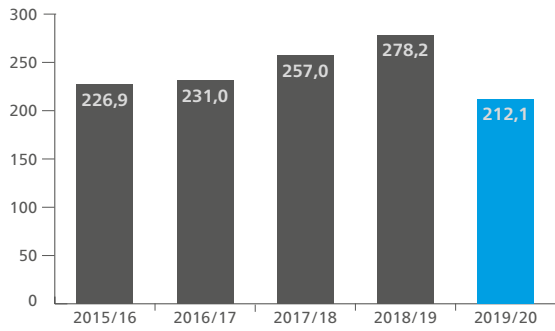
Group key figures

| EUR million | 2019/20 | 2018/19 | Change |
|--|---------|---------|---------|
| Net sales from goods and services | 212,1 | 278,2 | -66,1 |
| Order intake | 194,5 | 265,2 | -70,7 |
| Order backlog | 100,7 | 118,2 | -17,5 |
| Operating result (EBIT) | -18,8 | 30,0 | -48,8 |
| Operating result (adjusted, without IPO cost) | -18,8 | 31,1 | -49,9 |
| Net profit | -25,4 | 19,2 | -44,6 |
| Basic earnings per share (in EUR) | -2,87 | 2,20 | -5,07 |
| Diluted earnings per share (in EUR) | -2,87 | 2,20 | -5,07 |
| Operating result as % of net sales from goods and services | (8,9%) | 10,8% | (19,7%) |
| Operating result (adjusted, without IPO costs) as % of net sales from goods and services | (8,9%) | 11,2% | (20,1%) |
| Net profit as % of net sales from goods and services | (12,0%) | 6,9% | (18,9%) |
| Cash flow from operating activities | -2,2 | 27,6 | -29,8 |
| Investments | 5,6 | 7,8 | -2,2 |
| Free cash flow | -6,5 | 22,0 | -28,5 |
| Employees (FTE) | 1.250,6 | 1.310,0 | -59,4 |

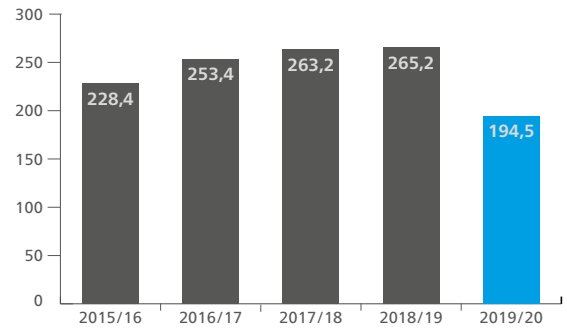
| EUR million | 31.03.2020 | 31.03.2019 | Change |
|------------------------------|------------|------------|---------|
| Total liabilities and equity | 244,9 | 255,4 | -10,5 |
| Net debt | -8,7 | -22,2 | 13,5 |
| Total equity | 131,6 | 163,0 | -31,4 |
| Equity ratio | 53,7% | 63,8% | (10,1%) |

For alternative performance measures please refer to chapter Alternative Performance Measures.

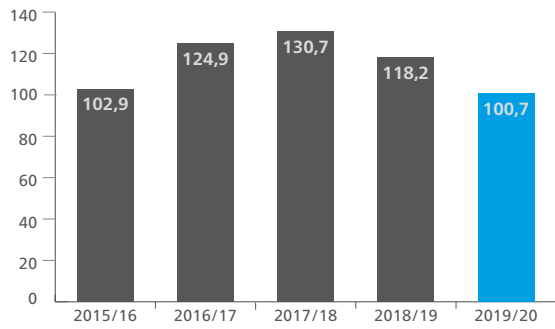
Net sales, in EUR million



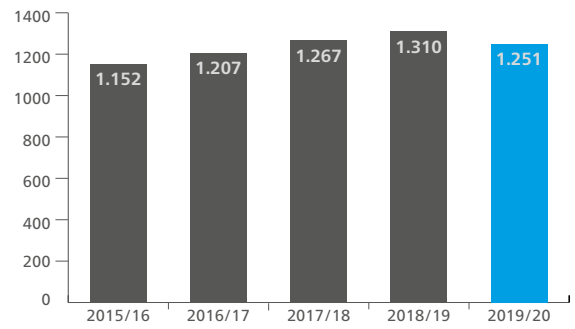
Order intake, in EUR million



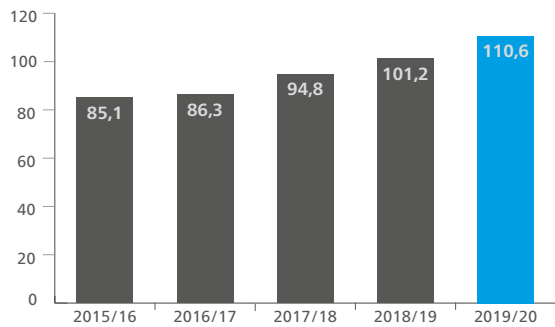
Order backlog, in EUR million



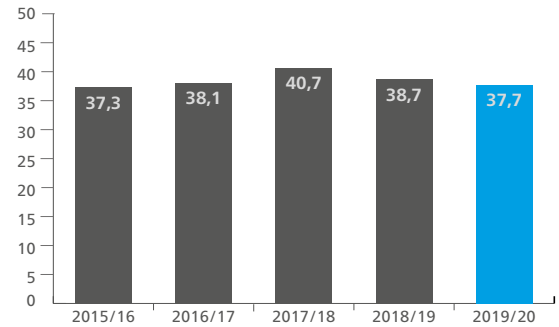
Employees, full time equivalents



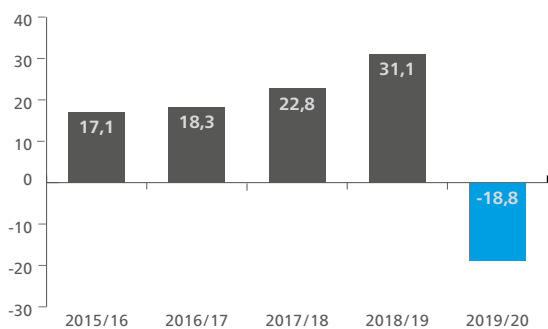
Personnel expense, in EUR million



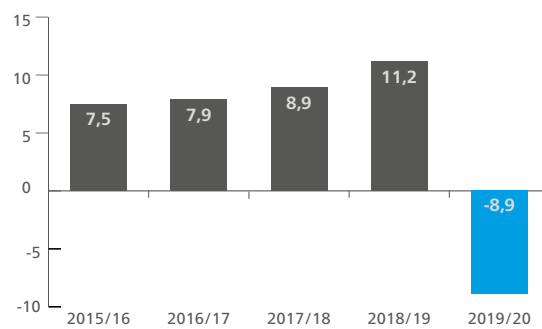
Adjusted other operating expense, in EUR million



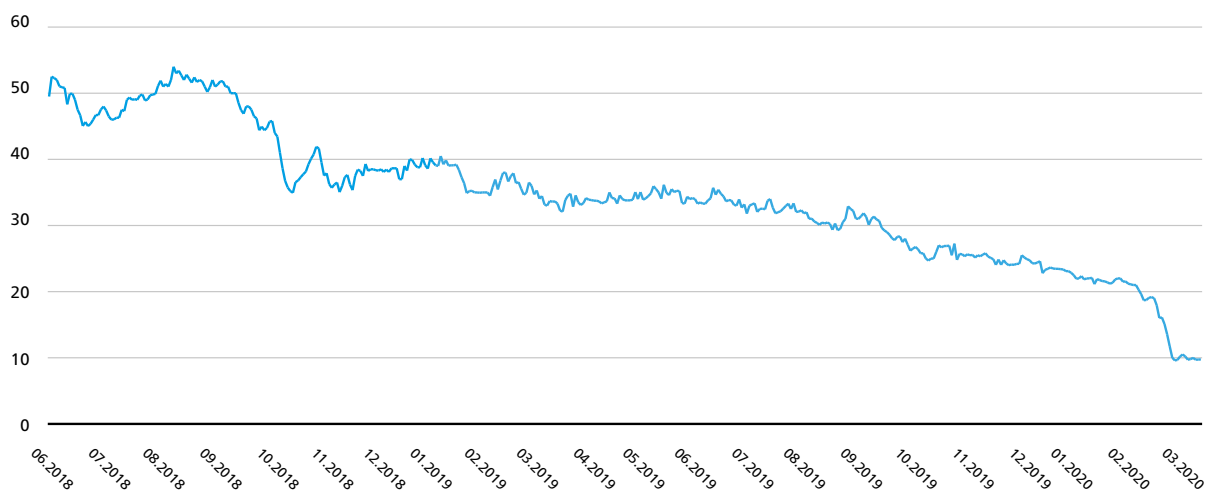
Adjusted operating result (EBIT), in EUR million



Adjusted EBIT margin, in %



Share price, from June 2018 – March 2020 in CHF



Highlights 2019/20

FACTORY 4.0



Trade Fairs:

KLINGELNBERG provides fresh impetus to the aviation and robot industries and solutions for new markets outside the gear world

In 2019/20, the KLINGELNBERG Group once again had a presence at numerous international trade shows taking place in this business year's focus markets: Germany, Russia, China, India, Mexico and the USA, among others. The leading trade show among the lineup is EMO Hannover (Germany), where the who's who of the international machine tool industry came together from 16 to 21 September 2019. KLINGELNBERG celebrated several premieres at EMO Hannover 2019. With the VIPER 500 MFM (Multi-Function Machine), the company is solidifying its presence in the cycloid gearing market and setting new efficiency standards in the robotics industry. The OERLIKON Bevel Gear Grinding Machine G 35 is enjoying similar success in the manufacture of gears for the aviation industry. Other trade show highlights included the HÖFLER generating grinding machine Speed Viper² 80, the KLINGELNBERG Precision Measuring Center P 26 with integrated optical measuring technology and the Precision Measuring Center P 16 for complete measurement of roller bearings, including roughness measurement.

KLINGELNBERG also strengthened its presence in new market segments, which includes, among others, the field of roller bearing measurement. For the first time, KLINGELNBERG participated as an exhibitor in industry-focused trade shows, such as the BearingExpo & Conference in Mumbai, India and The Quality Show in Rosemont, Illinois, USA.

Trade Fairs and Gear Seminars 2019/20

| | | | |
|--|--|--|--|
| CIMT Beijing, China 15.04.-20.04.2019 | EMO Hannover Hanover, Germany 16.09.-21.09.2019 | MPT Detroit (MI), USA 15.10.-17.10.2019 | Gear Seminar Japan Tokyo and Nagoya 14.05.-17.05.2019 |
| CONTROL Stuttgart, Germany 07.05.-10.05.2019 | ITM León, Mexico 09.10.-11.10.2019 | The Quality Show Rosemont (IL), USA 22.10.-24.10.2019 | Gear Seminar Sweden Eskilstuna 18.06.-19.06.2019 |
| Metalloobrabotka Moscow, Russia 27.05.-31.05.2019 | BearingExpo 15.10.-16.10.2019 Mumbai, India | IPTEX Pune, India 13.02.-15.02.2020 | |



Gear Seminars:**KLINGELNBERG hosted popular “GEAR Seminar” series again in 2019/20**

KLINGELNBERG offers customers genuine added value with the “GEAR Seminar” event series it established in 2016. In these seminars – typically two-day events held in various locations – KLINGELNBERG experts keep their customers abreast of current technologies, trends and innovations from the Bevel Gear Technology, Cylindrical Gear Technology and Gear Measuring Technology business units. A broad array of interesting presentations was on the agenda again. These included topics such as smart production in the Industry 4.0 environment, the new hybrid technology for tactile and optical measuring technology, high-performance processes for bevel gear production with an extended “Power Skiving” application, and the new dimension of high-productivity generating grinding with the new Speed Viper machine generation.

The presentations also addressed solutions for areas outside the gear industry, such as the robotics industry. The first Gear Seminar in Japan took place in Tokyo from 14 to 15 May 2019 and the second series was held in Nagoya from 16 to 17 May 2019. The Swedish Gear Seminar followed in Eskilstuna one month later, from 18 to 19 June 2019.

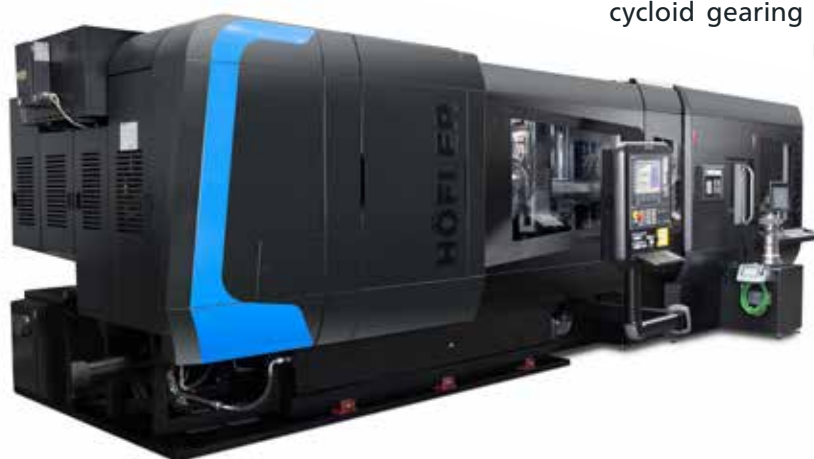


Product Highlights:

VIPER 500 MFM – Increased productivity and precision in the robot industry

With the VIPER 500 MFM KLINGELNBERG is entering the market with a pioneering technological achievement. The company is entering the field of cycloid gearing even deeper and thus also the world of robotics. A real highlight, for, thanks to sophisticated technology, the VIPER 500 MFM often eliminates the need for the time-consuming and costly measuring and pairing of components. To obtain cycloid gears with good running qualities and high load capacity, extreme precision is required when manufacturing the gearings and the base body.

Because the high accuracies cannot be adhered to with standard machine tools available on the market and typical machining sequences, the components are measured and paired according to their tolerance situation. This means high additional costs and tremendous logistical effort in production and assembly. KLINGELNBERG is breaking new ground in



cycloid gearing machining with the completely new developed VIPER 500 MFM.

For the first time, the company has developed a machine that makes it possible to comply with these tight tolerances. This allows for significant cost reductions. For this extraordinary solution, KLINGELNBERG combines the "Done-in-One" principle with the internally developed Adaptive Grinding System.

With the VIPER 500 MFM in combination with the precision measuring centers and the Closed Loop, KLINGELNBERG now has a complete system that makes the production of highly accurate cycloid gearings very easy: in the cycloid grinding cell, the processing machine and the measuring machine are connected by automation. Thanks to the use of GearEngine®, this cycloid grinding cell is "fit" for Industry 4.0 processes. Combined with Closed Loop, this gives rise to an autonomous, self-optimizing production system that makes it possible to utilize the machining and measuring capacity of the machines to optimal effect.

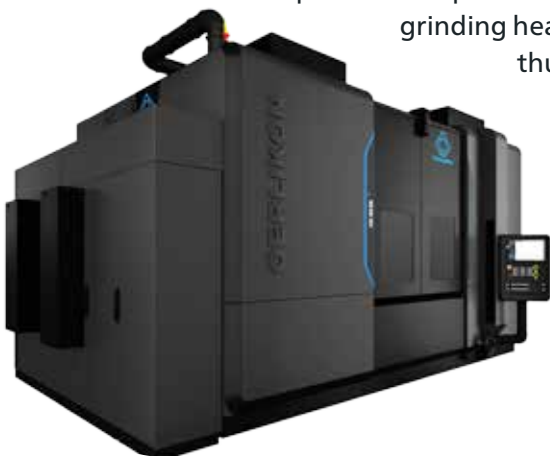


G 35 – Optimal and maximum productivity in the aviation industry



Just as innovative and inspiring is another innovation from KLINGELNBERG: with the OERLIKON Bevel Gear Grinding Machine G 35, the gearing specialist has implemented a new machine design for the 5-cut method. As a result, the manufacture of aviation gearing as regards efficiency is really taking off. To achieve this, the system provider has combined proven technology with new ideas. Background: bevel gears manufactured using the 5-cut method with a fixed setting are used in the aviation industry. This entails the consecutive machining of convex and concave pinion flanks, with different tools and different machine settings.

However, the newly developed OERLIKON Bevel Gear Grinding Machine G 35 makes the production of aerospace gearings much more efficient thanks to its technology: with its two vertically arranged grinding spindles, it is specially tailored to these requirements. In contrast to older dual-spindle concepts with fixed grinding spindles, the G 35 is equipped with two



grinding heads that are positionable independently of each other, thus enabling maximum flexibility. The high rigidity and

thermal stability ensure optimum machining results and, thanks to the advanced vertical concept, grinding sludge deposits in the working chamber can be avoided. Its name, "Clean Cabin", is thereby justified. The machine's operating concept is based on the forward-looking KOP-G software interface, which is operated intuitively via a high-resolution touch screen. Function keys on the control panel thus provide direct access to frequently used setup functions.

