FEINTOOL GROUP

# EXPANDING HORIZONS WITH FINEBLANKING AND FORMING

Annual Report 2016

FEINTOOL

EXPANDING HORIZONS

# KEY FIGURES AT A GLANCE

**(only continuing operations)**

| | | 2016<br>01.01.–31.12.16 | 2015<br>01.01.–31.12.15 | 2014<br>01.01.–31.12.14 | 2013<br>01.01.–31.12.13 | 2012 [1]<br>01.01.–31.12.12 |
|---|---|---|---|---|---|---|
| **Operating figures** | in CHF m | | | | | |
| Expected releases – high volume parts manufacturing | | 240.9 | 209.6 | 213.9 | 181.0 | 138.1 |
| Orders received third (investment goods) | | 57.2 | 77.2 | 86.7 | 77.6 | 78.8 |
| Orders backlog third (investment goods) | | 19.1 | 36.0 | 32.9 | 29.9 | 30.0 |
| | | | | | | |
| Net sales | | 552.2 | 508.9 | 503.4 | 435.7 | 427.0 |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) [2] | | 76.0 | 61.4 | 62.9 | 47.0 | 43.0 |
| Operating profit (EBIT) [2] | | 41.3 | 32.9 | 35.1 | 20.4 | 22.0 |
| Net earnings from continuing operations | | 32.1 | 20.1 | 24.6 | 14.8 | 11.4 |
| | | | | | | |
| **Return figures** | in % | | | | | |
| EBITDA margin [2] | | 13.8 | 12.1 | 12.5 | 10.8 | 10.1 |
| EBIT margin [2] | | 7.5 | 6.5 | 7.0 | 4.7 | 5.2 |
| Net return on sales | | 5.8 | 3.9 | 4.9 | 3.4 | 2.7 |
| | | | | | | |
| **Cash flow and balance sheet statistics** | in CHF m | | | | | |
| Cash flow from operating activities | | 74.1 | 40.1 | 50.8 | 49.4 | 27.0 |
| Cash flow from investing activities (net) | | -59.4 | -29.9 | -12.1 | -34.9 | -29.9 |
| Free cash flow | | 14.7 | 10.2 | 38.7 | 14.6 | -2.9 |
| Total assets | | 530.7 | 426.9 | 427.4 | 398.9 | 385.9 |
| Equity | | 229.9 | 207.9 | 202.9 | 183.8 | 136.8 |
| Liabilities | | 300.8 | 219.0 | 224.6 | 215.1 | 249.2 |
| Net debt | | 16.2 | 11.1 | 9.3 | 33.0 | 75.3 |
| Equity ratio | | 43.3 % | 48.7 % | 47.5 % | 46.1 % | 35.4 % |
| Gross investments | | 74.9 | 31.8 | 43.4 | 36.6 | 34.8 |
| | | | | | | |
| **Key figures per share** [3] | in CHF | | | | | |
| Earnings per share (basic) | | 7.20 | 4.51 | 5.53 | 3.53 | 2.94 |
| Dividend per share | | 2.00 [4] | 1.50 | 1.50 | 1.20 | 1.00 |
| Equity per share | | 51.61 | 46.72 | 45.55 | 43.80 | 35.43 |
| | | | | | | |
| **Other** | | | | | | |
| Number of employees at year-end (excl. apprentices) | | 2 239 | 2 049 | 1 987 | 1 818 | 1 809 |

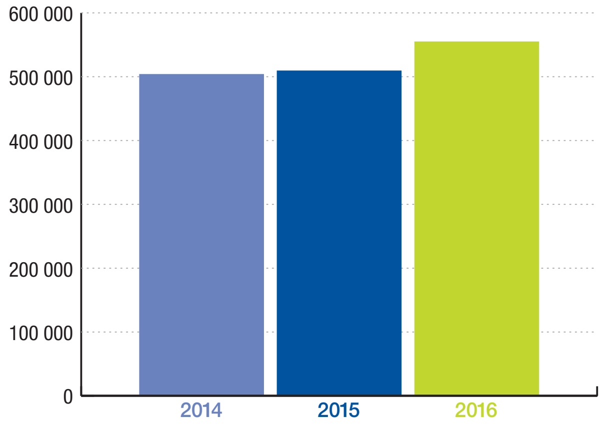
[1] Including Automation segment, which was sold in the 2014 financial year

[2] In financial year 2016, the Swiss pension fund approved an amendment to the regulations, which, according to IAS 19, had a positive impact on the consolidated statement of comprehensive income to the tune of kCHF 7 083. The EBITDA and EBIT are shown in this overview without this effect.

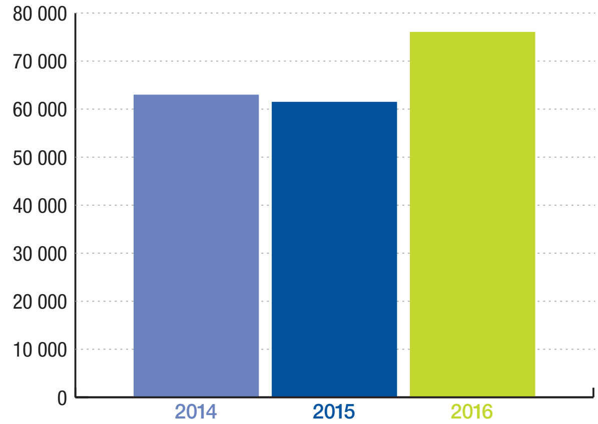
[3] Restated for a share with par value CHF 10

[4] Board of Directors' proposal

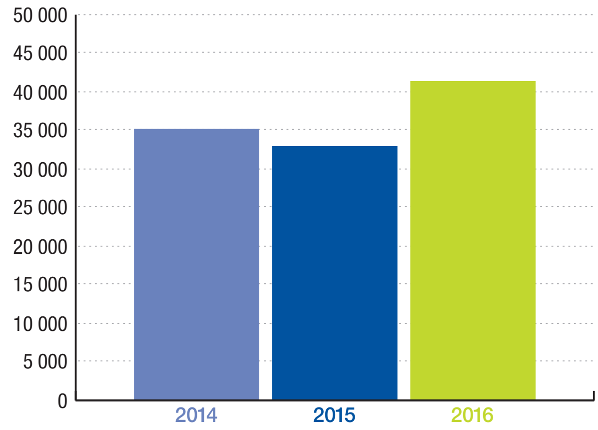
## Net Sales
in kCHF




## EBITDA[1)]
in kCHF




## EBIT[1)]
in kCHF




1) In financial year 2016, the Swiss pension fund approved an amendment to the regulations, which, according to IAS 19, had a positive impact on the consolidated statement of comprehensive income to the tune of kCHF 7 083. The EBITDA and EBIT are shown in this overview without this effect.

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BRUNO MALINEK

ALEXANDER VON WITZLEBEN

Dear shareholders, ladies and gentlemen,

Feintool has continued on its course for growth in 2016 and successfully overcame the challenging demands in the last financial year. The clear strategic and international orientation towards fineblanking and forming and continued positive market conditions have resulted in a positive overall result.

Sales in the Feintool Group increased by 8.5 % to CHF 552 million. Adjusted for currency effects, this corresponds to growth of 5.9 %. The Group result amounted to CHF 32.1 million and an equity ratio of 43.3 %. The Board of Directors will therefore propose to the Annual General Meeting that it approve a dividend of CHF 2.00 per share.

### Challenging general conditions

Feintool was only minimally affected by the difficult political and economic developments of last year. The planned exit of the UK from the European Union had almost no impact on us. We did, however, notice the emissions manipulation in diesel cars in the USA, but the reduced orders were compensated for by the higher demand from other customers. However, the significant increase in the price of steel has put additional cost pressure on our production.

Developments in the currency environment also had a long-term influence on Feintool's sales and results. In the reporting period, the locations in Switzerland were still fighting the effects of the strong appreciation in the Swiss franc against other currencies in January 2015. Although the introduced measures are beginning to bear fruit, the results are still burdened by costs relating to the focus of the Swiss locations, and associated relocation of around 140 customer orders with higher manual activities to other production locations.

On the other hand, the Swiss franc weakened slightly against almost all currencies in 2016. For the first time in years, this resulted in a positive translation effect. Finally, the low valuation of the euro against almost all other currencies helped the German car manufacturers to achieve first-class sales figures, in many places even with record results. As their supplier, Feintool also benefited from this development.

The growth driver was the System Parts segment, which was able to profit, especially in Europe and China, from the sustained boom in the automobile industry (in particular in the middle and premium segment that is crucial for Feintool), by far the largest buyer of Feintool products and services.

The capital goods business with presses and systems likewise recorded a light increase in sales despite difficult conditions. Feintool was basically able to assert its position on the market. The strategic positioning of the segment for the future is planning for the increase in the proportion of added value in the overall fineblanking process. This includes the enhancement of the press range focusing on customer requirements, the expansion of the range of tools, and additional service provisions.

### Prepared for a change of course in the automobile industry

Unlike in recent years, in 2016, the voices in the automobile industry were unmistakably saying that the industry must and will undertake a notable change of course in the coming years. Alternative drives (electric, hybrid, fuel cells) to the previously conventional combustion engine are on the rise, and, according to various studies, should take over a significant share of the overall market in the medium term.

Feintool sees additional market opportunities in these changed circumstances and has reacted to the development. Fineblanking and forming applications in vehicles with new or alternative drives are being expanded. Development projects are under way for alternative drives and new applications for vehicles, as well as for new vehicle applications, such as for the undercarriage or chassis. We are convinced that we can successfully shape this structural change in the market, as we have done in the past.

In tandem we will, of course, serve the growing demand for components for the drivetrain of conventional combustion engines that support, in particular, the on-going trend towards energy efficiency and $CO_2$ reduction. The demand from the automobile industry for fineblanking and forming components will also grow in the next few years and remain a highly competitive core business for Feintool.

### New location in Eastern Europe

Feintool is prepared for this development. Now that the extensive relocation within our European System Parts locations has been virtually completed, we are expanding our capacities in Eastern Europe. Most (Czech Republic) was chosen as the location for a new plant that will serve both Feintool segments as a future production location. The construction work begins this financial year, and the start of operations are planned for mid-2018.

## Growth strategy

With the development projects introduced for alternative drives for cars, the expansion of production capacities in the Czech Republic, the advancement of vertical integration of follow-on operations in the fineblanking and forming process of our plants and the further penetration of these technologies on the international markets, Feintool has created a promising strategic basis for further growth.

This growth requires a more sophisticated form of company organization. Bruno Malinek, successor of Heinz Loosli as CEO since September 2016, has therefore expanded the existing matrix organization at Feintool. This measure, signed off by the Board of Directors, creates new global positions for sales and purchasing on a group level. The functions of research & development and production are planned for a later stage.

## Outlook

We are generally expecting positive performance for Feintool in 2017, however in market conditions that are shaped by political uncertainty. Without the influence of the latest acquisition of the Chinese forming plant, we expect sales of around CHF 580 million and an EBIT margin of 7.5 % - 8 %.

We are grateful to our customers, suppliers and shareholders. The trust shown in us motivates us to continue together on Feintool's road to success. We would also like to thank the Feintool employees for their huge commitment. They continuously support our plans to enhance the company in line with our claim of "expanding horizons".

**ALEXANDER VON WITZLEBEN**
Chairman of the Board of Directors

**BRUNO MALINEK**
Chief Executive Officer

# MARKET REPORT

## The automobile industry finds itself on the cusp of change between conventional technology on the one hand and digitization and new drive concepts on the other. Thanks to a strategically clear positioning towards the needs of the sector, Feintool was able to maintain its market share and is looking optimistically towards the technological change among car manufacturers.

Despite major challenges, the international automobile industry is rushing from success to success. After enthusing over record sales in 2015, many experts did not think yet another increase was likely. Despite this, manufacturers – especially in Europe and China – once again produced more cars in 2016 than in the previous year. Feintool achieved around 90 % of its sales directly or indirectly from the automobile industry and benefited likewise from the positive development of their most important markets.

According to the market research institute IHS Automotive, car production in Europe rose by 2.8 %, and in China by as much as 13.9 %. The US recorded an increase in production by 1.4 %, while Japan and Korea remained more or less constant (-0.6 %). Amid these conditions, Feintool has been benefiting from the stable demand for fineblanked and formed automobile components. This good situation is the result of a consistent orientation towards the needs and development of the sector.

### Megatrends: Digitization and alternative drives

Two megatrends will continue to stand out in 2017. The automobile industry is taking the leap – from the analog into the digital age and from combustion engines to an era of electromobility or alternative drives. At the leading IAA trade fair in Frankfurt in September, almost every notable manufacturer will be presenting networked, possibly self-driving prototypes and, more than ever, series cars with electric drives.

According to a current survey by auditing company KPMG, 1 000 leading car managers from 42 countries named the e-car as the most important trend for 2017. Feintool is now producing housing for hybrid drives in initial projects, which meet especially high precision and residual contamination requirements. But Feintool will also be focusing the product range more on electromobility and other alternative drives. The potential for fineblanking and forming parts in automobile production generally is enormous. Feintool is currently exploring these options in various development projects.

However, many question marks still hang over the subject of electromobility regarding standards, charging infrastructure, areas of application and range. In line with this, more than three quarters of the decision-makers questioned are convinced that classic combustion engines will continue to be relevant. This also mirrors the development of the market.

In a study, experts from consulting firm PriceWaterhouseCoopers (PWC) assume that hybrid and electric vehicles will achieve just under a 14 % share in Europe by 2021, 8 % in America and in the Asian growth markets only 4 %. In many countries where it is a question of affordable mobility, the combustion engine will therefore have a future in the longer term. PWC gives a figure for this increase as 13 % until 2021.

### Reduction in consumption

Gas and diesel engines are becoming increasingly more environmentally friendly, driven by ever-tighter emissions regulations. After 2020, car manufacturers in Europe may only produce cars that emit an average of 95 grams of $CO_2$ per kilometer. Similar regulations apply in the USA and in China.

For manufacturers, this means: making the tried-and-tested more efficient by means of consistent continued development. This can be achieved partly by reducing the weight of the vehicles. Fineblanked and formed components made of high-strength but light steel support the lightweight construction being called for. In addition to this, small and lighter engines with lowered capacities but the same performance (downsizing) achieve better consumption and emission values. Feintool also supports this optimization of engine, gear box and ancillary components with the production and development of performance-optimized fineblanking and forming parts for use in the drivetrain.

### Digitization

Similar to a world without combustion engines, fully networked and self-driving cars have so far above all been a vision of the future. Although the technology is making great strides in development, at the same time, legal and ethical questions relating to autonomous driving also need to be answered. The application of the corresponding technology will therefore be focusing primarily on semi-automatic drive-assisted systems such as braking, traffic and lane assistants in mid and high-range cars.

This has an indirect effect on the type of gear boxes assembled, since these systems are better supported by automatic and CVT gear boxes than manual transmissions. For Feintool as a manufacturer of fineblanked components for automatic gear boxes such as clutch plates or plate carriers, this development represents a possibility for further growth.

### Cost efficiency

In the environment described here, efficient development, production and logistics processes are indispensable. In order to reduce costs, manufacturers are increasingly using standardized product platforms and kits for various models. The demand for series parts in large output quantities is correspondingly high. Feintool is the perfect partner for this.

| Electrification, hybridization | Energy efficiency and $CO_2$ reduction | | Product platforms | Driving assistance systems |
|---|---|---|---|---|
| Development of new drive concepts and components | Trend towards light-weight construction continues | Trend towards downsizing continues | Demand for larger quantities at a higher level of quality | Trend towards automatic and CVT gearboxes |
| ⬇ | ⬇ | ⬇ | ⬇ | ⬇ |
| Feintool as production and development partner for new components with special requirements | Fineblanked precision parts in high-strength steels support light-weight construction concepts with the same level of performance and safety | | Fineblanking is the perfect process for economical production of high volumes | Feintool has expertise and the corresponding production facilities for manufacturing drive components |

Feintool is a professional partner for the implementation of the most important trends in the automobile industry.

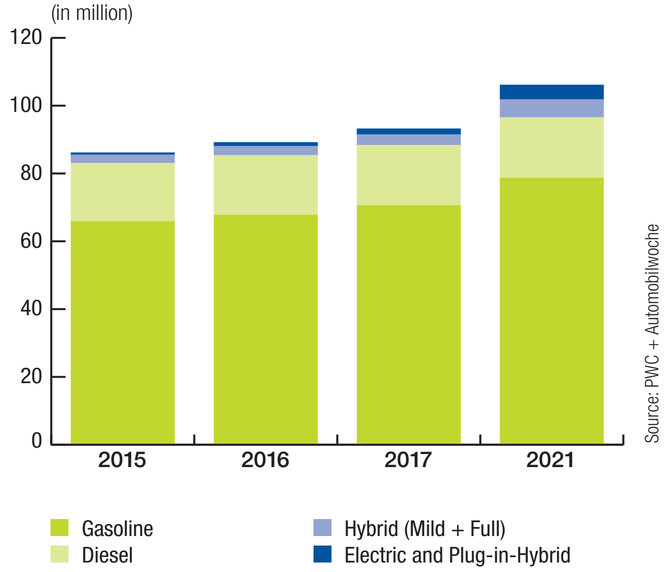
Because development work in ever-shorter cycles ties up significant resources at the manufacturers, they outsource a large share of their added value to a growing number of suppliers. In particular, processes requiring a great deal of expertise and capital, such as fineblanking, are left to specialist companies like Feintool, which have mastered the technology and provide these capacities direct to the OEM and the large suppliers.

On a regional level, Feintool thus sets itself apart – with production facilities in Europe, the USA, Japan, and China – through its proximity to the international development centers for exacting car technology, and therefore is known for accessibility and just-in-time deliveries.

### Quality

Consistently high quality in itself is no longer a bonus – it is a prerequisite. A strategic focus of Feintool is in automatic 100 percent quality management – from the raw material to the monitoring systems that accompany the process, to the finished part. And this has not just been happening since the numerous waves of recalls in recent years. Many fineblanked components in modern cars are in high demand or are safety-relevant. Secure manufacturing processes and zero-error production (0-PPM) are top priorities for Feintool.

## Car production by engine type




**Global car production will continue to increase and the proportion of electric and hybrid drives will rise.**

### Outlook

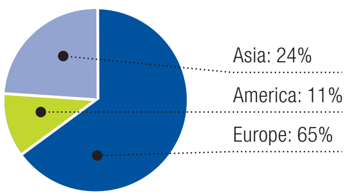
The demand for individual mobility will continue. Trends such as electrification and digitization, along with discussions surrounding efficiency and emission levels, definitely present challenges. At the same time, according to the market research company IHS, the 20 largest car manufacturers in the world are expecting an increase in production figures over the next five years from 82.8 million cars in 2016 to 90.6 million in 2021. This is equivalent to an increase of 9.4 %. In this overall growth market, the developments in the areas of tension between the offline and online world, between combustion and volts, also offer many opportunities. Feintool is ready to exploit them.

# FINEBLANKING TECHNOLOGY SEGMENT

Feintool technology has again come out ahead in a challenging market environment for capital goods. Feintool was able to strengthen its position on the market with fineblanking presses/systems, tools and services and lay the track for future development.

## Sales distribution by region

Fineblanking Technology




The segment's sales rose last year by 5.6 % to CHF 92.7 million. Higher third-party sales are the reason for this, especially in Asia. In the final months in particular, Feintool received a noticeable increase in numbers of inquiries from there, and China will now also be the fastest growing market. The newly installed fineblanking systems demand additional support through tools, spare parts and services. Feintool has the options and resources to fully serve this important and emerging market and to set itself apart decisively from its rivals in Asia.

However, an overall further consolidation of the market and of fineblanking customers can be seen. This is causing a reluctance to invest in Europe and the US. Mergers and acquisitions will remove individual customers from the market as they are integrated into larger companies. This development creates risks, but also opportunities, for customers that are growing internationally and that Feintool can support with products and services.

In the future, this also includes the expanded capabilities in tool making at the planned new location in Most (Czech Republic), where Feintool will focus on the manufacture of simple and medium-complexity fineblanking tools and spare parts. This will enable Feintool to tap more market segments.

### Feintool remains a driver for innovation

Feintool has once again underpinned its role as global technology and market leader in fineblanking with customer-focused innovations in all business areas.

The improved and strengthened Servopress XFT 2500speed not only provides additional options in fineblanking production, this new press model also provided a significant wow factor at the world's largest exhibition for sheet metal work, EuroBLECH in Hannover.

The maintenance and service provision FEINmonitoring now makes a valuable contribution in the context of Industry 4.0. Feintool is the only press manufacturer that offers an analysis of the measured data as a finished solution. We have now fully started distribution among customers in the market.

The implementation and testing of new tooling materials and associated optimal coatings have brought a decisive advantage to the market in the processing of high-strength materials. This affects the increase in service life and the reduction in spare part costs for tools, in particular. This consistent approach with a clear timing of tasks and processes has allowed for transparency to be created and brought about great strides in the reduction of processing time.

An important building block in the activities in the research and development department is close cooperation with prominent universities. Last year, Feintool developed the 'FEINrubert' app with the help of the Jiao Tong University in Shanghai and presented it at EuroBLECH. This smartphone app is used to determine and document the straight cut ratio of fineblanking and is a one-of-a-kind.

Feintool is also a founding member of the fineblanking working group which was launched last year. A total of 32 fineblanking companies in Europe will be technologically and economically enhancing fineblanking together with the RWTH Aachen University and the affiliated tooling laboratory (WZL) as part of this committee.

### New segment management

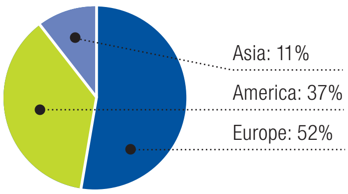
The management of the Fineblanking Technology segment has been in the hands of Markus Schaltegger since the beginning of 2017; he previously managed the press department.

# SYSTEM PARTS SEGMENT

The business with fineblanking and forming parts is benefit-ing from the continued growth of automobile production, and Feintool is thus supporting manufacturers' most important technology trends. In this context, it is pleasing that Feintool has once again grown more strongly than the market.

## Sales distribution by region

System Parts




With sales of just under CHF 480 million (+9.4 %), the System Parts segment has continued on its course for growth and also increased its share of the total turnover of the Feintool Group to 87 %. The growing global car production was accompanied by increased demand for fineblanked and formed components. By focusing on these areas of application, not only the existing parts business grew, but also the new developments for the automobile industry and its trend towards efficient gear boxes and lightweight components. This led to a greater order volume, which includes fineblanked camshaft adjusters that change the valve timing of valve controls of four-stroke en-gines and increase the efficiency of the engine.

### Relocation in Europe

Last year, System Parts in Europe was marked by extensive relocation activities of a total of six fineblanking presses, processing systems and more than 140 tools. All four fineblanking locations in Switzerland and Germany were involved in this major project. Triggered by the decision on January 15, 2015 by the Swiss National Bank to raise the minimum exchange rate of CHF 1.20 against the euro, we are concentrating at the production location in Lyss on a smaller number of customer orders with higher output quantities in combination with specialized technologies – this reduces the number of customers for the Swiss operation from 40 down to 15. The largest proportion of orders was relocated to the locations in Germany, in particular Oelsnitz (Saxony).

This far-reaching decision supported the development of Feintool in its results: at the Lyss location, in addition to our core competence in fineblanking, we are mainly concentrating on the expansion of secondary processes such as double-disc grinding and tempering in conjunction with a high degree of automation for complex car parts. The newest production location of Oelsnitz is now virtually at capacity after the expansion and relocation. Following the expansion and renovations, the plant has developed into an advanced Feintool location. The modern infrastructure, generous production possibilities and the well-qualified employees have made the plant fit for the future.

In the face of the anticipated long-term growth in the automobile sector in Europe, Feintool System Parts will expand its production capacities. Accordingly, a building site has been acquired in Most (Czech Republic) for an additional location, where production is planned to start in the middle of 2018. The focus of the new location will be the production of more basic and less complex fineblanked components. Feintool sees considerable market potential in this, and is using it to meet customers' wishes for a global supplier that is close to the customer.

The forming division of Feintool System Parts in Europe is and remains a stable and successful arm. The completion of the Ohrdruf (Germany) plant's expansion has created the prerequisites for further growth in the area of forming.

### Positive result in China

Our production location in the Chinese city of Taicang (near Shanghai) developed very nicely; it continues to participate in the growing automobile boom and showed a profit for the first time last year. The outlook for the location is very positive. In order to create the necessary capacities for the site, we have expanded the production space by renting an additional 3600 square meters. We need this additional space in particular for further processing measures such as double-disc grinding.

The situation in the USA is more complex. The business situation for the Cincinnati production facility, which was still good in 2016, will diminish in 2017, since some customer projects were discontinued last year and it is not yet certain whether these can be compensated for at the necessary level.

The situation at the forming location in Nashville is more positive. The new 1600-ton multiple-stage press that was put into operation enabled Feintool to invest in additional essential production capacities here, which will also keep the plant on the road to success in future.

### Feintool is growing stronger than the market

Taking Feintool as a whole, its growth once again outpaced the market in the relevant regions[1)]. In China, the increase in car production of 13.9 % is accompanied by the sales increase of Feintool System Parts of 15.6 %. In Europe, car production rose by 2.8 %, and Feintool sales in the same period grew by 14.4 %. The situation in the USA is also positive; production increased by 1.4 % and Feintool booked a boost in sales amounting to 2.6 %. On the Japanese market, which has been weakening for several years, Feintool sales are in the black at 12.5 %, while the production figures in Japan continued to fall, by 0.6 %.

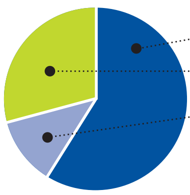
[1)] Source for automobile production: IHS AUTOMOTIVE

# HUMAN RESOURCES

The employees are the backbone of Feintool and the most important pillar for the success of the company. Success factors include competence, motivation and commitment, which are strategically supported and expanded at all Feintool locations.


### Employees by region

in % (out of total of 2 239, excluding apprentices)




In the reporting year, the number of Feintool employees continued to grow. The reason for the increased need for staff was mainly the expansion of the Oelsnitz (Germany) location and growth in China. In 2016, a total of 2 239 people were employed in the 16 companies (+9.3 %). Added to this are 68 (previous year: 75) young people in training at a total of seven Feintool companies.

### Survey confirms staff satisfaction levels

The satisfaction survey of all Feintool employees carried out every two years is an important indicator of the mood in the company. After the evaluation of last year's survey, it confirms that the identification and loyalty of the staff to Feintool continue to be at a high level. Besides this, the staff have a clear self-concept of their duties and of the company. At all locations, the statement of "I know what is expected of me in my work" received the most agreement. Both help to create a positive corporate culture, thus contributing to Feintool's success.

Viewed as a whole, employee satisfaction has increased slightly compared to the last survey in 2014 as measured by the share of "yes" and "no" votes in the individual questions. However, there are sometimes very significant regional differences and, for the first time, results from Feintool China.

Roughly three quarters of employees at the locations in Switzerland and the United States expressed their satisfaction, reinforcing the results of the last survey. Results for the five Feintool companies in Germany remained roughly the same, but at 58 %, they remain lower than the other countries. The results in Japan were significantly higher than two years ago, with employee satisfaction climbing from 57 to 67 %. For the first time, the Taicang location in China participated in the survey. With 94 % "yes" votes, it represents the highest level of satisfaction. After analyzing the individual results, all of the companies have already defined specific measures to further increase employee satisfaction.

### FEINmind links Feintool experts

Since last year, a new digital knowledge platform has been supporting the internal transfer of expertise and the search for experts at Feintool. FEINmind facilitates the exchange of knowledge and experience across country and location borders. Anyone posting a question in FEINmind does not have to know whom they are addressing: The allocation of the question and the possible answers is done by the self-learning algorithm behind FEINmind. Answers appear immediately on the platform. This enables expertise and information to be shared easily within the companies. The figures since its introduction are pleasing: During the first six months, 493 questions were asked, with 397 answers supplied. Almost half of those questions were answered within 24 hours. For some questions, a lively discussion between four or more experts ensued. The knowledge network is continually growing, and in doing so has linked up more than 500 active Feintool employees worldwide. In fact, 70 % of the answers come from experts who work in a different location to the person posting the question.

### Focus on training and professional development

The subject of training is and continues to be of great importance to Feintool and a measure to fight the prevailing global lack of experts which also affects Feintool. A total of 16 vocational training programs in technical and business administration fields are offered at seven locations in Switzerland, Germany and the US. As with other industrial enterprises, especially in Europe, a lack of suitable applicants is causing Feintool to experience increasing difficulty in filling these training positions.

Feintool is approaching this differently in the US. At the Cincinnati location, an internal training program for "certified press operators" has been developed and started. As a rule, new employees were previously trained on the job. After all, in the industrial sector, there are only a few specially regulated recognized occupations which require formal training, unlike in Europe for example. The "Press Operator Training Program", introduced by Feintool in April 2015, raised the level of training for employees in the USA onto a new regulated footing. This approximately four-year long program is expected to maintain and expand the high level of competence in the company.

### Safeguarding and expanding competence

The annual employee reviews in the Feintool companies are there for personal goals to be defined together and in order to develop the individual. These reviews are also used to determine the professional development needs of the employees. This additional expertise is of great importance to Feintool. The company has again invested around CHF 2.4 million in education and trainings (incl. apprentice wages). A large proportion of this goes into further technical training. In all, Feintool employees attended around 1 000 professional development sessions last year. The focus of these was specific technical training and instruction on the environment and safety in accordance with ISO.

# SUSTAINABILITY

Increasing responsibility for the environment and the well-being of employees while creating economic growth. At Feintool, this combination is not a contradiction in terms. Ecological and sustainable actions are deeply rooted in the corporate philosophy.


For the automobile industry (the primary customer segment for Feintool), the development of low-consumption and low-emissions cars is essential. However, around 20 % of the $CO_2$ emissions in a car's life are already generated during its production, i.e. before it has traveled a single kilometer. Feintool's objective is to use the natural resources for our production processes, products and services as sparingly and prudently as possible, and to constantly reduce the use of raw materials. This is a significant factor for Feintool's international competitiveness.

Companies in the Feintool Group are thus certified according to the international management standard ISO 14001:2004, and the German locations also according to the ISO 50001 standard for their energy management. Each location takes responsibility for further developing its own environmental management. New environmental objectives are regularly defined and corresponding projects implemented.

### Corporate Environmental Management

Our locations in Japan, for example, have carried out numerous optimizations in the (re-)development of tools and components and the production process as a whole with the aim of reducing the consumption of resources. The pleasing results were savings from energy usage of around 400000 kWh of up to 240 tons of $CO_2$. A collective contract for both locations in Japan with a (more environmentally friendly) energy supplier reduced not only the energy costs, but also the $CO_2$ emissions by around a further 60 tons.

The plant in Cincinnati (USA) converted several fineblanking presses to chlorine-free fineblanking oil, which replaces chlorinated fineblanking oil, which is harmful to the environment. In Nashville, the process water is treated on-site before being transported to the sewage treatment plant. This makes it possible to have annual savings of 70 tons of $CO_2$ emissions and CHF 150 000 from reduced truck transport.

Feintool in Obertshausen (Germany) uses a new software tool for collecting energy usage data. The analysis of the relevant energy users (electricity) provides helpful information for future energy reduction. In addition, the location has accomplished free-of-charge return of delivered intermediate bulk containers to the manufacturers/suppliers for recycling, thus saving transport and disposal costs.

At Feintool in Jena, a total of 49 tools in the reporting period have been converted from a sectoral to a partial strip oiling system. Fineblanking oil is therefore only applied in the parts of the tool where it is needed. This results in noticeably lower oil consumption. In addition, a central supply system for fineblanking oil, cleaning agents etc. has been installed that transports these from central tanks to the relevant production facilities via tubes. On the one hand this prevents press outage times for refilling, but it also reduces the consumption from the system and lowers the potential for risk for employees.

As a specialist supplier to leading OEMs across all continents, Feintool is aware of its important role in the global supply chain - not least from an environmental standpoint. In recent years, the Group has already significantly reduced its own energy requirements and $CO_2$ emissions through numerous projects. The company-wide key environmental figures are regularly sent to the international Carbon Disclosure Project (CDP). With this transparency, Feintool is helping the CDP to create the world's largest database on climate-damaging greenhouse gas emissions and water usage. Feintool uses the captured data for comparison with the competition but also for identifying cost savings potential and for developing strategies for monitoring and reducing greenhouse gas emissions.

### Code of Conduct

Both company prestige and the confidence that customers, suppliers, business partners, shareholders and the public have in Feintool are crucially dependent on the fair and responsible conduct of all employees. The Group-wide and publicly accessible Code of Conduct sets out binding guidelines. Acceptance of and compliance with these guidelines is promoted through regular training of employees.

# FEINTOOL GROUP

Sales increase 5.9 %;
EBIT in local currency rises by 20.8 %

# FINANCIAL REVIEW

**as at December 31, 2016**

## BUSINESS PERFORMANCE

### General

The consolidated annual report for 2016 applies to Feintool International Holding AG and all its subsidiaries. It covers the period from January 1 to December 31, 2016.

On March 30, 2015, Feintool acquired Gabler Feinschneidtechnik GmbH in Oelsnitz/Erzgebirge (Saxony/Germany). The company was then renamed Feintool System Parts Oelsnitz GmbH.

In the summer of 2016 the Board of Trustees of the Swiss pension fund, together with Feintool, adopted a resolution to restructure the pension fund. The restructuring will take place, on the one hand, by increasing the contributions received from the founding company during the coming years and, on the other hand, by gradually reducing the conversion rate for future retirement pensions. The restructuring had a one-off positive effect on personnel costs in the amount of CHF 7.1 million. The following explanatory remarks refer – unless expressly stated otherwise – to Feintool's business without this one-off effect.

### Orders received and order backlog in the capital goods business; expected releases in high-volume parts production

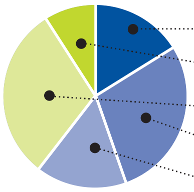
Feintool does business in investment goods as well as high-volume parts production. To increase transparency, Feintool separately presents the orders received and the order backlog in the investment goods business and the expected releases from high-volume parts contracts. Orders received and the order backlog in the capital goods business are legally binding orders. In high-volume parts production, the order backlog represents expected releases over the next six months. However, the customer can postpone, amend or even cancel these releases at any time. To that extent, the order backlog in the high-volume parts business is merely an important leading indicator.

Orders received in the Fineblanking Technology segment, which does business in investment goods, fell by 8.8 % to CHF 85.8 million (previous year CHF 94.1 million), with CHF 28.6 million stemming from the System Parts segment, which was significantly more than in the previous year (CHF 17.0 million). Thus third-party orders received fell by 25.9 % in the reporting year to CHF 57.2 million (previous year CHF 77.2 million). Accounting for a 33.3 % share (previous year 18.0 %), the System Parts segment substantially grew its position as the largest customer.

The third-party order backlog decreased by 46.9 % to CHF 19.1 million (previous year CHF 36.0 million) as a result. The order backlog for internal orders, on the other hand, increased by CHF 8.8 million to CHF 16.0 million. The overall order backlog therefore fell by 18.8 % to 35.1 million (previous year CHF 43.2 million), equivalent to just under six months' worth of work for the long-term press and tool business.

The expected releases in the high-volume parts business for the next six months totaled CHF 240.9 million. This means that this value increased by 14.9 % and is now at a record high at the end of the year. Feintool's customers expect to see positive business development in all regions over the next six months.

## Net Sales




### Net sales

Consolidated sales rose by 8.5 % to CHF 552.2 million (previous year CHF 508.9 million). In the reporting year, the currency movements supported growth with an effect of CHF 13.1 million. In local currencies, Feintool reported sales growth of 5.9 % as a result. This is attributable to the good level of business in the automobile sector and to the launches of new products. The System Parts segment generated 86.8 % of external sales (previous year 86.1 %). Fineblanking Technology contributed 13.2 % (previous year: 13.9 %) to sales. When intragroup sales are included, the share accounted for by the Fineblanking Technology investment goods sector totaled 16.2 % (previous year: 16.7 %).

The parts business in the System Parts segment grew by 9.4 % to CHF 479.3 million in the reporting currency during the financial year (previous year CHF 438.0 million). The positive currency effects totaled CHF 12.8 million; the positive effect of the acquisition amounted to CHF 6.0 million. In local currency terms, growth in the segment reached 6.5 % or 6.2 % without the acquisition. The fineblanking business in Europe increased by 18.9 % to CHF 161.6 million in the reporting currency, which includes a positive currency effect of CHF 2.7 million. In local currency, the growth totaled 16.9 %, and without acquisitions it was still 14.8 %. The Forming Europe segment generated sales of CHF 91.2 million, which corresponds to an increase of 7.3 %. When corrected for the currency impact, the area grew by 4.8 %. Business in the US saw an increase of 2.6 % to CHF 176.4 million in the reporting currency. The currency effect from the US dollar was almost entirely responsible for the growth of CHF 4.2 million. Adjusted for currency effects, the region of America finished the year at the level of the previous year. Sales in Asia, mainly generated by the operations in Japan, rose by 11.6 % to CHF 50.5 million due to the appreciation of the yen. In the local currency, Asian business grew by 3.3 %. The European operations accounted for a 52.7 % share of sales (previous year: 50.4 %). The European companies grew at a slightly faster rate than on average in the Group. The share from operations in the US fell to 36.8 % (previous year 39.2 %). While the American operations were responsible for growth in past years, this year the European operations, in particular, accounted for the increase in sales. The Asian share remained almost unchanged at 10.5 % (previous year 10.3 %).

**9.7 %**

**Organic growth**
of the high-volume parts production in Europe

Sales in the Fineblanking Technology segment totaled CHF 92.7 million (previous year CHF 87.8 million). The increase was due to a rise of CHF 2.0 million from third-party orders and CHF 2.9 million from internal sales. Third-party sales increased by 2.9 % and totaled CHF 73.0 million.

The Feintool Group sold products and services amounting to a total of CHF 287.6 million or 52.0 % in Europe. The growth of sales in North America was clearly weaker than in the other regions, with sales revenue totaling CHF 168.8 million, proportionately 30.6 % (previous year CHF 163.0 million or 32.0 %). Sales in Asia rose substantially, to CHF 95.9 million or a share of 17.4 % (previous year CHF 87.0 million or 17.1 %). With sales of CHF 11.1 million, or 2.0 %, the Swiss market is of little significance to Feintool (previous year CHF 4.9 million, or 1.0 %).

## Gross margin

The gross margin rose year on year by 1.8 percentage points to 40.3 %, the gross profit totaled CHF 222.5 million in the financial year.

At CHF 245.0 million (previous year CHF 239.0 million), materials are by far the largest cost component for Feintool. In the year under review, the cost of materials as a percentage of sales fell from 47.0 % to 44.4 %. Feintool is constantly increasing the added value it generates in the company (hardening, double-disc grinding), which will reduce the amount of material used. Although most customer contracts contain price adjustment clauses, Feintool benefitted from lower raw material costs in individual cases. Direct personnel expenses totaled CHF 84.1 million or 15.2 % of sales. The slight increase in the percentage of personnel expenditures, by 0.5 percentage points, is a direct consequence of the increase in added value.

The System Parts segment achieved a gross margin of 39.7 %, which is slightly above the level from the previous year (previous year 37.9 %). Besides the already mentioned factors, the increases in efficiency at all the locations also contributed to this rise in margins. The relocation of roughly 140 tools to Saxony (Germany) due to the sharp appreciation of the Swiss franc in the previous year hurt the gross margin on account of the high training and relocation costs for the sampling of these parts.

The gross margin in the Fineblanking Technology segment rose slightly to 39.8 % (previous year: 39.2 %). This slight increase is primarily due to changes in the product mix. As a result, the higher share of personnel costs – due to a return to the 40-hour work week in Switzerland – will be compensated by other increases in efficiency.

## Key cost items

Personnel expenses increased overall by CHF 9.8 million to CHF 159.0 million, or 28.8 % of sales (previous year 29.3 %). Without one-off effects from a reduction in the conversion rate for retirement pensions in Swiss employee benefit plans, the increase was CHF 16.8 million, and the personnel expenditures as a percentage of sales rose to 30.1 %. The increase was only seen in the System Parts segment, with the share of personnel expenses amounting to 26.9 % in the year under review. The reason for this development was investments in the future, such as the expansion of the production facilities in China and Oelsnitz. Likewise, the initiation of new orders in Switzerland required additional staff. The increase in value added through additional work steps such as "hardening" involves training expenses and also requires an increase in headcount. In the Fineblanking Technology segment, personnel expenses fell by CHF 0.1 million, their amount as a percentage of sales fell to 30.1 %.

Other operating expenses rose by CHF 7.8 million to CHF 71.8 million; relative to sales, these expenses rose slightly to 13.0 % (previous year 12.6 %). The increase results from many smaller items. Other operating income remained almost unchanged at CHF 2.0 million. The ongoing focus on core activities means that income from ancillary services and income from discontinued operations fluctuated at a low level.

### Earnings before interest, taxes, depreciation and amortization (EBITDA)

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose by CHF 14.6 million or 23.7 % to CHF 76.0 million in this year. The currency effect in the amount of CHF 2.5 million had a positive impact. The EBITDA margin rose substantially in the financial year, from 12.1 % in 2015 to 13.8 % in 2016. If the one-off effect from employee benefits is taken into account, EBITDA reached CHF 83.1 million and the EBITDA margin 15.0 %.

### Depreciation and impairment

Depreciation increased massively this year, by 21.5 %, to CHF 34.6 million. The reasons for this were the high investments in recent years, particularly in the System Parts segment. Relative to sales, depreciation rose from 5.6 % to 6.3 %. At CHF 74.9 million, investments significantly exceeded depreciation in the reporting year; consequently, this expense item is set to continue growing over the coming years.

### Operating profit (EBIT)

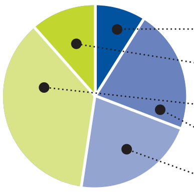
Feintool generated an operating profit (EBIT) of CHF 41.3 million (previous year CHF 32.9 million), which equates to an EBIT margin of 7.5 % (previous year 6.5 %). The positive currency effect on the EBIT level amounted to CHF 1.6 million. In local currency terms, Feintool increased its operating profit (EBIT) by 20.8 %. All segments and regions generated an operating profit. The EBIT with the inclusion of the one-off effect from the Swiss pension fund reached CHF 48.4 million and the EBIT margin 8.8 %.

**9.3 %**

**EBIT margin**
in high-volume parts production

The operating results of the System Parts segment rose significantly by CHF 8.6 million or 23.9 % (by 19.8 % when adjusted for currency effects) to CHF 44.4 million (previous year CHF 35.8 million). The sales growth due to the good automobile economy and new launches or the ramp-up of many products led to higher capacity utilization at most companies, which had a positive impact on margins overall. The programs for increasing efficiency at all locations and higher added value have supported this pleasing development. The EBIT margin increased significantly to 9.3 % as a result of this. The American operations contributed the largest share to earnings with an EBIT of CHF 17.4 million. This equates to an increase of 10.3 % relative to the previous year. The appreciation of the US dollar had a positive impact of CHF 0.4 million. In the local currency, the increase still amounted to 7.6 %. The European fineblanking operations reported a decrease of CHF 0.3 million or 2.6 % in their operating result. Currency movements between the euro and the Swiss franc had a positive impact in the amount of CHF 0.3 million. In total, this segment generated an operating result in the amount of CHF 10.7 million. With an operating profit of CHF 10.6 million, the Forming Europe segment almost doubled its results from the previous year (previous year CHF 5.5 million). It also increased a solid 88.2 % without the currency support. This segment profited from the rapid growth of orders that were won on the market in previous years. In Asia Feintool increased EBIT in the parts business by 25.3 % (13.0 % when adjusted for currency effects) to CHF 5.7 million. For the first time, the production site in China also reported positive earnings, even if they were very modest at CHF 0.2 million or an EBIT margin of 2.1 %.

## EBIT




The Fineblanking Technology segment generated an operating profit of CHF 4.3 million (previous year CHF 4.6 million). The margin fell significantly year on year to 4.7 % (previous year 5.2 %). The main reason for this development is the costs in the amount of CHF 1.2 million for the reorganization of the China business. The technology center created in Shanghai in 2013 was too large for the needs of Feintool and will be reduced in 2017. The expenditures required for this have been set aside in the year under review. Research expenses were consciously increased to CHF 5.6 million, as they constitute an investment in the future.

The non-operating units incurred costs of CHF 6.9 million (previous year CHF 7.0 million).

### Net financial income/finance costs

Net financial income/finance costs fell significantly to CHF -3.2 million (previous year CHF -3.7 million). This includes a currency profit of CHF 0.5 million (previous year CHF 0.1 million). The net financial expenses not including currency effects remained CHF 3.7 million.

### Taxes

The tax expense of Feintool companies totaled CHF 13.2 million. The effective tax rate of 29.1 % is just below the weighted tax rate of 29.3 % due to special effects. Feintool's main markets – Germany, the US and Japan – all have high taxes. This also explains the high tax rate for Feintool.

### Discontinued operations

Discontinued operations comprise IMA Automation Amberg GmbH and its associated operating premises. There were no transactions in discontinued operations during the financial year.

### Net income

Net income rose to CHF 32.1 million (previous year CHF 20.1 million), which translates into a net return on sales of 5.8 % (previous year 3.9 %). This includes the tax-adjusted one-off effect from the Swiss pension fund in the amount of CHF 5.5 million. The net income is CHF 26.6 million without this effect, corresponding to a net return on sales of 4.8 %.

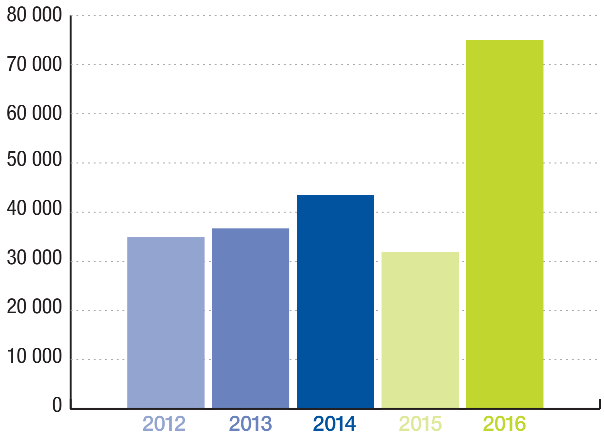
## CONSOLIDATED BALANCE SHEET

The extraordinarily high investments and the issuance of a promissory note loan led to a significant expansion of the balance sheet in the year under review. Total assets rose by 24.3 % or CHF 103.8 million to CHF 530.7 million.

Current assets rose significantly, by CHF 64.9 million, to CHF 256.0 million. Cash and cash equivalents increased by CHF 61.2 million to CHF 92.8 million due to the inclusion of the promissory note loan. Accounts receivables increased again (+ 2.6 %) and totaled CHF 85.7 million. As a percentage of sales, receivables fell from 16.4 % to 15.5 %, however. The general trend in the automobile industry is to have longer terms of payment, and this was also observed in the year under review. Total receivables sold in the context of the factoring programs - which are not required to be included on the balance sheet - increased to CHF 10.5 million (previous year CHF 8.2 million). Inventories and net assets of work orders and work in progress fell minimally to CHF 72.1 million despite the increase in sales. Accrued income fell to CHF 3.1 million.

The operating net current assets remained unchanged at CHF 70.4 million and thus still totaled 12.8 % of sales (previous year 13.8 %). While the increase in customer receivables was disproportionately low and inventories remained at the level of the previous year, liabilities to suppliers rose by 24.8 % to CHF 55.4 million. Feintool continues to systematically use discounts and payment rebates granted by some important suppliers.

**Gross Investments**
in kCHF




Assets rose heavily, due to more massive investments of CHF 74.9 million (+ 16.5 %), to CHF 274.8 million. Property, plant and equipment grew by CHF 39.4 million to CHF 237.5 million. Intangible assets rose by CHF 1.6 million to CHF 18.4 million. The increase largely resulted from capitalized development costs in the year under review.

Financial assets fell further to CHF 1.6 million. The customer tools prefinanced by Feintool fell again by CHF 1.0 million.

Deferred tax assets fell slightly to CHF 17.3 million (previous year CHF 18.1 million).

On the liability side, debt rose substantially, by CHF 81.8 million, to CHF 300.8 million. Trade payables and other liabilities rose by CHF 6.4 million and totaled CHF 70.7 million, although the increase was limited to trade payables. Accrued expenses and deferred income, short- and long-term provisions as well as deferred tax liabilities remained virtually unchanged at CHF 53.2 million. Liabilities for the pension fund (IAS 19) rose by CHF 0.5 million to CHF 63.1 million in the financial year. The restructuring of the Swiss pension fund had a one-off positive effect of CHF 7.1 million on this item due to the reduction in the conversion rate for pension funds. On the other hand, changes in actuarial assumptions had a negative effect in the amount of CHF 5.4 million.

Interest-bearing liabilities rose by CHF 66.3 million to CHF 108.9 million. CHF 15.9 million of the interest-bearing liabilities are short-term. Long-term interest-bearing liabilities rose by CHF 76.6 million to CHF 93.0 million in the year under review. On July 15, 2016, Feintool had a promissory note loan in the amount of EUR 65 million with three tranches that have terms of five, seven and ten years and bear interest at rates between 0.90 and 1.66 %. This loan caused a substantial increase in this item. The majority of the borrowed money is reported in cash and cash equivalents as at December 31, 2016. All covenants – both for the promissory note loan and for the bank loans – have been complied with as of December 31, 2016.

Net debt only increased by an insignificant amount in the financial year, to CHF 16.2 million (previous year CHF 11.1 million) despite very high investments.

Equity stood at CHF 229.9 million as at December 31, 2016 (previous year CHF 207.9 million). The equity ratio fell from 48.7 % to 43.3 % due to the expansion of the balance sheet. The statement of changes in equity shows that consolidated earnings caused equity to increase by CHF 32.1 million. The distributed dividend reduced equity by CHF 6.7 million. Actuarial losses relating to employee benefit obligations (IAS 19) and charged directly to equity had a negative effect on equity of CHF 5.4 million, while currency differences of CHF 1.6 million had a positive impact on equity.

## CONSOLIDATED STATEMENT OF CASH FLOWS

**14.7**

**Operating cash flow (in CHF million)**
despite very high investments

The cash flow from operations was very positive at CHF 74.1 million (previous year CHF 40.1 million). In the reporting year, net working capital fell by CHF 8.0 million. The cash flow from investment activity is massively negative at CHF 59.4 million. In addition, lease financing was carried out to the tune of CHF 15.5 million. Overall, therefore, this resulted in a cash flow from operating activities of CHF 14.7 million (previous year CHF 10.2 million). Feintool financed the very high investments once again from its operating business.

## EMPLOYEES

The number of employees (excluding trainees) increased by 190 to 2 239 in the financial year. In addition, 68 (previous year 75) young persons are currently with our company as trainees. The System Parts segment employed a total of 1 962 persons - an increase of 182. An increase was seen in all regions (Europe + 119, America + 38 and Asia + 25). The Fineblanking Technology segment employed 242 people at the end of the year (+ 5 on the previous year). Thirty five members of staff (+ 3) were employed in units not directly involved with operations.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 2016 financial year (January 1 to December 31, 2016)

| | Note | 2016 in CHF 1 000 | 2016 in % | 2015 in CHF 1 000 | 2015 in % |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| **Net sales** | **4** | **552 237** | **100.0** | **508 936** | **100.0** |
| | | | | | |
| Change in finished and semi-finished goods and work in progress | | -893 | | 175 | |
| Capitalized self-generated assets | 5 | 5 603 | | 2 393 | |
| Material cost | | -245 049 | | -238 992 | |
| Personnel expenses [1] | 6 | -159 041 | | -149 276 | |
| Other operating expenses | 7 | -71 769 | | -63 943 | |
| Other operating income | 8 | 1 980 | | 2 129 | |
| **Earnings before interest, taxes, depreciation and amortization (EBITDA) [1] [2]** | | **83 068** | **15.0** | **61 422** | **12.1** |
| | | | | | |
| Depreciation and amortization | 18, 19 | -34 646 | | -28 521 | |
| **Operating profit (EBIT) [1] [3]** | | **48 422** | **8.8** | **32 901** | **6.5** |
| | | | | | |
| Financial expenses | 9 | -11 716 | | -17 755 | |
| Financial income | 10 | 8 527 | | 14 068 | |
| **Earnings before taxes** | | **45 233** | **8.2** | **29 214** | **5.7** |
| | | | | | |
| Income taxes | 11, 12 | -13 171 | | -9 139 | |
| **Net income from continuing operations** | | **32 062** | **5.8** | **20 075** | **3.9** |
| **Discontinued operations** | | | | | |
| Effect on net income from discontinued operations, net of income taxes | 3 | – | | 720 | |
| **Net income attributable to Feintool Holding shareholders** | | **32 062** | **5.8** | **20 795** | **4.1** |

[1] In financial year 2016, the Swiss pension fund approved an amendment to the regulations, which, according to IAS 19, had a positive impact on the statement of comprehensive income to the tune of kCHF 7 083. This effect results in an EBIT margin of 8.8 %. Without this impact, the results would have been as follows:
EBITDA kCHF 75 985; EBITDA margin 13.8 %
EBIT kCHF 41 339; EBIT margin 7.5 %
Further reference is made to Sections 1 and 6 of the Notes.

[2] Includes the operating result before depreciation and amortization, (net) financial income and income tax.

[3] Includes the operating result before (net) financial income and income tax.

| | Note | 2016 in CHF 1 000 | 2016 in % | 2015 in CHF 1 000 | 2015 in % |
|---|---|---|---|---|---|
| **Other comprehensive income** | | | | | |
| **Items that may be reclassified to profit or loss** | | | | | |
| Translation differences | | 1 643 | | -5 907 | |
| | | | | | |
| **Items that may not be reclassified to profit or loss** | | | | | |
| Reassessment of net defined benefit liability (asset) | | -7 036 | | -5 075 | |
| Income taxes on other comprehensive income | | 1 632 | | 1 096 | |
| **Total other comprehensive income** | | **-3 761** | | **-9 886** | |
| | | | | | |
| **Total comprehensive income attributable to Feintool Holding shareholders** | | **28 301** | | **10 909** | |
| | | | | | |
| Net income attributable to Feintool Holding shareholders | | 32 062 | | 20 795 | |
| Total comprehensive income attributable to Feintool Holding shareholders | | 28 301 | | 10 909 | |
| | | | | | |
| Basic earnings per share (in CHF) | 13 | 7.20 | | 4.67 | |
| Diluted earnings per share (in CHF) | 13 | 7.20 | | 4.67 | |
| | | | | | |
| Basic earnings per share from continuing operations (in CHF) | 3, 13 | 7.20 | | 4.51 | |
| Diluted earnings per share from continuing operations (in CHF) | 3, 13 | 7.20 | | 4.51 | |
| **EBIT** | | | | | |
| Continuing operations | | 48 422 | | 32 901 | |
| Discontinued operations | | – | | 720 | |
| **Total EBIT of the Feintool Group** | | **48 422** | | **33 621** | |
| **Number of employees** | | | | | |
| **Number of employees excl. 68 (previous year 75) trainees** | **6** | **2 239** | | **2 049** | |

# CONSOLIDATED BALANCE SHEET

for the 2016 financial year (as at December 31, 2016)

| | Note | 12/31/2016 in CHF 1 000 | in % | 12/31/2015 in CHF 1 000 | in % |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | | 92 752 | | 31 550 | |
| Trade and other receivables | 14 | 85 681 | | 83 529 | |
| Tax receivables | | 2 285 | | 7 | |
| Inventories | 15 | 45 082 | | 41 040 | |
| Net assets of construction contracts/work in progress | 16 | 27 044 | | 31 430 | |
| Prepaid expenses and accrued income | 17 | 3 108 | | 3 508 | |
| **Total current assets** | | **255 952** | **48.2** | **191 064** | **44.8** |
| | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 18 | 237 473 | | 198 121 | |
| Intangible assets | 19 | 18 384 | | 16 738 | |
| Financial assets | 20 | 1 592 | | 2 859 | |
| Deferred tax assets | 12 | 17 338 | | 18 111 | |
| **Total non-current assets** | | **274 787** | **51.8** | **235 829** | **55.2** |
| **TOTAL ASSETS** | | **530 739** | **100.0** | **426 893** | **100.0** |
| | | | | | |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Financial liabilities | 21 | 15 919 | | 26 216 | |
| Trade and other payables | 22 | 70 674 | | 64 267 | |
| Tax liabilities | | 4 931 | | 3 573 | |
| Accrued expenses and deferred income | 23 | 33 422 | | 29 702 | |
| Current provisions | 24 | 6 899 | | 5 865 | |
| **Total current liabilities** | | **131 845** | **24.8** | **129 623** | **30.4** |
| | | | | | |
| **Non-current liabilities** | | | | | |
| Financial liabilities | 21 | 93 005 | | 16 390 | |
| Non-current provisions | 24 | 1 422 | | 1 518 | |
| Deferred tax liabilities | 12 | 11 442 | | 8 926 | |
| Employee benefit liabilities | 27 | 63 100 | | 62 567 | |
| **Total non-current liabilities** | | **168 969** | **31.9** | **89 401** | **20.9** |
| **Total liabilities** | | **300 814** | **56.7** | **219 024** | **51.3** |
| | | | | | |
| **Equity** | | | | | |
| Share capital | | 44 630 | | 44 630 | |
| Capital reserves | | 99 734 | | 106 224 | |
| Retained earnings | | 114 093 | | 87 435 | |
| Treasury shares | | -660 | | -905 | |
| Translation differences | | -27 872 | | -29 515 | |
| **Total equity** | | **229 925** | **43.3** | **207 869** | **48.7** |
| **TOTAL EQUITY AND LIABILITIES** | | **530 739** | **100.0** | **426 893** | **100.0** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**for the 2016 financial year (January 1 to December 31, 2016)**

| in CHF 1 000 | Share capital | Treasury shares | Capital reserves | Retained earnings | Translation differences | Total equity |
|---|---|---|---|---|---|---|
| **January 1, 2015** | **44 630** | **-1 225** | **112 464** | **70 619** | **-23 608** | **202 880** |
| Translation differences | – | – | – | – | -5 907 | -5 907 |
| Reassessment of net defined benefit liability (asset), net of tax | – | – | – | -3 979 | – | -3 979 |
| **Total other comprehensive income** | **–** | **–** | **–** | **-3 979** | **-5 907** | **-9 886** |
| Net income attributable to Feintool Holding shareholders | – | – | – | 20 795 | – | 20 795 |
| **Total comprehensive income attributable to Feintool Holding shareholders** | **–** | **–** | **–** | **16 816** | **-5 907** | **10 909** |
| Dividend [1] | – | – | -6 673 | – | – | -6 673 |
| Purchase/(sale) of treasury shares | – | – | – | – | – | – |
| Share-based management remuneration [2] | – | 320 | 433 | – | – | 753 |
| **December 31, 2015** | **44 630** | **-905** | **106 224** | **87 435** | **-29 515** | **207 869** |
| | | | | | | |
| **January 1, 2016** | **44 630** | **-905** | **106 224** | **87 435** | **-29 515** | **207 869** |
| Translation differences | – | – | – | – | 1 643 | 1 643 |
| Reassessment of net defined benefit liability (asset), net of tax | – | – | – | -5 404 | – | -5 404 |
| **Total other comprehensive income** | **–** | **–** | **–** | **-5 404** | **1 643** | **-3 761** |
| Net income attributable to Feintool Holding shareholders | – | – | – | 32 062 | – | 32 062 |
| **Total comprehensive income attributable to Feintool Holding shareholders** | **–** | **–** | **–** | **26 658** | **1 643** | **28 301** |
| Dividend [3] | – | – | -6 686 | – | – | -6 686 |
| Purchase/(sale) of treasury shares | – | -510 | – | – | – | – |
| Share-based management remuneration [2] | – | 755 | 196 | – | – | 951 |
| **December 31, 2016** | **44 630** | **-660** | **99 734** | **114 093** | **-27 872** | **229 925** |

[1] The General Meeting held on April 14, 2015 approved the Board of Directors' proposed dividend distribution of CHF 1.50 per registered share from earnings for the financial year ended December 31, 2014.

[2] The share based management remuneration involves payment of part of the salary in shares. See Note 29.

[3] The General Meeting held on April 19, 2016 approved the Board of Directors' proposed dividend distribution of CHF 1.50 per registered share from earnings for the financial year ended December 31, 2015.