KLINGELNBERG “Done-in-One” measurement: The roller bearing solution

All KLINGELNBERG Precision Measuring Centers have the capability to accurately analyze and measure roller bearings and roller bearing elements to an extremely high degree of precision. KLINGELNBERG follows the “Done-in-One” principle: A KLINGELNBERG P-machine is capable of fast measurement of dimension, form, contour and surface roughness in one setup and one automated cycle. This reduces the investment and helps to reduce the operating cost compared to current practices in bearing industry. On top, the measuring machines of the KLINGELNBERG P-Series keep the necessary accuracy even on the shop floor, saving the air conditioning costs and bringing the measuring machine really close to production. By removing the need to install multiple machines, customer benefits additionally from saving expensive factory space.



Up to 40% reduction in cylindrical gear measurement time with KLINGELNBERG Optical Metrology

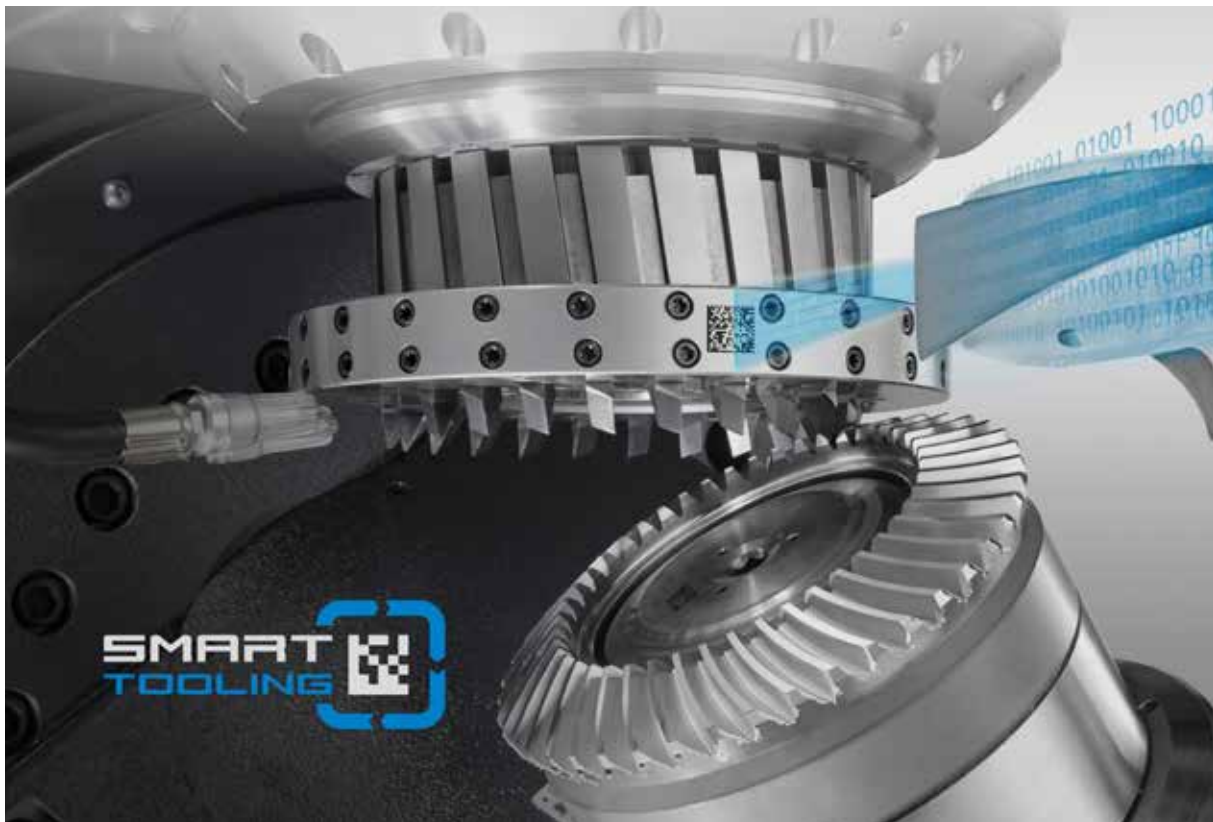
KLINGELNBERG Optical Metrology successfully combines the advantages of tactile and optical measurement in one system. With the precision of the tactile 3D NANOSCAN and the speed of the optical HISPEED OPTOSCAN, KLINGELNBERG Precision Measuring Centers are ideally equipped to handle all measurement tasks. Now the development engineers at KLINGELNBERG have gone one step further. Through an ingenious combination of optical and tactile measurement, the total measuring time for cylindrical gear measurements can be reduced by up to 40% without compromising accuracy. Decades of the system supplier's experience have shown that tactile measurement cannot be fully replaced by an optical measurement method. That is why KLINGELNBERG has opted for a hybrid solution combining the best of both measurement types. A prerequisite for such a system is a rapid changeover from one method to the other. Thus the precision measuring centers combine conventional and modern analysis methods for gears with fast, automated sensor changeover.



KLINGELNBERG's GearEngine® IT Integration Platform

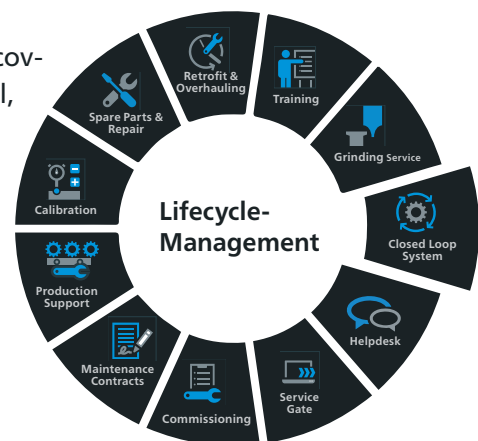
The centerpiece when setting up an Industry 4.0 environment is a software solution that enables targeted collection and processing of production data. The GearEngine® IT integration platform unlocks tremendous potential for significantly increasing efficiency in production. Over the past year, this platform has been upgraded to include an entire range of new applications, for example SmartTooling:

SmartTooling is an Industry 4.0 product with its roots in the manufacturing of bevel gears. Stringent requirements for technology and quality demand perfect coordination between machining centers, measuring machines, production equipment and workflows. As a way to resolve conflicting challenges posed by ultra-high quality standards, component variance and productivity, the digital integration of all instances in a system such as SmartTooling enables three things: safety through assistance, transparency through comprehensive data acquisition and new optimization potential through data analysis. As a technology leader and system supplier, KLINGELNBERG creates unparalleled synergies in this regard. The SmartTooling advantage yields improvements in planning on the one hand and efficiency in production on the other. This is true for productivity-driven mass production as well as variant-rich small lot production.



Service:**KLINGELNBERG – Quality and Competence**

KLINGELNBERG offers a range of interconnected services covering all aspects of the machine, with a focus on individual, customer-specific requirements. Be it all-round support throughout the lifecycle of the machine or individual service modules – made-to-measure, coordinated solution packages and competent contact partners are the norm at KLINGELNBERG. Well-trained, highly motivated and experienced service technicians are available over the entire lifecycle of KLINGELNBERG machines and measuring devices.

**Associations:****Connected by a shared language: KLINGELNBERG and umati**

Integrated communication is the linchpin of Industry 4.0 processes. This works when all systems and machines involved worldwide speak the same language. OPC Unified Architecture (OPC UA) is one such standard that is now also being integrated into the KLINGELNBERG machine tools. Under the leadership of the Verein Deutscher Werkzeugmaschinenfabriken (VDW) and OPC UA information model for all types of machine tools has been created with umati (universal machine tool interface), which is promoted by the OPC Foundation with more than 470 members worldwide. The platform-independent communication standard OPC UA provides solutions for the central challenges of Industry 4.0, including top topics such as data security and standardized information exchange.



As OPC UA is continuing to grow in importance and is regarded as a key technology for tomorrow's production, KLINGELNBERG is gradually implementing this interface on its machines. On the machine, an OPC UA server provides the data from the numerical control unit and the operating software made by KLINGELNBERG. The goal is that customers can continue to rely on a sustainable and modern Industry 4.0 solution from

KLINGELNBERG. As soon as the machine tools are extended by this interface, customers can benefit fully from the advantages of an open standard: umati simplifies the connection between KLINGELNBERG machines and the customer's IT world. Industry 4.0 projects can thus be handled faster and more efficiently.

Company Profile



We make the world turn

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

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

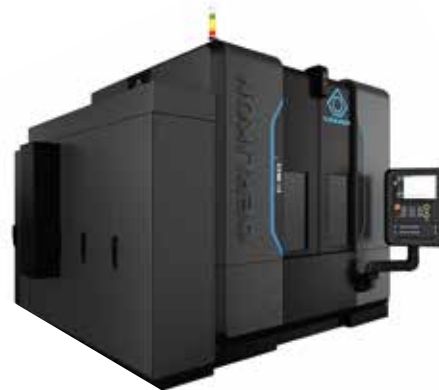
KLINGELNBERG operates engineering and manufacturing facilities in Switzerland and Germany. The company ensures a global presence with regional sales offices and service centers. In addition, its ISO 14001 certification and participation in the VDMA's (German Mechanical Engineering Industry Association)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



The KLINGELNBERG segments:

OERLIKON Bevel Gear Technology

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



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

KLINGELNBERG Precision Measuring Centers

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

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

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



HÖFLER Cylindrical Gear Technology

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

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



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

KLINGELNBERG Drive Technology

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



KLINGELNBERG HISTORY

1863 to 1897

FOUNDING

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



1908 to 1916

PRODUCTION SITES

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

1922 to 1951

GEAR TECHNOLOGY

- Production of bevel gear machines for the Palloid method.
- First hobbing machine built at the Hückeswagen plant, model FK 150, construction year 1923.
- 1951 internationalization begins. First subsidiary abroad.



1985 to 1996

EXPANSION

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



1997 to 2003

INNOVATIONS

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



2004 to 2012

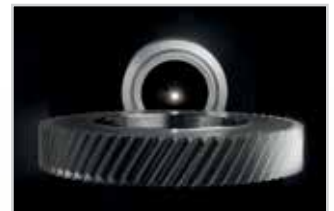
EVOLUTION

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

2017 to 2018

KLINGELNBERG 2.0

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



2018 to 2019

NEW MARKETS

- KLINGELNBERG wins Best of Industry Award 2018 in the category Industry 4.0.
- Conquering new markets through further development of optical metrology and development of innovative solutions for the complete measurement of roller bearings.
- Premiere of the HÖFLER Cycloid Grinding Machine VIPER 500 MFM for the robot industry.



Management Report

Segments and markets

In the past financial year 2019/20, KLINGELNBERG has faced a broad range of global challenges in the worldwide economy like a global decline in growth rates, the beginning of recession in numerous markets and industries as well as increasing uncertainty about the consequences of Brexit and trade conflicts. Additionally a lack of political orientation, on the future of mobility, and the resulting lack of clarity in the investment strategies of the major and most important manufacturers, especially in the automotive industry, complete the picture of a challenging year.

In the last quarter, the previous tension surrounding the outbreak of the new coronavirus, with its economic distortions and social restrictions, has been additionally burdened. Major projects in the automotive industry have been postponed due to abrupt plant closures. In line with these global developments, net sales dropped by EUR 66,1 million (-23,8%) year on year to EUR 212,1 million at the end of the financial year.

While revenues in Germany, Switzerland and Japan declined, the US broke through the tense environment and increased net revenues by EUR 5,3 million year on year. Around 41% of all sales were generated in the EMEA region (Europe, the Middle East and Africa). As a large proportion of all sales was invoiced in Euro (74,5%), currency effects were negligible.

Bevel Gear segment:

At the end of the financial year, the Bevel Gear segment showed a decline in net sales of EUR 37,8 million or 30,9% compared to the previous year. The increasing urgency of reducing emissions in the context of climate policy is prompting economic policymakers to accelerate the switch from the combustion engine to other forms of drive. The resulting uncertainty among car manufacturers has led to a postponement of structural investments. Customer decisions on major bevel gear projects were not finally made and were increasingly postponed until the following months.

In contrast, the order situation in the bevel gear service area continued to develop stable. The restraint in the procurement of new machines led to investments in the repair and maintenance of existing machines and in the overhaul of production plants (retrofits and refurbishments). Despite the global distortions, diversification is being driven forward and new markets are being entered in a promising manner. The newly developed Bevel Gear Grinding Machine G 35 has been specially tailored to the requirements of the aerospace industry and will expand the portfolio of this segment in proven leading-edge technology.

Cylindrical Gear segment:

In the past financial year, the Cylindrical Gear segment developed solidly, albeit with a slight slowdown. Due to the restrictions imposed in connection with the coronavirus pandemic, machines could not be handed over, which led to a decline in sales of EUR 3,7 million.

Order-related positive effects are expected in the service segment, especially for maintenance work and refurbishments.

Measuring Centers segment:

The noticeable reluctance to invest in the automotive industry is also leaving its mark on the Measuring Centers segment. Compared to the previous year, this segment recorded a decrease in net sales of EUR 23,1 million or 28,8%. Despite this setback, the segment was able to successfully position itself in new markets such as the robotics industry and new technological niches such as the development of electric drive trains by selling high-technology measuring instruments. This means that the comprehensive transformation process within this segment is making further progress through a broader diversification of relevant target markets.

Drive Technology segment:

In the Drive Technology segment, net sales were up EUR 0,4 million over the previous year. The orders received in the last financial year led to solid sales in the current financial year.

Due to persistent overcapacities in global cargo shipbuilding, sales impulses are increasingly coming from the mining sector. Despite the clouded world economy the consolidated and highly liquid mining market offers the hope of promising new orders in the future due to the growing importance of rare raw materials as part of global climate protection and digitalization efforts.

Research and development

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

The newly developed OERLIKON Bevel Gear Grinding Machine G 35 has been specially designed for the requirements of the aerospace industry and raises the production of aerospace gears with its two vertically arranged grinding spindles to a new level. The G 35 is equipped with two grinding heads that can be moved independently of each other and thus providing maximum flexibility. The high rigidity and thermal stability ensure optimum machining results. Due to the further developed vertical concept, deposits of grinding sludge in the working area can be avoided. The technology is complemented by new features that enable efficient working with the machine. KLINGELNBERG optical metrology successfully combines the advantages of tactile and optical measurement in one system. With the precision of the tactile 3D NANOSCAN and the speed of the optical HISPEED OPTOSCAN, KLINGELNBERG Precision Measuring Centers are ideally equipped to handle all measurement tasks. Now the development engineers at KLINGELNBERG have gone one step further. Through an ingenious combination of optical and tactile measurement, the total measuring time for cylindrical gear measurements can even be reduced by up to 40,0% without

compromising accuracy. To achieve this, the time-intensive measurements are performed in a very targeted manner with the optical sensors and are significantly reduced as a result, by up to 90,0% in the ideal case. Measuring tasks where tactile measurement regarding measuring time, flexibility or accuracy is advantageous in turn are performed tactile. Particularly remarkable is the fact that this procedure has been integrated into the worldwide established KLINGELNBERG cylindrical gear software. Thus, the combination is fully automatic and time-optimized simply by selecting the appropriate option.

With the VIPER 500 MFM (Multi-Function Machine), KLINGELNBERG is entering even deeper into the market outside of the gearing sector. This machine makes it possible to mass-produce high-precision cycloid gearings without requiring complex pairing of components. In conjunction with the precision measuring centers and the Closed Loop, KLINGELNBERG now has a complete system that makes the production of highly accurate cycloid gearings very easy: in the cycloid grinding cell, the processing machine and the precision measuring center are connected by automation. Thanks to the use of GearEngine®, this cycloid grinding cell is “fit” for Industry 4.0 processes. Combined with Closed Loop, a self-sufficient, self-optimizing production system is created, which ensures optimum utilization of the machining and measuring capacities of the machines.

The ratio of research and development expenses increased by 2,9 percentage points compared to the previous year and totaled 11,7% in the financial year 2019/20. R&D expenses of EUR 24,9 million (EUR +0,5 million) underline the importance of product development for the KLINGELNBERG Group.

Efficiency Enhancement Program

Against the background of the clouded world economic situation, a focus on electromobility being promoted in political circles and the unprecedented global distortions in the course of the coronavirus outbreak, KLINGELNBERG has developed a comprehensive program to increase efficiencies. With the aim of preparing the company for a changing economic environment, KLINGELNBERG will in future concentrate all cylindrical gear division products at the Hückeswagen location.

The production of standard components and bevel gear sets will be optimized and focused. Within the last years, continued automation has neutralized any cost advantages of the Hungarian location. As a result production at the Győr site in Hungary will be closed. The liquidation of the company is in progress. Ettlingen as a facility will also be secured by a clear focus on software development, cylindrical gear service, application engineering and sales activities.

The one-off costs of the efficiency enhancement program total EUR 14,0 million. Of this amount, EUR 3,4 million is attributable to material expense, EUR 9,1 million to personnel expense, EUR 1,2 million to other operating expense and EUR 0,3 million to depreciation and amortization.

Personnel expenses are largely reflected in the provisions of EUR 8,6 million and will affect liquidity in the next financial year.

An agreement on the conditions was reached with the employee representatives. Implementation of the efficiency enhancement program has therefore already begun and will be completed by the end of the next financial year.

Gross profit

A net sales decline of EUR 66,1 million and increased changes in inventory of EUR 11,0 million compared with the prior-year period resulted in a reduction in total operating performance of EUR 55,1 million. The decline in sales affects almost all segments. The higher change in inventories was mainly due to time shifts in sales revenues at the end of the financial year.

Driven by lower operating performance, material expenses decreased by EUR 17,7 million. Due to the increase in the change in inventories and the one-off costs arising from the aforementioned efficiency enhancement program, the KLINGELNBERG Group's materials ratio rose to 40,7% – 1,7 percentage points above the previous year's level.

Personnel expenses and employees

Personnel expenses amounted to EUR 110,6 million at the end of the financial year, higher by EUR 9,4 million over the previous year. This development is primarily due to a provision for personnel expenses by KLINGELNBERG GmbH in the amount of EUR 8,6 million in the context of the efficiency enhancement program. The significant decrease in total operating performance of EUR 55,1 million resulted in a reduction in headcount by 59 compared to the previous year. Due to the higher personnel expenses mentioned above and a significantly lower total operating performance, the personnel expenses ratio rose from 36,4% in financial year 2018/19 to 49,7%. The KLINGELNBERG Group had 1.251 employees (FTE) as at 31 March 2020.

Other operating expense

Other operating expense amounted to EUR 37,7 million at the end of the financial year, EUR 2,2 million less than in the previous year respectively EUR 1,0 million less than the adjusted other operating expense (without IPO costs) in the previous year.

The adjusted other operating expense ratio amounted to 16,9% at the end of the financial year, 3,0 percentage points above the previous year. This was due to the significant decrease in total operating performance of EUR 55,1 million.

Other operating income

Other operating income decreased by EUR 4,6 million compared to the previous financial year.

This is mainly due to the capitalization of a lower number of rental and demonstration machines (especially measuring equipment and Speed Viper) at KLINGELNBERG GmbH (EUR -3,3 million).

Operating result

The cooling of the economy, which already had a noticeable impact on the earnings situation in the first half of the financial year, was further exacerbated in the last quarter by the coronavirus pandemic. The efficiency enhancement program of KLINGELNBERG AG, already announced in October 2019, therefore came at the right time. The measures impacted the operating result in the financial year 2019/20 with one-off costs of around EUR 14,0 million. These finally resulted in an operating result of EUR -18,8 million, EUR 48,8 million less than in the previous year. Excluding the one-off costs, KLINGELNBERG is reporting a loss of EUR 4,8 million.

As there were no IPO costs this financial year, the operating result was equal to the adjusted operating result. The adjusted EBIT was EUR 49,9 million lower than the previous year. The significant decline in net sales combined with the one-off costs for the efficiency enhancement program led to a decrease in the adjusted EBIT margin to -8,9%. Basic earnings per share amounted to EUR -2,87.

Financial result

In the financial year 2019/20, the KLINGELNBERG Group reported a loss of EUR 2,1 million. Thereof, EUR 2,0 million resulted from the exchange rate result, generated mainly by KLINGELNBERG AG. The holding company reports Group figures in Euro, but the accounting of KLINGELNBERG AG is carried out in Swiss francs.

Balance sheet

The balance sheet total of the KLINGELNBERG Group decreased by EUR 10,5 million compared to the financial statements of 31 March 2019 and totaled EUR 244,9 million on 31 March 2020. Current assets dropped by EUR 7,6 million (-4,0%). This was essentially caused by declined receivables from goods and services (EUR -23,8 million) while cash and cash equivalents (EUR +10,0 million) and inventories (EUR +6,1 million) rose. Non-current assets also decreased by EUR 2,9 million (-4,4%) mainly due to lower deferred tax assets (EUR -1,8 million).

Equity dropped by EUR 31,4 million (-19,3%) to EUR 131,6 million compared to the financial statements of 31 March 2019. This decline is due, on the one hand, to the lower net profit and, on the other hand, to the distribution of dividends from capital reserves. As a result, the equity ratio decreased by 10,1 percentage points to 53,7% compared to 31 March 2019.

Total liabilities increased by EUR 20,9 million (+22,6%) compared to 31 March 2019 and totaled EUR 113,3 million as at 31 March 2020. Financial liabilities increased significantly due to the financing of inventories in line with the shift in sales as well as the increase in cash.

Net debt increased by EUR 13,5 million and totaled EUR -8,7 million at the end of the financial year 2019/20.

In summary, it can be stated that, despite the challenging economic situation, the KLINGELNBERG Group continued to have a stable financial position in the financial year 2019/20.

Cash flow statement

The cash flow from operating activities fell by EUR 29,8 million compared to the financial year 2018/19 to EUR -2,2 million. This decline was mainly due to the change in net profit from EUR 19,2 million in the financial year 2018/19 to EUR -25,4 million.

A significant decrease in the capitalization of rental and demonstration machines of EUR 3,3 million led to a 23,9% improvement in the cash flow from investing activities.

The cash flow from financing activities climbed by EUR 17,6 million compared to the financial year 2018/19. The increase was due to raised short-term financial liabilities.

Overall, the net change in cash totaled EUR 10,0 million.

Financial risk management

In 2018, KLINGELNBERG established a holistic risk management system to identify, evaluate and manage business risk. In the past financial year this system was expanded by a professional software for risk assessment. For further information about the system, please refer to Note 5.7.7 of the Corporate Governance Report. KLINGELNBERG has to deal with a variety of financial risks as described in the following.

Market risks

- **Business cycle risk:** The overall global decline in passenger car sales has had far-reaching consequences for the entire industrial production sector. This in turn led to a further spreading of uncertainty and consequently to investment backlogs in significant parts of the manufacturing industries. In response, KLINGELNBERG implemented a comprehensive program to enhance efficiencies. As part of that program, the production and manufacturing capacities of 3 locations (Hückeswagen, Ettlingen, Győr) will now be concentrated at the main facility in Hückeswagen.
- **Corona pandemic:** The global economic impact of the coronavirus led to an ongoing decline at the beginning of the year. The above-mentioned efficiency enhancement program is coming at the right time. We also make use of government-subsidized short-time work to reduce costs in the short term.

- **Currency risks:** KLINGELNBERG's primary exposure to currency risks relates to the CHF, USD, and JPY, which arises in the context of business transactions from the translation of the disclosed assets and liabilities. Typically, KLINGELNBERG uses foreign exchange forwards or currency options to hedge against the USD and JPY currency risk in connection with current machinery transactions affecting open and, in some cases, expected production orders and purchase orders.
- **Interest rate risks:** Short-term bank account balances are subject to market fluctuations. These balances are not hedged. KLINGELNBERG has no long-term interest-bearing assets. Most of the long-term financial liabilities bear fixed interest rates. The short-term bank debt is not hedged.
- **Sales risks:** An increase in the intensity of competition can lead to a decrease in sales and profitability.

Credit risk

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

Liquidity risk

Liquidity risk arises when KLINGELNBERG cannot meet its financial obligations. Diligent liquidity risk management requires sufficient available liquid funds as well as having financing options in place in the form of approved credit facilities for appropriate amounts with multiple banks. We are reacting to the current coronavirus pandemic with regularly updated cash planning that takes various scenarios into account.

Outlook

In a global economic environment such as the current one, KLINGELNBERG is actually not able to provide a reliable outlook. KLINGELNBERG continues on the course it has adopted in recent months: securing liquidity, tightly controlling its costs and at the same time continuing with its efficiency-enhancing program.



Corporate Governance

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1 Introduction

This report describes the principles of corporate governance for the KLINGELNBERG Group (hereinafter also the “Group”) and provides background information on the Group’s Executive Management (hereinafter also the “EM”) and the Board of Directors (hereinafter also the “BoD”) as at 31 March 2020. The report contains the information that is stipulated by the Directive on Information relating to Corporate Governance of SIX Swiss Exchange AG.

The Articles of Association (hereinafter the “Articles”) of KLINGELNBERG AG (hereinafter also the “Company”) can be accessed on the corporate governance section of the Company’s website at: <https://www.klingelberg.com/en/investors/corporate-governance/articles-of-association/>

For clarity and transparency, the Compensation Report is presented as a separate chapter of the Annual Report.

2 Group structure

2.1 Operational group structure

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

The KLINGELNBERG Group has effective oversight and efficient management structures at all levels. The operational Group structure as at 31 March 2020 is as follows:

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

In accordance with and subject to Swiss law, the Articles and the Organizational Regulations, the BoD has delegated the Executive Management of the Company’s business to the EM, which is headed by the Chief Executive Officer (hereinafter the “CEO”) pursuant to the Organizational Regulations. The EM comprises: the CEO, the Chief Financial Officer (hereinafter the “CFO”) and the Chief Operations Officer (hereinafter the “COO”). The EM is supervised by the BoD and its Committees. On 04 March 2020, the Board of Directors has decided to reflect the increased importance of sales in management and has appointed Mr. Prasad Kizhakel as Chief Sales Officer (CSO) to the Executive Board effective 01 April 2020.

2.2 Listed companies

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

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

2.3 Non-listed companies

A list of the subsidiaries of the KLINGELNBERG Group as at 31 March 2020 can be found in Note 2.3 to the consolidated financial statements.

3 Shareholders

3.1 Significant shareholders

According to the disclosure notifications received by the Company during 2019/20 and published by the Company via the electronic publishing platform on SIX Swiss Exchange, the following shareholders had holdings of 3 percent or more of the Company's voting rights as at 31 March 2020:

| Date | Issuer | Beneficial owner / persons that can exercise the voting rights at their own discretion | Direct Shareholder | Position |
|------------------|-----------------|--|---|----------|
| 19 December 2019 | KLINGELNBERG AG | The Capital Group Companies, Inc. | Capital Research and Management Company | 4,779% |
| 07 November 2019 | KLINGELNBERG AG | UBS Fund Management (Switzerland) AG | | 3,14% |
| 18 August 2018 | KLINGELNBERG AG | Henderson Global Investors Limited | | 3,06% |
| 29 June 2018 | KLINGELNBERG AG | Jan Klingelberg Diether Klingelberg ¹ | KLINGELNBERG Luxemburg A.G. | 48,62% |
| 29 June 2018 | KLINGELNBERG AG | Arndt Klingelberg | | 4,86% |

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

Notifications made in 2019/20 in accordance with Art. 120 et seqq. of the Financial Market Infrastructure Act ("FMIA") [Finanzmarktinfrastrukturgesetz, FinfraG] can be accessed using the following link:

<https://www.ser-ag.com/en/resources/notifications-market-participants/significant-shareholders.html>

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

As at 31 March 2020, the Company held no treasury shares.

3.2 Cross-shareholdings

As at the 31 March 2020, the Company does not have any cross-shareholdings exceeding 5 percent of the holdings of capital or voting rights on both sides.

4 Capital

4.1 Share capital

As at 31 March 2020, the ordinary share capital of KLINGELNBERG AG as registered with the Register of Commerce of the Canton of Zürich amounts to CHF 44.200.000 fully paid up and divided into 8.840.000 registered shares with a par value of CHF 5 each.

As at 31 March 2020, the Company has not issued any participation certificates or profit sharing certificates, nor has it issued any preference shares within the meaning of Art. 654 et seq. of the Swiss Code of Obligations (hereinafter also "CO") [Schweizerisches Obligationenrecht, OR].

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

https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf

4.2 Authorized and conditional capital

4.2.1 Authorized share capital

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

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

https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf

4.2.2 Conditional capital

The General Meeting of 09 June 2018 approved the creation of conditional capital divided into 445.640 shares with a par value of CHF 5 per share to improve the Company's financial flexibility for financing, acquisitions, and other purposes. The conditional capital amounts to CHF 2.228.200, which equates to 5,04 percent of the existing share capital.

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

https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf

4.2.3 Options

KLINGELNBERG AG has not granted any options.

4.2.4 Convertible bonds

KLINGELNBERG AG has not issued any convertible bonds.

4.3 Changes in capital

The capital of the Company was as follows:

| | 31.03.2020 | 31.03.2019 | 31.03.2018 | 31.03.2017 |
|------------------------------|------------|------------|------------|------------|
| Ordinary capital (in CHF) | 44.200.000 | 44.200.000 | 42.000.000 | 42.000.000 |
| Share capital in units | 8.840.000 | 8.840.000 | 42.000 | 42.000 |
| Authorized capital (in CHF) | 4.456.400 | 4.456.400 | 0 | 0 |
| Authorized capital in units | 891.280 | 891.280 | 0 | 0 |
| Conditional capital (in CHF) | 2.228.200 | 2.228.200 | 0 | 0 |
| Conditional capital in units | 445.640 | 445.640 | 0 | 0 |

There have been no changes in capital since the IPO on 20 June 2018. In preparation of the offering, an extraordinary shareholders' meeting of the Company held on 09 June 2018 resolved, among other things, to (i) split each of the existing registered shares of the Company in the amount of 42.000 with a nominal value of CHF 1.000 into 200 shares with a nominal value of CHF 5 each (then

amounting to 8.400.000 fully paid-up shares), (ii) increase the Company's share capital by up to CHF 2.564.000 through the issuance of up to 512.800 registered new shares with a nominal value of CHF 5 each (whereby the final number of new shares amounted to 440.000 shares according to the supplement to the Offering Memorandum of the Company dated 19 June 2018), (iii) create conditional share capital in the amount of CHF 2.228.200, (iv) create authorized share capital in the amount of CHF 4.456.400 and (v) further amend and restate the Articles.

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

4.4 Share buyback program

KLINGELNBERG has no ongoing share buyback program.

4.5 Convertible bonds and options

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

4.6 Limitations on transferability and nominee registration

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

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

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

Details regarding legal entities or individuals acting in concert can be found in Art. 5 of the Articles available at:

https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf

4.6.1 Admissibility of nominee registrations

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

4.6.2 Exceptions granted in the year under review

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

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

A resolution of the General Meeting passed by at least two thirds of the represented share votes and the absolute majority of the nominal value of the represented shares is required for the easement or abolition of the restriction of the transferability of the registered shares (Art. 12 para. 2 lit. 2 of the Articles).

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5 Board of Directors

5.1 Introduction

The BoD of KLINGELNBERG AG sets the overall direction and supervises the management (see Art. 716a para. 1 of the Swiss Code of Obligations). Its organization is reflected in the Organizational Regulations (“Organisationsreglement” as of June 2018). No member of the BoD holds an Executive Management position with KLINGELNBERG AG or any of its subsidiaries or has held such a position in the past three years.

In the 2019/20 financial year there were no significant business relations between a member of the BoD and KLINGELNBERG AG or one of its subsidiaries. For a list of other related party transactions, please refer to Note 6.2 of the consolidated financial statements.

5.2 Other activities and vested interests

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

5.3 Mandates outside KLINGELNBERG AG

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

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

For further details, in particular regarding mandates which are not subject to the abovementioned limitations please see Art. 23 of the Articles available at:

https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf

All Members of the Board adhere to the aforementioned rules.

5.4 Board of Directors' competences and evaluation

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

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

5.5 Elections and terms of office

According to Art. 6 para. 2 lit. 2 of the Articles of KLINGELNBERG AG the Annual General Meeting (hereinafter also the "AGM") has the non-transferable powers to elect and recall the members of the BoD, the Chairman of the BoD, the members of the NCC, the Auditors and the independent

proxy. Art. 15 of the Articles of KLINGELNBERG AG states that the BoD must consist of a minimum of four members.

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

5.6 Members of the BoD

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

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

Dr. Jörg Wolle

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

Diether Klingelberg

is a BoD member and German citizen born in 1944. Mr. Klingelberg has been a member of the Board of Directors of the Company since 1991 and has acted as its Chairman between 1991 and 2018. He became CEO of the Group in 1969 and held the position until being succeeded by Jan Klingelberg in 2004. In addition, he was the Managing Director of MF GmbH between 2002 and 2013. Mr. Klingelberg was President of the German Engineering Association (VDMA) between 2001 and 2004, and Vice President of the Federation of German Industries (BDI) between 2003 and 2006. Since 2019 he has been Managing Director of Aarpharma GmbH & Co. He holds a degree in Business and Engineering from the Technical University of Darmstadt, Germany.