# CONSOLIDATED STATEMENT OF CASH FLOWS

**for the 2016 financial year (January 1 to December 31, 2016)**

| | Note | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|---|
| Net income of the Feintool Group | | 32 062 | 20 795 |
| Depreciation and amortization | 18, 19 | 34 646 | 28 521 |
| (Gain)/loss on disposal of property, plant and equipment | 7, 8 | -204 | -208 |
| Increase/(decrease) in provisions and valuation allowances | | 1 076 | -980 |
| (Increase)/decrease in deferred taxes | | 3 203 | 3 039 |
| Other non-cash changes | | -4 623 | 1 339 |
| **Cash flows from operating activities before change in net working capital (NWC)** | | **66 160** | **52 506** |
| | | | |
| (Increase)/decrease in net working capital (NWC) | | 7 973 | -12 420 |
| **Cash flows from operating activities** | | **74 133** | **40 086** |
| | | | |
| Investments in property, plant and equipment | 18 | -57 838 | -26 067 |
| Disposals of property, plant and equipment | 18 | 832 | 842 |
| Investments in intangible assets | 19 | -3 348 | -1 235 |
| Disposals of intangible assets | 19 | 11 | 7 |
| Increase in financial assets | | -261 | -364 |
| Decrease in financial assets | | 1 214 | 3 196 |
| Purchase of consolidated investments net of cash | 2 | – | -6 291 |
| **Cash flows from investing activities** | | **-59 390** | **-29 912** |
| | | | |
| **Free cash flow** | | **14 743** | **10 174** |
| | | | |
| Dividends paid | | -6 686 | -6 673 |
| (Purchase)/Sale of treasury shares | | 246 | – |
| Borrowing of interest-bearing liabilities | | 91 166 | 18 884 |
| Repayment of interest-bearing liabilities | | -37 269 | -31 312 |
| **Cash flows from financing activities** | | **47 457** | **-19 101** |
| | | | |
| **Increase/(decrease) in cash and cash equivalents** | | **61 235** | **-10 172** |
| | | | |
| Cash and cash equivalents at the beginning of the period | | 31 550 | 41 722 |
| Translation differences | | -965 | -1 245 |
| Cash and cash equivalents at the end of the period | | 92 752 | 31 550 |
| | | | |
| Taxes paid | | -6 941 | -3 265 |
| Interest paid | | -1 780 | -2 000 |
| Interest received | | 108 | 100 |

New finance leasing contracts were concluded for kCHF 15 519 (previous year kCHF 3 236) during the financial year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**as at December 31, 2016**

## BUSINESS PERFORMANCE

Feintool International Holding AG, Industriering 8, 3250 Lyss, is a public limited company under Swiss law with headquarters in Lyss, Switzerland ("Company"). The consolidated financial statements for the period from January 1 to December 31, 2016, include the Company and its subsidiaries ("Feintool"). Feintool is the world's leading technology group specializing in the development of fineblanking systems and the production of ready-to-install fineblanking and forming components, notably for the automobile industry. The Group maintains close partnerships with its customers across the entire fineblanking and forming process – from component design, tool design and system construction through to large-scale series parts production. In addition to fineblanking, the Feintool Group also deploys other key processes such as precision forming and orbital technology, and is the world's only supplier of all-round solutions for the cost-effective manufacture of complex precision components.

With locations in Europe, Japan, China and the US, the Feintool Group is represented in the world's major automotive markets. Headquartered in Lyss, Switzerland, the Group has a headcount of 2 239. At its various locations, Feintool provides training for 68 young people in a number of skills (polymechanics, constructing engineers and commercial trades).

## GENERAL INFORMATION

The consolidated financial statements for the financial year are based on the financial statements of the Group companies as at December 31, 2016, which were prepared in accordance with consistent accounting policies.

The consolidated financial statements are prepared in accordance with Swiss law and the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The accounting principles of the SIX Swiss Exchange Listing Regulations have also been observed. In the management's opinion, the consolidated financial statements give a true and fair view of the Group's financial position, results of operations and cash flows.

The consolidated financial statements are prepared on a going-concern basis under the historical cost convention, with the exception of derivative financial instruments (measured at fair value) and net liability or assets from defined benefit plans (measured at present value of defined benefit obligations less fair value of plan assets).

The consolidated financial statements are prepared in Swiss francs (CHF), with amounts rounded to the nearest thousand (1 000). They are available in German and English. The German version is authoritative.

## DISCONTINUED OPERATIONS

On July 31, 2014, Feintool sold IMA Automation Amberg GmbH, Amberg and its operating premises to the German-Chinese automotive group Preh GmbH, Bad Neustadt a.d. Saale. All Automation segment activities and related operations that are being sold or discontinued in connection with the sale are presented in a separate "Discontinued operations" line item in the statement of comprehensive income.

## FINANCIAL COVENANTS

On July 15, 2016, a promissory note was issued in the amount of EUR 65 million. The issuer, with a guarantee from Feintool International Holding AG, is Feintool Holding GmbH based in Germany. The loan is divided into three tranches with different maturities.

- EUR 25 million, term of 5 years, fixed interest rate of 0.90 %;
- EUR 25 million, term of 7 years, fixed interest rate of 1.10 %;
- EUR 15 million, term of 10 years, fixed interest rate of 1.66 %.

Standard covenants are defined in the loan agreement. The only material covenant to be complied with is:

- Equity ratio > 25 %

Simultaneous to the issue of the promissory note, the syndicated loan concluded with eight banks for a total of CHF 80 million for cash loans was reduced to CHF 25 million. The performance and advanced payment guarantees of CHF 10 million remain unchanged. Standard covenants are defined in the syndicated loan. The most important covenants to be observed in relation to this agreement are as follows:

- Equity ratio > 30 %
- Net Senior Debt / EBITDA < 3.0 x

The syndicated loan runs until June 30, 2017. At the present time, talks are being held with various banks on the creation of a new facility.

Credit agreements concluded on a bilateral basis with various banks also contain standard covenants. If the Group were unable to meet these covenants, the banks would have the right to terminate the loans at short notice.

As at December 31, 2016, all covenants had been met.

## KEY ESTIMATES

The consolidated financial statements contain assumptions and estimated amounts which affect the amounts reported. Should these estimates and assumptions prove incorrect or incomplete, this may substantially affect the amounts reported and therefore Feintool's financial position, results of operations and cash flows.

### Property, plant and equipment

Items of property, plant and equipment are carried at cost less accumulated depreciation. Feintool regularly reviews whether the depreciation period chosen at the time matches the actual useful life, or capacity utilization rate, of the item of property, plant and equipment. If significant differences between the depreciation period and useful life are identified, the depreciation period is adjusted accordingly. If the expected cash flows on the item of property, plant and equipment no longer cover future depreciation, impairment losses are recognized.

### Intangible assets/goodwill

The fair value of intangible assets is estimated at the date of acquisition. The residual value (difference between the purchase price and fair value of net assets acquired) represents goodwill. Most intangible assets acquired have a finite life and are therefore amortized. Goodwill has an indefinite life and is not amortized, but is instead tested annually for impairment. The allocation to intangible assets and goodwill on the acquisition date therefore has an effect on amortization in subsequent periods.

When testing goodwill for impairment, various estimates are made which require medium and long-term (terminal value) estimates. This relates to both internally projected data (cash flow, growth rates, etc.) and external parameters (discount rate). Should these estimates prove incorrect, significant changes in value might result. Further information is given in Note 19.2.

### Current tax receivables and deferred tax assets

Feintool is liable to taxation in various jurisdictions. Provisions for income taxes incurred worldwide are based on estimates. For many transactions and calculations in its ordinary business, the tax charge is uncertain. If actual tax charges differ from the estimated charges, the corresponding adjustment is recognized in the financial year in which the definitive assessment is made. Management considers the corresponding estimates to be realistic and the corresponding provisions to be appropriate. Deferred tax assets are formed from temporary differences, and from tax loss carryforwards, but only if realization is deemed probable. The recoverable amount of capitalized tax assets recognized for loss carryforwards is therefore based on future forecasts for the relevant taxable entity over a period of several years. Should these future forecasts prove incorrect, significant changes in value might result. Further information is given in Notes 11 and 12.

### Research & development

On its balance sheet, Feintool carries purchased as well as its own research and development work if the following conditions are met cumulatively:

- Technical feasibility of completion of the intangible asset, so that it will be available for sale directly or indirectly
- Intention to complete and sell the asset directly or indirectly
- Ability to sell the asset directly or indirectly,
- Evidence of the future benefit to the products of the intangible asset,
- Availability of adequate financial, technical and other resources for conclusion of the development,
- Reliable measurability of the production costs.

All the above points are based on assumptions. Should these assumptions prove incorrect or incomplete, this may substantially affect valuation of the corresponding intangible asset. Further information is given in Note 19.1.

### Provisions

Provisions are recognized if (a) a present obligation to a third party has arisen as a result of a past event, (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (c) the amount of the obligation can be reliably estimated. Provisions are recognized for a number of possible events and are explained in detail in Note 24. By definition, however, they involve a higher degree of estimation than other items in the balance sheet, since the estimated obligations may result in a higher or lower outflow of funds depending on the outcome of the situation.

### Employee benefit plans

Feintool operates defined benefit plans for its employees in three countries. Their accounting status is in part based on long-term actuarial assumptions, which may differ from reality. Reassessments arising from changes in assumptions regarding life expectancy, developments in the capital market and changes in discount rates can amount to considerable sums. These are recognized directly in equity (other comprehensive income). Calculation of the respective underlying percentages involves estimated amounts that may substantially affect the financial position and results of operations. Further information is given in Note 27.

The Board of Directors and management believe the basis of planning and the assumptions to be realistic.

## SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

With the exception of newly issued or revised Standards and Interpretations that became effective in the financial year, Feintool essentially applies the same accounting policies as those applied in the previous year. On January 1, 2016, Feintool adopted the following new Standards and Interpretations:

- Annual Improvements IFRS – 2012 to 2014 Cycle
- Amendments to IFRS 11 – Accounting for Acquisitions of Interest in Joint Operations
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation
- Amendments to IFRS 10, 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception
- Amendments to IAS 27 – Equity Method in Separate Financial Statements
- Amendments to IAS 1 – Disclosure Initiative

Feintool is either unaffected by these changes, or the changes have no effect or no material effect on its financial position, results of operations or cash flows.

## NEW ACCOUNTING REQUIREMENTS

At the end of the reporting period, various new IFRS requirements had been issued but were not yet effective. Feintool decided against early adoption of the following Standards, revised Standards and Interpretations. Feintool plans to adopt the changes from the financial years beginning on or after the date indicated:

- IFRS 9 – Financial Instruments (January 1, 2018)
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (January 1, 2018)

The new requirements are being analyzed at the present time. Feintool anticipates that these changes will have no impact or no significant impact on the financial position, results of operations and cash flows.

- IFRS 15 – Revenue from Contracts with Customers (January 1, 2018)

The effects of this standard were analyzed extensively. Today, Feintool assumes that the new Standard will only have an insignificant impact on the Group’s financial position, results of operations and cash flows. Individual – relatively rarely occurring – business transactions may cause an increase in the volatility of business results, however. There were no such business transactions in the year under review. Today, Feintool assumes that the preceding period will be adjusted accordingly when the standard is introduced.

- IFRS 16 – Leases (January 1, 2019)

Feintool anticipates that this new Standard will have significant impacts on the Group's financial position, results of operations and cash flows. In particular, the new standard will lead to an increase of total assets. The new rule is currently being analyzed and preparations made for its implementation. At the current point in time, however, it is not possible to gauge their impact definitively.

- Annual Improvements IFRS – 2014 to 2016 Cycle (January 1, 2017)
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses (January 1, 2017)
- Amendments to IAS 7 – Disclosure Initiative (January 1, 2017)
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions (January 1, 2018)
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (January 1, 2018)
- Amendments to IAS 40 – Transfers of Investment Property (January 1, 2018)

Feintool is assessing the impacts of the revised Standards and Interpretations. Based on its initial findings, Feintool does not foresee any significant impacts on its financial position, results of operations or cash flows.

## BASIS OF CONSOLIDATION

The consolidated financial statements in principle encompass the annual financial statements of Feintool International Holding AG, Lyss (Switzerland), in addition to the financial statements of all Group companies in which Feintool International Holding AG directly or indirectly owns more than 50 % of the voting rights or that it controls in any other way. A list of all equity investments is provided on page 86.

On October 12, 2016, Feintool International Holding AG, Lyss founded the subsidiary Feintool System Parts Most s.r.o. in the Czech Republic. It is part of the Feintool System Parts segment and its purpose is the production and sale of fineblanked and formed parts.

Feintool Intellectual Property AG in Lyss was placed in liquidation with the resolution of the General Meeting of March 21, 2016.

Retroactive as of January 1, 2016, HL Immobilien AG, Lyss, merged with Feintool System Parts Lyss AG.

The company Feintool International Management AG in Lyss was liquidated on May 27, 2014, and removed from the commercial register on June 3, 2015.

Effective on March 30, 2015, Feintool Holding GmbH, Amberg DE, acquired 100 % of Gabler Feinschneidtechnik GmbH in Oelsnitz, Germany. The acquired company was renamed Feintool System Parts Oelsnitz GmbH. Since then, there have not been any changes to the purchase price allocation.

The Chinese company Feintool (Chongquing) Technology Co. Ltd. was set in liquidation on January 1, 2015.

Retroactive as of January 1, 2015, Feintool Teile und Komponenten AG, Lyss, merged with Feintool System Parts AG. To make Feintool's Group structure consistent, Feintool Teile und Komponenten AG, Lyss, was renamed Feintool System Parts Lyss AG.

## METHOD OF CONSOLIDATION

All companies that Feintool controls are included in the consolidated financial statements according to the full consolidation method. Assets and liabilities as well as income and expenses are therefore included in full in the consolidated financial statements. Minority interests in equity and income are disclosed separately in the consolidated balance sheet and the statement of comprehensive income. Intercompany liabilities, credits, expenses and income are offset. Unrealized temporary gains on inventories or assets are eliminated on consolidation.

## ACQUISITIONS AND GOODWILL

Newly acquired companies are consolidated using the acquisition method. The balance sheet and income statement are consolidated at the date on which control is obtained. The difference between the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiring party, on the one hand, and the purchase price, on the other, is recognized as goodwill. Acquisition costs are charged immediately to the statement of comprehensive income. After initial measurement, goodwill is reported at cost less any impairments. Goodwill is tested for impairment annually by calculating the recoverable amount (higher of fair value minus disposal costs and value in use) of the relevant cash generating units or group of cash generating units. Where the recoverable amount is less than the carrying amount, an impairment is recognized in the income statement.

In the past, the cash-generating unit was set to the level of the manufacturing plant. As the Group has grown over the past few years, the internal organization and leadership structure of Feintool was adjusted to the new circumstances. Decisions are often made on the level of the business units. Sales are centralized within the business units; orders are distributed across them on the basis of the specific skills of individual plants (machinery, employee experience). This optimizes cash flows for the business units, although the cash flows of the individual production locations change randomly. For this reason, Feintool has also introduced impairments on the level of the business units starting with financial year 2016.

When a Group company is sold or control over a Group company is lost, the difference between the selling price and the net assets sold, including goodwill and cumulative foreign exchange gains, is recognized in the income statement under either "Other operating income" or "Other operating expenses". The company is deconsolidated on the date on which control over it is lost.

## CURRENCY TRANSLATION

The functional currency of the consolidated entities is the currency of their local economic environment. Transactions in foreign currencies are translated at the respective daily rate. Monetary assets and liabilities in foreign currency are converted into the functional currency at the rate of exchange prevailing on the balance sheet date. In principle, the exchange translation differences are reported in net financial income/finance costs. Non-monetary assets and liabilities at historical cost are translated at the exchange rate applicable at the time of the transaction.

On consolidation, the balance sheet amounts of foreign subsidiaries are translated at closing rates, equity at historical rates and the amounts in the statements of income and cash flows at average rates for the year. Exchange differences arising from translation differences in balance sheets and income statements are directly recognized in other comprehensive income and reported under shareholders' equity. When a Group company is sold or liquidated, or when control over the company is lost, the cumulative translation differences are reclassified to net income as part of the gain or loss on disposal.

Foreign currency gains on certain equity-type loans that form part of the net investment in a company are recognized in the statement of comprehensive income (other comprehensive income), provided settlement of these loans is neither planned nor likely to occur in the near future.

The Feintool Group used the following exchange rates in financial years:

| | | 2016 | | 2015 | |
|---|---|---|---|---|---|
| | | Closing rate | Average rate | Closing rate | Average rate |
| Eurozone | EUR 1 | 1.0739 | 1.0905 | 1.0835 | 1.0646 |
| USA | USD 1 | 1.0188 | 0.9882 | 0.9952 | 0.9648 |
| Czech Republic | CZK 100 | 3.9743 | 4.0328 | 4.0236 | 3.9097 |
| Japan | JPY 100 | 0.8703 | 0.8928 | 0.8267 | 0.7992 |
| China | CNY 100 | 14.6226 | 14.7479 | 15.2970 | 15.2921 |

## FINANCIAL ASSETS AND LIABILITIES

Feintool distinguishes between the following categories of financial assets and financial liabilities:

- Financial assets or financial liabilities at fair value through profit or loss:
  These are financial instruments acquired with a view to active management. All derivatives are classified under this heading. These assets are stated at fair value, and all fluctuations in their value are presented in net financial income/finance costs. The fair values of the derivative financial instruments are calculated by the banks.

- Loans and receivables:
  These primarily comprise trade receivables and loans granted to third parties. They are measured at their nominal amount, or stated at amortized cost using the effective interest method.

- Financial assets available for sale:
  Financial instruments in this category are stated as assets at fair value, with fluctuations in value - whilst taking account of any deferred taxes - being recognized in other comprehensive income. They are only reclassified to net income on disposal of the financial instrument or in the event of impairment.

Financial assets are initially measured at cost, including transaction costs, with the exception of financial assets at fair value through profit or loss, which are capitalized excluding transaction costs. All purchases and sales of financial assets are recognized on the trade date.

Financial liabilities mainly include debt and trade payables, which are measured at amortized cost. Financial liabilities designated at fair value through profit or loss (derivatives) are stated at fair value. Non-current financial liabilities are measured using the effective interest method. In addition to the actual interest payments, interest expenses therefore also include the amounts of annual interest cost and pro rata transaction costs.

Financial assets are de-recognized when Feintool cedes control, i.e. when the related rights are sold or expire. Financial liabilities are de-recognized when repaid.

Currently, Feintool does not apply hedge accounting.

## BALANCE SHEET

### Cash and cash equivalents

Cash and cash equivalents comprise cash holdings, balances on postal and bank accounts as well as fixed-term deposits with a maturity not exceeding 90 days.

### Trade receivables/other receivables

This item contains accounts receivable from ordinary business activities. Bad debt provisions on trade receivables are calculated and recognized based on the actual risk of loss. This includes specific valuation allowances for receivables at risk and a global valuation allowance for the assumed credit risk. Other receivables are stated at their nominal amount less writedowns.

### Inventories

Raw materials and purchased goods are stated at weighted average cost. Finished and semi-finished goods are stated at cost of conversion including manufacturing overheads, but at no more than their net realizable values. Inventories with low turnover and obsolete items are written down by an appropriate amount.

### Net assets of construction contracts/work in progress

This item includes all construction contracts and work in progress less prepayments received and necessary allowances for identifiable risks. Construction contracts are accounted for using the percentage of completion (POC) method, provided the following conditions are met:

- The contract value is greater than CHF 500 000 or the equivalent in foreign currency.
- Revenues from the contract can be reliably calculated.
- It is likely that the economic benefit linked to the construction contract will accrue to the company.
- Contract costs and the stage of completion of the construction contract can be reliably measured.

If these conditions are not met, the income is recognized when the risks and rewards are transferred. If it is expected that the costs from a construction contract will exceed the contractually agreed income, the expected overall loss from the order is charged immediately and in full to the statement of comprehensive income.

The stage of completion of construction contracts is obtained from the ratio between the contract costs incurred and the total cost of the contract (cost-to-cost method), or based pro rata on the time spent (effort-expended method), provided the project can be assumed to proceed on a straight-line basis.

Work in progress is stated at the cost of conversion.

### Property, plant and equipment

Items of property, plant and equipment are carried at cost less accumulated depreciation. Cost includes any costs attributable to bringing the asset to the condition necessary for it to operate in the intended manner. Borrowing costs are a component of cost if they are directly attributable to the asset. Subsequent maintenance costs are recognized in the carrying amount if the operational life is extended as a result or production capacity can be increased. Non-value-enhancing maintenance work and repairs are recognized in the income statement. Components of property, plant and equipment with different useful lives are recognized individually and depreciated separately. Depreciation is recognized on a straight-line basis over the estimated useful life. As a rule, land is not written down. Impairments (see separate section) are recognized when the carrying amount no longer appears to be recoverable. Such impairments are presented separately.

As a rule, the following depreciation periods are applied:

| | |
|---|---|
| Buildings: | 20 to 40 years |
| Plant and equipment: | 5 to 15 years |
| Vehicles: | 3 to 5 years |
| IT hardware: | 2 to 5 years |

Capitalized costs that are closely linked to leased premises are depreciated over a maximum of the contractually agreed lease term.

Government contributions (funding received) for assets (mostly fixed assets) are deducted from the cost of acquisition or manufacture of the asset in question. As the funding usually comes with certain conditions attached that, if not complied with, would result in the funding having to be repaid, the funding received is also declared as a contingent liability.

### Intangible assets

Intangible assets primarily include goodwill, patents, software and certain development costs. The latter are only capitalized if the technical feasibility of completing an asset that is ready for market can be demonstrated, the costs can be measured reliably and the costs appear to be feasible based on the marketplace. Intangible assets are capitalized at cost and amortized over their estimated useful life on a straight-line basis. Any impairments are recognized when the carrying amount no longer appears to be recoverable. Such impairments are presented separately.

Intangible assets (with the exception of goodwill) have a finite life and are amortized as follows:

| | |
|---|---|
| Patents, brands: | max. 10 years |
| Capitalized development costs: | 3 to 5 years, max. 10 years |
| Software: | 2 to 5 years |

### Impairment

The recoverable amount of assets (property, plant and equipment, intangible assets) is reviewed when events or changes in circumstances indicate that the assets may be overvalued. In addition, the recoverable amount of goodwill is reviewed at least annually. If the carrying amount exceeds the recoverable amount (higher of fair value less disposal costs and value in use), it is immediately written down to the net realizable value. When calculating value in use, future cash flows are discounted using a pre-tax discount rate. This discount rate reflects current market assessments and risks specific to the assets in question.

### Leases (finance leases)

Finance lease arrangements where the risks and rewards of ownership are transferred to the buyer are recognized in the same way as normal purchases of property, plant and equipment or intangible assets. The asset and the corresponding lease liability are stated at the lower of fair value and the net present value of the lease payments owed. The leased asset is depreciated over its useful life or the shorter term of the lease if there is no reasonable certainty that the lessee will obtain ownership of the leased asset at the end of the lease. Operating leases are not recognized in the balance sheet but are disclosed in the Notes. Lease payments are recognized in the statement of comprehensive income, with any extraordinary elements (e.g. incentives at the beginning of the lease term) taken into account accordingly.

### Financial assets
Financial assets include loans granted to third parties and rental deposits. Depending on their nature (see "Financial assets and liabilities"), financial assets are stated at fair value or measured at amortized cost using the effective interest method. Gains and losses on these financial assets are recognized in net financial income/finance costs.

### Current liabilities
Current liabilities are those with a remaining term to maturity of less than one year. The current portion of non-current liabilities is also included.

### Accrued expenses and deferred income
Expenditures incurred in the period at the end of the reporting year, for which no receipts are yet available, are recognized under accrued expenses and deferred income. On the other hand, revenues received in advance in the period at the end of the reporting year for which no work has yet been performed are also recognized here. In the Feintool Fineblanking Technology segment in particular, it is often the case that clients are billed for fineblanking presses without all supplier invoices having been received as yet or all contractually agreed work on the press having been performed.

### Provisions
Provisions are recognized if (a) a present obligation to a third party has arisen as a result of a past event, (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and (c) the amount of the obligation can be reliably estimated. No provisions are recognized for future operating losses. Provisions are recognized for restructuring efforts when the Group company has a constructive obligation to implement restructuring as a result of communicating the plan to the individuals affected by it, and provided the costs can be reliably determined on the basis of a detailed plan. Reversals of provisions no longer required are recognized when the item for which the provision was originally recognized no longer exists or it is no longer probable that this item will occur.

### Deferred taxes
Deferred taxes are accounted for using the balance sheet liability method. Under this method, the tax implications of temporary differences between carrying amounts in the consolidated financial statements and the tax base are recognized as a non-current liability or asset. They are generally calculated on the basis of actual or expected local rates of tax. Deferred tax liabilities are calculated for all taxable temporary differences. Deferred tax assets, including those for tax loss carryforwards and expected tax credits, are only recognized if it is probable that profits will be available for realizing the loss carryforwards and tax credits.

Changes in deferred taxes are recognized in the income statement except for deferred taxes on amounts recognized directly in other comprehensive income, which are also recognized in other comprehensive income.

### Share-based payments
Shares are issued to Group management as part of their bonus at a contractually predefined amount. Individual members of the Board of Directors receive a contractually predefined number of shares as a bonus.

### Employee benefit plans
The Group operates various employee benefit plans, which differ depending on the circumstances of the individual company. The benefit plans are financed through contributions made by the employer and/or the employee to state pension systems, separate legal entities (trusts, insurance companies) or through the accumulation of corresponding provisions in the balance sheet of the company itself.

In the case of defined contribution plans, the accrued expenses correspond to the agreed contributions by the Group companies. In the case of defined benefit plans, the costs are calculated by independent experts in the form of an actuarial report using the projected unit credit method. The calculations are updated periodically. Benefit plans operated by external providers are funded plans, while the agreed commitments of the Group companies themselves are unfunded plans. The liability carried consists of the defined benefit obligation as defined by the actuary, less any assets recognized at fair value.

The expense recorded in the statement of comprehensive income is an actuarial calculation of the cost less contributions from employees. This comprises:

- Current service cost
- Interest on the net defined benefit liability
- Reassessments of defined benefit obligations

The current past service cost is recognized in personnel expense. The impact of changes in pension plan benefits is also reported in personnel expenses. The interest on the net defined benefit liability is recognized in financial expense. The expense or income from reassessments is recognized as other comprehensive income in the statement of comprehensive income.

Other long-term obligations to employees, such as anniversaries or sabbatical leave programs are recognized using the same methodology, with the exception that any actuarial changes are recognized in personnel expense.

### Equity

Equity represents the residual value (assets less liabilities). Capital reserves result from premium payments made by shareholders, transactions involving treasury shares, employee options and the fair value of conversion rights at the time of issue. Retained earnings comprise the income earned and retained by the Group as well as the reassessment of the net defined benefit liability (asset). Acquisitions of treasury stock are deducted from equity at cost. Other payments from equity instruments (derivatives classified as equity) are also taken directly as equity.

## REVENUE RECOGNITION

### Net sales

Net sales from the sale of goods and services are the sales revenues after taxes, credits and discounts. With the exception of construction contracts accounted for using the percentage of completion (POC) method, sales are recognized when the risks and rewards of ownership are transferred (see "Net assets of construction contracts/work in progress" on page 41 of this report).

Sales of goods include sales of machinery, including peripherals, tools, automation systems, fineblanked and formed parts, as well as spare parts. Service income comprises income from services performed on plant and machinery.

### Other operating income/expenses

Other operating income includes gains on the disposal of property, plant and equipment, investments and various smaller items of income, such as revenue from staff restaurants, IT costs charged to third parties and letting income.

Other operating expenses include operating costs with the exception of material cost and personnel expenses as well as depreciation.

Gains/losses on the disposal of property, plant and equipment are recognized when ownership and the incidental risks and rewards are transferred.

### Research & development

Order-related development costs are capitalized as work in progress. Research & development costs are charged in full to the statement of comprehensive income in the year in which they are incurred, provided they are not capitalized. Development costs for new products are capitalized only if there is a likely prospect of realization in technical and market terms, the cost can be measured reliably and it is probable that the expected future economic benefit attributable to the asset will accrue to Feintool.

### Interest

Interest is recognized using the effective interest method. Interest not yet received is reported at the end of the reporting period in deferred income. Interest is reported on the statement of comprehensive income under financial income.

## 1 SEGMENT INFORMATION

| 1.1 Products and services 2016<br>in CHF 1 000 | Fineblanking Technology | System Parts | Total segments | Finance/ Other | Eliminations | Total Group |
|---|---|---|---|---|---|---|
| Net sales | 92 718 | 479 298 | **572 016** | – | -19 779 | **552 237** |
| - Intersegment income | -19 766 | -13 | **-19 779** | – | 19 779 | **–** |
| **Total net sales – Group** | **72 952** | **479 285** | 552 237 | **–** | **–** | 552 237 |
| | | | | | | |
| Gross margin [1] | 36 881 | 190 462 | **227 343** | – | -4 802 | **222 541** |
| Effect of plan amendment in the financial year [2] | 1 940 | 1 264 | **3 204** | – | | **3 204** |
| Gross margin [1] | 38 821 | 191 726 | **230 547** | – | -4 802 | **225 745** |
| | | | | | | |
| **EBITDA before effect of plan amendment** | **7 105** | **75 895** | 83 000 | **-4 929** | **-2 086** | 75 985 |
| Effect of plan amendment in the financial year [2] | 3 880 | 2 528 | **6 408** | 675 | | **7 083** |
| **EBITDA after effect of plan amendment** | **10 985** | **78 423** | 89 408 | **-4 254** | **-2 086** | 83 068 |
| | | | | | | |
| Depreciation and amortization | -2 790 | -31 538 | **-34 328** | -1 990 | 1 672 | **-34 646** |
| | | | | | | |
| **Operating profit (EBIT)** | **4 315** | **44 357** | 48 672 | **-6 919** | **-414** | 41 339 |
| Effect of plan amendment in the financial year [2] | 3 880 | 2 528 | **6 408** | 675 | | **7 083** |
| **Operating profit (EBIT)** | **8 195** | **46 885** | 55 080 | **-6 244** | **-414** | 48 422 |
| | | | | | | |
| Financial expenses | | | | | | **-11 716** |
| Financial income | | | | | | **8 527** |
| Income taxes | | | | | | **-13 171** |
| | | | | | | |
| **Net income attributable to Feintool Holding shareholders** | | | | | | 32 062 |
| | | | | | | |
| **Assets** | **68 108** | **383 285** | 451 393 | **215 299** | **-135 952** | 530 740 |
| **Net working capital** [3] | **13 207** | **60 993** | 74 200 | **-3 638** | **-130** | 70 432 |
| **Investments in property, plant and equipment/intangible assets (incl. leases)** | **2 872** | **71 680** | 74 552 | **2 540** | **-2 238** | 74 854 |
| **Number of employees** | **242** | **1 962** | 2 204 | **35** | **–** | 2 239 |

| 1.2 Geographical areas 2016 | Switzerland | Europe excl. Switzerland | America | Asia | Total |
|---|---|---|---|---|---|
| **Total net sales – Group** [4] | **11 130** | **276 476** | **168 751** | **95 880** | **552 237** |
| thereof Germany | | 203 741 | | | |
| thereof Japan | | | | 41 291 | |
| thereof China | | | | 35 298 | |
| **Fixed and intangible assets** | **39 604** | **106 417** | **85 511** | **24 326** | **255 858** |

| **1.3 Products and services 2015** in CHF 1 000 | Fineblanking Technology | System Parts | **Total segments** | Finance/ Other | Eliminations | **Total Group** |
|---|---|---|---|---|---|---|
| Net sales | 87 779 | 438 018 | **525 797** | – | -16 861 | **508 936** |
| - Intersegment income | -16 854 | -7 | **-16 861** | – | 16 861 | **–** |
| **Total net sales – Group** | **70 925** | **438 011** | 508 936 | **–** | **–** | 508 936 |
| | | | | | | |
| Gross margin [1] | 34 449 | 165 896 | **200 345** | -63 | -4 451 | **195 831** |
| | | | | | | |
| **EBITDA** | **6 174** | **61 832** | 68 006 | **-4 668** | **-1 916** | 61 422 |
| Depreciation and amortization | -1 601 | -26 045 | **-27 646** | -2 348 | 1 473 | **-28 521** |
| **Operating profit (EBIT)** | **4 573** | **35 787** | 40 360 | **-7 016** | **-443** | 32 901 |
| | | | | | | |
| Financial expenses | | | | | | **-17 755** |
| Financial income | | | | | | **14 068** |
| Income taxes | | | | | | **-9 139** |
| | | | | | | |
| **Net income attributable to Feintool Holding shareholders** | | | | | | 20 075 |
| | | | | | | |
| **Assets** | **66 099** | **332 757** | 398 856 | **121 552** | **-93 515** | 426 893 |
| **Net working capital [3]** | **11 216** | **60 651** | 71 867 | **-1 543** | **-70** | 70 254 |
| **Investments in property, plant and equipment/intangible assets (incl. leases)** | **854** | **31 290** | 32 144 | **870** | **-1 217** | 31 797 |
| **Number of employees** | **237** | **1 780** | 2 017 | **32** | **–** | 2 049 |

| **1.4 Geographical areas 2015** | Switzerland | Europe excl. Switzerland | America | Asia | **Total** |
|---|---|---|---|---|---|
| **Total net sales – Group [3]** | **4 907** | **253 989** | **163 026** | **87 014** | 508 936 |
| thereof Germany | | 187 885 | | | |
| thereof Japan | | | | 39 302 | |
| thereof China | | | | 33 080 | |
| **Fixed and intangible assets** | **34 187** | **79 684** | **75 644** | **25 344** | 214 859 |

The following footnotes are applicable to the 2016 and 2015 financial years.

[1] The gross margin is calculated as net sales less material costs, the change in finished and semi-finished goods and work in progress, and direct personnel costs.

[2] In financial year 2016, the Swiss pension fund adopted an amendment to its regulation, which had a positive one-off effect of kCHF 7 083 on the statement of comprehensive income in accordance with IAS 19. Reference is also made to Note 6 in these Notes to the financial statements.

[3] Net working capital comprises trade receivables, inventories, net assets of construction contracts/work in progress and prepaid expenses and accrued income less trade payables, advance payments received from customers and accrued expenses and deferred income.

[4] Net sales is allocated to countries based on the customer's domicile.

The Fineblanking Technology segment develops, manufactures and sells presses, tools, peripheral systems and all related services.

The System Parts segment develops, produces and sells high-precision system components and assemblies using fineblanking and forming technology.

Finances/Other essentially comprises the figures for Feintool International Holding AG, the German sub-holding company Feintool Holding GmbH and the sub-holding company HL Holding AG and its real estate companies.

The operating profit/loss comprises all operating income and expenses directly attributable to the individual segments. This includes all cross-segment expenses, which are charged directly on an arm's-length basis. Feintool's financing is undertaken at the Group level. Financial expenses and income, as well as taxes, are therefore reported only at the Group level and do not appear in the segment reports.

Feintool generates 17.1% (previous year 16.4%) of consolidated sales with one customer. Income is generated in all segments.

There is no reconciliation of data in management reports and data contained in the financial reports, as internal and external reporting are subject to the same valuation principles.

## 2 ACQUISITION OF INVESTMENTS

On March 30, 2015, Feintool Holding GmbH, Amberg, a 100 % subsidiary of Feintool International Holding AG, acquired 100 % of Gabler Feinschneidtechnik GmbH, Oelsnitz. The company was renamed Feintool System Parts Oelsnitz GmbH on April 15, 2015.

| 2.1 Net operating income of the interests acquired | 01/01 - 12/31/2016<br>in CHF 1 000 | 04/01 - 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Net Sales | 9 196 | 3 244 |
| EBIT | -3 764 | -1 036 |

| 2.2 Consideration for the interests acquired | in CHF 1 000 |
|---|---|
| Cash and cash equivalents | 6 751 |
| **Total consideration** | **6 751** |

| 2.3 Identifiable assets and liabilities | in CHF 1 000 |
|---|---|
| Cash and cash equivalents | 460 |
| Trade and other receivables | 1 447 |
| Inventories | 155 |
| Work in progress | 205 |
| Property, plant and equipment | 6 329 |
| Intangible assets [1] | 1 090 |
| Financial liabilities | -3 658 |
| Trade and other payables | -654 |
| Provisions | -546 |
| Deferred tax liabilities | -435 |
| **Net identifiable assets** | **4 393** |

[1] In intangible assets is mainly the value of customer contracts and relationships, as well as technical know-how contained.

| 2.4 Goodwill at the acquisition date | in CHF 1 000 |
|---|---|
| Total consideration | 6 751 |
| Net identifiable assets | -4 393 |
| **Goodwill [1]** | **2 358** |

[1] Goodwill at historical rates on the acquisition date.

## 3 DISCONTINUED OPERATIONS

Discontinued operations include IMA Automation Amberg GmbH, Amberg, and its operating property, which were sold on July 31, 2014.

During the 2015 financial year, Feintool was able to successfully reverse provisions that were formed for future work in connection with IMA Automation Amberg GmbH's departure from the Group. The effect from discontinued operations was kCHF 720. In the course of the financial year, there was no effect from discontinued operations.

## 4 NET SALES

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---:|---:|
| Gross sales [1] | 560 062 | 514 006 |
| Sales deductions | -7 825 | -5 070 |
| **Total net sales** | **552 237** | **508 936** |

[1] kCHF 37 896 (previous year kCHF 36 106) of the gross sales were calculated using the percentage-of-completion (POC) method.

## 5 CAPITALIZED SELF-GENERATED ASSETS

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---:|---:|
| Self-generated presses | 1 091 | 1 472 |
| Self-generated tools | 2 799 | – |
| Capitalized development costs | 1 631 | 683 |
| Other capitalized self-generated assets | 82 | 238 |
| **Capitalized self-generated assets** | **5 603** | **2 393** |

## 6 PERSONNEL EXPENSES

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---:|---:|
| Salaries and wages [1] | 130 954 | 122 715 |
| Employee welfare expenses | 23 491 | 22 534 |
| Other personnel expenses | 4 596 | 4 027 |
| **Total personnel expenses** | **159 041** | **149 276** |
| of which direct personnel expenses [2] | 80 550 | 74 288 |
| of which indirect personnel expenses | 78 491 | 74 988 |

[1] In financial year 2016, the Swiss pension fund approved an amendment to the regulations, which will result in a gradual reduction of the conversion rate from 6.2 % to 5.2 %. This amendment had a positive one-time effect of kCHF 7 083 on the statement of comprehensive income in the financial year. The one-time effect applies to wages and salaries. See also Sections 1 and 27 in the Notes.

[2] Direct personnel expenses are personnel expenses that can be directly assigned to the production process. The effect due to the regulation amendment of the Swiss pension fund to the direct personnel expenses amounts to kCHF 3 542.

The Group employed 2 239 staff at the end of the year under review (previous year 2 049) and 68 trainees (previous year 75).

## 7 OTHER OPERATING EXPENSES

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Repair and maintenance | 49 838 | 44 768 |
| Rental and leasing expenses | 5 052 | 4 721 |
| Sales and marketing expenses | 2 698 | 1 797 |
| Administration and distribution expenses | 10 263 | 10 308 |
| Loss on the disposal of property, plant and equipment | 106 | 83 |
| Taxes and duties (not including taxes on income) | 1 244 | 748 |
| Other expenses | 2 568 | 1 518 |
| **Total other operating expenses** | **71 769** | **63 943** |

## 8 OTHER OPERATING INCOME

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Gain on the disposal of property, plant and equipment | 310 | 291 |
| Other income [1] | 1 670 | 1 838 |
| **Total other operating income** | **1 980** | **2 129** |

1) "Other income" includes income from staff restaurants, sub-letting, as well as income from insurance compensation.

## 9 FINANCIAL EXPENSES

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Interest expense | 2 829 | 2 675 |
| Other finance costs [1] | 937 | 1 275 |
| Foreign exchange losses | 7 950 | 13 805 |
| **Total financial expenses** | **11 716** | **17 755** |

1) Besides bank charges, other financial expenses include annual amortization of establishing cost for the promissory note loan/syndicated loan, market making costs, valuation expenses from swap transactions and interest expenses on the provision of employee benefit obligations.

## 10 FINANCIAL INCOME

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Interest income | 124 | 193 |
| Other financial income [1] | 1 | 14 |
| Foreign exchange gains | 8 402 | 13 861 |
| **Total financial income** | **8 527** | **14 068** |

1) Other financial income comprises valuation income from swap transactions and income from interest on a rental guarantee deposit.

## 11 INCOME TAXES

| 11.1 Analysis of income taxes | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Tax credits/charges for the reporting period | 9 498 | 5 347 |
| Tax credits/charges from previous years | -1 161 | -343 |
| Deferred income taxes | 4 834 | 4 135 |
| **Total income taxes** | **13 171** | **9 139** |

| 11.2 Analysis of tax charge | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| **Earnings before taxes** [1] | **45 233** | **29 934** |
| | | |
| Weighted tax rate as % [2] | 29.3 % | 35.5 % |
| **Expected overall tax expense** | **13 267** | **10 617** |
| | | |
| Non tax-deductible expense | 95 | 68 |
| Non-taxable income | -209 | -38 |
| Unrecognized tax loss carryforwards from the current year [3] | 2 779 | 971 |
| Use of unrecognized loss carryforwards from previous years | -189 | -777 |
| Recognition of previously unrecognized loss carryforwards [4] | -1 380 | -3 948 |
| Reassessment of deferred tax assets/liabilities | 60 | 2 019 |
| Use of unrecognized deductible temporary differences | -221 | -175 |
| Tax credits/charges from previous years [5] | -1 161 | -343 |
| Effect of changes in tax rates | 137 | 250 |
| Other effects | -7 | 495 |
| **Effective income tax expense** | **13 171** | **9 139** |
| **Effective income tax expense as %** | **29.1 %** | **30.5 %** |

[1] The earnings before taxes in prior year include discounting operations.

[2] The weighted tax rate is calculated from the income tax rates likely to apply to the income of the individual Group companies in the respective tax jurisdiction, which naturally varies according to the actual earnings figures. The reduction in the expected tax rate is attributable to companies in Switzerland, Germany and Japan.

[3] Unrecognized tax loss carryforwards from the current year refer to companies in Switzerland, China and Germany.

[4] The recognition of previously unrecognized loss carryforwards refers in particular to companies in Switzerland and in Germany.

[5] The tax credits/charges from previous years refer to companies in the US.

## 12 DEFERRED TAXES

| 12.1 Carrying amounts in CHF 1 000 | 12/31/2016 Deferred tax assets | 12/31/2016 Deferred tax liabilities | 12/31/2015 Deferred tax assets | 12/31/2015 Deferred tax liabilities |
|---|---|---|---|---|
| Deferred taxes for temporary differences | | | | |
| Current assets | 2 707 | 1 574 | 2 335 | 1 241 |
| Non-current assets | 6 112 | 30 472 | 9 610 | 29 255 |
| Provisions and other liabilities | 2 899 | 982 | 3 072 | 1 009 |
| Employee benefit plans | 13 279 | 191 | 12 641 | – |
| Loss carryforwards | 14 120 | – | 12 905 | – |
| Other temporary differences | 2 | 2 | 129 | 2 |
| **Total gross values** | **39 118** | **33 222** | **40 692** | **31 507** |
| Netting | -21 780 | -21 780 | -22 581 | -22 581 |
| **Total carrying amounts** | **17 338** | **11 442** | **18 111** | **8 926** |
| of which recognized in the balance sheet as deferred tax assets | 17 338 | | 18 111 | |
| of which recognized in the balance sheet as deferred tax liabilities | | 11 442 | | 8 926 |
| **Net deferred tax assets** | **5 896** | | **9 185** | |

| 12.2 Statement of deferred taxes in CHF 1 000 | 12/31/2016 Deferred tax assets | 12/31/2016 Deferred tax liabilities | 12/31/2015 Deferred tax assets | 12/31/2015 Deferred tax liabilities |
|---|---|---|---|---|
| **Start of period** | **9 185** | | **12 855** | |
| Recognition and reversal of temporary differences | -4 834 | | -4 135 | |
| Temporary differences arising on acquisition/sale of entities | – | | -435 | |
| Temporary differences recognized directly in equity | 1 632 | | 1 096 | |
| Translation differences | -87 | | -196 | |
| **End of period** | **5 896** | | **9 185** | |

The temporary differences arising on the acquisition/sale of entities in the previous year relate to the purchase of Feintool System Parts Oelsnitz GmbH.

### 12.3 Unrecognized tax assets

Deferred tax assets, including those for tax loss carryforwards and expected tax credits, are only recognized if it is probable that profits will be available against which the loss carryforwards and tax credits can be utilized.

| 12.4 Tax loss carryforwards | 12/31/2016 in CHF 1 000 | 12/31/2015 in CHF 1 000 |
|---|---|---|
| Total tax loss carryforwards | 56 352 | 62 552 |
| of which recognized loss carryforwards | 41 903 | 42 222 |
| **Total unrecognized tax loss carryforwards** | **14 449** | **20 330** |
| of which expiring within 1 year | 4 254 | 5 474 |
| of which expiring in one to five years | 7 285 | 11 973 |
| of which expiring in more than five years | 2 911 | 2 883 |
| **Tax effects of unrecognized tax loss carryforwards** | **3 692** | **4 746** |

Income taxes and information regarding the tax charge are shown in Note 11.

## 13 CONSOLIDATED EARNINGS PER SHARE

| 13.1 Average number of shares outstanding | 2016<br>Number | 2015<br>Number |
|---|---|---|
| Average number of shares outstanding | 4 462 971 | 4 462 971 |
| Less number of treasury shares (weighted) | -7 534 | -13 998 |
| Average number of shares outstanding – basic | 4 455 437 | 4 448 973 |
| Average number of shares outstanding – diluted | 4 455 437 | 4 448 973 |

| 13.2 Net income Feintool Group | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Net income of the Feintool Group – basic | 32 062 | 20 795 |
| Net income of the Feintool Group – diluted | 32 062 | 20 795 |

No dilution effects were recognized in the financial year.

| 13.3 Earnings per share – incl. discontinued operations | 2016<br>in CHF | 2015<br>in CHF |
|---|---|---|
| Basic earnings per share | 7.20 | 4.67 |
| Diluted earnings per share | 7.20 | 4.67 |

Earnings per share are calculated on the basis of the consolidated net income for the financial year divided by the average number of shares in circulation. No dilution effects were recognized in the financial year.

| 13.4 Earnings per share – continuing operations | 2016<br>in CHF | 2015<br>in CHF |
|---|---|---|
| Basic earnings per share | 7.20 | 4.51 |
| Diluted earnings per share | 7.20 | 4.51 |

Earnings per share are calculated on the basis of the consolidated net income for the financial year divided by the average number of shares in circulation. No dilution effects were recognized in the financial year.

## 14 RECEIVABLES

| 14.1 Trade and other receivables | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Trade receivables | 73 253 | 72 464 |
| Valuation allowances | -2 004 | -2 727 |
| **Total trade receivables (net)** | **71 249** | **69 737** |
| Bills receivable | 140 | 303 |
| Outstanding VAT credits | 4 325 | 5 435 |
| Advanced payments to suppliers | 8 217 | 6 415 |
| Other receivables | 1 750 | 1 639 |
| **Total trade and other receivables** | **85 681** | **83 529** |

Feintool has various factoring programs not required to be included on the balance sheet. Receivables of kCHF 10 494 had been sold under this program as at December 31, 2016 (previous year kCHF 8 238).

| 14.2 Maturity profile of receivables | in CHF 1 000 | Carrying amount | Not yet due | Overdue up to 30 days | Overdue for 31-90 days | Overdue for 91-180 days | Overdue for more than 180 days |
|---|---|---|---|---|---|---|---|
| **12/31/2016** | | | | | | | |
| Trade receivables | | 73 253 | 60 316 | 5 340 | 1 510 | 3 597 | 2 490 |
| Valuation allowances | | -2 004 | | | | | |
| **Total receivables (net)** | | **71 249** | | | | | |
| | | | | | | | |
| **12/31/2015** | | | | | | | |
| Trade receivables | | 72 464 | 56 564 | 8 447 | 2 881 | 2 192 | 2 380 |
| Valuation allowances | | -2 727 | | | | | |
| **Total receivables (net)** | | **69 737** | | | | | |

| 14.3 Valuation allowance on receivables | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| **Start of period** | **-2 727** | **-2 569** |
| Translation differences | -4 | 69 |
| Recognized | -155 | -805 |
| Reversed | 753 | 550 |
| Used | 129 | 28 |
| **End of period** | **-2 004** | **-2 727** |

## 15 INVENTORIES

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Raw material | 25 880 | 23 418 |
| Finished and semi-finished goods | 36 643 | 32 519 |
| Valuation allowances on inventories | -17 441 | -14 897 |
| **Total inventories** | **45 082** | **41 040** |

## 16 NET ASSETS OF CONSTRUCTION CONTRACTS AND WORK IN PROGRESS

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Construction contracts in progress (POC) | 15 658 | 16 954 |
| Work in progress | 20 765 | 22 312 |
| Prepayments received | -8 453 | -5 125 |
| Valuation allowances on construction contracts and work in progress | -926 | -2 711 |
| **Total net assets of construction contracts and work in progress** | **27 044** | **31 430** |

The gross margin recorded under "Construction contracts in progress (POC)" as at the closing date amounted to 38.9 % (previous year 33.5 %).

## 17 PREPAID EXPENSES AND ACCRUED INCOME

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Prepaid expenses for customer orders [1] | 1 323 | 1 751 |
| Issue costs of promissory note loan | 449 | – |
| Issue costs of syndicated loan | – | 90 |
| Rental agreement [2] | 872 | 1 003 |
| Other prepaid expenses and accrued income | 464 | 664 |
| **Total prepaid expenses and accrued income** | **3 108** | **3 508** |

[1] Prepaid expenses for customer orders includes expenses for constructions that are assigned to a specific order. These prepaid expenses are released on a straight-line basis over the course of the order.

[2] The "rental agreement" shows the difference between a reduced rent owing to site contamination originally amounting to kEUR 1 500, which is charged to rent on the property for 10 years (until May 31, 2022) and the standard market-level rent on the property.

## 18 PROPERTY, PLANT AND EQUIPMENT

| 18.1 Summary of property, plant and equipment in CHF 1 000 | Real estate | Machinery | Other property, plant and equipment | Total |
|---|---|---|---|---|
| **Cost of acquisition as at 01/01/2015** | **89 378** | **244 673** | **17 072** | **351 123** |
| | | | | |
| Additions | 1 206 | 13 917 | 15 439 | **30 562** |
| Disposals and Reclassifications | 198 | 2 133 | -9 091 | **-6 760** |
| Change in scope of consolidation [1] | 1 866 | 4 410 | 53 | **6 329** |
| Translation differences | -2 788 | -8 079 | -895 | **-11 762** |
| **As at 12/31/2015** | **89 860** | **257 054** | **22 578** | **369 492** |
| | | | | |
| Additions | 5 899 | 48 808 | 16 799 | **71 506** |
| Disposals | -46 | -8 284 | -564 | **-8 894** |
| Reclassifications [2] | 5 157 | 9 813 | -14 829 | **141** |
| Translation differences | 724 | 2 478 | 19 | **3 221** |
| **As at 12/31/2016** | **101 594** | **309 869** | **24 003** | **435 466** |
| | | | | |
| **Accumulated depreciation as at 01/01/2015** | **-27 501** | **-120 768** | **-7 818** | **-156 087** |
| | | | | |
| Additions | -3 237 | -21 775 | -1 640 | **-26 652** |
| Disposals and Reclassifications | 166 | 5 610 | 351 | **6 127** |
| Translation differences | 927 | 3 940 | 375 | **5 242** |
| **As at 12/31/2015** | **-29 645** | **-132 993** | **-8 732** | **-171 370** |
| | | | | |
| Additions | -4 859 | -26 151 | -1 822 | **-32 832** |
| Disposals | 29 | 7 714 | 516 | **8 259** |
| Translation differences | -366 | -1 604 | -79 | **-2 049** |
| **As at 12/31/2016** | **-34 841** | **-153 034** | **-10 117** | **-197 992** |
| | | | | |
| **Net carrying amounts** | | | | |
| **As at 12/31/2015** | **60 215** | **124 061** | **13 846** | **198 122** |
| Of which leased assets | – | 26 851 | – | **26 851** |
| **As at 12/31/2016** | **66 753** | **156 835** | **13 886** | **237 474** |
| Of which leased assets | – | 34 009 | – | **34 009** |

[1] The change in the scope of consolidation results from, in previous year, the purchase of Feintool System Parts Oelsnitz GmbH.

[2] Reclassifications include positions of immaterial assets amounting to kCHF -219 as well as financial assets amount to kCHF 360.

Other property, plant and equipment includes installations, vehicles and assets under construction. Assets under construction amounted to kCHF 8 380 in the year under review (previous year kCHF 8 981). Gains on asset disposals are recognized as other operating income (Note 8). A gain of kCHF 310 (previous year kCHF 291) was generated in the reporting year. Losses on asset disposals are stated as other operating expenses (Note 7). In the year under review, this loss totaled kCHF 106 (previous year kCHF 83). As at December 31, 2016, the Feintool Group had entered into purchase commitments for the purchase of property, plant and equipment totalling approx. CHF 19.4 million (previous year CHF 26.3 million).

## 19 INTANGIBLE ASSETS

| 19.1 Summary of intangible assets in CHF 1 000 | Goodwill | Capitalized development costs [1] | Software | Other intangible assets [2] | Total |
|---|---|---|---|---|---|
| **Cost of acquisition as at 01/01/2015** | **8 635** | **2 807** | **4 303** | **9 428** | **25 173** |
| | | | | | |
| Additions | – | 746 | 488 | 1 | **1 235** |
| Disposals and Reclassifications | – | – | -5 | -1 801 | **-1 806** |
| Change in scope of consolidation [3] | 2 358 | – | 5 | 1 085 | **3 448** |
| Translation differences | -779 | – | -143 | -427 | **-1 349** |
| **As at 12/31/2015** | **10 214** | **3 553** | **4 648** | **8 286** | **26 701** |
| | | | | | |
| Additions | – | 2 099 | 1 102 | 147 | **3 348** |
| Disposals | – | – | -432 | -1 041 | **-1 473** |
| Reclassifications | – | – | 219 | – | **219** |
| Translation differences | -91 | – | 23 | -33 | **-101** |
| **As at 12/31/2016** | **10 123** | **5 652** | **5 560** | **7 359** | **28 694** |
| | | | | | |
| **Accumulated depreciation as at 01/01/2015** | **–** | **-1 045** | **-3 482** | **-5 655** | **-10 182** |
| | | | | | |
| Additions | – | -564 | -395 | -910 | **-1 869** |
| Translation differences | – | – | 140 | 149 | **289** |
| **As at 12/31/2015** | **–** | **-1 609** | **-3 737** | **-4 617** | **-9 963** |
| | | | | | |
| Additions | – | -642 | -580 | -590 | **-1 812** |
| Disposals | – | – | 432 | 1 030 | **1 462** |
| Translation differences | – | – | -18 | 21 | **3** |
| **As at 12/31/2016** | **–** | **-2 251** | **-3 903** | **-4 156** | **-10 310** |
| | | | | | |
| **Net carrying amounts** | | | | | |
| **As at 12/31/2015** | **10 214** | **1 944** | **911** | **3 669** | **16 738** |
| **As at 12/31/2016** | **10 123** | **3 401** | **1 657** | **3 203** | **18 384** |

[1] Research and development expenses amounting to kCHF 4 107 (previous year kCHF 3 346) were charged to the consolidated statement of comprehensive income.

[2] Other intangible assets primarily comprise patents and licenses.

[3] The change in the scope of consolidation applies to Feintool System Parts Oelsnitz GmbH, which was acquired in the previous year.

| 19.2 Other information | Carrying amount in CHF 1 000 |
|---|---|
| **Goodwill 12/31/2016** | |
| Cash-generating unit System Parts Europe | 3 256 |
| Cash-generating unit System Parts Forming Europe | 6 867 |
| **Total carrying amounts** | **10 123** |
| | |
| **Goodwill 12/31/2015** | |
| Feintool System Parts Jena GmbH, Jena (Germany) | 853 |
| Feintool System Parts Obertshausen and Ohrdruf (Germany) | 6 929 |
| Feintool System Parts Oelsnitz GmbH, Oelsnitz (Germany) | 2 432 |
| **Total carrying amounts** | **10 214** |

In the past, the cash-generating unit was set to the level of the producing plant. As the Group has grown over the past few years, the internal organization and leadership structure of Feintool was adjusted to the new circumstances. Decisions are made on the level of System Parts Europe and System Parts Forming Europe. Sales are centralized within the two segments; orders are distributed across them on the basis of the specific skills of individual plants (machinery, employee experience). This optimizes cash flows for System Parts Europe and System Parts Forming Europe, although the cash flows of the individual production locations change randomly. For this reason Feintool has also been considering impairments on the level of System Parts Europe and System Parts Forming Europe as of financial year 2016.

The recoverable amounts for the cash-generating units are calculated on the basis of the value in use. The impairment test for goodwill was calculated by using the DCF method (discounted cash flow method). The cash flows were discounted with the WACCs by 8.1% (previous year 8.5%). After deducting liabilities, the goodwill was calculated accordingly as a net amount. The future cash flows are based on a budget approved by the management for a period of three years and an extended extrapolation over two years plus the residual value. The following values were used for the parameters to determine the WACCs:

| Financial year: | 2016 | 2015 |
|---|---|---|
| Risk-free interest rate: | 1.6 % | 1.6 % |
| Market returns: | 7.6 % | 7.6 % |
| Risk premium: | 2.0 % | 2.0 % |
| Beta: | 1.12 | 1.12 |
| Growth rate: | 1.1 % | 0.0 % |

Sensitivity analysis:
If the discount rate were to increase by 1% (after taxes), the value in use for all cash-generating units would still be above the value of the net assets plus goodwill.

## 20 FINANCIAL ASSETS

| | 12/31/2016 in CHF 1 000 | 12/31/2015 in CHF 1 000 |
|---|---|---|
| Loans to third parties | 114 | 138 |
| Receivables from the financing of customer tools | 1 027 | 2 248 |
| Rental deposit accounts | 451 | 473 |
| **Financial assets** | **1 592** | **2 859** |

The weighted average interest rate in the reporting period was 2.4 % (previous year 2.5 %).

Loans to third parties consist of marketable securities and loans to staff.

Receivables from the financing of customer tools refers to tools the customer has ordered but not yet or only partially paid for. Amortization is based on either the parts produced or an agreed payment plan. Ownership is normally transferred upon acceptance of the tool.

## 21 FINANCIAL LIABILITIES

| 21.1 Current financial liabilities | 12/31/2016 in CHF 1 000 | 12/31/2015 in CHF 1 000 |
|---|---|---|
| Current liabilities to banks | 5 853 | 15 660 |
| Current portion of lease liabilities | 7 696 | 7 415 |
| Current portion of non-current liabilities to banks | 2 370 | 3 141 |
| **Total current financial liabilities** | **15 919** | **26 216** |

The weighted average interest rate in the reporting period was 2.5 % (previous year 4.0 %).

Feintool has a CHF 35 million syndicated loan agreement with eight banks (CHF 25 million in cash loans and CHF 10 million in performance and advance payment guarantees); the agreement runs until June 30, 2017. The standard covenants have been agreed for the syndicated loan. The main covenants are:

- equity ratio > 30 %
- net senior debt/EBITDA < 3.0x

On December 31, 2016, the syndicated loan had not been used and all the covenants had been met. Should these covenants not be met, the banks would have the right to terminate the loans at short notice. Feintool has kCHF 25 000 (previous year kCHF 80 000) in unused, confirmed credit lines at the bank. Feintool is currently negotiating an increase/extension of the syndicated loan with various banks.

In the previous year, Feintool Precision System Parts in Taicang, China, had a loan of kCNY 60 000 from a subsidiary of the Franke/Artemis Group, received indirectly via Deutsche Bank China. It bore interest at a rate of 6.6%. The loan was repaid during the course of financial year 2016.

| 21.2 Non-current financial liabilities | 12/31/2016 in CHF 1 000 | 12/31/2015 in CHF 1 000 |
|---|---|---|
| Non-current lease liabilities | 18 749 | 12 361 |
| Non-current promissory note | 69 804 | – |
| Non-current liabilities to banks | 4 452 | 4 029 |
| **Total non-current financial liabilities** | **93 005** | **16 390** |

The weighted average interest rate in the reporting period was 1.5 % (previous year 3.6 %).

On July 15, 2016, a promissory note was issued in the amount of EUR 65 million. The issuer, with a guarantee from Feintool International Holding AG, is Feintool Holding GmbH based in Germany. The loan is divided into three tranches with different maturities:

- EUR 25 million, term of 5 years, fixed interest rate of 0.90 %
- EUR 25 million, term of 7 years, fixed interest rate of 1.10 %
- EUR 15 million, term of 10 years, fixed interest rate of 1.66 %

An equity ratio of at least 25% must be maintained as a material covenant to be complied with.