Dr. Hans-Martin Schneeberger

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

Hans-Georg Härter

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

Roger Baillod

is a BoD member and Swiss citizen born in 1958. He has been a member of the BoD of the Company since June 2018. Mr. Baillod has been a professional director and management consultant since 2017. He has been a member of the NCC of Migros-Genossenschafts-Bund since 2008 and was the Chairman of its AC from 2012 to 2018. He has served as a member of the Board of Directors and Chairman of the Audit and Risk Management Committee of BKW AG since 2013, as member of the Board of Directors and Chairman of the AC of Rieter Holding AG since 2016, as well as President of the Board/member of the Board of four non-listed Swiss companies since 2017 and 2018 respectively. He is president of a pension fund commission and member of the board of trustees of the Joh. Jacob Rieter-Stiftung. Between 1996 and 2016, Roger Baillod was the Chief Financial Officer and a member of the Group management of Bucher Industries AG. Between 1993 and 1996 he was member of the Executive Board of two industrial companies. Mr. Baillod started his career as an auditor and consultant at ATAG Ernst & Young AG in Zürich from 1984 until 1993. Mr. Baillod holds a degree in Business Economics and is a Certified Public Accountant.

Prof. Dr. Michael Hilb

is a BoD member and Swiss citizen born in 1977. He has been a member of the BoD of the Company since June 2018. Prof. Hilb is founder and CEO of DBP Holding Ltd., a business group with focus on developing international digital businesses. From 2010 to 2018, he was with DKSH, most recently as Vice President Group Strategy and Digital Business. Before that, he was Project Manager with Roland Berger from 2005 until 2010 and with Holcim Commerce from 2001 until 2003. Prof. Dr. Michael Hilb currently serves as a member of the Board of Trustees of the Board Foundation and as a Member of the Supervisory Board of IMP at the University of St. Gallen, Switzerland. He is a titular professor at the University of Fribourg, Switzerland and holds a PhD and an MSc in Man-

agement as well as a CAS in Board Effectiveness from the University of St. Gallen. He was a fellow at Harvard University and INSEAD and completed executive education programs at HBS, IMD, INSEAD and MIT.

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

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

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

https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf

In accordance with the Regulations of the AC, the BoD appoints the members of the AC on an annual basis until the next AGM convenes. The Regulations of the Audit Committee can be accessed on the corporate governance section of the Company's website at:

<https://www.klingelberg.com/en/investors/corporate-governance/regulations-of-the-company/>

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

The BoD may delegate the preparation and execution of its decisions to committees or individual members. The duties and authorities of the committees are defined in the Articles (Art. 19, NCC only), the Organizational Regulations and the Committee Regulations of the BoD:

https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf

The committees usually meet before the BoD meetings and regularly report to the BoD on their activities and findings. The overall responsibility for duties delegated to the committees remains with the BoD. The period of office of all committee members is one year. Re-election is possible.

5.7.2 Audit Committee

The Audit Committee consists of two or more members of the BoD who are appointed by the BoD. The term of office of the members of the Audit Committee is one year ending upon conclusion of the subsequent AGM. Re-election is possible. The current members of the Audit Committee are Roger Baillod and Prof. Dr. Michael Hilb. The organization, detailed responsibilities and reporting duties of the AC are stipulated in its Regulations. The Regulations of the Audit Committee can be accessed on the corporate governance section of the Company's website at:

https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf

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

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

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

The BoD may entrust the AC with additional duties in financial matters. In discharging its responsibilities, the AC has unrestricted and direct access to all relevant information in relation to the

Company and the Group. The AC ensures that it is informed by the statutory auditors on a regular basis. The AC is required to report its activities to the BoD on a regular basis and make recommendations and propose appropriate measures to the BoD.

5.7.3 Nomination and Compensation Committee

As required by Swiss law the members of the NCC are elected by the AGM. As at 31 March 2020, the members of the NCC include Dr. Jörg Wolle, Diether Klingelberg and Dr. Hans-Martin Schneeberger. The organization, detailed responsibilities, and reporting duties of the NCC are stipulated in its Regulations and the Articles of Association.

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

Pursuant to the Organizational Regulations and the Regulations of the NCC, a majority of the members of the NCC should be independent as defined in the Swiss Code of Best Practice for Corporate Governance and a majority of the members of the NCC, including its chairperson, should be experienced in the areas of succession planning, performance evaluation as well as the nomination and compensation of members of boards of directors and Executive Management boards. The Regulations of the NCC can be accessed on the corporate governance section of the Company's website at:

<https://www.klingelberg.com/en/investors/corporate-governance/regulations-of-the-company/>

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

- preparing and periodically reviewing the Group's compensation policy and principles and periodically reviewing their implementation as well as submission of related proposals and recommendations to the BoD;
- submitting proposals to the BoD regarding the approval by the AGM of the maximum aggregate compensation for the members of the BoD as well as the maximum aggregate compensation of the members of the EM;
- submitting proposals to the BoD regarding the determination of the individual compensation of the Chairman and the other members of the Board as well as of the CEO and, based upon a proposal of the CEO, the other members of the EM, in each case within the limits of the respective maximum amounts approved by the AGM;

- submitting proposals to the BoD regarding the determination of compensation-related performance metrics and targets for the EM and assessing the performance of the members of the EM on an annual basis;
- submitting proposals to the Board regarding the mandate or employment agreements with the members of the BoD and the EM;
- submitting proposals to the BoD regarding the approval of, and any amendments to, compensation plans and other compensation regulations and regarding the persons eligible for participation in compensation plans as well as assessing such compensation plans on a regular basis and submitting proposals to the BoD in connection with this;
- reviewing the Compensation Report prepared by the EM and submitting the Compensation Report to the BoD for approval;
- making recommendations on Board composition and balance, setting criteria for the assessment of the independence of BoD members as well as submitting proposals to the BoD regarding the criteria to be applied for the selection of the Chairman, other members of the Board and its committees as well as for the nomination of candidates for positions in the EM;
- identifying and assessing candidates for membership in the BoD and for the position of CEO and submitting proposals to the BoD regarding the appointment and removal of the CEO;
- assessing candidates proposed by the CEO for other positions in the EM and submitting proposals to the BoD regarding the appointment of such persons;
- informing the BoD at least annually on succession and contingency plans in relation to the members of the EM and other key employees;
- reviewing the acceptance of mandates outside the Group by members of the BoD or the EM;
- supporting and advising the BoD in matters of corporate governance.

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

5.7.4 Working methods of the Board of Directors and its committees

Within the 2019/20 financial year the BoD held six meetings. The following table shows the individual members' attendance at BoD and Committee meetings and the average length of meetings:

| Name | BoD | AC | NCC |
|------------------------------|-------|-------|-------|
| Dr. Jörg Wolle | 6 | | 4 |
| Diether Klingelberg | 5 | | 3 |
| Dr. Hans-Martin Schneeberger | 6 | | 4 |
| Hans-Georg Härter | 6 | | |
| Roger Baillod | 6 | 4 | |
| Prof. Dr. Michael Hilb | 6 | 4 | |
| Average meeting duration | 02:45 | 02:10 | 00:30 |

Urgent business matters were discussed in conference calls. In addition to formal meetings at which minutes were taken, members of the BoD or of the Committees also met informally for other issues and discussions that required additional time, such as preparations for formal meetings.

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

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

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

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

All six meetings of the BoD were attended by the CEO in the Reporting Period. The CFO and the COO attended five meetings of the BoD. The four meetings of the NCC in the Reporting Period were held in the presence of the CEO with regards to his requests. All four meetings of the AC in

the Reporting Period were attended by the CFO and the Head of Finance, three of the meetings were attended by the CEO as well and one meeting was also attended by the auditors of the Company.

5.7.5 Areas of responsibility

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

In accordance with Art. 16 of the Articles

(https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf) the BoD may delegate the Executive Management of the Company in full or in part.

Its non-transferable and irrevocable duties are set out in the CO and Art. 17 of the Articles

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

In addition, Swiss law and the Organizational Regulations reserve the Board's powers, inter alia, (i) to approve the annual budget of the Company and the Group as well as any budget overrun

of EUR 1 million or more per financial year, (ii) to approve certain major transactions exceeding specified thresholds, (iii) to appoint and remove the CEO and the other members of the EM of the Company and (iv) to adopt or amend the Company's compensation and benefits strategy upon proposal by the NCC.

5.7.6 Information and controlling instruments for supervising the EM

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

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

5.7.7 Risk and compliance

To identify and manage its risks, the KLINGELNBERG Group has implemented a holistic risk management system to identify and assess strategic, operational, financial, legal and compliance risks related to its activities. The risk management directive has been rolled out throughout the entire Group. A newly installed software helps to analyze the impact of individual risks on the budget by using Monte-Carlo simulations. Furthermore, the top risks are determined by using sensitivity analysis.

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

The Head of Finance assumes responsibility for the internal control system (ICS) for financial reporting risks. The AC and the BoD receive updates on compliance with the ICS guidelines.

The AC approves the annual audit plan of the auditors and ensures that the relevant Group companies are adequately reviewed according to their risk scoring.

The Group Compliance Program supports KLINGELNBERG's core values of ethical behavior and

unquestionable integrity. Compliance is overseen by both the CFO and the Head of Legal. If applicable, compliance reports are given to the AC as well as to the BoD. The Head of Legal reports to the Chairman of the Board regarding compliance issues.

6 The Group Executive Management

6.1 Members of the Group Executive Management

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

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

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

As at 31 March 2020, the members of the EM include:

Jan Klingelberg

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

Christoph Küster

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

Martin Boelter

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

6.2 Other activities and functions

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

6.3 Mandates outside KLINGELNBERG AG

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

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

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

https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf

All members of the EM adhere to the aforementioned limitations.

6.4 Management contracts

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

7 Compensation, shares and loans

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

8 Shareholders' participation rights

8.1 Voting rights restrictions

Except for the limitation on voting rights described under clauses 4.6 et seqq. which concern the Company's share register and Nominees there are no other restrictions to voting rights in place. For rules regarding registration in the Company's share register and Nominees please see Art. 5 of the Articles

https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf

and the detailed explanations under Note 4.6. As outlined above, no exceptions to the above-listed rules were granted during the reporting period.

8.2 Rules on participation in the AGM

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

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

8.3 Independent Proxy and electronic voting

The AGM elects the Independent Proxy with the right of substitution. His/her term of office always terminates at the conclusion of the next AGM. Re-election is possible. Should the Company have no Independent Proxy, the BoD shall appoint a substitute for the period until the conclusion of the next AGM. Shareholders may issue their power of attorney and instructions to the Independent Proxy by post or electronically.

8.4 Statutory quorums

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

Transfer of Assets (Merger Act) dated 03 October 2003; (ii) the easement or abolition of the restriction of the transferability of the registered shares; (iii) the amendment or cancellation of Art. 31 (opting-out); and (iv) any change to Art. 12.

8.5 Convening the AGM

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

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

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

https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf

8.6 Agenda

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

8.7 Entry in the share register

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

9 Changes of control and defense measures

9.1 Duty to make an offer

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

https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf

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

9.2 Change-of-control clauses

In case of a change of control the BoD shall determine the consequences regarding the bonus plans of the EM (subject to the approval of the AGM, where applicable). For further provisions see Note 4.3 of the Compensation Report.

10 Auditors

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

PricewaterhouseCoopers AG (hereinafter "PwC") was elected auditor of KLINGELNBERG AG and the KLINGELNBERG Group at the AGM on 27 August 2019. PwC has served as auditor for the existing auditing mandate since the 2009/10 financial year. The lead auditor of PwC responsible for KLINGELNBERG changed in the 2016/17 financial year. The lead auditor is rotated after the maximum statutory period of seven years (for companies with registered office in Switzerland).

10.2 Fees

Auditing Fees:

For the financial year 2019/20, PricewaterhouseCoopers AG invoiced the Company for EUR 306.839 in global audit fees.

Additional Fees:

In the financial year 2019/20, PricewaterhouseCoopers AG invoiced the Company for EUR 29.870 in additional services. The additional fees were mainly invoiced for worldwide general and project-specific tax consultancy services.

10.3 Information instruments pertaining to the external audit

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

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

The external auditors report their comprehensive findings in a detailed report to the BoD. The findings are discussed in detail with the CFO and the AC. In the 2019/20 financial year, the external auditors attended two out of the four AC meetings.

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

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

11 Information policy

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

The Group publishes an annual report that provides audited consolidated financial statements, audited financial statement and information about the Company including the business results, strategy, products and services, corporate governance, and executive compensation. The Annual Report is published within four months after the 31 March balance sheet date. The annual results are also summarized in the form of a press release. In addition, the Company releases results for the first half of each year within three months after the 30 September balance sheet date. The published half-year and annual consolidated financial statement comply with the requirements of Swiss company law, the listing rules of SIX Swiss Exchange and the Swiss GAAP FER.

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

The Group reports in accordance with the disclosure requirements of Art. 124 FMIA and the ad hoc publication requirements of Art. 53 of the listing rules of SIX Swiss Exchange. Ad-hoc announce-

ments may be viewed at <https://www.klingelberg.com/en/investors/news> at the same time as notification to SIX Swiss Exchange and for two years thereafter.

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

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

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

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



Compensation Report

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1 Introduction

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

This Compensation Report contains all information required under the Swiss Code of Obligations, the Ordinance Against Excessive Compensation (Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften, VegüV) and the SIX Exchange Regulations. The KLINGELNBERG Group has also observed the Swiss Code of Best Practice issued by economiesuisse, the umbrella organisation for the Swiss business sector.

2 Compensation policy/guiding principles

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

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

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

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

The base compensation of the EM ensures a regular and predictable salary paid out in cash in regular installments. The salary level is based on the scope and complexity of the position, market standards (comparable industry, geographical scope) and benchmarks (sales), and the individual's profile in terms of experience and skills. Salary progression depends primarily on the individual's performance, and also considers market developments and the economic environment.

The short-term variable compensation in cash (Short Term Incentive Plan, STIP) depends on the financial result of the KLINGELNBERG Group as well as the achievement of certain individual targets. Such targets are set in advance by the BoD upon recommendation by the NCC, typically for a one-year performance period, which generally corresponds with the financial year of KLINGELNBERG AG (the "Company"). The individual targets are determined for each member of the EM, taking into account his/her position, responsibilities, and tasks, as well as market conditions. These individual targets include, amongst others, implementation of extraordinary projects, sales, purchase prices and incoming orders. This determination process occurs prior to the start of the one-year performance period and is performed by the BoD upon recommendation of the NCC, to the extent decision-making power has been delegated. The maximum total amount of the short-term variable compensation is limited to 130% of the participant's base compensation.

The long-term variable compensation in the form of a Long-Term Incentive Plan (LTIP) for the Chief Financial Officer (CFO) and the Chief Operating Officer (COO) takes account of the sustainable long-term performance of the KLINGELNBERG Group. The CEO does not participate in the LTIP as he is already a main shareholder of the Company. Upon recommendation by the NCC, the BoD defines the design of the LTIP as well as the grant to be made to eligible employees. The long-term incentive plan provides for a number of Performance Share Units ("PSU") annually. The allocated PSUs are deferred over a planning period of three financial years. The PSUs are thus vested at the end of the third financial year after allocation (i.e. on 31 March). The calculation of the long-term incentives paid out depends on the share price and the EBIT of the Group. The Company may procure any required shares or other securities through purchases in the market or by using conditional share capital. The maximum total amount of the granted long-term variable compensation is limited to 100% of the base remuneration. Compensation may be paid by the Company or companies controlled by it.

3 Organization and competences

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

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

- preparation and periodic review of the Company's compensation policy and principles, and performance criteria related to compensation, periodic review of their implementation, as well as submission of proposals and recommendations to the BoD;
- proposals to the BoD regarding the determination of compensation-related targets for the EM;
- proposals to the BoD regarding the approval of the individual compensation of all members of the BoD;
- proposals to the BoD regarding the individual maximum compensation (fixed and variable) as well as further terms of employment of the members of the EM.