## 22 TRADE AND OTHER PAYABLES

| | 12/31/2016 in CHF 1 000 | 12/31/2015 in CHF 1 000 |
|---|---|---|
| Trade payables | 55 447 | 44 437 |
| Prepayments from third parties | 2 362 | 6 357 |
| Notes payable | 5 859 | 7 040 |
| Customer payments from factoring [1] | 1 084 | 1 576 |
| Social security liabilities | 3 333 | 2 884 |
| Outstanding VAT liabilities | 1 113 | 783 |
| Other liabilities | 1 476 | 1 190 |
| **Total trade and other payables** | **70 674** | **64 267** |

[1] Customer payments from factoring include all customer payments not yet forwarded to the factoring company.

## 23 ACCRUED EXPENSES AND DEFERRED INCOME

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Accruals for salary, bonus, overtime, additional hours | 11 997 | 10 630 |
| Outstanding accounts payable | 9 526 | 6 142 |
| Outstanding installations and other work to be fulfilled in relation to customer orders | 10 002 | 9 565 |
| Accruals for environmental risks [1] | 1 043 | 1 125 |
| Other accrued expenses and deferred income | 854 | 2 240 |
| **Total accrued expenses and deferred income** | **33 422** | **29 702** |

[1] Feintool is renting property contaminated with trichloroethylene (PER) in Obertshausen (Germany). In principle, the proprietor is obliged to clean up the property. In certain circumstances, however, state authorities can also force the lessee to take responsibility for the cleanup operation. Feintool has committed itself to meeting half of the costs of cleanup, up to a value of kEUR 1 500. This amount is entered in full as a liability, less cleanup contributions made to the cleanup. According to the information currently available, the contamination of the leased property in Obertshausen will have no further effect on the Group's financial position, operating results or cash flows.

## 24 PROVISIONS

| in CHF 1 000 | Onerous contracts | Warranties | Other provisions | Total |
|---|---|---|---|---|
| Current provisions | 54 | 1 198 | 4 613 | 5 865 |
| Non-current provisions | – | 1 518 | – | 1 518 |
| **Total provisions as at 12/31/2015** | **54** | **2 716** | **4 613** | **7 383** |
| | | | | |
| Recognized | – | 326 | 2 680 | 3 006 |
| Used | -54 | -7 | -1 075 | -1 136 |
| Reversed | – | -468 | -415 | -883 |
| Translation differences | – | -3 | -46 | -49 |
| **Total provisions as at 12/31/2016** | **–** | **2 564** | **5 757** | **8 321** |
| of which current provisions | – | 1 159 | 5 740 | 6 899 |
| of which non-current provisions | – | 1 405 | 17 | 1 422 |

Provisions were created for onerous contracts with a view to meeting expected losses on existing orders. They will be released in accordance with the degree of order processing. As a rule, orders are completed 12 months after they are received.

Provisions for actual warranty events cover the estimated cost arising from warranty services provided by the Group companies, which the company must cover for contractual reasons or due to its conduct. The outflow of funds occurs as and when the warranties are taken up, over a maximum of three years.

"Other provisions" include provisions for restructuring, scrap rebates, customer complaints, price reductions that were not passed on and various small items. The expected duration of the outflow of funds is 1 to 2 years.

In the 2013 financial year, Feintool sold a property in White Plains (USA). This is contaminated with tetrachloroethylene (PER). Feintool remains responsible for the cleanup, and has therefore joined the state-controlled Brownfield Cleanup Program. Under this program, the land is to be cleaned up to the extent that it can be put to a new use. At present, Feintool has allowed provisions totaling kCHF 398 (previous year kCHF 482) in its balance sheet for this remediation work. According to the current assessment, provisions for the cleanup at White Plains are sufficient.

## 25 LEASE LIABILITIES

| | Operating leases<br>in CHF 1 000 | Finance leases<br>in CHF 1 000 |
|---|---|---|
| **Lease liabilities as at 12/31/2016 due** | | |
| within 1 year | 2 175 | 8 007 |
| in one to five years | 2 287 | 19 012 |
| in more than five years | 109 | – |
| **Total liabilities** | **4 571** | **27 019** |
| | | |
| Less interest | | -574 |
| **Total lease liabilities as at 12/31/2016** | | **26 445** |
| | | |
| **Lease liabilities as at 12/31/2015 due** | | |
| within 1 year | 916 | 7 742 |
| in one to five years | 2 478 | 12 688 |
| in more than five years | 1 | – |
| **Total liabilities** | **3 395** | **20 430** |
| | | |
| Less interest | | -654 |
| **Total lease liabilities as at 12/31/2015** | | **19 776** |

In the financial year, kCHF 15 519 (previous year kCHF 3 236) of new financial leasing agreements were concluded.

## 26 COMMITMENTS UNDER LONG-TERM RENTAL AGREEMENTS

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| **Rental payments due** | | |
| within 1 year | 1 811 | 1 931 |
| in one to five years | 8 249 | 7 185 |
| in more than five years | 4 053 | 2 908 |
| **Total payments** | **14 113** | **12 024** |

## 27 EMPLOYEE BENEFIT PLANS

| 27.1 Overview of net employee benefit liabilities (assets) | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Net defined benefit liability (asset) | 61 115 | 60 585 |
| Anniversary benefits | 1 898 | 1 869 |
| Other benefit obligations | 87 | 113 |
| **Total net employee benefit liabilities (assets)** | **63 100** | **62 567** |

The assets of the employee benefit plans do not include treasury shares (previous year kCHF 0). The Group uses assets (tangible assets) belonging to the retirement fund with a value of kCHF 6 847 (previous year kCHF 6 936).

The "Net defined benefit liability (asset)" item contains various benefit plans in Switzerland, Germany and Japan. The net liability from the Swiss plan amounts to kCHF 51 836 (previous year kCHF 52 324), the German plan to kCHF 8 501 (previous year kCHF 7 609) and the Japanese plan to kCHF 778 (previous year kCHF 652). On account of the materiality of the figures, only the Swiss and German plans are shown in Note 27.3 onwards.

### Swiss plan

The majority of Feintool employees in Switzerland are insured against the risks of death, old age and disability through the semi-autonomous Feintool Group pension fund. The benefits provided by the Feintool Group's pension fund exceed the minimum level prescribed by the Federal Occupational Old Age, Survivors' and Disability Pension Act (BVG). The ordinary employer contributions comprise risk contributions of 2.2 % and age-related contributions of 5.5 %-11.5 % of the insured salary for credits to individual retirement assets. The typical retirement age is 65 for men and 64 for women. Employees have a right to early retirement from age 58, in which case the conversion rate is reduced in accordance with the longer expected pension payment period and the absence of contribution payments prior to retirement. Furthermore, employees can withdraw their retirement pension in full or in part as a lump sum. The amount of pension paid out is arrived at from the conversion rate, which is applied to the insured individual's accumulated retirement savings at the time of retirement. In the case of retirement at age 65/64, the conversion rate is 6.2 %. Afterwards, an amendment to the regulations of the Swiss pension fund sets in: from the next financial year on, it will fall by 0.2 % each year until it reaches 5.2 % in financial year 2021. The accumulated retirement assets are arrived at from the employee and employer contributions paid into the individual savings account of each insured member, together with the interest credited to the retirement assets, vested benefits brought in and any voluntary payments made by the insured person. The interest rate paid on the retirement assets is set by the Board of Trustees each year.

The legal form of the Feintool Group's pension fund is that of a foundation. The Board of Trustees, which comprises an equal number of employee and employer representatives, is responsible for managing the foundation. The duties of the pension fund Board of Trustees are laid down in the BVG and in the rules of the pension fund. A temporary shortfall is permitted under the BVG. The Board of Trustees is required to take measures to rectify any underfunding within a reasonable period. Under the BVG, additional employer and employee contributions may be incurred if the pension fund exhibits a significant shortfall (shortfall < 90 % = considerable shortfall; in this instance, contributions to rectify the situation are essential). In these cases, the contributions to rectify the situation are split between the employer and the employee; the law does not require the employer to assume more than 50 % of the additional contributions. The BVG funding ratio of the Feintool Group pension fund was around 91.0 % as at December 31, 2016 (previous year 91.3 %). The Board of Trustees is the central coordination and monitoring body for the management of the assets. The pension assets are administered by a mandated, independent financial services provider. The Board of Trustees determines the investment strategy and tactical bandwidths in accordance with the statutory provisions. In accordance with its guidelines, the financial services provider is able to decide on the asset allocation subject to the statutory requirements concerning asset classes and bandwidths. In the year under review, the company that established the pension fund committed to the addition of another CHF 1.2 million annually for the restructuring of the pension fund for the Feintool Group – along with the standard contributions – until a 100 % degree of coverage is achieved.

### German plans

The German plans comprise:

- A "Works Agreement on the Introduction of an Occupational Pension Plan" concluded on June 25, 1998 that was terminated effective December 31, 2005 with the announcement that new employees would no longer be able to join the pension scheme from January 1, 2006, and that any entitlements already accrued would be frozen effective December 31, 2005.
- Individual commitments to certain managers

This essentially includes the right to a lifetime pension payable upon retirement, disability and/or death. The level of monthly pension entitlement on reaching the retirement age of 65, and on reaching age 63 at the earliest, amounts to 50 % of the annual pensionable income broken down into a monthly amount; the annual pensionable income is deemed to be the fixed annual income at the time the pension becomes due for payment.

### Japanese plan

The Japanese plan includes all employees who have worked at the company for three or more years. Employees are entitled to a pension from age 60.

| 27.2 Change in defined benefit liability (asset) | Defined benefit obligation 2016 in CHF 1 000 | Defined benefit obligation 2015 in CHF 1 000 | Plan assets 2016 in CHF 1 000 | Plan assets 2015 in CHF 1 000 | Net defined benefit liability (asset) 2016 in CHF 1 000 | Net defined benefit liability (asset) 2015 in CHF 1 000 |
|---|---|---|---|---|---|---|
| **As at January 1** | **181 288** | **179 710** | **-120 703** | **-125 161** | **60 585** | **54 549** |
| **Recognized in income statement** | | | | | | |
| Current service cost | 4 367 | 4 273 | – | – | 4 367 | 4 273 |
| Interest cost (income) | 1 868 | 2 077 | -1 202 | -1 426 | 666 | 651 |
| General and administrative expenses | – | – | 228 | 209 | 228 | 209 |
| Impact of plan amendment in Financial Year [1] | -7 083 | – | – | – | -7 083 | – |
| **Total** | **-848** | **6 350** | **-974** | **-1 217** | **-1 822** | **5 133** |
| | | | | | | |
| **Recognized in other comprehensive income** | | | | | | |
| Expense/(income) from remeasurement of | | | | | | |
| Actuarial loss/(gain) due to: | | | | | | |
| Change in demographic assumptions | -166 | – | – | – | -166 | – |
| Change in financial assumptions | 10 285 | 808 | – | – | 10 285 | 808 |
| Experience adjustment | 962 | – | – | – | 962 | – |
| Return on plan assets (excluding interest income) | – | – | -4 044 | 4 266 | -4 044 | 4 266 |
| Translation differences | 29 | -947 | -79 | 66 | -50 | -881 |
| **Total** | **11 110** | **-138** | **-4 123** | **4 332** | **6 987** | **4 194** |
| | | | | | | |
| **Other** | | | | | | |
| Contributions from employer [2] | -1 512 | -350 | -3 122 | -2 941 | -4 634 | -3 292 |
| Contributions from employees | 2 586 | 2 510 | -2 586 | -2 510 | – | – |
| Benefits paid out | -6 861 | -6 794 | 6 860 | 6 794 | -1 | – |
| **Total** | **-5 787** | **-4 634** | **1 152** | **1 343** | **-4 635** | **-3 292** |
| **As at December 31** | **185 763** | **181 288** | **-124 648** | **-120 703** | **61 115** | **60 585** |
| of which Swiss plans | 173 511 | 170 356 | -121 675 | -118 033 | 51 836 | 52 323 |
| of which German plans | 9 484 | 8 526 | -983 | -917 | 8 501 | 7 609 |
| of which Japanese plans | 2 767 | 2 406 | -1 989 | -1 754 | 778 | 652 |

[1] In financial year 2016, the Swiss pension fund approved an amendment to the regulations, which will result in a gradual reduction of the conversion rate from 6.2 % to 5.2 %. This amendment had a positive one-time effect of kCHF 7 083 on the statement of comprehensive income in the financial year.

[2] In the reporting period, the foundation undertook to contribute an additional kCHF 1 200 annually to the Feintool Group's pension fund in addition to the regular contributions, until a funding ratio of 100 % is achieved.

The expected contributions made to the employee benefit plans for the following financial year amount to CHF 3.1 million in the case of employer contributions and CHF 2.2 million in the case of employee contributions.

| 27.3 Plan assets of defined benefit plans | 2016<br>in % | 2015<br>in % |
|---|---|---|
| Equities | 8.4 | 8.7 |
| Bonds | 65.8 | 65.4 |
| Real estate (including real estate funds) | 14.6 | 14.6 |
| Other | 1.0 | 0.8 |
| Cash | 10.2 | 10.5 |
| **Total** | **100.0** | **100.0** |

## Swiss plan

The plan assets are invested by an AAA-rated bank in line with the predefined strategy. The following limits apply to investment:

- Equities < 50 %
- Bonds < 70 %
- Real estate < 30 %
- Alternative investments 0 %

Currencies other than the CHF are hedged. With the exception of directly held real estate, all investments are traded on a public exchange.

## German plan

The German plan includes a reinsurance policy to cover pension liabilities. Assets from the insurance policy are included in plan assets.

| 27.4 Defined benefit plan obligations – actuarial assumptions | 2016<br>in % | 2015<br>in % |
|---|---|---|
| **Swiss plan** | | |
| Discount rate | 0.6 | 1.0 |
| Future increase in wages and salaries | 1.3 | 1.3 |
| | | |
| **German plans** | | |
| Discount rate | 1.6 | 2.2 |
| Future increase in wages and salaries | 0.0 - 1.8 | 0.0 - 2.0 |
| Future increase in pensions | 1.8 - 2.0 | 1.8 - 2.0 |

| 27.5 Defined benefit plan obligations – actuarial assumptions | 2016<br>in years | 2015<br>in years |
|---|---|---|
| **Swiss plan** | | |
| Life expectancy at age 65 for newly retired persons | | |
| Men | 22.3 | 21.5 |
| Women | 24.3 | 24.0 |
| | | |
| Life expectancy at age 65 for employees currently aged 45 | | |
| Men | 24.2 | 23.2 |
| Women | 26.2 | 25.7 |
| | | |
| **German plans** | | |
| Life expectancy at age 65 for newly retired persons | | |
| Men | 19.1 | 19.0 |
| Women | 23.2 | 23.1 |
| | | |
| Life expectancy at age 65 for employees currently aged 45 | | |
| Men | 21.8 | 21.6 |
| Women | 25.7 | 25.6 |

As at December 31, 2016, the weighted-average duration of pension benefit obligations was 14.8 years for the Swiss plan (previous year 16.1 years) and 11.6 - 15.0 years for the German plans (previous year 15.7 - 19.0 years). Feintool uses the GT 2015 mortality table in Switzerland and Heubeck in Germany for the hypothetical life expectancy.

| 27.6 Defined benefit plan obligations – sensitivity analysis | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| **Swiss plan** | | |
| Change in discount rate -0.25 % | 6 370 | 6 176 |
| Change in discount rate +0.25 % | -5 953 | -5 785 |
| Change in wages and salaries -0.25 % | -532 | -328 |
| Change in wages and salaries +0.25 % | 531 | 334 |
| | | |
| **German plans** | | |
| Change in discount rate -0.25 % | 476 | 408 |
| Change in discount rate +0.25 % | -446 | -374 |
| Change in wages and salaries -0.25 % | -62 | -54 |
| Change in wages and salaries +0.25 % | 64 | 55 |

## 28 EQUITY

| 28.1 Share capital | 12/31/2016<br>Number/CHF | 12/31/2015<br>Number/CHF |
|---|---|---|
| Number of shares | 4 462 971 | 4 462 971 |
| Nominal value | 10 | 10 |
| Share capital | 44 629 710 | 44 629 710 |

| 28.2 Conditional capital – employee stock option plan | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| **Start of period** | **558** | **558** |
| Used | – | – |
| **End of period** | **558** | **558** |

This conditional capital of 55 750 registered shares with a par value of CHF 10 each was created following the resolution of the Extraordinary General Meeting of July 2, 1998 for the payment of rights conferred under the employee stock option plan.

| 28.3 Authorized capital | 31.12.2016<br>in CHF 1 000 | 31.12.2015<br>in CHF 1 000 |
|---|---|---|
| **Start of period** | **–** | **–** |
| Created[1)] | 6 000 | – |
| Used | – | – |
| Expired | – | – |
| **End of period** | **6 000** | **–** |

[1)] According to the decision of the Annual General Meeting of April 19, 2016, the Board of Directors is authorized to create capital up to a maximum amount of kCHF 6 000 as required through the issue of up to 600 000 new shares, each having a nominal value of CHF 10. The new shares are to be paid up in full. The Board of Directors is authorized to restrict or exclude subscription rights under certain circumstances. The new shares can be issued in one or more stages. The approval is limited to a period of two years. The authorized capital will expire on April 19, 2018.

| 28.4 Treasury shares – changes | 12/31/2016<br>Number | <br>in CHF 1 000 | 12/31/2015<br>Number | <br>in CHF 1 000 |
|---|---|---|---|---|
| **Start of period** | **10 558** | **905** | **14 282** | **1 225** |
| Bought | 4 520 | | 5 | |
| Sale/transfer | -8 336 | | -3 729 | |
| **End of period** | **6 742** | **660** | **10 558** | **905** |
| of which trading portfolio | 6 742 | | 10 558 | |

In the 2016 financial year, 4 520 shares were purchased at an average price of CHF 112.92 (previous year 5 shares at an average price of CHF 98.80) and 8 336 shares sold at an average price of CHF 97.82 (previous year 3 729 shares at an average price of CHF 87.02) for the share-based management remuneration. Treasury shares are reserved primarily for management remuneration.

## 29 CAPITAL PARTICIPATION PLANS

As a component of the bonus, 8 336 shares (previous year 8 729) were allocated to the Board of Directors, the Group Management and other managers in the financial year at a transaction value of kCHF 951 (previous year kCHF 753). Of this amount, 5 000 shares relate to financial year 2015 and 3 336 shares to financial year 2016. All shares were transferred from treasury shares and were transferred directly to the ownership of the recipient.

## 30 OFF-BALANCE SHEET TRANSACTIONS, CONTINGENT LIABILITIES

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Guarantees in favor of third parties | – | 126 |
| Other contingent obligations | 2 664 | 3 216 |
| **Contingent liabilities** | **2 664** | **3 342** |

Guarantees in favor of third parties are primarily repurchase guarantees given to leasing companies for fineblanking presses sold. Other contingent obligations comprise funding that has been received and is subject to certain conditions. In the event of a breach of these conditions, there is a risk that these funds or a portion of them will have to be repaid.

In White Plains, NY (USA), a Feintool company owned a property that is contaminated with tetrachloroethylene (PERC). Feintool has joined the state-controlled Brownfield Cleanup Program. This program is intended to ensure the property is cleaned up. At present, Feintool has allowed provisions totaling roughly kCHF 398 (previous year kCHF 482) in its balance sheet for this remediation work. According to the information currently available, the White Plains cleanup will have no significant effect on the Group's financial position, operating results or cash flows.

In Germany, the works councils of a number of Feintool companies have established a Group works council. Feintool disputes the basis for establishing this body. The Weiden (Germany) labor court agreed with Feintool's position in full in the first and second instance. The Works Council of one company appealed the ruling in federal court. Feintool believes, however, that these proceedings will not have a significant effect on the Group's financial position, operating results or cash flows.

In the US, Feintool delivered defective parts to a customer. The customer is currently demanding compensation from Feintool for costs incurred, which have not yet been substantiated. Feintool is of the opinion, however, that it is not or is only partially responsible for the cause of the defect. Furthermore, any damage to third parties would also be covered by insurance. On the basis of the information available today, this case will not have a significant effect on the Group's financial position, results of operations and cash flows.

At the end of the reporting period, Feintool was not involved in any other court proceedings. However, disputes relating to product liability, promotional activities, labor law and unfair dismissals, anti-trust law, securities trading, sales and marketing practices, health and safety, environmental and tax-related claims, state investigations and copyright law are always a possibility. Such proceedings could result in substantial claims being brought against Feintool that may not be covered by insurance policies. Feintool believes, however, that any such proceedings would not have a significant effect on the Group's financial position, operating results or cash flows.

## 31 ASSETS PLEDGED AS SECURITY FOR OWN LIABILITIES

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Real estate | 6 613 | 6 662 |
| Machinery and equipment | 34 009 | 26 851 |
| **Assets pledged as security for own liabilities** | **40 622** | **33 513** |

The pledging of the shares of key subsidiaries as collateral for the syndicate agreement means that most of the Group's assets are indirectly pledged.

## 32 ECONOMIC RISKS

For the global economy going forward, we see risks primarily in changes in energy and commodity prices, growing protectionism and persistently large trade imbalances. The aforementioned factors could result in relatively sharp changes in exchange rates, in particular continuing weakness of the euro, and a further slowdown in global economic growth. The scenarios described could give rise to severe adverse effects for Feintool.

### Management of financial risks

Financial risk management is based on the directives approved by the Board of Directors and Group Management. The principles of risk management and the processes applied are reviewed on a regular basis in order to address changes in the market environment and in Feintool's activities.

Besides standards for general financial risk management, these directives include standards for specific aspects of liquidity, interest rate, exchange rate and default risk management, the use of derivative financial instruments, capital procurement and the policy on investing surplus liquidity. Capital procurement within the Group is mostly undertaken on a centralized basis.

### Liquidity risk

Liquidity risk denotes the risk that the Feintool Group may at some point in the future be unable to meet its regular payment obligations on time and in full. Feintool must ensure that the Group is able to meet its payment obligations at all times. This will be the case if sufficient funds can be generated by the cash flow from operating activities or if the necessary financial resources can be raised on the financial markets or from banking institutions. Feintool Group's management considers an operating liquidity reserve equivalent to one month's costs of the Group (approx. CHF 25 million) to be adequate. This liquidity reserve can also be secured through unused credit lines. Management receives regular reports on the Group's present and anticipated liquidity status, giving it an overview of the liquidity situation.

Feintool has a promissory note in the amount of EUR 65 million (previous year EUR 0). The loan is divided into three tranches with different maturities:

- EUR 25 million, term of 5 years, fixed interest rate of 0.90 %
- EUR 25 million, term of 7 years, fixed interest rate of 1.10 %
- EUR 15 million, term of 10 years, fixed interest rate of 1.66 %

An equity ratio of at least 25% must be maintained as a material covenant to be complied with.

Feintool has loan agreements with various banks. These contain standard covenants, particularly

- equity ratio > 30 %
- net senior debt / EBITDA < 3.0 x

As at December 31, 2016, Feintool had CHF 25 Mio.(previous year CHF 80 Mio.) in unused, confirmed credit lines at the bank. Were the Group unable to meet these covenants, the banks would have the right to terminate the loans at short notice. As at December 31, 2016, all covenants had been met. Feintool is currently negotiating an increase/extension of the syndicate credit with various banks.

| Financial liabilities – carrying amounts and cash outflows in CHF 1 000 | Carrying amounts | Total incl. interest | Due within 1 year | Due within 3 years | Due within 5 years | Due in more than 5 years | Total |
|---|---|---|---|---|---|---|---|
| **12/31/2016** | | | | | | | |
| Liabilities [1] | 63 866 | **63 866** | 63 866 | | | | **63 866** |
| Accrued expenses and deferred income [2] | 21 425 | **21 425** | 21 425 | | | | **21 425** |
| Current liabilities to banks | 5 853 | **5 853** | 5 853 | | | | **5 853** |
| Lease liabilities | 26 445 | **27 019** | 7 696 | 13 460 | 5 863 | – | **27 019** |
| Other liabilities to banks | 76 626 | **81 552** | 2 370 | 3 413 | 31 167 | 44 602 | **81 552** |
| **Total** | **194 215** | **199 715** | **101 210** | **16 873** | **37 030** | **44 602** | **199 715** |
| | | | | | | | |
| Foreign exchange futures [3] | | | | | | | |
| Cash inflows | 135 | **135** | 135 | – | – | – | **135** |
| Cash outflows | 105 | **105** | 105 | – | – | – | **105** |
| | | | | | | | |
| **12/31/2015** | | | | | | | |
| Liabilities | 54 243 | **54 243** | 54 243 | | | | **54 243** |
| Accrued expenses and deferred income | 19 072 | **19 072** | 19 072 | | | | **19 072** |
| Current liabilities to banks | 15 660 | **15 660** | 15 660 | | | | **15 660** |
| Lease liabilities | 19 776 | **20 430** | 7 415 | 10 070 | 2 945 | – | **20 430** |
| Other liabilities to banks/bonds | 7 170 | **7 508** | 3 143 | 3 188 | 599 | 578 | **7 508** |
| **Total** | **115 921** | **116 913** | **99 533** | **13 258** | **3 544** | **578** | **116 913** |
| | | | | | | | |
| Foreign exchange futures [3] | | | | | | | |
| Cash inflows | 36 | **36** | 36 | – | – | – | **36** |
| Cash outflows | 141 | **141** | 141 | – | – | – | **141** |
| | | | | | | | |
| Interest rate swap [4] | | | | | | | |
| Cash inflows | – | **–** | – | – | – | – | **–** |
| Cash outflows | 38 | **38** | 38 | – | – | – | **38** |

[1] Excluding social security obligations, advance payments from third parties and outstanding VAT obligations.

[2] Excluding accruals for salary, bonus and overtime.

[3] As at December 31, 2016, the contractual values of the forward exchange deals amounted to kCHF 19 563 (previous year kCHF 16 171).

[4] The contractual values of the interest rate swaps amounted to kCHF 554 in the previous year.

## Interest rate risk

Interest rate risk can have a negative impact on the Group's earnings as a result of higher interest rates on borrowings or lower interest rates on assets. Furthermore, changes in interest rates can affect the fair value of underlying financial instruments. Depending on the expected trend in interest rates, Feintool obtains financing at either fixed or variable rates. There are currently financial liabilities from the promissory note loan due to fixed interest payments, from bank loans where half have fixed rates and half adjustable rates, and from lease liabilities with fixed rates, fixed terms and running amortization. Interest rate management is mostly undertaken on a centralized basis so as to limit the impact of interest rate changes on net financial income/finance costs.

A 0.5 % increase in the interest rate would adversely affect pretax profits by kCHF 63.

### Exchange rate risk

Owing to its geographical diversification, Feintool is exposed to exchange rate risk particularly in relation to the euro, US dollar and Japanese yen. The Chinese currency – the yuan – is increasingly important. Changes in exchange rates can affect the fair value of existing financial instruments and in particular the expected future cash flows. As far as possible, the Group uses natural hedges in order to offset the impact of exchange rate fluctuations. It seeks to ensure that costs are incurred in the same currency as the resulting income. The resulting surpluses (euro in particular) and requirements (Swiss franc in particular) at Group level are coordinated centrally in the various currencies. The net position of the most important foreign currencies is hedged over a period of usually six to twelve months, as required.

The Feintool Group's exchange rate risk is calculated by way of the following sensitivity analysis. The table shows the impact on total earnings and equity if foreign currencies were to appreciate by 5 % versus the Swiss franc and simultaneously all other variables were to remain the same.

| | 2016 | 2015 |
|---|---|---|
| **Sensitivity analysis exchange rate risk** | in CHF 1 000 | in CHF 1 000 |
| EUR – Comprehensive Incom | -1 462 | -1 053 |
| USD – Comprehensive Income | -473 | -189 |
| Equity | -553 | -1 100 |

### Other market risks

The fair value of financial instruments may change as a result of exchange rates, interest rates or changes in credit ratings, and may therefore affect the Group's financial position and earnings. Feintool seeks to minimize the net effect of market risks through a balanced financing and asset structure.

### Derivative financial instruments

Derivative financial instruments are used to minimize existing interest rate or exchange rate risks. The positive and negative fair values in the Notes show current market values. The contract volumes also shown indicate the extent of the exposure to derivatives.

### Capital structure

In terms of capital management, the Group's objective is to ensure that the business has the financial means necessary to continue as a going concern, and to provide the resources required to achieve the Group's objectives so that added value can be generated for shareholders and other stakeholders and a cost-effective, low-risk capital structure can be maintained. Among the criteria used by the Group to monitor its capital structure are the equity ratio and net financial liabilities. In addition, it monitors the main covenants (equity, senior net debt/EBITDA) under the syndicated loan agreement.

The equity ratio is calculated as the ratio of equity to total assets. Net financial liabilities consist of current and non-current interest-bearing liabilities less cash and cash equivalents.

The Group's aims for an equity ratio of at least 40 % and for a net-debt/EBITDA ratio of less than 1. Comments on the aforementioned ratios are provided in the Financial Review. In terms of dividends policy, Feintool aims to pay shareholders approximately 30 % of annual profit in the form of a dividend.

### Credit risk

Feintool's credit risk is the fair value of the recognized financial assets with the exception of financial guarantee contracts. In some instances, Feintool has provided guarantees to financial institutions in relation to press sales; these amounted to kCHF 0 as at December 31, 2016 (previous year kCHF 126). In this case, the guaranteed amount represents the credit risk, with Feintool retaining the press sold at the time in the event of a warranty being taken up.

### Default risk

Default risk is the risk that a counterparty will be unable to meet its liabilities to the Group companies. By avoiding cluster risk and concentrating financial investments among first-class counterparties, it should be possible to avoid extensive credit default risk. The automobile sector is the focal point of Feintool's operations. By definition, this market segment involves a certain risk for Feintool's operations. As far as normal customer credit balances are concerned, outstanding receivables are constantly monitored as part of the process of regular reporting by the Group companies to Head Office. As at December 31, 2016, the overall default risk amounts to kCHF 169 634 (previous year kCHF 108 373). Feintool generates more than 17.1 % (previous year 16.4%) of consolidated sales from one customer. Income is generated in all segments. With the other customers, the share is less than 11.5 % (previous year 8.0 %) in each case.

The Feintool Group banks exclusively with renowned national and international institutions that have a minimum rating of BBB. It specifies the type of transactions that the subsidiary companies may conduct with the banks.