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

- submission of proposals to the BoD regarding the approval by the AGM of the maximum aggregate compensation for the members of the BoD until the next AGM as well as the maximum aggregate compensation of the members of the EM for the following financial year;
- assessment of the performance of the members of the EM on an annual basis;
- submission of proposals to the BoD regarding the mandate or employment agreements with the members of the BoD and the EM;
- submission of proposals to the BoD regarding the approval of, and any amendments to, compensation plans and other compensation regulations, persons eligible for participation in compensation plans, as well as assessment of such compensation plans;
- review of the draft Compensation Report prepared by the EM and submission of the Compensation Report to the BoD for approval;
- issue of recommendations on BoD composition and balance, establishment of criteria for the assessment of the independence of BoD members, submission of proposals to the BoD regarding the criteria to be applied for the selection of the Chairman, other members of the BoD and its committees as well as for the nomination of candidates for positions in the EM;
- identification and assessment of candidates for membership in the BoD and for the position of Chief Executive Officer and submission of proposals to the BoD regarding the appointment and removal of the Chief Executive Officer;

- assessment of candidates proposed by the Chief Executive Officer for other positions in the EM and submission of proposals to the Board regarding the appointment of such persons;
- communication with the BoD at least annually on succession and contingency plans in relation to the members of the EM and other key employees;
- review of the acceptance of mandates outside the Group by members of the Board or the EM.

The Regulations of the Company can be accessed on the corporate governance section of the Company's website at:

<https://www.klingelberg.com/en/investors/corporate-governance/regulations-of-the-company>

The current members of the NCC are Dr. Jörg Wolle, Diether Klingelberg and Dr. Hans-Martin Schneeberger. The members of the NCC have suitable experience in the areas of succession planning, performance evaluation as well as the nomination and compensation of members of boards of directors. Pursuant to the Organizational Regulations and NCC Regulation meetings of the NCC are held as often as required but at least twice a year. In the financial year 2019/20, four NCC meetings were held (Note 5.7.4 of the Corporate Governance Report).

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

The NCC utilizes independent external consultants when required. External consultants are generally used to benchmark compensation and assist in the design of compensation plans. The criterion used for benchmarking essentially is the long-term financial development of the Group.

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

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

https://www.klingelberg.com/storage/Investoren/Statuten_Articles_of_Association_Klingelberg.pdf

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

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

² Approval for submission to AGM and subsequent submission to AGM.

4 Compensation components

4.1 General description of compensation components/architecture

As described in 2 above (with references to the Articles of Association), the members of the BoD are paid a fixed base fee. The maximum annual compensation of the Board is approved by the AGM. The compensation of the members of the BoD is subject to Swiss mandatory employee and employer social security contributions (Old-Age and Survivors Insurance/Unemployment Insurance) or VAT, depending on the individual situation.

Further information regarding the planned total compensation of the BoD for the period from the 2020 to the 2021 AGM is provided in the invitation to the 2020 AGM and is also subject to the Say on Pay (SoP) vote.

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

Further information regarding the planned total compensation of the EM for the subsequent financial year is provided in the invitation to the 2020 AGM and is also subject to the SoP vote.

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

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

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

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

Individual targets are carefully chosen on an annual basis and in alignment with the Company's most relevant projects and targets in line with the Company's ambitious plans. Setting three to four demanding and ambitious targets helps the Company to deliver best-in-class performance.

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

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

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

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

Group. The vesting is approved by the BoD and may be settled in cash or shares or in a combination of cash and shares at its discretion.

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

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

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

4.2 Loans/credits to BoD/EM members

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

4.3 Change of control clauses

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

4.4 Information on notice periods

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

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

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

5 Compensation for financial year under review

As the company is listed, it must comply with the obligations of the VegÜV, which also include the publication of an annual compensation report. In this context, the compensation of the BoD and EM for the 2019/20 financial year is disclosed herewith.

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

The AGM of 27 August 2019 voted for a maximum compensation of the BoD in the amount of CHF 700.000 until the end of the next AGM.

Within the financial year 2019/20 the compensation of the members of the BoD – with the exception of Diether Klingelberg – comprised a fixed fee in the amount of CHF 60.000 per annum or CHF 180.000 per annum in the case of the Chairman, plus an additional amount of CHF 10.000 per annum for membership in a committee or CHF 20.000 per annum for the chairman of a committee. No change from the previous year. The figures for the financial year 2018/19 apply pro rata from the first date of trading.

The Company has no outstanding loan or guarantee commitments to members of the Board of Directors or related parties. No severance payments have been made in the financial and previous year. No compensations, loans, or credits were paid to related persons.

The following table shows the compensation in the financial year 2019/20:

| CHF | Committee Membership | | | Compensation in cash, CHF | | |
|------------------------------|----------------------|-------|---------------------------|---------------------------|---|--|
| | Board Membership | Audit | Nomination & Compensation | Fixed base fee | Fixed fees for memberships in committee/roles | Employer social security payments ³ |
| Dr. Jörg Wolle | Chair | | Chair | 180.000,00 | 20.000,00 | 14.864,75 |
| Diether Klingelberg | ▪ | | ▪ | 12.000,00 | not applicable | not applicable |
| Dr. Hans-Martin Schneeberger | ▪ | | ▪ | 60.000,00 | 10.000,00 | 4.225,00 |
| Hans-Georg Härter | ▪ | | | 60.000,00 | not applicable | not applicable |
| Roger Baillod | ▪ | Chair | | 60.000,00 | 20.000,00 | 6.160,00 |
| Prof. Dr. Michael Hilb | ▪ | ▪ | | 60.000,00 | 10.000,00 | 5.390,00 |
| Total | | | | 432.000,00 | 60.000,00 | 30.639,75 |

The following table shows the compensation as of the end of the IPO (20 June 2018) until the end of the financial year 2018/19:

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

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

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

The AGM of 27 August 2019 voted for a maximum compensation of the EM in the amount of EUR 4.500.000 for the financial year 2019/20.

The Company has no outstanding loan or guarantee commitments to members of the EM or related parties. No severance payments have been made. No compensations, loans, or credits were paid to related persons.

The following table shows the compensation of the financial year ended 31 March 2020:

| CHF ⁴ | EM | of which Jan Klingenberg, CEO |
|---------------------------------|---------------------|-------------------------------|
| Base compensation | 1.075.152,20 | 500.000,00 |
| STIP | 264.296,00 | 74.000,00 |
| LTIP ⁵ | 340.000,00 | not applicable |
| Other compensation ⁶ | 179.134,95 | 100.188,24 |
| Employer social security | 147.696,50 | 78.001,05 |
| Total | 2.006.279,65 | 752.189,29 |

The following table shows the compensation as of the end of the IPO (20 June 2018) until the end of the financial year 2018/19:

| CHF ⁴ | EM | of which Jan Klingenberg, CEO |
|---------------------------------|---------------------|-------------------------------|
| Base compensation | 853.538,45 | 390.280,90 |
| STIP | 726.470,46 | 292.637,99 |
| LTIP ⁵ | 340.000,00 | not applicable |
| Other compensation ⁶ | 145.479,39 | 82.364,63 |
| Employer social security | 90.280,37 | 39.854,21 |
| Total | 2.155.768,67 | 805.137,73 |

⁴ All conversions from EUR to CHF in the above tables have been made at the balance sheet exchange rate (as at 31 March 2020: EUR 1/CHF 1,0572 and as at 31 March 2019: EUR 1/CHF 1,11835).

⁵ Financial year 2019/20: Fair value PSU CHF 34,49, date of grant 01 April 2019, number of PSUs granted: 9.859 financial year 2018/19: Fair value PSU CHF 38,00, date of grant 19 March 2019, number of PSUs granted 8.948 (In prior year the fair value per 31 March 2019 has been shown, instead of the fair value per grant date. This leads to a slightly higher granted LTIP of CHF 340.000,00 instead CHF 308.571,96).

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

5.3 Share ownership information [CO 663c]

Please see Note 5.9 of the Statutory Financial Statement.

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

For information regarding related party transactions with members of the Board of Directors and Executive Management, see the „Transactions with related parties“ section in Note 6.2 to the Consolidated Financial Statements.

Klingelberg AG
Zürich

Report of the statutory auditor to the
General Meeting

on the remuneration report 2019/2020



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

We have audited the remuneration report of Klingelberg AG for the year ended 31 March 2020. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables in chapters 5.1 and 5.2 on pages 68 to 69 of the remuneration report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the remuneration report of Klingelberg AG for the year ended 31 March 2020 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Blaženka Kovács-Vujević
Audit expert
Auditor in charge



Dano Bollier
Audit expert

Zürich, 16 June 2020

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Consolidated Financial Statements

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Consolidated balance sheet

| EUR 000 | Note | 31.03.2020 | 31.03.2019 |
|-------------------------------------|------|----------------|----------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 38.744 | 28.695 |
| Receivables from goods and services | 4.1 | 47.155 | 70.981 |
| Derivative financial instruments | 4.2 | 20 | 81 |
| Other short-term receivables | 4.3 | 5.667 | 5.472 |
| Inventories | 4.4 | 88.984 | 82.870 |
| Prepayments and accrued income | | 1.208 | 1.264 |
| Total current assets | | 181.778 | 189.363 |
| Non-current assets | | | |
| Tangible fixed assets | 4.5 | 51.490 | 52.876 |
| Loans and other receivables | | 19 | 350 |
| Investments in joint ventures | | 2.620 | 2.123 |
| Deferred tax assets | 4.6 | 6.381 | 8.159 |
| Other financial assets | 4.7 | 1.182 | 796 |
| Intangible assets | 4.8 | 1.426 | 1.705 |
| Total non-current assets | | 63.118 | 66.009 |
| Total assets | | 244.896 | 255.372 |

The enclosed notes are part of the consolidated financial statements.

Consolidated balance sheet

| EUR 000 | Note | 31.03.2020 | 31.03.2019 |
|--|------|----------------|----------------|
| Liabilities | | | |
| Current liabilities | | | |
| Short-term financial liabilities | 4.9 | 27.077 | 1.735 |
| Payables from goods and services | 4.10 | 10.760 | 16.259 |
| Derivative financial instruments | 4.2 | 278 | 457 |
| Other short-term liabilities | 4.11 | 26.871 | 29.055 |
| Accrued liabilities and deferred income | 4.12 | 12.837 | 16.335 |
| Short-term provisions | 4.13 | 15.797 | 7.757 |
| Total current liabilities | | 93.620 | 71.598 |
| Non-current (long-term) liabilities | | | |
| Long-term financial liabilities | 4.9 | 2.983 | 4.722 |
| Deferred tax liabilities | 4.13 | 1.197 | 1.703 |
| Long-term provisions | 4.13 | 15.527 | 14.381 |
| Total non-current (long-term) liabilities | | 19.707 | 20.806 |
| Total liabilities | | 113.327 | 92.404 |
| Equity | | | |
| Share capital | 4.14 | 28.639 | 28.639 |
| Capital reserves | 4.14 | 43.134 | 51.267 |
| Retained earnings | | 59.796 | 83.062 |
| Total equity | | 131.569 | 162.968 |
| Total liabilities and equity | | 244.896 | 255.372 |

The enclosed notes are part of the consolidated financial statements.

Consolidated income statement

| EUR 000 | Note | 2019/20 | 2018/19 |
|---|---------|----------------|----------------|
| Net sales from goods and services | 5.1/6.2 | 212.093 | 278.214 |
| Other operating income | 5.2/6.2 | 2.812 | 7.424 |
| Change in inventory of finished and unfinished goods as well as unbilled goods and services | 5.3 | 10.629 | -419 |
| Material expense | 6.2 | -90.606 | -108.330 |
| Personnel expense | 5.4 | -110.644 | -101.248 |
| Depreciation on tangible fixed assets | 4.5 | -5.347 | -5.902 |
| Amortization on intangible assets | 4.8 | -487 | -472 |
| Other operating expense | 5.5/6.2 | -37.722 | -39.875 |
| Share of result from joint ventures | | 496 | 587 |
| Operating result | | -18.776 | 29.979 |
| Financial result | 5.6 | -2.119 | -3.167 |
| Loss/Profit before income taxes | | -20.895 | 26.812 |
| Income taxes | 5.7 | -4.461 | -7.596 |
| Net loss/profit | | -25.356 | 19.216 |

Earnings per share

| EUR | | | |
|----------------------------|-----|-------|------|
| Basic earnings per share | 5.8 | -2,87 | 2,20 |
| Diluted earnings per share | 5.8 | -2,87 | 2,20 |

Additional information - non-GAAP measures

| EUR 000 | | | |
|---------|-----|---------|--------|
| EBITDA | 2.2 | -12.942 | 36.353 |

The enclosed notes are part of the consolidated financial statements.

Consolidated cash flow statement

| EUR 000 | Note | 2019/20 | 2018/19 |
|---|---------|----------------|---------------|
| Net loss/profit | | -25.356 | 19.216 |
| Depreciation/amortization/write-up of tangible fixed assets and intangible assets | 4.5/4.8 | 5.834 | 6.374 |
| Change in provisions (including deferred taxes) | 4.13 | 8.680 | -2.307 |
| Profit/Loss from the disposal of tangible fixed assets and intangible assets | 4.5/4.8 | 95 | -716 |
| Change in receivables from goods and services | 4.1 | 25.416 | 3.083 |
| Change in inventories | 4.4 | -5.657 | -7.310 |
| Change in other receivables and prepayments and accrued income (including deferred tax) | 4.3/4.6 | 1.842 | 6.202 |
| Share of profits from the application of the equity method | | -497 | -586 |
| Change in payables from goods and services | 4.10 | -5.499 | 454 |
| Change in other short-term liabilities and accrued liabilities and deferred income | 4.11 | -6.711 | 2.040 |
| Other non-cash items | | -369 | 1.137 |
| Cash flow from operating activities | | -2.222 | 27.587 |
| Outflows/Inflows for investment in financial assets (including loans, participations, securities, etc.) | | -55 | 815 |
| Outflows for investment in tangible fixed assets | 4.5 | -5.393 | -7.268 |
| Inflows from the sale of tangible fixed assets | 4.5 | 1.435 | 1.366 |
| Outflows for investment in intangible assets | 4.8 | -237 | -500 |
| Cash flow from investing activities | | -4.250 | -5.587 |
| Distribution of profits | | -8.133 | 0 |
| Change in short-term financial liabilities | 4.9 | 25.305 | -21.949 |
| Change in long-term financial liabilities | 4.9 | -1.739 | 0 |
| Inflows from capital increase | 4.14 | 0 | 19.770 |
| Cash flow from financing activities | | 15.433 | -2.179 |
| Currency translation effects | | 1.088 | 242 |
| Net change in cash | | 10.049 | 20.063 |
| Opening balance of cash and cash equivalents at 01.04. | | 28.695 | 8.632 |
| Closing balance of cash and cash equivalents at 31.03. | | 38.744 | 28.695 |
| Net change in cash | | 10.049 | 20.063 |

The enclosed notes are part of the consolidated financial statements.

Consolidated statement of changes in equity

| EUR 000 | Note | Share capital | Capital reserves | Retained earnings | | | | Total equity |
|--|------|---------------|------------------|-----------------------------|-------------------------|---|-------------------------|----------------|
| | | | | Goodwill offset with equity | Other retained earnings | Cumulative foreign currency differences | Total retained earnings | |
| Balance as at 01.04.2018 | | 26.726 | 33.410 | -20.517 | 76.228 | 4.414 | 60.125 | 120.261 |
| Capital increase | 4.14 | 1.913 | 17.857 | 0 | 0 | 0 | 0 | 19.770 |
| Currency translation differences | | 0 | 0 | 0 | 0 | 3.808 | 3.808 | 3.808 |
| Net result from cash flow hedges | | 0 | 0 | 0 | -87 | 0 | -87 | -87 |
| Net profit | | 0 | 0 | 0 | 19.216 | 0 | 19.216 | 19.216 |
| Balance as at 31.03./01.04.2019 | | 28.639 | 51.267 | -20.517 | 95.357 | 8.222 | 83.062 | 162.968 |
| Currency translation differences | | 0 | 0 | 0 | 0 | 2.016 | 2.016 | 2.016 |
| Net result from cash flow hedges | | 0 | 0 | 0 | 74 | 0 | 74 | 74 |
| Dividends | | 0 | -8.133 | 0 | 0 | 0 | 0 | -8.133 |
| Net loss | | 0 | 0 | 0 | -25.356 | 0 | -25.356 | -25.356 |
| Balance as at 31.03.2020 | | 28.639 | 43.134 | -20.517 | 70.075 | 10.238 | 59.796 | 131.569 |

The enclosed notes are part of the consolidated financial statements.

Notes to the consolidated financial statements

1 General information

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

The consolidated financial statements as at and for the year ended 31 March 2020 were authorized for release by the Board of Directors on 16 June 2020 and are subject to approval by the Annual General Meeting.

2 Accounting principles

2.1 Basis for the preparation of the financial statements

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

2.2 Definition of alternative performance measures

EBITDA:

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

EBIT:

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

2.3 Scope and principles of consolidation

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

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

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

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

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

The KLINGELNBERG Group has no minority interests.

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

| Company, head office | Currency | Capital | Share of capital and voting rights | |
|--|----------|------------|------------------------------------|------------|
| | | | 31.03.2020 | 31.03.2019 |
| KLINGELNBERG AG, Zürich, Switzerland | CHF | 44.200.000 | | |
| KLINGELNBERG GmbH, Hückeswagen, Germany | EUR | 15.338.755 | 100% | 100% |
| KLINGELNBERG (France) SAS, Saint Germain en Laye, France | EUR | 215.000 | 100% | 100% |
| KLINGELNBERG Imexma SA, Barcelona, Spain | EUR | 750.000 | 100% | 100% |
| KLINGELNBERG Italiana Srl., Milano, Italy | EUR | 80.000 | 100% | 100% |
| KLINGELNBERG Hungaria Kft., Győr, Hungary - in liquidation | HUF | 12.200.000 | 100% | 100% |
| KLINGELNBERG (Japan) Ltd., Yokohama, Japan | JPY | 50.000.000 | 100% | 100% |
| KLINGELNBERG Mexico S.A. de C.V., Queretaro, Mexico | MXP | 500.000 | 100% | 100% |
| KLINGELNBERG America Inc., Saline, USA | USD | 200 | 100% | 100% |
| The KLINGELNBERG Corporation, Cincinnati, Ohio, USA | USD | 254 | 100% | 100% |
| HMET Grundstücksverwaltungsgesellschaft mbH, Hückeswagen, Germany | EUR | 25.000 | 100% | 100% |
| KLINGELNBERG India Private Ltd., Pune, India | INR | 27.700.000 | 100% | 100% |
| HÖFLER Yantai Service Co., Ltd., China | CNY | 748.657 | 100% | 100% |
| KLINGELNBERG do Brasil, Sao Paulo, Brazil | BRL | 3.950.000 | 100% | 100% |
| KLA Real Estate, LLC., Saline, USA | USD | 0 | 100% | 100% |
| KLINGELNBERG Hungaria Service Kft., Győr, Hungary - in liquidation | HUF | 15.000.000 | 100% | 100% |
| DKSH KLINGELNBERG Service Ltd., Shanghai, China * | CNY | 5.585.020 | 50% | 50% |

* Joint venture consolidated at equity

2.4 Business combinations

Net assets acquired are revalued at fair value at the acquisition date. Any unrecognized intangible assets are not separated and identified and therefore allocated to goodwill. Goodwill is calculated as the difference between the purchase price (incl. transaction costs) and the revalued net assets. The positive or negative goodwill resulting from business combinations is offset against equity at the date of acquisition. At the disposal of the company, the goodwill previously offset in equity is transferred to the income statement. The consequences of the theoretical capitalization and amortization of goodwill are explained in Note 4.8.

2.5 Segment reporting

Notwithstanding the additional recommendations for listed companies (Swiss GAAP FER 31), the Board of Directors of the KLINGELNBERG Group decided not to publish any detailed segment results in order to protect the interests of its shareholders.

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

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

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

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

2.6 Conversion of foreign currency items and transactions

Translation of financial statements to be consolidated

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

- Assets and liabilities are converted at the year-end exchange rate

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

Foreign currency transactions in Group companies

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

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

The table below outlines the main exchange rates used in the preparation of our consolidated financial statements as at and for the years ended 31 March 2020 and 31 March 2019.

| | Year-end exchange rate | | Average exchange rate | |
|---------|------------------------|------------|-----------------------|-----------|
| | 31.03.2020 | 31.03.2019 | 2019/20 | 2018/19 |
| CHF/EUR | 1,05721 | 1,11835 | 1,09632 | 1,14682 |
| USD/EUR | 1,09485 | 1,12305 | 1,11130 | 1,15812 |
| JPY/EUR | 118,93905 | 124,37215 | 120,80723 | 128,41348 |

2.7 Cash and cash equivalents

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

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

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

2.9 Derivative financial instruments

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

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

2.10 Inventories

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

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

2.11 Tangible fixed assets

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

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

Assets under construction are not depreciated until completion.

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

2.12 Loans and other receivables, other financial assets

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

2.13 Investments in joint ventures

Investments are carried at historical cost less required impairments.

2.14 Taxes

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

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

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

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

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

2.15 Intangible assets

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

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

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

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

2.16 Impairment of assets

Assets (especially tangible fixed assets, intangible assets and financial assets) are subject to an

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

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

2.17 Financial liabilities

Financial liabilities are measured at nominal values.

2.18 Payables from goods and services and other liabilities

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

2.19 Provisions

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

2.20 Revenue recognition

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

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

2.21 Off-balance sheet transactions

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

2.22 Leases

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

The corresponding leasing obligations are shown as liabilities.

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

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

2.23 Share-based payments

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

2.24 Pension benefit obligation

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

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

3 Changes in the scope of consolidation

There were no changes in the scope of consolidation in the current financial year under review and the previous year.

KLINGELNBERG Hungaria Kft. and KLINGELNBERG Hungaria Service Kft. are under liquidation. The closing of these companies is a part of the started comprehensive program to increase the efficiency of the Group. The formal liquidation under Hungarian law is to take place in the financial year 2020/21.

4 Substantial information on the consolidated balance sheet items

4.1 Receivables from goods and services

| EUR 000 | 31.03.2020 | 31.03.2019 |
|--|---------------|---------------|
| Receivables from third parties | 47.349 | 70.852 |
| Receivables from joint ventures | 265 | 426 |
| Receivables from other related parties | 39 | 101 |
| Value adjustments | -498 | -398 |
| Receivables from goods and services | 47.155 | 70.981 |
| Thereof: | | |
| - Not due and due up to 90 days | 42.514 | 68.810 |
| - Overdue more than 90 days | 4.641 | 2.171 |

4.2 Derivative financial instruments

| EUR 000 | 31.03.2020 | | | 31.03.2019 | | |
|------------------|------------|------------|---------|------------|------------|---------|
| | Asset | Liability | Purpose | Asset | Liability | Purpose |
| Basic value: | | | | | | |
| Foreign exchange | 20 | 278 | Hedging | 81 | 457 | Hedging |
| Total | 20 | 278 | | 81 | 457 | |

4.3 Other short-term receivables

This position includes mainly taxes other than income taxes of EUR 3,9 million (as at 31 March 2019: EUR 3,4 million) and prepayments to suppliers of EUR 0,4 million (as at 31 March 2019: EUR 0,7 million). The value adjustments for the year under review amounted to EUR 0,1 million (as at 31 March 2019: EUR 0,1 million).

4.4 Inventories

| EUR 000 | 31.03.2020 | 31.03.2019 |
|--------------------|---------------|---------------|
| Finished products | 10.438 | 8.150 |
| Work in progress | 45.937 | 38.933 |
| Acquired parts | 45.871 | 51.973 |
| Supplies | 102 | 126 |
| | 102.348 | 99.182 |
| Value adjustments | -13.364 | -16.312 |
| Inventories | 88.984 | 82.870 |

As part of the efficiency enhancement program, inventories were scrapped, which led to a reduction in acquired parts. As most of the parts were already devaluated, the value adjustments decreased accordingly.

4.5 Tangible fixed assets

| EUR 000 | 2019/20 | | | | | Total |
|--|----------------------|--------------------|------------------------|---------------|--|----------------|
| | Undeveloped property | Land and buildings | Machines and equipment | Other assets | Tangible fixed assets under construction | |
| Acquisition cost | | | | | | |
| Gross value as at 01.04. | 2.167 | 44.550 | 51.784 | 23.930 | 172 | 122.603 |
| Additions | 0 | 785 | 1.855 | 1.509 | 1.244 | 5.393 |
| Disposals | 0 | -99 | -2.365 | -721 | -70 | -3.255 |
| Foreign currency effects | 0 | 234 | -352 | 82 | -2 | -38 |
| Reclassifications | 0 | 11 | 0 | 75 | -86 | 0 |
| Gross value as at 31.03. | 2.167 | 45.481 | 50.922 | 24.875 | 1.258 | 124.703 |
| Accumulated depreciation as at 01.04. | 0 | 12.915 | 38.803 | 18.009 | 0 | 69.727 |
| Depreciation | 0 | 1.144 | 2.260 | 1.943 | 0 | 5.347 |
| Disposals | 0 | -93 | -1.116 | -545 | 0 | -1.754 |
| Foreign currency effects | 0 | 72 | -257 | 78 | 0 | -107 |
| Accumulated depreciation as at 31.03. | 0 | 14.038 | 39.690 | 19.485 | 0 | 73.213 |
| Net carrying amount as at 01.04. | 2.167 | 31.635 | 12.981 | 5.921 | 172 | 52.876 |
| Net carrying amount as at 31.03. | 2.167 | 31.443 | 11.232 | 5.390 | 1.258 | 51.490 |

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

4.6 Deferred tax assets

In the year under review the deferred tax assets mainly result from divergent valuations of pension provisions as well as provisions for partial retirement obligations, service anniversaries, and provisions for warranties.

In the previous financial year, it also included taxes from loss carry forwards about EUR 1,4 million. In the current financial year no loss carry forwards have been capitalized (see Note 5.7).

4.7 Other financial assets

In the year under review, this item mainly comprises of insolvency-protected life insurance policy to cover pension liabilities in connection with part-time phased retirement obligations in the amount of EUR 1,0 million (as at 31 March 2019: EUR 0,7 million). The amount is calculated in accordance with the local legal requirements of the company that recognizes these assets.

4.8 Intangible assets

| EUR 000 | 2019/20 | | | 2018/19 | | |
|--|--------------|-------------------------|--------------|--------------|-------------------------|--------------|
| | Software | Other intangible assets | Total | Software | Other intangible assets | Total |
| Acquisition cost | | | | | | |
| Gross value as at 01.04. | 7.974 | 324 | 8.298 | 7.357 | 426 | 7.783 |
| Additions | 229 | 8 | 237 | 493 | 7 | 500 |
| Disposals and derecognitions | -154 | 0 | -154 | -36 | -12 | -48 |
| Foreign currency effects | 56 | 18 | 74 | 47 | 16 | 63 |
| Reclassifications | 0 | 0 | 0 | 113 | -113 | 0 |
| Gross value as at 31.03. | 8.105 | 350 | 8.455 | 7.974 | 324 | 8.298 |
| Accumulated amortization as at 01.04. | 6.277 | 316 | 6.593 | 5.793 | 302 | 6.095 |
| Amortization | 487 | 0 | 487 | 472 | 0 | 472 |
| Disposals and derecognitions | -125 | 0 | -125 | -36 | -3 | -39 |
| Foreign currency effects | 55 | 19 | 74 | 48 | 17 | 65 |
| Accumulated amortization as at 31.03. | 6.694 | 335 | 7.029 | 6.277 | 316 | 6.593 |
| Net carrying amount as at 01.04. | 1.697 | 8 | 1.705 | 1.564 | 124 | 1.688 |
| Net carrying amount as at 31.03. | 1.411 | 15 | 1.426 | 1.697 | 8 | 1.705 |

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

| EUR 000 | 2019/20 | 2018/19 |
|---|----------------|----------------|
| Theoretical statement of changes in goodwill | | |
| Acquisition cost | | |
| Gross value as at 01.04. | 20.517 | 20.517 |
| Gross value as at 31.03. | 20.517 | 20.517 |
| Accumulated amortization at 01.04. | | |
| Amortization | 1.029 | 1.804 |
| Accumulated amortization at 31.03. | 16.321 | 15.292 |
| Theoretical impact on equity | | |
| Theoretical net carrying amount at 31.03. | 4.196 | 5.225 |
| Effect on equity | | |
| Equity according to balance sheet | 131.569 | 162.968 |
| Theoretical net carrying amount goodwill | 4.196 | 5.225 |
| Theoretical equity incl. net carrying amount of goodwill | 135.765 | 168.193 |
| Theoretical impact on net income | | |
| Effect on income statement | | |
| Net loss/profit | -25.356 | 19.216 |
| Theoretical amortization of goodwill | -1.029 | -1.804 |
| Theoretical net loss/profit | -26.385 | 17.412 |

4.9 Financial liabilities

| EUR 000 | 31.03.2020 | 31.03.2019 |
|---|---------------|--------------|
| Short-term financial liabilities | 27.077 | 1.735 |
| Long-term financial liabilities | 2.983 | 4.722 |
| Total financial liabilities | 30.060 | 6.457 |
| Thereof in: | | |
| - EUR | 29.087 | 5.352 |
| - USD | 784 | 840 |
| - JPY | 189 | 241 |
| - INR | 0 | 24 |
| Thereof matures in: | | |
| - 2 to 5 years | 2.689 | 4.345 |
| - > 5 years | 294 | 377 |
| Average interest rate | 0,92% | 2,46% |
| Unused credit facilities | 28.010 | 53.264 |
| Long-term financial liabilities include mortgages secured using mortgage notes | | |
| Carrying amount of property | 33.610 | 33.802 |
| - thereof pledged | 12.631 | 12.603 |
| - thereof used | 3.654 | 5.132 |

4.10 Payables from goods and services

| EUR 000 | 31.03.2020 | 31.03.2019 |
|---|---------------|---------------|
| Payables from goods and services | | |
| - with third parties | 10.923 | 16.107 |
| - with joint ventures | -151 | 3 |
| - with other related parties | -12 | 149 |
| Payables from goods and services | 10.760 | 16.259 |
| Thereof: | | |
| - Not due and due up to 90 days | 10.187 | 15.383 |
| - Overdue more than 90 days | 573 | 876 |

4.11 Other short-term liabilities

This position contains mainly advance payments from customers amounting to EUR 15,5 million (as at 31 March 2019: EUR 16,3 million) and taxes and social insurance withholdings of EUR 8,7 million (as at 31 March 2019: EUR 9,2 million).

4.12 Accrued liabilities and deferred income

The reduction of EUR 3,5 million is mainly due to the lower bonus to the employees and members of the Executive Management by EUR 1,5 million and outstanding invoices by EUR 1,7 million.

4.13 Provisions

| EUR 000 | 2019/20 | | | | | |
|---|--------------------------|--|----------------------------------|------------------|-------------------------------------|--------------|
| | Provision for warranties | Provision for pension benefit obligation | Provision efficiency enhancement | Other provisions | Total provisions excl. deferred tax | Deferred tax |
| Carrying amount as at 01.04. | 6.342 | 11.797 | 0 | 3.999 | 22.138 | 1.703 |
| Creation of provisions | 3.929 | 1.548 | 8.581 | 1.423 | 15.481 | 62 |
| Utilization of provisions | -3.705 | -464 | 0 | -666 | -4.835 | 0 |
| Release of provision recognized in the income statement | -1.329 | 0 | 0 | -171 | -1.500 | -604 |
| Foreign currency effects | 73 | 0 | 0 | -33 | 40 | 36 |
| Carrying amount as at 31.03. | 5.310 | 12.881 | 8.581 | 4.552 | 31.324 | 1.197 |
| of which, short-term | 4.522 | 464 | 8.581 | 2.230 | 15.797 | 0 |
| of which, long-term | 788 | 12.417 | 0 | 2.322 | 15.527 | 1.197 |

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

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

Provisions for warranties

The reduction in the warranty provision is mainly due to the decline in sales.

Provision for pension benefit obligations

EUR 000

| Economical benefit/ economical obligation and pension benefit expenses | Surplus/deficit | | Economical part of the organization | | Change to prior year period or recognized in the current result of the period, respectively | Contributions concerning the business period | Pension benefit expense as part of personnel expense | |
|---|-----------------|----------------|--|---------------|---|---|--|-------------|
| | 31.03.2020 | 31.03.2020 | 31.03.2019 | 31.03.2019 | | | 2019/20 | 2018/19 |
| Pension funds without deficit or surplus (1) | 0 | 0 | 0 | 0 | 0 | -379 | -379 | -346 |
| Pension funds without own assets (2) | 0 | -12.881 | -11.797 | -1.084 | -1.084 | -464 | -1.548 | -597 |
| Total | 0 | -12.881 | -11.797 | -1.084 | -1.084 | -843 | -1.927 | -943 |

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

(1) The Swiss entity is affiliated to a collective pension plan where the surplus/deficit cannot be determined on the basis of the individual contract but it can be stated that based on the audited figures of the pension fund as per 31 December 2019 the coverage of the collective plan as a whole amounts to 115,3% (as at 31.12.2018: 106,4%). The technical interest rate used amounted to 2,0% (prior year: 2,0%). The underlying mortality table remained unchanged (BVG 2015 GT). Furthermore, there is a supplementary pension plan, which does not bear risk due to full insurance as part of a collective insurance contract.

(2) The economical obligation from pension funds without own funds contains primarily the obligation from employee benefit plans in Germany. The discount rate used in the calculation was 1,3% (2018/19: 2,02%). A provision for pension benefit obligation at the level of the economical obligation has been recorded. Pension benefit expense as part of the personnel expense include the increase and decrease of provisions recorded in the income statement including changes of discount rates. The increase compared to prior year was mainly due to the decrease of the discount rate.