## 33 FINANCIAL INSTRUMENTS

| 33.1 Financial assets in CHF 1 000 | Cash and cash equivalents | Prepaid expenses and accrued income [1] | Receivables | Financial assets | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | 92 752 | – | – | – | **92 752** |
| Financial assets at fair value through profit and loss held for trading | – | 135 | – | – | **135** |
| Loans and receivables | – | 2 016 | 73 139 | 1 592 | **76 747** |
| **Carrying amounts as at 12/31/2016** | **92 752** | **2 151** | **73 139** | **1 592** | **169 634** |
| | | | | | |
| Cash and cash equivalents | 31 550 | – | – | – | **31 550** |
| Financial assets at fair value through profit and loss held for trading | – | 36 | – | – | **36** |
| Loans and receivables | – | 2 249 | 71 679 | 2 859 | **76 787** |
| **Carrying amounts as at 12/31/2015** | **31 550** | **2 285** | **71 679** | **2 859** | **108 373** |

| **33.2 Financial liabilities** in CHF 1 000 | Trade payables | Accrued expenses and deferred income [2] | Current financial liabilities | Non-current financial liabilities | Total |
|---|---|---|---|---|---|
| Financial liabilities held for trading | – | – | – | – | **–** |
| Other financial liabilities | 63 866 | 21 425 | 15 919 | 93 005 | **194 215** |
| **Carrying amounts as at 12/31/2016** | **63 866** | **21 425** | **15 919** | **93 005** | **194 215** |
| | | | | | |
| Financial liabilities held for trading | – | 179 | – | – | **179** |
| Other financial liabilities | 54 243 | 18 893 | 26 216 | 16 390 | **115 742** |
| **Carrying amounts as at 12/31/2015** | **54 243** | **19 072** | **26 216** | **16 390** | **115 921** |

The carrying amounts do not differ significantly from the fair values.

[1] Excluding accruals for commitment fees, rental agreements and prepaid insurance premiums

[2] Excluding accruals for salary, bonus and overtime

### 33.3 Fair value hierarchy

Feintool has measured financial instruments at fair value and uses the following hierarchy to determine fair value.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Feintool holds only financial instruments in Level 2 amounting to kCHF 30 net (previous year kCHF -143).

| **33.4 Classification of financial income/financial expenses** in CHF 1 000 | Cash and cash equivalents | Held for trading | Loans and receivables | Other financial liabilities | Total |
|---|---|---|---|---|---|
| **Carrying amounts as at 12/31/2016** | **92 752** | **30** | **76 747** | **194 215** | |
| Interest income/expenses | – | – | 124 | -2 829 | **-2 705** |
| Other financial income/finance expenses | – | -696 | -428 | 188 | **-936** |
| Change in valuation allowances on customer receivables and bad debt losses | – | – | -539 | – | **-539** |
| **Total net gain/loss 2016** | **–** | **-696** | **-843** | **-2 641** | **-4 180** |
| | | | | | |
| **Carrying amounts as at 12/31/2015** | **31 550** | **-143** | **76 787** | **115 742** | |
| Interest income/expenses | – | – | 193 | -2 675 | **-2 482** |
| Other financial income/finance expenses | – | -34 | -1 227 | – | **-1 261** |
| Change in valuation allowances on customer receivables and bad debt losses | – | – | 372 | – | **372** |
| **Total net gain/loss 2015** | **–** | **-34** | **-662** | **-2 675** | **-3 371** |

| 33.5 Derivative financial instruments outstanding | in CHF 1 000 | Fair values positive | Fair values negative | Contract volumes |
|---|---|---|---|---|
| Futures contracts | | 135 | 105 | 19 563 |
| **Currency instruments** | | **135** | **105** | **19 563** |
| | | | | |
| **Total derivative financial instruments as at 12/31/2016** | | **135** | **105** | **19 563** |
| | | | | |
| Futures contracts | | 36 | 141 | 16 171 |
| **Currency instruments** | | **36** | **141** | **16 171** |
| | | | | |
| Interest rate swaps | | – | 38 | 554 |
| **Interest rate instruments** | | **–** | **38** | **554** |
| **Total derivative financial instruments as at 12/31/2015** | | **36** | **179** | **16 725** |

Currency instruments primarily relate to the hedging of foreign-currency risks in euros. The life of the foreign exchange futures is a few months.

## 34 RELATED PARTIES

### 34.1 Compensation paid to members of the Board of Directors and Group Management

Levels of compensation paid to the Board of Directors and Group Management are defined by the Nomination and Compensation Committee and approved by the full Board of Directors. Total compensation (excluding tax-allowable expenses), specifically fees, salaries, credits, bonuses and benefits in kind agreed during the financial year and paid directly or indirectly to the members of the Board of Directors and Group Management, amounted to kCHF 2 976 (previous year kCHF 2 829).

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Pay (including cash bonuses), fees [1] | 1 865 | 1 837 |
| Contributions to pension plans | 391 | 408 |
| Share-based payment [2] | 720 | 584 |
| **Total** | **2 976** | **2 829** |

[1] Incl. benefits in kind

[2] For the Chairman of the Board of Directors, allocation of a predefined number of shares. The shares are locked in for five years. The valuation corresponds to the price at the time of allocation. For the 2016 financial year, the shares were transferred on January 3, 2017. Group Management is entitled to a predefined amount in Swiss francs. Remuneration is in the form of shares. The number of shares depends on the average price in October/November. The shares have a staggered lock-in period of 1-4 years. Disbursement took place in December.

| 34.2 Other related parties | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| **Balance Sheet** | | |
| Trade receivables [1] | 59 | 58 |
| Current liabilities [2] | – | 65 |
| Passive loan [2] | – | 9 178 |
| | | |
| **Income Statement** | | |
| Net sales [1] | 511 | 413 |
| Personnel expenses [2] | – | 65 |
| Interest expense [2] | 113 | 606 |

1) Transactions with Muhr und Bender KG or its subsidiaries

2) Transactions with Franke Artemis Group

## 35 MAJOR SHAREHOLDERS

| | | 12/31/2016 | | 12/31/2015 | |
|---|---|---|---|---|---|
| | Date of notification | Number | Share of capital | Number | Share of capital |
| Artemis Beteiligungen I AG and Michael Pieper | 09/30/2014 | 2 245 949 | 50.32 % | 2 245 949 | 50.32 % |
| Muhr und Bender KG and Dr. Thomas Muhr [1] | 11/18/2014 | 616 500 | 13.81 % | 616 500 | 13.81 % |
| Geocent AG | 07/15/2013 | 400 285 | 8.97 % | 400 285 | 8.97 % |

1) Held by a subsidiary of Muhr und Bender KG and Dr. Thomas Muhr Beteiligungs AG.

## 36 EVENTS AFTER THE BALANCE SHEET DATE

Feintool signed an agreement for the acquisition of the Chinese forming plant "Schuler (Tianjin) Metal Forming Technology Center Co., Ltd." from the German Schuler Group on February 10, 2017. It should be completed at the end of March 2017.

## 37 PROPOSAL BY THE BOARD OF DIRECTORS

The Board of Directors will propose to the Annual General Meeting that a dividend of CHF 2.00 per registered share be paid (previous year CHF 1.50 per share) from the capital reserves in respect of the 2016 financial year. This corresponds to a maximum total dividend distribution of kCHF 8 926 (previous year kCHF 6 694). The amount of the dividend distribution depends on the amount of the dividend-eligible shares at the time of the distribution. No dividends will be distributed on treasury shares.

## 38 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were authorized for issue by the Board of Directors on March 6, 2017 and will be submitted to the Annual General Meeting for approval on April 25, 2017.

KPMG

# Statutory Auditor's Report

**To the General Meeting of Feintool International Holding AG, Lyss**

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Feintool International Holding AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 30 to 75) give a true and fair view of the consolidated financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

### Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### Key Audit Matters

**Accuracy and existence of revenue**

**Valuation and existence of inventories**

**Valuation of employee benefit obligations**

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

## Accuracy and existence of revenue

### Key Audit Matter

Total consolidated net revenue of the financial year 2016 amounted to CHF 552,237 thousand. The segment System Parts contributed 87% to these revenues while the remaining 13% were realised in the segment Fineblanking Technology.

Revenues are a key performance indicator for Feintool and therefore in the focus of internal and external stakeholders. In the segment System Parts, revenues comprise serial production parts while in the segment Fineblanking Technology revenues comprise press systems and tools. In the context of revenue recognition different characteristics need to be considered in the two segments:

The segment System Parts is characterised by high volumes that are produced within a short timeframe by using customised tools. These tools are purchased by the client either from the Fineblanking Technology segment or from third parties. In general, a client orders a customised tool in connection with the corresponding serial production. The correct recognition of revenue of such multiple-component contracts is particularly relevant, taking into account the respective delivery terms with a view to a content aspect and the recognition in the appropriate period.

In the Fineblanking Technology segment, the production orders are recognised according to the Percentage of Completion method (POC-method) if the corresponding criteria are met. The POC-method takes into account acquisition and manufacturing costs, as well as other directly attributable costs. In addition, a portion of the profit based on the stage of completion is also recognised, if the likelihood of a profitable overall outcome can be reasonably assured. There is a risk that based on an incorrect determination of the stage of completion or an incomplete estimate of the overall costs, the receivables and payables or potentially required provisions for foreseeable losses of the projects are not assessed correctly.

### Our Response

We assessed the revenue recognition for the different revenue streams throughout the process, starting with the order intake until final invoicing and also considering the IT systems, and examined if transactions are recognised in a complete and correct way. We also assessed the operating effectiveness of key controls applicable to revenue recognition within the internal control system.

In addition, we performed, amongst others, the following procedures in the segment System Parts:

- On a sample basis we reconciled revenues with the corresponding supporting documents to confirm the correct transfer of risks and rewards related to the goods sold to the client and corroborated that revenues were recognised accurately.
- Based on a sample of delivery notes and corresponding receipts of payment we tested if the revenues existed and were recognised in the correct period.
- In addition, we obtained third party confirmations on a sample basis in order to reconcile the accounts receivable as of balance sheet date to the corresponding revenues.
- As it relates to the multiple-component contracts, we selected a sample to test if the individual components were correctly recorded in the system also taking into account the contractually agreed terms.
- We furthermore performed analytical procedures including margin analysis, development of prices and volumes of the largest clients and the distribution of sales throughout the year. Concerning the cut-off, we tested deliveries before and after the balance sheet date.

Amongst others, our procedures in the segment Fineblanking Technology comprised the following:

- Based on enquiries with employees and the testing of selected control activities we validated that an adequate sales order organisation exists, which allows the application of the POC-method. We also tested the reliability of the system and the effectiveness of the key controls.
- In addition, we randomly selected individual projects and compared them to the underlying contracts. We assessed whether for longer-term projects revenue recognition was in line with the

stage of completion of the project. We analysed how the calculation and project risk provisions for major projects developed in comparison with prior periods and if past assumptions retrospectively proved to be reasonable.

- On a sample basis, we agreed the recognised estimated revenues with the corresponding contracts and performed recalculations. For projects with an expected loss, we tested if a provision in the full amount of the anticipated loss was recorded, regardless of the stage of completion.

For further information on revenue refer to the following:

— Note Accounting Principles on pages 36-44
— Note 1 Segment Information on pages 46-48
— Note 4 Net Sales on page 49

## Valuation and existence of inventories

### Key Audit Matter

Inventory as of December, 31, 2016 amounted to CHF 45,082 thousand and represented a material position in the balance sheet.

Raw material: CHF 25,880 thousand
Finished and semi-finished goods: CHF 36,643 thousand
Valuation allowance on inventories: CHF -17,441 thousand

The business is characterised by high volume serial production and the valuation and existence of inventories is relevant to the business development.

Inventories are valued at manufacturing costs and their recoverability is periodically reviewed. Standard costs need therefore to be compared to the actual costs. For semi-finished and finished goods containing a significant value added, the determination of the manufacturing costs involves judgement.

Additionally there is a risk that for semi-finished and finished goods the manufacturing costs exceed the sales price less selling and administrative costs (lower of cost or market).

### Our Response

Amongst others, we performed the following procedures:

- To test the quantity of inventories at significant locations we assessed the corresponding inventory observation instructions and participated in selected inventory counts on site. Based on samples we performed test counts and compared the quantities counted by us with the results of the counts of the entity.

- We assessed the appropriateness of the processes for incoming and outgoing goods and the identification of obsolete items.

- We recalculated inventory valuation allowances and compared them to source data on a sample basis.

- In addition, we evaluated changes in the valuation basis and method. In the context of our testing of the calculation we analysed individual cost components and traced them back to the corresponding underlying documents. We furthermore challenged changes in unit costs.

- Based on inventory key figures we evaluated the development of raw materials, semi-finished and finished goods.

For further information on inventories refer to the following:

— Note Accounting Principles on pages 36-44

— Note 15 Inventories on page 55

## Valuation of employee benefit obligations

### Key Audit Matter

Employee benefit liabilities as of December 31, 2016, amounted to CHF 63,100 thousand and are a significant position in the balance sheet of the Feintool Group. They mainly represent future retirement obligations payable to active and retired employees based on defined benefit plans.

The defined benefit obligations are calculated based on a number of financial and demographic assumptions. These mainly comprise the discount rate, future increases in salary and pension, interest on saving accounts and the life expectancy. The assumptions are determined by management and involve judgement that has a material impact on the amount of the defined benefit obligations and related pension costs. Among the different parameters, the discount rate is particularly significant, as even small changes in the discount rate can result in material fluctuations of the defined benefit obligations.

### Our Response

Amongst others, we performed the following procedures:

- Based on our testwork over the effectiveness of internal controls and reconciliation of the personnel input data on a sample basis, we assessed the completeness and accuracy of the personnel data used in the actuarial report.

- We analysed the assumptions and parameters determined by management that were used by the actuary. In doing so, we critically assessed the method used to determine the parameters and their consistency compared to prior year and compared these parameters to the ranges of observable market information.

- In addition, we agreed the defined benefit obligations and related pension costs and the corresponding notes in the financial statements to the actuarial report.

- We furthermore assessed the competence and independence of the actuary.

For further information on employee benefit obligations refer to the following:

— Note Accounting Principles on pages 36-44

— Note 27 Employee benefit plans on pages 62-66

### Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

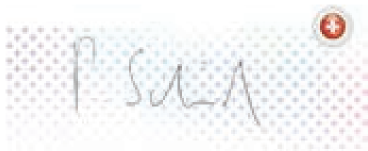
## Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge



Pascal Schmid
Licensed Audit Expert

Zurich, 6 March 2017

# FEINTOOL INTERNATIONAL HOLDING AG

## Financial Review of the 2016 Financial Year

(from January 1 to December 31, 2016)

# FEINTOOL INTERNATIONAL HOLDING AG BALANCE SHEET

**for the 2016 financial year (as at December 31, 2016)**

| | Note | 12/31/2016 in CHF 1 000 | in % | 12/31/2015 in CHF 1 000 | in % |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | | 31 232 | | 19 884 | |
| Trade and other receivables | 1 | 13 269 | | 14 333 | |
| Tax receivables | | 2 274 | | – | |
| Prepaid expenses and accrued income | 2 | 733 | | 724 | |
| **Total current assets** | | **47 508** | **19.5** | **34 941** | **16.5** |
| | | | | | |
| **Non-current assets** | | | | | |
| Financial assets | 3 | 40 678 | | 46 454 | |
| Investments | 4 | 153 454 | | 128 310 | |
| Property, plant and equipment | 5 | 272 | | 283 | |
| Intangible assets | 6 | 1 872 | | 1 528 | |
| **Total non-current assets** | | **196 276** | **80.5** | **176 575** | **83.5** |
| TOTAL ASSETS | | 243 784 | 100.0 | 211 516 | 100.0 |
| | | | | | |
| LIABILITIES | | | | | |
| **Current liabilities** | | | | | |
| Trade and other current payables | 7 | 8 948 | | 5 194 | |
| Current interest bearing liabilities | 8 | 24 548 | | 11 517 | |
| Accrued expenses and deferred income | 9 | 5 281 | | 4 036 | |
| **Total current liabilities** | | **38 777** | **15.9** | **20 747** | **9.8** |
| | | | | | |
| **Non-current liabilities** | | | | | |
| Non-current provisions | 10 | 681 | | 649 | |
| **Total non-current liabilities** | | **681** | **0.3** | **649** | **0.3** |
| **Total liabilities** | | **39 458** | **16.2** | **21 396** | **10.1** |
| | | | | | |
| **Shareholder's equity** | | | | | |
| Share capital | 11 | 44 630 | | 44 630 | |
| General legal reserves from capital contributions | | 111 569 | | 118 255 | |
| Free retained earnings | | | | | |
| (Loss)/Gain carryforward | | 28 200 | | 18 797 | |
| Result for the year | | 20 587 | | 9 343 | |
| Treasury shares | 14 | -660 | | -905 | |
| **Total shareholder's equity** | | **204 326** | **83.8** | **190 120** | **89.9** |
| TOTAL EQUITY AND LIABILITIES | | 243 784 | 100.0 | 211 516 | 100.0 |

# FEINTOOL INTERNATIONAL HOLDING AG
# STATEMENT OF INCOME

**for the 2016 financial year (January 1 to December 31, 2016)**

| | Note | 2016 in CHF 1 000 | in % | 2015 in CHF 1 000 | in % |
|---|---|---|---|---|---|
| **INCOME** | | | | | |
| Operating income | 15 | 27 951 | 59.6 | 18 932 | 51.2 |
| Income from investments | | – | 0.0 | 8 000 | 21.7 |
| Financial income | 16 | 6 945 | 14.8 | 9 026 | 24.4 |
| Reversal of valuation allowance on investments | 17 | 12 000 | 25.6 | 1 000 | 2.7 |
| **Total income** | | **46 896** | **100.0** | **36 958** | **100.0** |
| **EXPENSES** | | | | | |
| Personnel expenses | 18 | 8 396 | 17.9 | 7 091 | 19.2 |
| Other operating expenses | 19 | 9 462 | 20.2 | 8 336 | 22.6 |
| Depreciation | | 2 085 | 4.3 | 1 041 | 2.7 |
| Financial expenses | 20 | 6 366 | 13.7 | 10 817 | 29.3 |
| Taxes | | – | 0.0 | 330 | 0.9 |
| **Total expenses** | | **26 309** | **56.1** | **27 615** | **74.7** |
| **RESULT FOR THE YEAR** | | **20 587** | **43.9** | **9 343** | **25.3** |

# NOTES TO THE FINANCIAL STATEMENTS OF FEINTOOL INTERNATIONAL HOLDING AG

**for the 2016 financial year**

## PRINCIPLE

### General

Feintool International Holding AG has its headquarters in Lyss, Switzerland. The 2016 financial statements were prepared in accordance with the provisions of Swiss accounting law (Art. 32 of the Swiss Code of Obligations). The main applied valuation principles that are not required by law are described in the following.

### Treasury shares

Treasury shares are recognized at the time of acquisition at cost as a minus line item in equity. If they are sold at a later date, the profit or loss is taken to the income statement as financial income or expense.

### Capital participation plans

Treasury shares are used for share-based payments to the Board of Directors and employees. They are recognized at a fixed price in the regulations for the issue. The corresponding expense including social security contributions is reported in personnel expenses.

### Omission of cash flow statement and additional information in the Notes to the Financial Statements

Feintool International Holding AG prepares its consolidated financial statements in accordance with a recognized standard for accounting (IFRS) and consequently omits additional disclosures in the Notes to the Financial Statements and a report on the cash flow statement in these financial statements as set forth in the statutory provisions.

## 1 TRADE AND OTHER RECEIVABLES

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Accounts receivable – third parties | 180 | 335 |
| Accounts receivable – intercompany | 8 302 | 9 196 |
| Interest bearing receivable – intercompany [1] | 4 787 | 4 802 |
| **Total trade and other current receivables** | **13 269** | **14 333** |

[1] Interest bearing receivable related to zero balance cash pools

## 2 PREPAID EXPENSES AND ACCRUED INCOME

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Prepaid expenses – third parties | 515 | 544 |
| Prepaid expenses – intercompany | 218 | 180 |
| **Total prepaid expenses and accrued income** | **733** | **724** |

## 3 FINANCIAL ASSETS

| | 12/31/2016 in CHF 1 000 | 12/31/2015 in CHF 1 000 |
|---|---|---|
| Financial assets – intercompany | 40 678 | 46 454 |
| **Total financial assets** | **40 678** | **46 454** |

## 4 INVESTMENTS

| Company | Locations, country | | Capital | December 31, 2016 | December 31, 2015 | Consoli dation method |
|---|---|---|---|---|---|---|
| **Feintool International Holding AG** | **Lyss, CH** | **CHF** | **44 629 710** | **100 %** | **100 %** | **Full** |
| Feintool Engineering Co. Ltd. | Atsugi, J | JPY | 400 000 000 | 100 % | 100 % | Full |
| Feintool Equipment AG | Lyss, CH | CHF | 100 000 | 100 % | 100 % | Full |
| Feintool Fineblanking Technology (Shanghai) Co., Ltd. | Shanghai, CN | USD | 2 500 000 | 100 % | 100 % | Full |
| **Feintool Holding GmbH** | **Amberg, GER** | **EUR** | **818 000** | **100 %** | **100 %** | **Full** |
| Feintool System Parts Ettlingen GmbH | Ettlingen, GER | EUR | 766 937 | 100 % | 100 % | Full |
| Feintool System Parts Jena GmbH | Jena, GER | EUR | 3 068 000 | 100 % | 100 % | Full |
| Feintool System Parts Obertshausen GmbH | Obertshausen, GER | EUR | 1 000 000 | 100 % | 100 % | Full |
| Feintool System Parts Oelsnitz GmbH | Oelsnitz, GER | EUR | 550 000 | 100 % | 100 % | Full |
| Feintool System Parts Ohrdruf GmbH [1)] | Ohrdruf, GER | EUR | 2 556 000 | 100 % | 100 % | Full |
| Feintool Intellectual Property AG in Liq. [2)] | Lyss, CH | CHF | 100 000 | 100 % | 100 % | Full |
| Feintool Japan Co. Ltd | Atsugi, J | JPY | 225 000 000 | 100 % | 100 % | Full |
| Feintool Precision System Parts (Taicang) Co. Ltd. [3)] | Taicang, CN | USD | 20 800 000 | 100 % | 100 % | Full |
| Feintool System Parts Lyss AG [4) 5)] | Lyss, CH | CHF | 3 100 000 | 100 % | 100 % | Full |
| Feintool System Parts Most s.r.o [6)] | Prague, CZ | CZK | 100 000 000 | 100 % | n/a | Full |
| **Feintool Technologie AG** | **Lyss, CH** | **CHF** | **2 000 000** | **100 %** | **100 %** | **Full** |
| Feintool (Chongquing) Technology Co. Ltd. in Liq. [7)] | Chongquing, CN | USD | 61 000 | 100 % | 100 % | Full |
| **Feintool U.S. Operations, Inc.** | **Cincinnati, USA** | **USD** | **31 421 631** | **100 %** | **100 %** | **Full** |
| Feintool Cincinnati, Inc. | Cincinnati, USA | USD | 3 000 000 | 100 % | 100 % | Full |
| Feintool Equipment Corp. | Cincinnati, USA | USD | 50 000 | 100 % | 100 % | Full |
| **Feintool New York, Inc.** | **White Plains, USA** | **USD** | **500 000** | **100 %** | **100 %** | **Full** |
| One Holland Ave. Development LLC | Cincinnati, USA | USD | 0 | 100 % | 100 % | Full |
| Feintool Tennessee, Inc. | Nashville, USA | USD | 0 | 100 % | 100 % | Full |
| **HL Holding AG** | **Lyss, CH** | **CHF** | **100 000** | **100 %** | **100 %** | **Full** |
| Columba GmbH | Amberg, GER | EUR | 325 000 | 100 % | 100 % | Full |
| Vireo GmbH | Jena, GER | EUR | 272 600 | 100 % | 100 % | Full |

1) Feintool Holding GmbH holds a 60 % stake in Feintool System Parts Ohrdruf GmbH. The remaining 40 % is held by Feintool International Holding AG.

2) On March 21, 2016, Feintool Intellectual Property AG was placed in liquidation with the resolution of the General Meeting.

3) The share capital of Feintool Precision System Parts (Taicang) Co., Ltd. was increased by kUSD 3 200 on January 6, 2016.

4) Retroactively as of January 1, 2015, Feintool Teile & Komponenten AG Lyss and Feintool System Parts AG merged and were renamed Feintool System Parts Lyss AG.

5) Retroactively as of January 1, 2016, HL Immobilien AG and Feintool System Parts Lyss AG merged.

6) On October 12, 2016, Feintool International Holding AG, Lyss, established Feintool System Parts Most s.r.o. in Prague.

7) The dissolution of Feintool (Chongquing) Technology Co. Ltd. was applied for on January 1, 2015.

## 5 PROPERTY, PLANT AND EQUIPMENT

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Furniture and fixtures | 72 | 110 |
| Automotive | 10 | – |
| Other fixed assets | 190 | 173 |
| **Total property, plant and equipment** | **272** | **283** |

## 6 INTANGIBLE ASSETS

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Cost for research and development | 1 692 | 1 361 |
| Software | 108 | 135 |
| Other intangible assets | 72 | 32 |
| **Total intangible assets** | **1 872** | **1 528** |

## 7 TRADE AND OTHER CURRENT PAYABLES

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Current liabilities – third parties | 7 886 | 4 004 |
| Current liabilities – related parties | 158 | 214 |
| Current liabilities – intercompany | 891 | 804 |
| Current liabilities – organs | 13 | 172 |
| **Trade and other current payables** | **8 948** | **5 194** |

## 8 CURRENT INTEREST-BEARING LIABILITIES

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Current interest bearing liabilities – third parties | 1 | – |
| Current interest bearing liabilities – intercompany [1)] | 24 547 | 11 517 |
| **Total current interest bearing liabilities** | **24 548** | **11 517** |

[1)] Interest bearing liabilities related to zero balance cash pools

## 9 ACCRUED EXPENSES AND DEFERRED INCOME

| | 12/31/2016<br>in CHF 1 000 | 12/31/2015<br>in CHF 1 000 |
|---|---|---|
| Accruals for salary, bonus, overtime, additional hours | 2 034 | 1 705 |
| Outstanding accounts payable | 1 115 | 760 |
| Tax accruals | 1 696 | 1 396 |
| Other accrued expenses | 130 | 175 |
| Accrued expenses – intercompany | 306 | – |
| **Total accrued expenses and deferred expense** | **5 281** | **4 036** |

## 10 PROVISIONS

Provisions include provisions for insurance payments in the amount of kCHF 533 (previous year kCHF 520) and provisions for anniversary benefits of kCHF 131 (previous year kCHF 129) and other items of kCHF 17 (previous year kCHF 0).

## 11 SHARE CAPITAL

| | 12/31/2016<br>Number/CHF | 12/31/2015<br>Number/CHF |
|---|---|---|
| Number of shares | 4 462 971 | 4 462 971 |
| Nominal value | 10 | 10 |
| Share capital | 44 629 710 | 44 629 710 |

## 12 CONDITIONAL CAPITAL – EMPLOYEE STOCK OPTION PLAN

The disclosure of the conditional capital is represented in Note 28.2 on page 67 of the Notes to the Financial Statements.

## 13 AUTHORIZED SHARE CAPITAL

The disclosure of treasury shares is reported in the Notes to the consolidated financial statements under Note 28.3 on page 67.

## 14 TREASURY SHARES

The disclosure of the treasury shares is represented in Note 28.4 on page 67 of the Notes to the Financial Statements.

## 15 OPERATING INCOME

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Operating income – third party | 277 | 335 |
| | | |
| Income from intercompany services | 20 848 | 13 302 |
| thereof licenses and patents | 13 764 | 9 407 |
| thereof other management services | 7 084 | 3 895 |
| | | |
| Other intercompany income | 6 826 | 5 295 |
| thereof IT services | 3 807 | 3 416 |
| thereof internal services, building maintenance/services and staff restaurant | 1 116 | 1 196 |
| **Total operating income** | **27 951** | **18 932** |

## 16 FINANCIAL INCOME

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Interest income – third party | 63 | 30 |
| Interest income – intercompany | 649 | 860 |
| Foreign exchange gains | 6 233 | 8 136 |
| **Total financial income** | **6 945** | **9 026** |

## 17 REVERSAL OF VALUATION ALLOWANCE ON INVESTMENTS

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Reversal of valuation allowance on investments | 12 000 | 1 000 |
| **Total reversal of valuation allowance on investments** | **12 000** | **1 000** |

## 18 PERSONNEL EXPENSES

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Salaries and wages | 6 309 | 5 487 |
| Employee welfare expenses | 1 147 | 949 |
| Other personnel expenses | 940 | 655 |
| **Total personnel expenses** | **8 396** | **7 091** |

Feintool International Holding AG employed 35 staff at the end of the year (previous year 32).

## 19 OTHER OPERATING EXPENSES

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Research and development | 3 273 | 2 962 |
| Information technology | 2 795 | 2 261 |
| Consulting | 677 | 950 |
| Corporate communication and investor relations | 676 | 532 |
| Rent | 510 | 487 |
| Staff restaurant | 503 | 393 |
| Capital tax | 312 | – |
| Patents and licenses | 220 | 333 |
| Other expenses | 496 | 418 |
| **Total other operating expenses** | **9 462** | **8 336** |

## 20 FINANCIAL EXPENSES

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Interest expense | 77 | 40 |
| Other finance costs [1] | 721 | 882 |
| Foreign exchange losses | 5 568 | 9 895 |
| **Total financial expenses** | **6 366** | **10 817** |

[1] Besides bank charges, other financial expenses include lead syndication commissions (annual amortization of establishing cost for the syndicated loan), valuation expenses from swap transactions and market making costs.

## 21 CONTINGENT LIABILITIES IN FAVOR OF THIRD PARTIES

| | 2016<br>in CHF 1 000 | 2015<br>in CHF 1 000 |
|---|---|---|
| Guarantees and sureties for Group companies | 13 893 | 18 511 |
| Pledging of shares of Group companies within the scope of bank credit limits [1] | 35 000 | 90 000 |
| Subordination clauses in favor of subsidiaries | 8 000 | 8 000 |
| Joint and several liability as regards cash pooling | p.m. | p.m. |
| Joint and several liability as regards Swiss value added tax | p.m. | p.m. |

[1] The pledging of the shares of key subsidiaries in accordance with the syndicate agreement means that most of the Group's assets are indirectly pledged.

## 22 MAJOR SHAREHOLDERS

The disclosure of the major shareholders is represented in Note 35 on page 75 of the Notes to the Financial Statements.

## 23 SHAREHOLDINGS OF GROUP MANAGEMENT AND THE BOARD OF DIRECTORS INCLUDING RELATED PARTIES

| | 12/31/2016 | 12/31/2015 |
|---|---:|---:|
| | Number of registered shares | Number of registered shares |
| Alexander von Witzleben, Chairman of the Board of Directors [1] | 22 181 | 17 181 |
| Dr. Michael Soormann, Deputy Chairman of the Board of Directors | – | – |
| Wolfgang Feil, Member of the Board of Directors | – | – |
| Dr. Kurt E. Stirnemann, Member of the Board of Directors | – | – |
| Thomas A. Erb, Member of the Board of Directors | – | – |
| Dr. Thomas Muhr, Member of the Board of Directors [2] | 616 500 | 616 500 |
| Dr. Rolf-Dieter Kempis, Member of the Board of Directors from 19 April 2016 on | – | – |
| **Total Board of Directors** | **638 681** | **633 681** |
| | | |
| Heinz Loosli, CEO untill 31 August 2016 [3] | 3 217 | 8 382 |
| Bruno Malinek, CEO from 1 September 2016 [4] | 1 064 | – |
| Dr. Thomas F. Bögli, CFO [5] | 3 098 | 2 796 |
| **Total Group Management** | **7 379** | **11 178** |

[1] Held directly and indirectly; the 5 000 shares with a value of CHF 565 000 as remuneration for the 2016 financial year were assigned on January 3, 2017

[2] Held by a subsidiary of Muhr und Bender KG and Dr. Thomas Muhr Beteiligungs AG

[3] The 1 036 shares with a value of CHF 119 938 as remuneration for the 2016 financial year were assigned on December 16, 2016

[4] The 777 shares with a value of CHF 89 953 as remuneration for the 2016 financial year were assigned on December 16, 2016

[5] The 302 shares with a value of CHF 34 963 as remuneration for the 2016 financial year were assigned on December 16, 2016

## 24 LIABILITIES TO EMPLOYEE BENEFIT PLANS

There was a liability to the pension fund of kCHF 137 as of December 31, 2016 (previous year kCHF 0).

## 25 UNRECOGNIZED LEASE LIABILITIES

As at December 31, 2016, there were unrecognized lease liabilities of kCHF 2 110 (previous year kCHF 2 087).

## 26 EVENTS AFTER THE BALANCE SHEET DATE

Feintool International Holding AG signed an agreement for the acquisition of the Chinese forming plant "Schuler (Tianjin) Metal Forming Technology Center Co., Ltd." from the German Schuler Group on February 10, 2017. It should be completed at the end of March 2017.

## 27 PROPOSAL BY THE BOARD OF DIRECTORS

The Board of Directors will propose to the Annual General Meeting that a dividend of CHF 2.00 per registered share be paid (previous year CHF 1.50 per share) from the capital reserves in respect of the 2016 financial year. This corresponds to a maximum total dividend distribution of kCHF 8 926 (previous year kCHF 6 694). The amount of the dividend distribution depends on the amount of the dividend-eligible shares at the time of the distribution. No dividends will be distributed on treasury shares.

| | **12/31/2016**<br>in CHF |
|---|---|
| (Loss)/Gain carryforward from previous year | 28 199 697 |
| Result for the year | 20 586 722 |
| **Available earnings** | **48 786 419** |
| | |
| Allocation from general legal reserves from capital contributions | 8 925 942 |
| Payment of a dividend of CHF 2.00 | -8 925 942 |
| **Gain Carryforward** | **48 786 419** |

# Statutory Auditor's Report

**To the General Meeting of Feintool International Holding AG, Lyss**

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Feintool International Holding AG, which comprise the balance sheet as at December 31, 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 83 to 91) for the year ended December 31, 2016 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.

### Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

We have determined that there are no key audit matters to communicate in our report.

### Responsibility of the Board of Directors for the Financial Statements

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

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

**Auditor’s Responsibilities for the Audit of the Financial Statements**

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

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

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the entity to cease to continue as a going concern.

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

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

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

## Report on Other Legal and Regulatory Requirements

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

KPMG AG

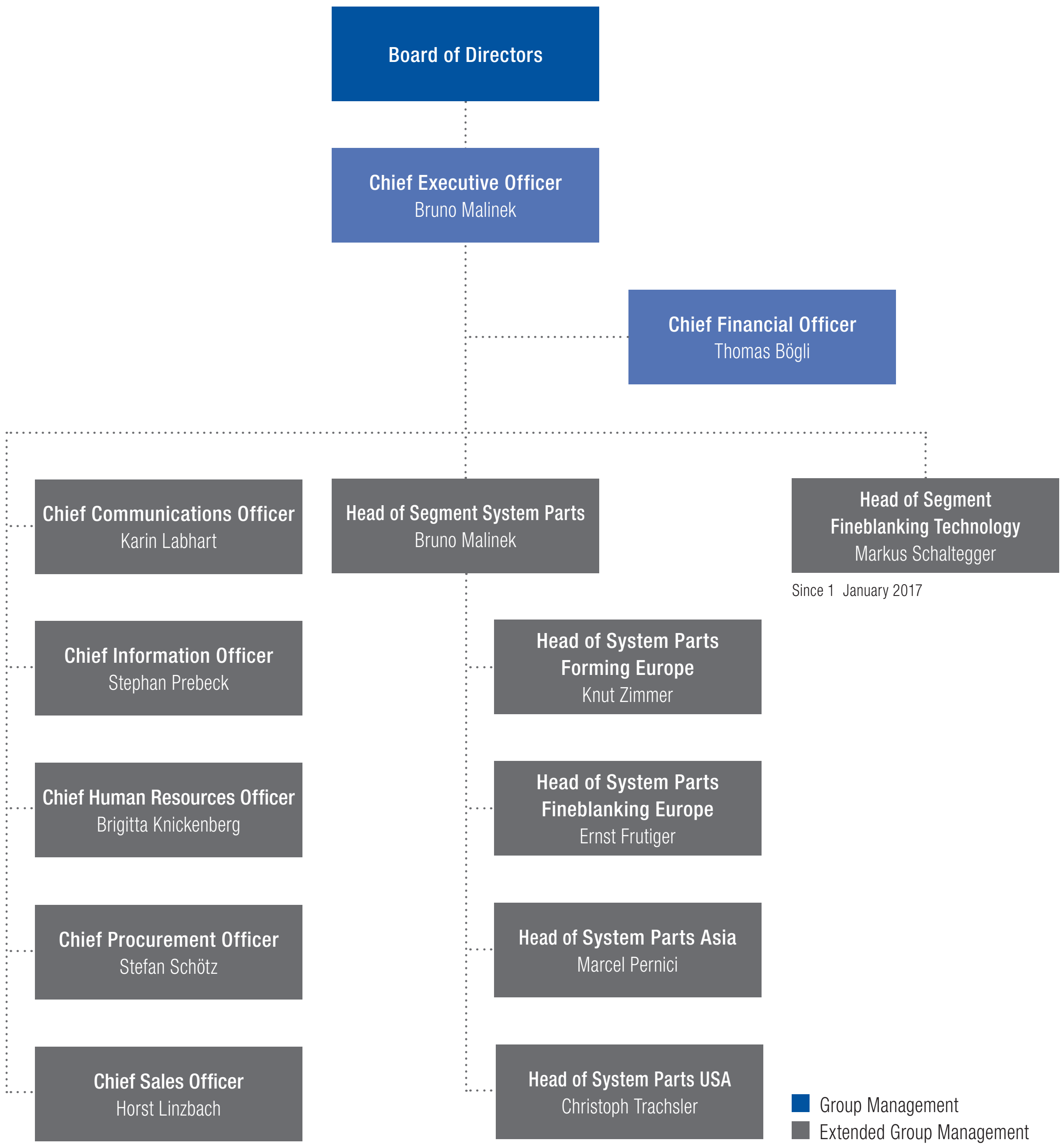
Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Pascal Schmid
Licensed Audit Expert

Zurich, March 6, 2017

# CORPORATE GOVERNANCE

## Good governance is a core component of our corporate strategy



## 1 GROUP STRUCTURE AND SHAREHOLDERS

### 1.1 Group structure

#### 1.1.1 Operational Group structure

Feintool's operational management structure can be found in the diagram on the previous page.

The division of responsibilities between the Board of Directors, CEO and Group Management is explained in section 3.6. Further information, such as the current Articles of Association for the Feintool Group, can be found online at www.feintool.com/en/company/corporate-governance.html.

#### 1.1.2 Listed company

| | |
|---|---|
| Name and registered office: | Feintool International Holding AG, 3250 Lyss (Switzerland) |
| Place of listing: | SIX Swiss Exchange |
| Swiss security no.: | 932009 |
| ISIN: | CH0009320091 |
| Telekurs: | FTON |
| Reuters: | FTONn.S |
| Stock market capitalization: | CHF 487 356 433 (as at December 31, 2016) |

Key share prices in 2016 financial year:

| | | | |
|---|---|---|---|
| Highest | 10/07, 10/06/2016 | CHF | 129.00 |
| Lowest | 02/11/2016 | CHF | 72.40 |
| Closing price | 12/31/2016 | CHF | 109.20 |

With 1 075 shareholders (previous year 1 012), the number of shareholders hardly changed over the last twelve months. As of December 31, 2016, the free float remained unchanged at 26.9 % (previous year 26.9 %)

More information on Feintool shares is available on our website at www.feintool.com/en/company/investor-relations/shares.html.

No subsidiary companies are listed.

#### 1.1.3 Unlisted companies

The unlisted subsidiaries that are included in the scope of consolidation of Feintool International Holding AG are listed on page 86.

### 1.2 Major shareholders

| Name | Percentage ownership of total equity |
|---|---|
| Artemis Beteiligungen I AG and Michael Pieper | 50.32 % |
| Muhr und Bender KG and Dr. Thomas Muhr [1)] | 13.81 % |
| Geocent AG | 8.97 % |

1) Held by a subsidiary of Muhr und Bender KG and Dr. Thomas Muhr Beteiligungs AG.

No disclosures of interest were made in accordance with Article 120 of the Swiss Financial Markets Infrastructure Act (FinfraG) during the reporting period.

### 1.3 Cross-shareholdings

Feintool International Holding AG does not have any cross-shareholdings.

## 2 CAPITAL STRUCTURE

### 2.1 Ordinary capital

As at December 31, 2016, the share capital of Feintool International Holding AG amounted to CHF 44 629 710, comprising 4 462 971 fully paid-up registered shares with a par value of CHF 10 each.

### 2.2 Authorized and conditional capital

**Authorized capital**

According to the decision of the Annual General Meeting of April 19, 2016, the Board of Directors was authorized to create capital up to a maximum amount of CHF 6 000 000 as needed through the issue of up to 600 000 new shares, each having a nominal value of CHF 10. The new shares are to be paid up in full. The Board of Directors is authorized to restrict or exclude subscription rights under certain circumstances. The shares can be issued in one or more steps. The authorization is limited to two years. The authorized capital will expire on April 19, 2018.

### Conditional capital for stock options plans

In accordance with Art. 3b, para. 2 of the Articles of Association (www.feintool.com/en/company/corporate-governance.html), the share capital is to be increased, to the exclusion of the subscription rights of existing shareholders, by a maximum of CHF 557 500 through the issue of a maximum of 55 750 registered shares to be fully paid up and with a par value of CHF 10 each (stock option plan). However, no stock options were issued. For further details of the capital structure, please see pages 67 and 88 of the Financial Report.

## 2.3 Changes in capital

### Share capital

| Date | Description | Type of capital | Number | Par value [1] | Increase/ decrease [1] | Capital [1] | Number of shares [2] |
|---|---|---|---|---|---|---|---|
| 12/31/2013 | held | | | | | 44 629 710 | 4 462 971 |
| 12/31/2014 | held | | | | | 44 629 710 | 4 462 971 |
| 12/31/2015 | held | | | | | 44 629 710 | 4 462 971 |
| 12/31/2016 | held | | | | | 44 629 710 | 4 462 971 |

1) in CHF

2) On April 16, 2013, Feintool converted the par value of Feintool shares from the previous value of CHF 50 per share to 5 shares with a par value of CHF 10 (share split). All details regarding the number of shares (including data for the years prior to the split) were therefore calculated based on a par value of CHF 10.

### Authorized capital

| Date | Description | Type of capital | Number | Par value [1] | Increase/ decrease [1] [2] | Capital [1] | Number of shares |
|---|---|---|---|---|---|---|---|
| 12/31/2013 | held | | | | | 12 660 540 | 1 266 054 |
| 01/24/2014 | expired | | 1 266 054 | 10 | 12 660 540 | – | – |
| 12/31/2014 | held | | | | | – | – |
| 12/31/2015 | held | | | | | – | – |
| 04/19/2016 | created | | 600 000 | 10 | 6 000 000 | 6 000 000 | 600 000 |
| 12/31/2016 | held | | | | | 6 000 000 | 600 000 |

1) in CHF

2) According to the decision of the Annual General Meeting of April 19, 2016, the Board of Directors is authorized to create capital up to a maximum amount of kCHF 6 000 as required through the issue of up to 600 000 new shares, each having a nominal value of CHF 10. The approval is limited to a period of two years. The new shares can be issued in one or more stages. The authorized capital will expire on April 19, 2018.

### Conditional capital for stock option plans

| Date | Description | Type of capital | Number | Par value [1] | Increase/ decrease [1] | Capital [1] | Number of shares |
|---|---|---|---|---|---|---|---|
| 12/31/2013 | held | conditional capital | | | | 557 500 | 55 750 |
| 12/31/2014 | held | conditional capital | | | | 557 500 | 55 750 |
| 12/31/2015 | held | conditional capital | | | | 557 500 | 55 750 |
| 12/31/2016 | held | conditional capital | | | | 557 500 | 55 750 |

1) in CHF

For details on financial years prior to 2013, please refer to page 87 onwards of the 2013 Annual Report.

### 2.4 Shares

The 4 462 971 registered shares of Feintool International Holding AG have a par value of CHF 10 each and are fully paid up. One registered share corresponds to one vote. There are no voting right restrictions, and there are no voting or preference shares (unitary share structure). All shares have equal dividend rights. Feintool International Holding AG does not have any participation capital.

### 2.5 Dividend right certificates

Feintool International Holding AG does not have any dividend right certificates.

### 2.6 Limitations on transferability and nominee registrations

#### 2.6.1 Limitations on transferability for each share category

In accordance with Art. 4 of the Articles of Association, the voting rights attached to shares and other rights that accompany voting rights may only be exercised by those recorded in the share register as voting shareholders. The Board of Directors may refuse registration as a shareholder with voting rights if a person acquiring shares does not expressly declare that they have acquired the shares in their own name and at their own expense.

#### 2.6.2 Granting of exceptions

No exceptions to the above limitations on transferability were granted during the financial year.

#### 2.6.3 Nominee registrations

As stated in section 2.6.1, there are no privileges or restrictions with regard to transferability with the exception of the nominee registrations clause.

#### 2.6.4 Procedures and conditions for canceling privileges and transfer restrictions laid down in the Articles of Association

Any amendment to these provisions (easing or limitation) requires the approval of at least two-thirds of the votes represented and an absolute majority of the share par values represented (Art. 12 of the Articles of Association).

### 2.7 Convertible bonds and options

There were no convertible bonds or options issued as at December 31, 2016.

# MEMBERS OF THE BOARD OF DIRECTORS, FEINTOOL INTERNATIONAL HOLDING AG

**As at December 31, 2016**

## ALEXANDER VON WITZLEBEN (1963, GERMAN NATIONAL)

**Position:**
Member of the Board of Directors (not executive)

**Committees:**
Member of the Compensation and Nomination Committee and the Audit Committee

**Qualifications:**
Studied economics at the University of Passau

**Professional background:**
- 1990–1993 KPMG Deutsche Treuhand Gesellschaft, Munich (GER): Lead Auditor
- 1993–2007 Jenoptik AG, Jena (GER): firstly as Chief Financial Officer, then Chief Executive Officer from 2004
- 2007–2008 Franz Haniel & Cie. GmbH, Duisburg (GER): Member of the Management Board
- Since 20 January 2009 Feintool International Holding AG, Lyss: Chairman of the Board of Directors

**Other activities and commitments:**
- Chairman of the Board of Directors and interim CEO of AFG Arbonia-Forster-Holding AG, Arbon
- Chairman of the Supervisory Board of PVA TePla AG, Wettenberg (GER)
- Chairman of the Supervisory Board of VERBIO Vereinigte BioEnergie AG, Leipzig (GER)
- Member of the Board of Directors of Artemis Holding AG, Aarburg
- Member of the Supervisory Board of Siegwerk Druckfarben AG & Co. KGaA, Siegburg (GER)
- Member of the Advisory Board of KAEFER Isoliertechnik GmbH & Co. KG, Bremen (GER)

## DR. MICHAEL SOORMANN (1958, GERMAN NATIONAL)

**Position:**
Vice-Chairman of the Board of Directors (non-executive)

**Committees:**
Chairman of the Compensation and Nomination Committee and member of the Audit Committee

**Qualifications:**
Degree in commerce from the University of Erlangen-Nürnberg (Nuremberg), 1984, doctorate in political science (Dr. sc. pol.) from the University of Kiel, 1988

**Professional background:**
- 1988–1992 Business Consultant, Treuarbeit GmbH/Coopers & Lybrand, Hamburg/Berlin (GER)
- 1992–1994 Internal Auditing, Sandoz AG, Nuremberg (GER)
- 1994–2004 CFO, CEO of MBT Deutschland/Degussa Construction Chemicals Schweiz AG, Zurich
- 2004–2007 Administrative General Manager, Degussa Construction Chemicals Europe, Zurich
- 2007–2009 Director, Franke Artemis Group, Hergiswil
- Since 2010: Member of the Group Management of Franke Artemis Holding AG resp. Artemis Holding AG, Aarburg

**Other activities and commitments:**
- Chairman of the Board of Directors of Reppisch Werke AG, Dietikon

## THOMAS A. ERB
## (1945, SWISS NATIONAL)

### Position:
Member of the Board of Directors (non-executive)

### Qualifications:
Studied law at the University of Zurich 1965–1966
Studied business administration and management in Basel (Sandoz Management Programme) and in the UK

### Professional background:
- 1970–1977 Various positions at Sandoz AG, Basel, including marketing management for country organizations within the Chemicals division
- 1977–1986 Positions as Head of Division and CEO in Scandinavia and the UK for Sandoz Chemicals Ltd.
- 1987–1995 CEO for MBT Asia/Pacific (headquartered in Japan), a region of MBT Construction Chemicals Ltd. (division of Sandoz AG)
- 1995–2001 COO and CEO of MBT (and SKW-MBT) Construction Chemicals Ltd. (division of Sandoz AG; from 1996 a division of SKW Trostberg, Germany)
- Since 2001 positions as consultant and director

### Other activities and commitments:
- Chairman of the Board of Directors of Artemis Holding AG and of Franke Holding AG

## WOLFGANG FEIL
## (1944, GERMAN NATIONAL)

### Position:
Member of the Board of Directors (non-executive)

### Committees:
Member of the Compensation and Nomination Committee and the Audit Committee

### Qualifications:
Training in the foreign trade and transport sector and in business management Stuttgart 1974

### Professional background:
- 1980–2002 Managing Director of Schuler SMG GmbH, Waghäusel (GER)
- 1989–1999 Managing Director of Schuler GmbH, Göppingen (GER)
- 1999–2002 Member of the Board of Directors and Management Board of Schuler AG (responsible for strategic business areas of Hydraulic Forming Systems and Hydroforming)
- 2002–2009 COO of the Hofkammer des Hauses Württemberg, Friedrichshafen (GER)

### Other activities and commitments:
- Member of the Advisory Board of Paul Hartmann AG, Heidenheim (GER)
- Chairman of the Advisory Board of Hubert Schlieckmann GmbH, Marienfeld (GER)
- Member of the Advisory Board of Hirschvogel Holding GmbH, Denklingen (GER)
- Member of the Advisory Board of GBZ Holding GmbH, Mittelbiberach (GER)

### DR. THOMAS MUHR
### (1963, GERMAN NATIONAL)

**Position:**
Member of the Board of Directors (non-executive)

**Qualifications:**
Studied business administration and metallurgy at RWTH University Aachen (GER)
Doctorate at RWTH Aachen (GER) 1992

**Professional background:**
- 1989–1991 Assistant the company management, Muhr und Bender KG, Attendorn (GER)
- 1992–1993 Assistant to the management of the engines and purchasing division, BMW AG, Munich (GER)
- 1994–1997 Technical manager responsible for production and production development, Muhr und Bender KG, Attendorn (GER)
- Since 1998 Managing associate, Muhr und Bender KG, Attendorn (GER)

**Other activities and commitments:**
- Member of the advisory board of the Parts and Accessories Producer Group, German Association of the Automotive Industry, Berlin (GER)
- Member of the senate of acatech, German academy of technical science, Munich (GER)
- Member of the board of directors of proRWTH, friends and sponsors of RWTH University Aachen e.V., Aachen (GER)
- Honorary doctorate of RWTH University Aachen, Aachen (GER)

**Business relationships**
Several subsidiaries of Muhr und Bender KG, Attendorn, are in business relationships with Feintool. All transactions are conducted at arm’s length.

### DR. KURT E. STIRNEMANN
### (1943, SWISS NATIONAL)

**Position:**
Member of the Board of Directors (non-executive)

**Committees:**
Chairman of the Audit Committee

**Qualifications:**
Graduated as a mechanical engineer (Dipl.-Ing.) from ETH Zurich; subsequently obtained a doctorate (Dr. sc. techn.).

**Professional background:**
- 1977–1990 Various senior positions in Production as well as in Research & Development at Rieter AG, Winterthur; from 1988: Chief Executive Officer
- 1990–1996 CEO of AGIE AG, Losone & Agie Group
- 1996–1998 Member of Group Management of Georg Fischer AG, Schaffhausen, Chairman of the Board of Directors of Agie Charmilles Holding AG, Zug
- 1998–2003 Head of the Georg Fischer Manufacturing Technology Corporate Group (Agie Charmilles); Member of the Executive Committee
- 2003–2008 CEO and Delegate to the Board of Directors of Georg Fischer AG, Schaffhausen.
- 2003–2014 Member of the Board of Directors of Georg Fischer AG, Schaffhausen

**Other activities and commitments:**
None

**DR. ROLF-DIETER KEMPIS**
**(1953, GERMAN NATIONAL)**

**Position:**
Member of the Board of Directors (non-executive)

**Qualifications:**
1976 Degree in mechanical engineering (Dipl.-Ing. Maschinenbau, RWTH Aachen)
1978 Degree in industrial engineering (Dipl.-Wirtsch.-Ing., RWTH Aachen)
1981 Doctorate in engineering (Dr. Ing., RWTH Aachen)
Thesis: FEM calculations in the reactor industry

**Professional background:**
- 1976–1981 Assistant at the Institute for Machine Elements (RWTH Aachen)
- 1981–82 Production planning assistant (Thyssen Stahl AG)
- 1983–2005 McKinsey & Company
- (Consultant, Principal, Director)
- 2005–07 Supervisory Board, Grammer AG
- 2007–10 Chairman of the Board, Grammer AG
- 2011–14 Supervisory Board, SMT-Scharf AG
- 2011–13 Chairman of the Advisory Board, Novem Beteiligungs GmbH
- Since 2010 Freelance consultant
- Since 2014 Partner, Theron Advisory Group
- Since 2015 Managing Director of Theron Waldenburg GmbH
- Since 2015 Advisory board Muhr und Bender KG

**Other activities and skills:**
- Author/co-author of several management text books: "Einfach überlegen" [Just think] (1993), "Qualität gewinnt" [Quality wins] (1995), "Do IT smart" (1998), "Innovation in der Stahlindustrie" [Innovation in the steel industry] (2001)
- Functional subject areas covered by consulting activities: Operations, strategy, M&A
- Industrial competencies covered by consulting activities: Automotive manufacturing/supply industry, metallurgy (steel, aluminum, copper), mechanical engineering

## 3 BOARD OF DIRECTORS

### 3.1 Members of the Board of Directors

As of December 31, 2016, the Board of Directors comprised seven members. None of the non-executive members of the Board of Directors was a member of Group Management at Feintool or any of its subsidiaries either in the year under review or during the three previous financial years. With the exception of the business relations conducted by a few members of the Board, no business relations took place with Feintool or its subsidiaries, either in the year under review or during any of the three previous financial years.

### 3.2 Other activities and commitments

Other activities and commitments are also listed above in section 3.1.

### 3.3 Number of mandates permitted

According to Article 18b of the Articles of Association, members of the Board of Directors, Group Management and, where applicable, the Advisory Board may not hold or exercise more than (i) 8 additional, paid mandates, of which no more than 4 at companies whose equity securities are listed on a stock exchange, and (ii) 8 unpaid mandates, expense allowances not being deemed to constitute compensation.

"Mandate" denotes activity on the most senior management or administrative organs of other legal entities that are required to be registered in the commercial register or a comparable register abroad and that are not controlled by the company or do not control the company. Mandates at various companies belonging to the same corporate group shall count as one mandate. Mandates fulfilled by a member of the Board of Directors or Group Management on the instructions of a Group company shall not fall under the restriction on additional mandates.

### 3.4 Election and terms of office

#### 3.4.1 Principles of the election procedure and restrictions on terms of office for members of the Board of Directors

The General Meeting elects members of the Board of Directors by voting for them individually, and also elects the Chairman from amongst the Board members. The term of office of the members and the Chairman of the Board of Directors ends at the latest at the conclusion of the ordinary General Meeting following that at which they were elected, subject to any prior resignation or dismissal. Members of the Board of Directors are indefinitely eligible for reappointment. No age limits apply for members of the Board of Directors.

In accordance with Art. 3.1 of the Organizational Regulations, the Board of Directors should comprise individuals with business experience and an entrepreneurial mindset. At least one member should have specific experience in the automotive supply industry or production operations, or financial expertise. The criteria for new elections to the Board of Directors are determined by the Compensation and Nomination Committee. It prepares a selection of candidates in accordance with the list of criteria that has been drawn up.

#### 3.4.2 Principles of the election procedure and restrictions on term of office for members of the Compensation and Nomination Committee

The General Meeting elects a Compensation and Nomination Committee consisting of one or more members. The members of the Compensation and Nomination Committee are elected individually. Only members of the Board of Directors may be elected. The term of office for the members of the Compensation and Nomination Committee ends at the latest at the conclusion of the ordinary General Meeting following that at which they were elected. Members may be re-elected.

#### 3.4.3 Principles of the election procedure and restrictions on the term of office for the independent proxy

The General Meeting elects an independent proxy. Natural persons, legal persons or partnerships may be elected. Their independence may not be compromised, either in fact or appearance, and is based on Article 728 paras. 2-6 of the Swiss Code of Obligations.

The term of office of the independent proxy ends at the conclusion of the ordinary General Meeting following that at which they were elected. Members may be re-elected.

### 3.4.4 Initial election and remaining term of office of each member of the Board of Directors

| Name | Member since | Term of office until AGM on |
|---|---|---|
| Alexander von Witzleben | 1998 | April 25, 2017 |
| Dr. Michael Soormann | 2010 | April 25, 2017 |
| Thomas A. Erb | 2012 | April 25, 2017 |
| Wolfgang Feil | 2003 | April 25, 2017 |
| Dr. Rolf-Dieter Kempis | 2016 | April 25, 2017 |
| Dr. Thomas Muhr | 2014 | April 25, 2017 |
| Dr. Kurt E. Stirnemann | 2008 | April 25, 2017 |

### 3.5 Internal organizational structure

The Chairman of the Board of Directors is elected by the General Meeting. In accordance with Article 13 of the Articles of Association, the Chairman of the Board of Directors leads the General Meeting and heads the Board of Directors, which makes decisions as a collective body.

In accordance with Article 14 of the Articles of Association, the Board of Directors will constitute itself, taking account of the General Meeting's election of the Chairman of the Board of Directors and the members of the Compensation and Nomination Committee.

At its first meeting after the ordinary General Meeting, the Board of Directors elects a Deputy Chairman; it also appoints a Secretary, who is not required to be a member of the Board of Directors. The Board of Directors also elects the members of the Audit Committee.

### 3.5.1 Distribution of responsibilities on the Board of Directors

In the financial year, Alexander von Witzleben held the office of Chairman. Dr. Michael Soormann served as Deputy Chairman. No Secretary to the Board of Directors is currently appointed. These tasks are being undertaken by the members of the Board of Directors.

### 3.5.2. Composition of all Board committees and their duties and authority

**Audit Committee**

The current members of the Audit Committee are Dr. Kurt E. Stirnemann (Chairman), Alexander von Witzleben, Dr. Michael Soormann and Wolfgang Feil.

The Audit Committee submits draft proposals to the Board of Directors on the following issues:

- Coordinating the external audit, particularly defining the scope of the audit; instructing internal audit, particularly determining the focal points
- Monitoring financial reporting and overseeing auditors (quarterly discussion of financial reporting with the CEO and CFO; monthly discussions between the Chairman of the Audit Committee and the CFO; discussion of interim results with the CEO and CFO; discussion of annual financial statements with CEO, CFO and auditors)
- Analyzing and assessing possible weak points in the financial reporting results and the internal control system (ICS)
- Assessing the functionality of the internal control system
- Proposing the commissioning of special audits to the Board of Directors
- Monitoring the company's credit and cash flow situation and business relationships with banks
- Monitoring and coordinating all mergers and acquisitions (M&A) activity
- Selecting and proposing external advisors.

**Compensation and Nomination Committee**

The current members of the Compensation and Nomination Committee are Dr. Michael Soormann (Chairman), Alexander von Witzleben and Wolfgang Feil.

The Compensation and Nomination Committee submits draft proposals to the Board of Directors on the following issues:

- The composition (fixed, variable, proportion of shares, etc.) and amount of the compensation of members of the Board of Directors, Group Management and, if applicable, the Advisory Board
- Ensuring the termination provisions contained in the employment contracts of members of Group Management and other senior executives are commensurate with market conditions and provide protection for the company
- Verifying that compensation paid is in line with market rates and performance standards
- Verifying and authorizing any internal business between senior executives or persons closely associated with them and companies in the Feintool Group.

In the 2016 financial year, the Compensation and Nomination Committee and the Audit Committee assumed their responsibilities in accordance with the respective regulations.

### 3.5.3 Working methods of the Board of Directors and its committees

In accordance with Art. 3.5 of the Organizational Regulations, the Board of Directors meets at least four times a year, for one day on each occasion. In the reporting period, the Board of Directors held six detailed meetings. The CEO and CFO attended all the meetings. Additional members of operational management also attended if the topic was relevant to them.

The Audit Committee met three times and the Compensation and Nomination Committee three times in the period under review. These meetings usually last half a day and are in preparation for the next meeting of the Board of Directors. The Audit Committee and the Compensation and Nomination Committee meet as required, but at least two detailed meetings must take place for each committee each year. All proposals arising from both committees were discussed at the regular meetings of the Board of Directors.