Provision efficiency enhancement

The provisions for the efficiency enhancement programme mainly consist of provisions for personnel expenses of approximately EUR 8,5 million. This includes expenses of severance payments and the establishment of a transfer company, which is customary in Germany. The remaining costs are divided between court costs and legal fees.

Other provisions

Other provisions include, among others, fire prevention measures of EUR 0,4 million (as at 31 March 2019: EUR 0,4 million), part-time phased retirement obligations of EUR 2,1 million (as at 31 March 2019: EUR 1,8 million) and in the previous year provisions for long service awards of EUR 0,3 million.

Since the financial year 2018/19, a long-term incentive plan for the members of the Executive Management (CFO/COO) in the form of Performance Share Units (PSU) is in place. A grant of PSUs under the LTIP was awarded on 01 April 2019, with a vesting at the end of the Company's financial year ending on 31 March 2022.

In 2019/20, another allocation of PSU was granted. Due to the parameters influencing the value of the PSU, the provision for the LTIP has not changed significantly compared to the prior year.

4.14 Share capital and capital reserves

Share capital

The paid-in capital of KLINGELNBERG AG as at 31 March 2020 is composed of 8.840.000 registered shares with a nominal value of CHF 5 each.

In the previous year, the number of shares increased by 440.000 and in addition the nominal value changed from CHF 1.000 to CHF 5. For the share split in the previous financial year, refer to section 4.3 of the Corporate Governance report.

Capital reserves

The certification of the capital reserves has been available since 03 April 2020. According to the certificate, CHF 64.120.826,50 were recognized by the tax authorities. The certification including the reduction for the paid dividend is still pending. Including this dividend (CHF 8,84 million), CHF 55.280.826,50 can be distributed tax-free in the future.

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

5 Substantial information on the consolidated income statement items

5.1 Net sales from goods and services

| EUR 000 | | | | | | 2019/20 |
|-------------------|---------------|---------------|---------------|---------------|-------------------|----------------|
| Service location | | | | | | |
| Segments | Germany | Switzerland | Japan | USA | Rest of the world | Total |
| Bevel Gear | 16.202 | 36.940 | 4.812 | 19.799 | 6.934 | 84.687 |
| Cylindrical Gear | 23.881 | 5.212 | 6.501 | 9.216 | 4.580 | 49.390 |
| Measuring Centers | 35.326 | 2.855 | 8.716 | 5.475 | 4.892 | 57.264 |
| Drive Technology | 13.602 | 0 | 0 | 0 | 57 | 13.659 |
| Other | 247 | 0 | 123 | 0 | 6.723 | 7.093 |
| Total | 89.258 | 45.007 | 20.152 | 34.490 | 23.186 | 212.093 |

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

For explanations regarding the segment reporting refer to Note 2.5.

5.2 Other operating income

Other operating income includes, in particular, internally produced and capitalized assets, income from lease of machines and others, and gains on the disposal of fixed assets. The decrease is basically due to the decrease in internally produced and capitalized assets by EUR 3,3 million to EUR 0,8 million compared to the previous year. In addition, the income from the disposal of tangible fixed assets decreased in the current financial year by EUR 0,6 million to EUR 0,1 million.

5.3 Change in inventory of finished and unfinished goods as well as unbilled goods and services

The higher change in inventories was mainly due to time shifts in sales revenues at the end of the financial year.

5.4 Personnel expense

The increase in this position is primarily a result of the implementation of the efficiency program (EUR 9,1 million). The expenses include compensation, expense for the interim employment society and cost for the release phase. Also included is the increase in pay rates at KLINGELNBERG GmbH. For more details see the Management Report.

5.5 Other operating expense

Other operating expense includes mostly travel expense and representation, freight costs, commission, rent and related costs, warranty provisions, repair and maintenance of tangible fixed assets as well as other expenses. The reduction of EUR 2,2 million is mainly due to the lower freight costs of EUR 0,7 million and the IPO costs from the previous year in the amount of EUR 1,1 million.

5.6 Financial result

| EUR 000 | 2019/20 | 2018/19 |
|---|---------------|---------------|
| Interest expense (-) | -301 | -646 |
| Financial expense | -301 | -646 |
| Interest income (+) | 227 | 133 |
| Other financial income | 0 | 0 |
| Financial income | 227 | 133 |
| Currency translation difference and hedging expense | -8.913 | -8.039 |
| Currency gains | 6.868 | 5.385 |
| Foreign currency (loss) gain | -2.045 | -2.654 |
| Financial result | -2.119 | -3.167 |

5.7 Income taxes

| EUR 000 | 2019/20 | 2018/19 |
|---|---------------|---------------|
| Current tax expense | -3.235 | -5.916 |
| Deferred tax expense | -1.226 | -1.680 |
| Tax expense recognized on the income statement | -4.461 | -7.596 |

The expected tax rate for the Group is 30,84% (as at 31 March 2019: 27,40%) and is calculated on the basis of the local tax rates of each local company weighted in proportion to the local company's earnings before tax in the financial year. Deferred taxes are calculated on the basis of the tax rates applicable in each country.

In the last financial year, local changes in income tax rates had no significant impact on the effective income tax rate. The change in the effective income tax rate is the result of the varying profit situations of individual Group companies at different local tax rates.

| EUR 000 | 2019/20 | 2018/19 |
|---|---------------|--------------|
| Loss / Profit before income taxes | -20.895 | 26.812 |
| Expected income tax rate | 30,84% | 27,40% |
| Expected income tax expense | -6.444 | 7.346 |
| Effect of non-recognition of tax losses in current year | 10.729 | 0 |
| Other effects | 176 | 250 |
| Effective income tax expense | 4.461 | 7.596 |
| Effective income tax rate | (21,35%) | 28,33% |

5.8 Earnings per share

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

| EUR 000 | 2019/20 | 2018/19 |
|--------------------------------------|-----------|-----------|
| Net loss / profit | -25.356 | 19.216 |
| Average number of outstanding shares | 8.840.000 | 8.744.767 |
| Basic earnings per share (EUR) | -2,87 | 2,20 |
| Diluted earnings per share (EUR) | -2,87 | 2,20 |

6 Additional information

6.1 Off-balance-sheet transactions

According to the takeover agreement of KLINGELNBERG GmbH/KLINGELNBERG Söhne GmbH & Co. Kommanditgesellschaft, KLINGELNBERG GmbH has an obligation to meet the expense of adjustments to the pensions of the retired employees of KLINGELNBERG Söhne GmbH & Co. Kommanditgesellschaft. In the financial year under review, this resulted in a payment of EUR 0,1 million (as at 31 March 2019: reimbursement of EUR 0,1 million) and is recognized in personnel expense.

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

| EUR 000 | 31.03.2020 | 31.03.2019 |
|---|---------------|---------------|
| up to 1 year | 3.975 | 3.234 |
| 1 to 5 years | 11.415 | 8.741 |
| More than 5 years | 3.837 | 4.830 |
| Total obligations from operating leasing | 19.227 | 16.805 |

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

6.2 Transactions with related parties

| EUR 000 | 2019/20 | 2018/19 |
|-----------------------------------|---------------|-------------|
| Net sales from goods and services | 1.810 | 1.914 |
| Other operating income | 45 | 1.344 |
| Material expense | -3.267 | -4.188 |
| Other operating expense | -47 | -19 |
| Total | -1.459 | -949 |

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

6.3 Events after the balance sheet date

No significant events occurred after the balance sheet date. Events after the balance sheet date were considered until 16 June 2020. On this date, the financial statements were authorized for release by the Board of Directors.

Klingelberg AG
Zürich

Report of the statutory auditor
to the General Meeting

on the consolidated financial statements
2019/2020



Report of the statutory auditor

to the General Meeting of Klingelberg AG

Zürich

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Klingelberg AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 March 2020 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 75 to 103) give a true and fair view of the consolidated financial position of the Group as at 31 March 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

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

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

Our audit approach

Overview



Overall Group materiality: EUR 1'272'000

We concluded full scope audit work at three reporting units in three countries. Our audit scope addressed over 84% of the Group's revenue and 86% of the Group's assets.

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

Revenue recognition of goods and services in the appropriate period

Recognition and measurement of provisions for efficiency enhancing program

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Materiality

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

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

| | |
|--|--|
| Overall Group materiality | EUR 1'272'000 |
| How we determined it | 0.6% of total revenues |
| Rationale for the materiality benchmark applied | We chose total revenues as the benchmark because, in our view, it is the appropriate benchmark, which the users of the financial statements use to evaluate the financial performance of the Group. It is also a generally accepted benchmark when profit varies greatly between accounting periods. |

We agreed with the Audit Committee that we would report to them misstatements above EUR 63'600 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

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

The Group financial statements are a consolidation of 16 reporting units, each of which is considered to be a component. Following our assessment of the risk of material misstatement, we identified one reporting unit in Switzerland, Germany and the United States (US) each which, in our view, require a full scope audit due to their size or risk characteristics. The concluded full scope audit work addressed 84% of the Group's revenue and 86% of the Group's total assets. The remaining 16% of the Group's revenue and 14% of the Group's total assets are contributed by smaller reporting units which are deemed insignificant. Where the audit work was performed by component auditors, we determined the level of involvement needed to supervise the audit procedures and understand the results relating to significant audit areas. Senior members of the Group audit team visited the component in Germany and discussed with the component auditor the risks identified, challenged the audit approach in significant risk areas, reviewed the audit documentation as well as met with local management. Moreover, the Group audit team had regular calls throughout the year with the US component auditor and was involved in all phases of the audit. Furthermore, the Group audit team performed analytical procedures to address the smaller reporting units.

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

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



Revenue recognition of goods and services in the appropriate period

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| <p>Klingelberg Group recognises revenue from goods and services in the period in which it transfers the risk and reward of ownership.</p> <p>A significant portion of the revenue is normally recognised during the second half of the Group's financial year. We consider revenue recognition in the appropriate period to be a key audit matter because of the complexity involved when assessing and adhering to the contractually agreed incoterms as well as due to standard intra-year seasonal trends, which, in our view, increase the risk of material misstatement in revenue recognition in the appropriate period.</p> <p>Please refer to the company's accounting principles in note 2.20 and to note 5.1 'Net sales from goods and services' regarding the segment split.</p> | <p>We performed the following audit procedures to assess whether revenue from goods and services was recognised in the appropriate period:</p> <ul style="list-style-type: none"> – We identified transactions occurring close to the balance sheet date and for the months of March 2020 and April 2020, tested, on a sample basis, whether revenue was appropriately recognised in the period in which the risk and reward of ownership were transferred. For the same sample, we assessed whether the revenue recognition was appropriate for the contractually agreed incoterms; – We enquired with Management regarding controls that address the risk of recording revenue from goods and services in the wrong period. <p>We consider the risk of material misstatement in revenue recognition in the appropriate period to be adequately addressed.</p> |

Recognition and measurement of provisions for efficiency enhancing program

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| <p>On 14 October 2019, the Group announced its intention to develop a comprehensive program to increase efficiencies and entered into discussions with employee representatives. The comprehensive program impacts mainly the German and Hungarian subsidiaries. An agreement with the work's council in Germany was reached in May 2020.</p> <p>This efficiency enhancing program led to a provision and corresponding charges amounting to EUR 8.6 million, which were recorded as expenses in the 2019/2020 consolidated financial statements.</p> <p>The measurement of provisions for the efficiency enhancing program requires Management to make estimates of multiple variables (e.g. number of employees, expected length of service in interim employment companies, expected average personnel expense and other costs directly related to the efficiency enhancing program).</p> <p>We consider the recognition and measurement of provisions for the efficiency enhancing program to be a key audit matter given the size of the provisions and the scope of judgment regarding estimates.</p> <p>Please refer to note 4.13.</p> | <p>We performed the following audit procedures to assess whether the provisions for the efficiency enhancing program were recognized and measured appropriately:</p> <ul style="list-style-type: none"> – We assessed compliance with the recognition criteria of the accounting standard for recording provisions for the efficiency enhancing program and verified the existence of a detailed formal plan. – We reviewed the measurement of provisions for the efficiency enhancing program based on Management's information, calculations and expectations, including evidence and documentation submitted by third party legal representatives. In addition, we assessed the estimates used by Management. <p>The results of our audit support Management's judgements with regard to the recognition and measurement of provisions for the efficiency enhancing program.</p> |



Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG



Blaženka Kovács-Vujević
Audit expert
Auditor in charge



Dano Bollier
Audit expert

Zürich, 16 June 2020

Statutory Financial Statements of KLINGELNBERG AG

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Statutory balance sheet

| CHF | Note | 31.03.2020 | 31.03.2019 |
|--|------|--------------------|--------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 23.281.834 | 17.351.059 |
| Receivables from goods and services from third parties | 3.1 | 7.862.367 | 17.001.572 |
| Receivables from goods and services from group companies | | 869.064 | 1.800.246 |
| Other short-term receivables from third parties | 3.2 | 1.220.116 | 1.640.127 |
| Other short-term receivables from group companies | 3.3 | 36.982.495 | 51.606.028 |
| Inventories | 3.4 | 1.598.845 | 1.010.927 |
| Prepayments and accrued income | | 172.072 | 199.669 |
| Total current assets | | 71.986.793 | 90.609.628 |
| Non-current assets | | | |
| Tangible fixed assets | 3.5 | 711.172 | 1.244.701 |
| Investments | 3.6 | 91.108.731 | 93.645.083 |
| Intangible assets | | 29.859 | 45.204 |
| Total non-current assets | | 91.849.762 | 94.934.988 |
| Total assets | | 163.836.555 | 185.544.616 |

Statutory balance sheet

| CHF | Note | 31.03.2020 | 31.03.2019 |
|---|-----------|--------------------|--------------------|
| Liabilities | | | |
| Current liabilities | | | |
| Short-term financial liabilities to third parties | 3.7 | 7.292.889 | 262 |
| Short-term financial liabilities to group companies | 3.3 | 10.964.911 | 11.006.166 |
| Payables from goods and services to third parties | 3.8 | 479.473 | 1.170.691 |
| Payables from goods and services to group companies | | 2.179.503 | 11.310.448 |
| Derivative financial instruments | | 7.771 | 96.526 |
| Other short-term liabilities to third parties | 3.9 | 3.779.151 | 8.212.345 |
| Other short-term liabilities to group companies | 3.10 | 217.386 | 574.076 |
| Accrued liabilities and deferred income | 3.11 | 6.585.838 | 8.553.234 |
| Short-term provisions | 3.12 | 540.097 | 759.100 |
| Total current liabilities | | 32.047.019 | 41.682.848 |
| Non-current (long-term) liabilities | | | |
| Long-term provisions | 3.12 | 606.360 | 963.683 |
| Total non-current (long-term) liabilities | | 606.360 | 963.683 |
| Total liabilities | | 32.653.379 | 42.646.531 |
| Equity | | | |
| Share capital | 2.10/3.13 | 44.200.000 | 44.200.000 |
| Statutory capital reserves | 3.14 | 55.531.150 | 64.371.150 |
| - thereof reserves from capital contributions | | 55.531.150 | 64.371.150 |
| Statutory retained earnings | | 31.452.026 | 34.326.935 |
| - thereof amount brought forward from the previous year | | 34.326.935 | 26.769.356 |
| - thereof loss/net profit | | -2.874.909 | 7.557.579 |
| Total equity | | 131.183.176 | 142.898.085 |
| Total liabilities and equity | | 163.836.555 | 185.544.616 |

Statutory income statement

| CHF | Note | 2019/20 | 2018/19 |
|---|------|-------------------|-------------------|
| Net sales from goods and services | | 60.948.462 | 98.877.290 |
| Other operating income | 4.1 | 2.975.871 | 4.235.058 |
| Change in inventory of finished and unfinished goods as well as unbilled goods and services | | 559.797 | -370.680 |
| Material expense | | -47.901.490 | -73.139.310 |
| Personnel expense | 4.2 | -8.051.103 | -8.552.397 |
| Depreciation on tangible fixed assets | | -238.723 | -262.740 |
| Impairment on investments | 3.6 | -2.536.353 | 0 |
| Amortization on intangible assets | | -16.991 | -4.577 |
| Other operating expense | 4.3 | -8.021.901 | -11.109.486 |
| Operating result | | -2.282.431 | 9.673.158 |
| Financial result | 4.4 | -572.172 | -427.086 |
| Loss/Profit before income taxes | | -2.854.603 | 9.246.072 |
| Income taxes | 4.5 | -20.306 | -1.688.493 |
| Loss/Net profit | | -2.874.909 | 7.557.579 |

Notes to the financial statements

1 General information

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

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

2 Accounting principles

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

2.1 Foreign currency translation

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

2.2 Cash and cash equivalents

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

2.3 Receivables from goods and services from third parties

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

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

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

2.5 Inventories

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

2.6 Tangible fixed assets

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

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

2.7 Investments

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

2.8 Revenue recognition

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

2.9 Accrued expenses

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

2.10 Share capital

The paid-in capital of KLINGELNBERG AG as at 31 March 2020 is composed of 8.840.000 registered shares with a nominal value of CHF 5 each (no changes to the previous year).

3 Substantial information on the balance sheet items

3.1 Receivables from goods and services from third parties

| CHF | 31.03.2020 | 31.03.2019 |
|---|------------------|-------------------|
| Receivables from goods and services (gross) | 9.781.857 | 21.250.372 |
| Receivables from joint ventures | 925 | 0 |
| Receivables from other related parties | 36.185 | 0 |
| Value adjustments | -1.956.600 | -4.248.800 |
| Receivables from goods and services | 7.862.367 | 17.001.572 |
| Thereof: | | |
| - Not due and due up to 90 days | 7.854.529 | 17.001.572 |
| - Overdue more than 90 days | 7.838 | 0 |

3.2 Other short-term receivables from third parties

The position includes refunds from VAT declarations from Germany and Switzerland in the amount of CHF 0,8 million (as at 31 March 2019: CHF 1,3 million).

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

The funds from the capital increase were used for internal financing. The cash pool account of KLINGELNBERG GmbH decreased from CHF 51 million to CHF 37 million.

3.4 Inventories

| CHF | 31.03.2020 | 31.03.2019 |
|--------------------|------------------|------------------|
| Work in progress | 1.672.694 | 1.112.897 |
| Acquired parts | 16.182 | 5.289 |
| | 1.688.876 | 1.118.186 |
| Value adjustments | -90.031 | -107.259 |
| Inventories | 1.598.845 | 1.010.927 |

3.5 Tangible fixed assets

Assets were reduced by CHF 0,5 million (as at 31 March 2019: increase CHF 0,1 million) due to sales of CHF 0,4 million with simultaneous acquisition of CHF 0,1 million and depreciation amounts to CHF 0,2 million (as at 31 March 2019: CHF 0,3 million).

3.6 Investments

As at 31 March 2020 as at the end of previous year, KLINGELNBERG AG held the following investments:

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

In the financial year 2019/20, KLINGELNBERG Group has started a comprehensive program to increase efficiency. This includes the liquidation of the two Hungarian companies. The formal liquidation under Hungarian law is to take place in the financial year 2020/21.

Both these companies were impaired outside of the group valuation (Note 2.7). This separate valuation resulted in a devaluation of CHF 2,5 million at KLINGELNBERG Hungaria Kft..

3.7 Short-term financial liabilities to third parties

As at 31 March 2020 the existing line of credit was used in the amount of CHF 7,3 million (as at 31 March 2019: CHF 0).

3.8 Payables from goods and services to third parties

| CHF | 31.03.2020 | 31.03.2019 |
|--|----------------|------------------|
| Payables from goods and services | 463.404 | 1.160.075 |
| Payables from joint ventures | 16.069 | 0 |
| Payables from other related parties | 0 | 10.616 |
| Payables from goods and services to third parties | 479.473 | 1.170.691 |
| Thereof: | | |
| - Not due and due up to 90 days | 475.996 | 1.170.691 |
| - Overdue more than 90 days | 3.477 | 0 |

3.9 Other short-term liabilities to third parties

Other short-term liabilities include advance payments from customers, salaries and wages, commissions and taxes/social-insurance withholdings. Due to the decline in sales and orders, advance payments received decreased from CHF 6,4 million to CHF 2,8 million and commissions decreased from CHF 1,6 million to CHF 0,6 million. Other liabilities remained at the previous year's level.

3.10 Other short-term liabilities to group companies

As at 31 March 2020 these include only down payments received (no changes to the previous year).

3.11 Accrued liabilities and deferred income

The position essentially involves a decrease in outstanding invoices for machines billed in the amount of CHF 1,9 million and compared to the previous year bonus payments are lower by CHF 0,4 million due to the lower result.

3.12 Short-term and long-term provisions

Due to the reduction in sales, the warranty provision decreased from CHF 1,4 million to CHF 0,9 million (as at 31 March 2020 long-term: CHF 0,4 million, as at 31 March 2019: CHF 0,7 million).

3.13 Share capital

The paid-in capital of KLINGELNBERG AG as at 31 March 2020 is composed of 8.840.000 registered shares with a nominal value of CHF 5 each (no changes to the previous year).

3.14 Statutory capital reserves

As at 31 March 2020, the Company had CHF 55,5 million (as at 31 March 2019: CHF 64,4 million) of reserves from capital contributions, of which CHF 55,3 million (as at 31 March 2019: CHF 43,8 million) has been recognized as such by the Swiss tax authorities.

4 Substantial information on the income statement items

4.1 Other operating income

Due to lower receivables (Note 3.1), general allowances decreased by CHF 0,7 million to CHF 2,3 million (as at 31 March 2019: CHF 3,0 million). Furthermore, in the previous year, two instances of transport damage in the amount of CHF 0,4 million were covered.

4.2 Personnel expense

The decrease in personnel expense is mainly due to the lower bonus accrued to the members of the Executive Board of Directors.

4.3 Other operating expense

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

Due to reduced sales, the commission decreased by CHF 1,9 million. In the previous year, this position included expenses from the IPO in the amount of CHF 1,3 million.

4.4 Financial result

| CHF | 2019/20 | 2018/19 |
|---|-------------------|-------------------|
| Interest expense (-) | -81.490 | -121.969 |
| Interest income (+) | 1.392.357 | 1.491.665 |
| Financial income | 1.310.867 | 1.369.696 |
| Currency translation difference and hedging expense | -7.383.420 | -7.239.280 |
| Currency gains | 4.582.881 | 4.722.818 |
| Foreign currency loss | -2.800.539 | -2.516.462 |
| Investment income | 917.500 | 719.680 |
| Financial result | -572.172 | -427.086 |

The floating of the EUR/CHF exchange rate is responsible for the foreign currency loss. Income from investments relates to dividends from subsidiaries.

4.5 Income taxes

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

5 Additional information

5.1 Employees

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

5.2 Lease liabilities

Operating leases apply mainly to vehicles and building rents.

| CHF | 31.03.2020 | 31.03.2019 |
|--|-------------------|-------------------|
| Up to 1 year | 1.382.375 | 1.405.942 |
| 1 to 5 years | 5.461.500 | 5.405.750 |
| More than 5 years | 4.050.000 | 5.400.000 |
| Total operating lease liabilities | 10.893.875 | 12.211.692 |

5.3 Pension fund obligations

As at 31 March 2020, as at the end of the previous year, there are no liabilities to the occupational pension fund due. Pension benefits are shown in Note 4.13 of the Consolidated Financial Statement.

5.4 Release of hidden reserves

During the period under review, hidden reserves of CHF 2,3 million were released (prior year: CHF 4,0 million) mainly due to the reduction of the allowance of receivables from goods and services (Note 3.1).

5.5 Guarantees

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

| CHF 000 | 31.03.2020 | 31.03.2019 |
|---|---------------|---------------|
| Guarantees and pledges to group companies in favor of third parties | 66.733 | 72.421 |
| Guaranteed maximum amount | 66.733 | 72.421 |
| Thereof utilized | 33.011 | 13.714 |

5.6 Contingent liabilities

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

5.7 Significant shareholders

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

5.8 Compensations

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

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

Number of shares

| | 31.03.2020 |
|---|------------|
| Jan Klingelberg, CEO | 0 |
| Christoph Küster, CFO | 1.000 |
| Martin Boelter, COO | 1.000 |
| Dr. Jörg Wolle, Member of the Board of Directors/Chairman | 45.000 |
| Diether Klingelberg, Member of the Board of Directors | 15.000 |
| Hans-Georg Härter, Member of the Board of Directors | 430 |

4.294.349 shares are held by KLINGELNBERG Luxemburg A.G.. The shares of this company are directly and indirectly held by Jan and Diether Klingelberg (section 3.1 of the Corporate Governance report). 4.000 shares of Diether Klingelberg are jointly registered as a Group due to an agreement with KLINGELNBERG Luxemburg A.G. on exercising of voting rights.

5.10 Events after the balance sheet date

No significant events occurred after the balance sheet date. Events after the balance sheet date were considered until 16 June 2020. On this date, the financial statements were authorized for release by the Board of Directors.

Appropriation of retained earnings

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

| CHF | 31.03.2020 | 31.03.2019 |
|--|------------|------------|
| Amount brought forward from prior year | 34.326.935 | 26.769.356 |
| Loss/Net profit | -2.874.909 | 7.557.579 |
| Statutory retained earnings | 31.452.026 | 34.326.935 |
| To be carried forward | 31.452.026 | 34.326.935 |

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

| CHF | 31.03.2020 | 31.03.2019 |
|-----------------------------------|------------|------------|
| Capital contribution reserves | 55.531.150 | 64.371.150 |
| Withholding tax free distribution | 0 | -8.840.000 |
| To be carried forward | 55.531.150 | 55.531.150 |

The Board of Directors will propose to the Annual General Meeting on 19 August 2020 that no dividend will be paid out. In addition, the Board of Directors will propose that the retained earnings of CHF 31,5 million and capital contribution reserves of CHF 55,5 million will be carried forward.

In the previous year, the dividend about CHF 1 per registered share was paid out according to the decision of the Annual Shareholders' Meeting of 27 August 2019.

Klingelberg AG
Zürich

Report of the statutory auditor
to the General Meeting

on the financial statements 2019/2020



Report of the statutory auditor

to the General Meeting of Klingelberg AG

Zürich

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Klingelberg AG, which comprise the balance sheet as at 31 March 2020, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 111 to 122) as at 31 March 2020 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

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

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

Our audit approach

Overview

Overall materiality: CHF 456'000



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

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

Valuation of investments in subsidiaries

Revenue recognition of goods and services in the appropriate period

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or

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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 456'000 |
| How we determined it | 0.75% of total revenues |
| Rationale for the materiality benchmark applied | We chose total revenues as the benchmark because, in our view, it is the appropriate benchmark, which the users of the financial statements use to evaluate the financial performance of the group. It is also a generally accepted benchmark when profit varies greatly between accounting periods. |

We agreed with the Audit Committee that we would report to them misstatements above CHF 22'800 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

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

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

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

Valuation of investments in subsidiaries

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p>The balance sheet item 'Investments' includes a number of investments in subsidiaries and amounts to CHF 91.1 million as of 31 March 2020. We consider the valuation of investments in subsidiaries to be a key audit matter due to the significance of the balance (55.6% of total assets). An impairment of investments in subsidiaries could have a significant impact on the equity of the company.</p> <p>Investments in subsidiaries are carried at historical cost less required impairments. Management considers an impairment as soon as the total net asset value falls below total carrying value. In order to evaluate the amount to be impaired, a recognised valuation method is used.</p> <p>Due to the high economic and operational interdependence of subsidiaries, Management deemed the consolidation of the investments in subsidiaries as a group for valuation purposes to be appropriate.</p> | <p>With regard to the valuation of investments in subsidiaries, our audit consisted principally of the following procedures:</p> <ul style="list-style-type: none"> – We assessed the appropriateness of Management's applied valuation approach (comparison of carrying values against the respective net asset value); – We challenged Management's considerations for applying portfolio valuation; – We tested the mathematical accuracy of the impairment assessment prepared by Management; – We compared the current year's business results with Management's prior period forecasts in order to assess in retrospect the accuracy of Management's forecasting process. <p>On the basis of the work performed, we gained sufficient evidence to address the risk of material misstatement of the valuation of investments in subsidiaries. We consider</p> |



Please refer to the accounting principles for 'Investments' in note 2.7 as well as the details of investments held in note 3.6.

the valuation of investments in subsidiaries to be appropriately assessed by Management.

Revenue recognition of goods and services in the appropriate period

Key audit matter

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

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

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

How our audit addressed the key audit matter

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

– We identified transactions occurring close to the balance sheet date and for the months of March 2020 and April 2020 tested, on a sample basis, whether revenue was appropriately recognised in the period in which the risk and reward of ownership were transferred. For the same sample, we assessed whether the contractually agreed incoterms were in agreement with the revenue recognition;

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERT-suisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.



Report on other legal and regulatory requirements

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

We further confirm that the proposed appropriation of 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



Blaženka Kovács-Vujević
Audit expert
Auditor in charge



Dano Bollier
Audit expert

Zürich, 16 June 2020

Alternative Performance Measures



Alternative Performance Measures

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

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

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

EBITDA:

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

| EUR 000 | 2019/20 | 2018/19 |
|---|----------------|---------------|
| (1) Operating result | -18.776 | 29.979 |
| (2) Depreciation on tangible fixed assets | -5.347 | -5.902 |
| (3) Amortization on intangible assets | -487 | -472 |
| EBITDA (1) - (2) - (3) | -12.942 | 36.353 |

EBIT:

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

| EUR 000 | 2019/20 | 2018/19 |
|-------------------------|----------------|---------------|
| Operating result | -18.776 | 29.979 |

Operating Result (adjusted, without IPO costs):

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

| EUR 000 | 2019/20 | 2018/19 |
|---|----------------|---------------|
| (1) Operating result | -18.776 | 29.979 |
| (2) IPO costs | 0 | -1.126 |
| Operating result (adjusted, without IPO costs) (1) - (2) | -18.776 | 31.105 |

Total Operating Performance:

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

| EUR 000 | 2019/20 | 2018/19 |
|---|----------------|----------------|
| (1) Net sales from goods and services | 212.093 | 278.214 |
| (2) Change in inventory of finished and unfinished goods as well as unbilled goods and services | 10.629 | -419 |
| Total operating performance (1) + (2) | 222.722 | 277.795 |

Gross Profit:

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

| EUR 000 | 2019/20 | 2018/19 |
|---------------------------------|----------------|----------------|
| (1) Total operating performance | 222.722 | 277.795 |
| (2) Material expense | -90.606 | -108.330 |
| Gross profit (1) + (2) | 132.116 | 169.465 |

Materials Ratio:

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

| EUR 000 | 2019/20 | 2018/19 |
|-----------------------------------|--------------|--------------|
| (1) Total operating performance | 222.722 | 277.795 |
| (2) Material expense | -90.606 | -108.330 |
| Materials ratio (-2) / (1) | 40,7% | 39,0% |

Personnel Expense Ratio:

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

| EUR 000 | 2019/20 | 2018/19 |
|---|--------------|--------------|
| (1) Total operating performance | 222.722 | 277.795 |
| (2) Personnel expense | -110.644 | -101.248 |
| Personnel expense ratio (-2) / (1) | 49,7% | 36,4% |

Adjusted Other Operating Expense:

Other operating expense adjusted by all IPO costs.

| EUR 000 | 2019/20 | 2018/19 |
|---|----------------|----------------|
| (1) Other operating expense | -37.722 | -39.875 |
| (2) IPO costs | 0 | -1.126 |
| Adjusted other operating expense (1) - (2) | -37.722 | -38.749 |

Adjusted Other Operating Expense Ratio:

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

| EUR 000 | 2019/20 | 2018/19 |
|--|--------------|--------------|
| (1) Total operating performance | 222.722 | 277.795 |
| (2) Adjusted other operating expense | -37.722 | -38.749 |
| Adjusted other operating expense ratio (-2) / (1) | 16,9% | 13,9% |

Ratio of Research and Development Expenses:

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

| EUR 000 | 2019/20 | 2018/19 |
|--|--------------|-------------|
| (1) Net sales from goods and services | 212.093 | 278.214 |
| (2) Research and development expenses | -24.908 | -24.433 |
| Ratio of research and development expenses (-2) / (1) | 11,7% | 8,8% |

Net Debt:

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

| EUR 000 | 31.03.2020 | 31.03.2019 |
|--------------------------------------|---------------|----------------|
| (1) Short-term financial liabilities | 27.077 | 1.735 |
| (2) Long-term financial liabilities | 2.983 | 4.722 |
| (3) Cash and cash equivalents | 38.744 | 28.695 |
| Net debt (1) + (2) - (3) | -8.684 | -22.238 |

Free Cash Flow:

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

| EUR 000 | 31.03.2020 | 31.03.2019 |
|---|---------------|---------------|
| (1) Cash flow from operating activities | -2.222 | 27.587 |
| (2) Cash flow from investing activities | -4.250 | -5.587 |
| Free cash flow (1) + (2) | -6.472 | 22.000 |

Financial Calendar



Dates in the coming financial year

| | |
|------------|--|
| 17.06.2020 | Publication of figures for the financial year ending 31 March 2020 |
| 19.08.2020 | Annual General Meeting |
| 05.11.2020 | Publication of results for the half-year ending 30 September 2020 |



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