### 3.6 Division of responsibilities between the Board of Directors and Group Management

In accordance with Art. 15 of the Articles of Association, the Board of Directors is the supreme body of the company with responsibility for supervising Group Management. It represents the company externally and deals with all matters not assigned to any other corporate body by law, the Articles of Association or the Organizational Regulations. In accordance with Art. 6.5a. of the Organizational Regulations, the Board of Directors delegates overall management to the CEO, where permitted under the law and provided such responsibilities are not expressly assigned to the Board of Directors. The Board of Directors' responsibilities include decisions statutorily assigned to it regarding financial and information policies as well as decisions relating to investments, cooperation agreements, contracts, real estate and shareholdings, provided such decisions are of special significance to the company and they exceed a specified scale, together with resolutions concerning internal and external auditing.

The CEO's responsibilities include management of the company's operations, as well as drawing up requisite remits, directives and guidelines within the framework of the organizational structure approved by the Board of Directors. The CEO is responsible for managing and organizing Group Management and also represents the company in dealings with the Board of Directors, the general public and the authorities.

In accordance with the resolution by the Board of Directors on April 14, 2014, the CEO and CFO constitute Group Management as defined by the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares ("ERCO").

Group Management determines binding, Group-wide management instruments (planning, accounting, management information systems and controlling) and is responsible for developing the corporate culture. It is also responsible for developing and periodically reviewing the corporate strategy and for its implementation. Group Management prepares information on all matters that fall under the responsibility of the Board of Directors and is also responsible for ensuring that the Board's resolutions are implemented.

### 3.7 Information and control instruments of Group Management

At its meetings, all members of the Board of Directors and members of Group Management have an obligation to provide the required information. If necessary, other senior executives may also be involved. At such meetings, the Chairman informs the other members of the Board of Directors about their activities since the last Board meeting; the CEO reports on current business developments and the CFO comments on financial reporting.

As part of the Feintool Group's Management Information System (MIS), members of the Board of Directors receive a monthly report from Group Management informing them about the financial and business situation of the company and relevant company segments. This report contains information on market and sector developments and risks, the income statement, key figures (sales, EBIT, orders received and order backlog, among others) and detailed quarterly, interim and annual financial statements, which are then commented on by the CEO and the CFO at meetings held specifically for this purpose. This includes a data comparison with the prior years and with the budgeted figures. Between meetings, the CEO also informs the members of the Board of Directors about extraordinary events, either in writing or by telephone.

Between meetings of the Board of Directors, each member may ask the CEO to provide information at any time regarding the performance of the business and, with the approval of the Chairman, regarding individual transactions; members may also request the inspection of business documents. Such requests should be forwarded to the Chairman in writing.

**Internal Audit**
Internal Audit concentrates on areas of operational and strategic risk management in addition to the internal control system. It conducts group-wide audits, analyses and interviews. The annual audit schedule is approved by the Audit Committee in cooperation with the external auditors. Internal Audit reports regularly to the Audit Committee on a project-related basis, either in writing or verbally. Internal audit activities are carried out by PriceWaterhouseCoopers AG, Zurich. Its activities are coordinated on an ongoing basis by the Chairman of the Board of Directors and the CFO.

The Board of Directors has decided to continue to award internal audit tasks to an external auditor.

# GROUP MANAGEMENT

As at 31 December 2016

BRUNO MALINEK
(1966, GERMAN NATIONAL)

**Position:**
CEO of the Feintool Group and
Head of System Parts segment

**Qualifications:**
Degree (Dipl.-Ing.) in mechanical engineering, university of applied sciences
Toolmaker

**Professional background:**
- 1992–1994 Thyssen Nothelfer GmbH: Design engineer
- 1994–1999 ElringKlinger GmbH: Technical Manager
- 1999–2001 WMU GmbH: Works Manager
- 2001–2015 ElringKlinger AG: Head of business area
- 2015: Head of System Parts segment, Feintool Group
- Since September 1, 2016: CEO of the Feintool Group and Head of System Parts segment

**Other activities and commitments:**
None

DR. THOMAS F. BÖGLI
(1956, SWISS NATIONAL)

**Position:**
CFO Feintool Group

**Qualifications:**
Dr. oec. publ. in Business Management from the University of Zurich

**Professional background:**
- 1984–1989 F. Hoffmann-La Roche Ltd, Basel: Controller
- 1990–1992 Netstal-Maschinen AG, Näfels: CFO
- 1992–1994 Studer Revox AG, Regensdorf: CFO
- 1995–2000 COS Computer Systems AG, Baden: CFO
- 2001–2004 Von Roll Holding AG, Gerlafingen: CFO
- 2004–2008 Nobel Biocare Holding AG, Kloten: CFO
- Since 1 October 2009: CFO of the Feintool Group

**Other activities and commitments:**
None

## 4 GROUP MANAGEMENT

### 4.1 Members of Group Management
In accordance with the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares ("ERCO"), Group Management consisted of two members as of December 31, 2016. The management structure can be found in the organizational chart shown in section 1.1.1 on page 97 of this report.

### 4.2 Other activities and commitments
Other activities and commitments are also listed above in section 4.1.

### 4.3 Number of mandates permitted
According to Article 18b of the Articles of Association, members of the Board of Directors, Group Management and, where applicable, the Advisory Board may not hold or exercise more than (i) 8 additional, paid mandates, of which no more than 4 at companies whose equity securities are listed on a stock exchange, and (ii) 8 unpaid mandates, expense allowances not being deemed to constitute compensation.

"Mandate" denotes activity on the most senior management or administrative organs of other legal entities that are required to be registered in the commercial register or a comparable register abroad and that are not controlled by the company or do not control the company. Mandates at various companies belonging to the same corporate group shall count as one mandate. Mandates fulfilled by a member of the Board of Directors or Group Management on the instructions of a Group company shall not fall under the restriction on additional mandates.

### 4.4 Management contracts
There are no management contracts between the Feintool Group and third parties.

## 5 COMPENSATION, SHAREHOLDINGS AND LOANS

### 5.1 Basic principles of the compensation system

#### 5.1.1 Board of Directors
Based on a proposal by the Compensation and Nomination Committee, the Board of Directors determines once a year at its year-end meeting the level of compensation paid to its members on the basis of their activities and responsibilities, while taking due account of prevailing market and industry levels. The peer group comprises internationally active industrial companies of a similar structure and size, with a focus on automotive suppliers as well as plant construction and mechanical engineering. If necessary, the Compensation and Nomination Committee will consult external advisers.

#### 5.1.2 Group Management
The Compensation and Nomination Committee determines all components of the compensation paid to the CEO on the basis of the contractual agreement. For the other members of Group Management, the Compensation and Nomination Committee makes its decision following proposals submitted by the CEO on the basis of the respective contractual agreements. This is reported to the Board of Directors at its regular meeting at the end of each year. Where necessary, external advisers are consulted when determining the compensation and stock option plans for Group Management.

Every two to three years, Feintool commissions an external consulting firm to review Group Management's compensation in comparison with the external labor market. The peer group comprises internationally active industrial companies with a similar structure and size, with a focus on automotive suppliers as well as plant construction and mechanical engineering. The comparison includes basic, overall and direct compensation as well as selected fringe benefits (occupational pension, company car and lump-sum expenses).

### 5.2 Elements of the compensation system

#### 5.2.1 Board of Directors

The compensation paid to members of the Board of Directors consists of a fixed component plus the lump-sum reimbursement of expenses and an attendance fee. Members of the various committees are reimbursed individually with a fixed component and an attendance fee. If meetings of the Board of Directors and the various committees take place immediately after each other, the attendance fee is paid only once.

Compensation paid to the Chairman of the Board of Directors is based on a fixed proportion of their salary (fixed component). Depending on the company's financial performance, the Chairman also receives a bonus (variable component) and/or free shares in Feintool International Holding AG. These shares are locked in for a specified period.

#### 5.2.2 Group Management

The compensation paid to Group Management is based on a fixed proportion of each individual's salary (fixed component). In addition, the amount of compensation is determined directly by the attainment of targets and performance of each member of Group Management, as well as the financial performance of the company (variable component). The performance-related bonus is determined on the basis of operating results (EBIT) and the degree to which annually agreed individual objectives have been achieved. The bonus for the CEO is entirely calculated according to the EBIT of the Feintool Group. For the CFO, the ratio of operational to personal objectives is approximately 70:30. The variable compensation component paid to the members of Group Management is between 30 % and 70 % of the fixed salary component.

Members of Group Management receive part of their fixed compensation in the form of shares, which are locked in on a staggered basis for up to four years. Details are set out in the "Regulations for the issue of employee shares and options to members of the Board of Directors and Senior Executives," as issued by the Board of Directors in 2005.

Members of Group Management also receive customary fringe benefits (company car, risk insurance and retirement, management insurance cover and voluntary insurance).

### 5.3 Statutory regulations regarding compensation

Article 18 of the Articles of Association constitutes the statutory basis for remuneration:

**Article 18: Compensation principles, performance-based compensation, participation and option plans**

The compensation of members of the Board of Directors, Group Management and, where applicable, the Advisory Board should be commensurate, competitive and performance-based and shall be determined in accordance with the Group's strategic objectives and results.

The company may pay the members of the Board of Directors, the Group Management and, where applicable, the Advisory Board a performance-based compensation. The amount of such compensation shall be dependent upon the qualitative and quantitative targets and parameters set by the Board of Directors, in particular the Group's total profit and the individual contribution of the member concerned. The performance-based compensation may be paid in cash or in the form of the allocation of equity securities, conversion or warrant rights or other rights to equity securities. The Board of Directors shall issue regulations governing the details.

The company may allocate equity securities, conversion or warrant rights or other rights to equity securities to the members of the Board of Directors, Group Management and, where applicable, the Advisory Board as part of their compensation. If equity securities, conversion or warrant rights or other rights to equity securities are allocated, the amount of the compensation shall equate to the value that can be attributed to the allocated securities or rights at the time of their allocation according to generally accepted valuation methods, unless the General Meeting dictates otherwise. The Board of Directors may set a vesting period for the holding of the securities or rights and determine when and to what extent the entitled persons shall acquire a legal entitlement and/or the conditions in which any vesting periods shall lapse and the beneficiaries shall immediately acquire a legal entitlement (e.g. in the event of a change of control, substantial restructuring or certain forms of termination of employment). The Board of Directors shall issue regulations governing the details.

The allocation of equity securities, conversion or warrant rights or other rights to equity securities that the members of the Board of Directors, Group Management and, where applicable, the Advisory Board receive in their capacity as shareholders of the company (e.g. subscription rights in the context of a capital increase or options in the context of a capital reduction) shall not constitute compensation and is not covered by this provision.

**Article 18a: Employment contracts, loans, credits and pension benefits**

Employment contracts with the members of Group Management and contracts with the members of the Board of Directors upon which the compensation of the members concerned is based shall be concluded for a fixed term of no more than one year or for an indefinite duration with a notice period of no more than twelve months to the end of a calendar month.

Loans or credits may be extended to members of the Board of Directors, Group Management and, where applicable, the Advisory Board up to a maximum sum of CHF 300 000, in particular in the form of advances on costs of civil, criminal or administrative proceedings connected with the activity of the person concerned as a member of the Board of Directors or Group Management of the company (in particular, court fees and lawyer's fees).

The members of the Board of Directors, Group Management and, where applicable, the Advisory Board shall receive occupational pension benefits in accordance with the legal or regulatory provisions at home or abroad that apply to them, including non-obligatory benefits where applicable. The provision of such benefits shall not constitute compensation that is subject to approval.

If a member of Group Management, the Board of Directors or any Advisory Board falls ill or suffers an accident, the company may continue paying their salary within the scope of a regulatory arrangement issued by the Board of Directors or within the scope of insurance benefits. When early retirement is taken, the company may pay bridging benefits to the insured or additional contributions to a pension fund in accordance with early retirement regulations to be issued by the Board of Directors.

**Article 18c: Voting on compensation by the General Meeting**

Each year, at the behest of the Board of Directors, the General Meeting shall individually and bindingly approve the total compensation for

1. the Board of Directors and, where applicable, the Advisory Board (in a separate ballot) for the period until the next ordinary General Meeting;
2. Group Management for the financial year following the ordinary General Meeting (the "approval" period).

If an approved overall sum for the compensation of Group Management is not sufficient to compensate any members appointed after the resolution of the General Meeting until the start of the next approval period, the company shall have at its disposal for the respective approval period an additional sum per person of no more than 50 % of the total compensation for Group Management previously approved. The General Meeting shall not vote on the additional sum used.

In addition to the approval in accordance to Para. 1, each year at the behest of the Board of Directors, the General Meeting may individually and bindingly resolve to increase the approved sums for the compensation of the Board of Directors, Group Management and, where applicable, the Advisory Board for the approval period running up to the General Meeting concerned or the previous approval period. The Board of Directors is authorized to pay any kind of permitted compensation from the approved totals or additional sums.

If the General Meeting refuses to approve a total sum for the members of the Board of Directors, Group Management or, where applicable, the Advisory Board, the Board of Directors may present new motions at the same General Meeting. If it does not present new motions or if these are also rejected, the Board of Directors may at any time, with due regard for the requirements of law and the Articles of Association, convene a new General Meeting.

The reimbursement of expenses shall not constitute compensation. Within the limits accepted by the tax authorities, the company may reimburse the members of the Group Management, the Board of Directors and, where applicable, the Advisory Board for expenses in the form of fixed expense allowances.

The company may take out directors' & officers' liability insurance on behalf of the members of the Board of Directors, Group Management and, where applicable, the Advisory Board and pay the contractual premiums or contributions. Payment of the premiums or other contributions shall not constitute compensation. Members of the Board of Directors, Group Management and, where applicable, the Advisory Board may draw compensation for activities at companies that are directly or indirectly controlled by the company, provided such compensation would be permitted were it paid directly by the company and provided it has been approved by the company's General Meeting. The amounts approved by the General Meeting in accordance with this provision of the Articles of Association may be paid by the company and/or one or more other Group companies.

Compensation approved in an approval resolution by the General Meeting for a particular period may also be paid in full or in part after the end of that period, provided it is paid for the period to which the approval resolution relates. In this case, the compensation must not be covered by the approval resolution for the period in which payment is made.

In the event of notice to terminate or the early termination of a permanent employment contract with a member of Group Management, the company may pay the salary until the end of the notice period, even if the employee is released and commences a new role. If a member of Group Management is released in the course of a fixed-term relationship or if that relationship is dissolved early, the same shall apply until the expiry of the fixed term.

If the company has agreed to a non-competition clause with a member of Group Management or the Board of Directors, it may pay the member concerned an annual compensation of no more than 50 % of their total last annual compensation (including all supplements, variable and discretionary compensation) for a period not exceeding two years.

### 5.4 Compensation for acting members of governing bodies

Full details of the effective compensation can be found on page 120 of the Remuneration Report.

## 6 SHAREHOLDERS' PARTICIPATION RIGHTS

### 6.1 Voting right restrictions and proxies

In accordance with Art. 10 of the Articles of Association, each share carries one vote. Only those shareholders entered in the share register are entitled to vote at the General Meeting. A shareholder may only be represented at the General Meeting by their own legal representative, another shareholder who attends the meeting and is entered in the share register, or the independent proxy. The proxy must be given written authorization. Attending members of the Board of Directors shall decide on the recognition of proxies.
Restrictions on voting rights and the associated regulations can be found in section 2.6.1 of this Corporate Governance Report.

In accordance with Art. 10a of the Articles of Association, shareholders will be able to give the independent proxy instructions regarding any motions for business announced in the notice of convocation and any motions for business not announced in the notice of convocation, as well giving them general instructions regarding any new items of business in accordance with Art. 700.3 of the Swiss Code of Obligations.

Shareholders will be able to issue their authorization and instructions to the independent proxy, including in electronic form, up to 4 p.m. on the third working day prior to the date of the General Meeting. This deadline shall be deemed to have been met if the authorization and instructions are received by the independent proxy by that time. The independent proxy is obliged to exercise the voting rights conferred on them by the shareholders as instructed. If they have not received any instructions, they shall abstain from voting.

### 6.2 Quorum requirements

All resolutions at the General Meeting are made by a legally required majority. In the event of a tied vote, the Chairman casts the deciding vote.

### 6.3 Convocation of the General Meeting

In accordance with Art. 9 of the Articles of Association, the General Meeting must be convened at least 20 days in advance by publication of a notice in the Swiss Official Gazette of Commerce. In addition, registered shareholders will receive a written invitation.

### 6.4 Agenda items

In accordance with Article 9 of the Articles of Association, shareholders who individually or jointly hold at least 10 % of the share capital or hold shares with a par value of at least CHF 1 million may request the inclusion of a particular item for discussion, at the latest 40 calendar days prior to the General Meeting. Such items must be submitted in writing, citing the item for discussion and the proposals.

### 6.5 Entries in the share register

In accordance with Article 10 of the Articles of Association, all shareholders entered in the share register with voting rights, together with registered nominees, are entitled to attend the General Meeting and to vote. For organizational reasons, the closing date for entries in the share register is 11 days before the General Meeting (the share register status on this date is used to determine the voting and representation ratios at the forthcoming General Meeting).

## 7 CONTROL AND DEFENSE MEASURES

### 7.1 Opting up

Opting up at Feintool International Holding AG is governed by the current legal conditions described in Article 32 of the Swiss Federal Stock Exchange Act (SESTA). The Articles of Association do not contain any provisions regarding opting out or opting up.

### 7.2 Clauses on changes of control

No clauses on changes of control have been agreed for the benefit of the Board of Directors, Group Management or any other senior executives in the company.

## 8 AUDITORS

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

At the General Meeting held on April 19, 2016, KPMG AG, Zurich, was elected as statutory auditors for one year. Rolf Hauenstein is the lead auditor for the term of the mandate.

### 8.1.1 Date of assumption of the auditing mandate

KPMG AG, Zurich, was elected for the first time at the General Meeting on January 25, 2011.

### 8.1.2 Date on which the lead auditor took up office

Since KPMG AG was first appointed, the lead auditor responsible for the existing auditing mandate has been Rolf Hauenstein.

### 8.2 Auditing fees

The auditing fees charged by KPMG AG in respect of the financial statements for the 2016 financial year amounted to CHF 477 000.

### 8.3 Additional fees

In the reporting period, KPMG AG billed an additional fee of CHF 4 000 for audit-related services.

### 8.4 Information instruments pertaining to external audit

The auditors attended two meetings of the Audit Committee. KPMG AG provides the Board of Directors with a comprehensive report on the results of its annual audit. At the end of the financial year, the Audit Committee, with the CEO and CFO also in attendance, discusses the comprehensive report to the Board of Directors and the auditors' report with the auditors.

The external auditors are periodically re-evaluated by means of a tendering process. They are elected at the General Meeting by a motion submitted by the Board of Directors. Besides the minimum legal requirements, selection criteria include relevant qualifications, sector experience and cost-effectiveness. The lead auditor from KPMG AG is replaced every seven years in accordance with statutory regulations.

## 9 INFORMATION POLICY

Feintool communicates actively with shareholders, the media and investors. The company provides regular information on its business performance in the form of press releases and holds at least two press conferences per year. Twenty press releases were published during the financial year from January 1 to December 31, 2016. Interested parties are welcome to visit our factories. Furthermore, at least once a year we offer the financial community the opportunity to gain direct insights into our business at one of our manufacturing sites. In the reporting period, members of Group Management held around 50 individual meetings with existing or prospective investors. A further 50 or so existing or prospective investors were also welcomed at group meetings.

Five institutes are currently publishing reports on Feintool's business performance:

| Bank | Name |
|---|---|
| Bank Vontobel AG | nn |
| Berenberg Bank (Switzerland) AG | Paul Kratz |
| Kepler Cheuvreux | Torsten Sauter |
| Research Partners AG | Ronald Wildmann |
| Zürcher Kantonalbank | Alexander Koller |

Shareholders in Feintool International Holding AG receive interim and annual reports on request, and are kept regularly informed about new corporate developments of interest to them in the form of shareholder letters. During the 2016 financial year, two such letters were sent on the subjects of the 2015 year-end financial results and the 2016 interim results.

The latest corporate information can be found on our website under "Media Releases" (http://www.feintool.com/en/newsroom/news.html). You can also subscribe to this information by filling out the contact form on the website (http://www.feintool.com/en/newsroom/media-contacts.html). Annual reports, dates and other useful information can also be found at www.feintool.com. Information can also be requested from investor.relations@feintool.com.

## 10 SIGNIFICANT CHANGES AFTER THE BALANCE SHEET DATE

Feintool signed an agreement for the acquisition of the Chinese forming plant "Schuler (Tianjin) Metal Forming Technology Center Co., Ltd." from the German Schuler Group on February 10, 2017. It should be completed at the end of March 2017.

# RISK ASSESSMENT

Feintool conducts a comprehensive risk assessment within the Group every year. This is based on the following pillars:

- Quality and crisis management, based on ISO 9001 and ISO TS 16949
- Environmental management, based on ISO 14001
- Insurance management
- Internal control system
- Risk analysis management
- Business continuity management

The way in which each business unit is structured, the nature of the periodic procedures undertaken, and the manner in which these procedures are audited and reported are defined in writing. Control over each business unit is exercised by one or more bodies. In addition, each business unit also has persons responsible for it.

Insurance management is organized centrally by Feintool. Annual meetings are held with the Group insurance broker. At these meetings, the insurance coverage for risks in relation to third-party liability, the supply of goods and services and transportation is tailored to the Group's insurable risks. The insurance coverage is adjusted in the event of any changes.

Feintool introduced its internal control system (ICS) worldwide in 2007 and 2008 to comply with regulations and avert any damage that might be caused by staff or malicious third parties. The following processes are subject to the ICS:

- Sales/purchasing
- Logistics/warehousing/scrap
- Work in progress and long-term construction contracts (POC)
- Property, plant and equipment
- Salaries and wages
- Finance and leasing
- Information technology
- Annual financial statements

A flow chart for each process shows where the various loss risks can arise. These risks are summarized in a risk control inventory and assigned to one or more manual or automatic checks. Feintool's internal audit unit periodically examines the effectiveness of the ICS within the Group companies.

Feintool sees risk analysis management as the periodic analysis of risks that jeopardize the Group's success or its ability to achieve its targets. Feintool bases this as far as possible on the ISO 31000 process. Every year, each Group company defines – on the basis of a predefined risk matrix – which of these risks could be significant for the company. The individual risks are then assessed in accordance with their probability of occurrence and the extent of loss. Risk mitigation strategies, corresponding actions and the person responsible are determined for each of the top five risks.

Business continuity management involves designing procedural scenarios for the occurrence of loss or damage, the aim being to ensure the continuation of production or deliveries to (key) customers. The following areas are covered:

- Loss of key employees
- Occupational and plant security
- Procedure in the event of loss/damage to goods or buildings
- Loss of key suppliers, machines, tools and IT applications/hardware
- Loss of infrastructure incl. IT (or parts thereof)
- Significant customer complaints and recalls

Corresponding documentation in relation to all these areas exists within the Group companies and is reviewed at least once every year.

Feintool Group's risk manager produces an annual risk report concerning insurance management, the internal control system, risk analysis management and business continuity management for submission to the Group Management and Board of Directors. They make the key decisions on any risk-minimizing measures to be implemented. The ISO-based business units are subject to separate reporting.

For financial risks please also consider the Notes to the Financial Statements section 32 on page 69.

# REMUNERATION REPORT

## 1 PRINCIPLES OF THE COMPENSATION SYSTEM

### 1.1 Board of Directors

Based on a proposal from the Compensation and Nomination Committee, the Board of Directors determines once a year at its year-end meeting the level of compensation paid to its members on the basis of their activities and responsibilities, while taking due account of prevailing market and industry levels. The peer group comprises internationally active industrial companies of a similar structure and size, with a focus on automotive suppliers as well as plant construction and mechanical engineering.
The Compensation and Nomination Committee consults external advisers if required.

### 1.2 Group Management

The Compensation and Nomination Committee determines all components of the compensation paid to the CEO on the basis of the contractual agreement. For the other members of Group Management, the Compensation and Nomination Committee makes its decision following proposals submitted by the CEO on the basis of the respective contractual agreements. This is reported to the Board of Directors at its regular meeting at the end of each year. If required, external advisers are consulted when determining the compensation and stock option plans for Group Management.

Every two to three years, Feintool commissions an external consulting firm to review Group Management's compensation as compared against the external labor market. The peer group comprises internationally active industrial companies of a similar structure and size, with a focus on automotive suppliers as well as plant construction and mechanical engineering. The comparison includes basic, overall and direct compensation as well as selected fringe benefits (occupational pension, company car and lump-sum expenses).

## 2 ELEMENTS OF THE COMPENSATION SYSTEM

### 2.1 Board of Directors

The compensation paid to members of the Board of Directors consists of a fixed component plus a lump-sum reimbursement of expenses and an attendance fee. Members of the various committees are paid a separate fixed component and attendance fee. Where meetings of the Board of Directors and the various committees are held immediately after one another, the attendance fee is paid once only.

The compensation paid to the Chairman of the Board of Directors is based on a fixed proportion of his salary (fixed component). Depending on the company's financial performance, the Chairman also receives a bonus (variable component) and/or free shares in Feintool International Holding AG. These shares are locked in for five years.

### 2.2 Group Management

The compensation paid to Group Management is based on a fixed proportion of each individual's salary (fixed component).In addition, the amount of compensation is determined directly by the attainment of targets and performance of each member of Group Management, as well as the financial performance of the company (variable component).The performance-related bonus is determined on the basis of operating results (EBIT) and the degree to which annually agreed individual objectives have been achieved. It is based on a ratio of approximately 70:30 operating to personal targets, and is very similar for all members of Group Management except the CEO. The bonus for the CEO is calculated entirely according to the EBIT of the Feintool Group. The variable compensation component paid to the members of Group Management is between 30 % and 70 % of the fixed salary component.

Members of Group Management receive part of their fixed compensation in the form of shares, which are locked in on a staggered basis for up to four years. Details are set out in the "Regulations for the issue of employee shares and options to members of the Board of Directors and Senior Executives", as issued by the Board of Directors in 2005.

Members of Group Management also receive customary fringe benefits (company car, risk insurance and retirement, management insurance cover and voluntary insurance).

## 3 COMPENSATION FOR ACTING MEMBERS OF GOVERNING BODIES

The following compensation was paid during the compensation period. These figures relate to the period from January 1 to December 31. [1)]

### 3.1 Current members of the Board of Directors

| (including related parties) in CHF | Fixed salary [2)] | Shares/ options [3)] | Contributions to pension plans [4)] | Total |
|---|---|---|---|---|
| **In the 2016 financial year** | | | | |
| Alexander von Witzleben, Chairman | 274 000 | 565 000 | 130 926 | **969 926** |
| Dr. Michael Soormann, Deputy Chairman | 137 500 | – | – | **137 500** |
| Thomas A. Erb, Member | 57 500 | – | 3 857 | **61 357** |
| Wolfgang Feil, Member | 85 000 | – | 6 828 | **91 828** |
| Dr. Rolf-Dieter Kempis, Member | 42 500 | – | 5 145 | **47 645** |
| Dr. Thomas Muhr, Member | 50 000 | – | 5 974 | **55 974** |
| Dr. Kurt E. Stirnemann, Member | 95 000 | – | 7 908 | **102 908** |
| **Total Board of Directors** | **741 500** | **565 000** | **160 638** | **1 467 138** |
| | | | | |
| **In the 2015 financial year** | | | | |
| Alexander von Witzleben, Chairman | 274 000 | 429 250 | 133 329 | **836 579** |
| Dr. Michael Soormann, Deputy Chairman | 137 500 | – | – | **137 500** |
| Thomas A. Erb, Member | 55 000 | – | 3 587 | **58 587** |
| Wolfgang Feil, Member | 80 000 | – | 6 288 | **86 288** |
| Dr. Thomas Muhr, Member | 50 000 | – | 5 974 | **55 974** |
| Dr. Kurt E. Stirnemann, Member | 92 500 | – | 7 638 | **100 138** |
| **Total Board of Directors** | **689 000** | **429 250** | **156 816** | **1 275 066** |

1) The compensation paid to the Board of Directors is determined for the period between the ordinary General Meeting at which the individual member is elected and the following ordinary General Meeting. In this report, the compensation paid relates to the financial year (January 1 to December 31) and is accrued accordingly.

2) Fixed compensation including attendance fee.

3) Allocation of a predefined number of shares. The shares are locked in for five years. The valuation corresponds to the price at the time of allocation. The value of the shares for tax purposes is CHF 422 202 (previous year CHF 320 761). This includes a discount for the lock-in period.

4) Payments made by the employer to the state pension schemes (AHV/IV) and the occupational pension scheme.

The Chairman of the Board of Directors is in each case granted a loan equivalent to the withholding tax on his shares; this is offset against the fixed salary on a straight-line basis in the same year. There were no loans at the end of the year.

With the above exception, no loans or securities were granted to members of the Board of Directors in the reporting years.

The highest compensation was paid to Mr. Alexander von Witzleben, Chairman of the Board of Directors (previous year Mr. Heinz Loosli, CEO).

### 3.2 Group Management

According to ERCO (the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares), Group Management consists of the roles of CEO and CFO.

| **3.2.1 Current members of Group Management** (including related parties) in CHF | Fixed salary [2] | Variable salary [3] | Shares/options [4] | Benefits in kind [5] | Contributions to pension plans [6] | Total |
|---|---|---|---|---|---|---|
| **In the 2016 financial year** | | | | | | |
| Heinz Loosli, CEO [1] | 306 667 | 171 720 | 79 958 | 3 200 | 106 223 | **667 768** |
| Bruno Malinek, CEO [1] | 133 332 | 80 000 | 39 941 | 1 600 | 35 989 | **290 862** |
| Dr. Thomas F. Bögli, CFO | 336 000 | 85 860 | 34 963 | 4 800 | 88 607 | **550 230** |
| **Total Group Management** | **775 999** | **337 580** | **154 862** | **9 600** | **230 819** | **1 508 860** |
| | | | | | | |
| **In the 2015 financial year** | | | | | | |
| Heinz Loosli, CEO | 460 000 | 256 560 | 119 914 | 4 800 | 162 464 | **1 003 738** |
| Dr. Thomas F. Bögli, CFO | 336 000 | 85 520 | 34 982 | 4 800 | 88 524 | **549 826** |
| **Total Group Management** | **796 000** | **342 080** | **154 896** | **9 600** | **250 988** | **1 553 564** |

1) Mr. Heinz Loosli was employed as CEO until August 31, 2016. Bruno Malinek took over as CEO on September 1, 2016.

2) Contractually agreed salary (excluding tax-allowable expenses).

3) Bonus in accordance with individual contractual agreements. Payment in each case is made in the new financial year.

4) Fixed entitlement in Swiss francs. Remuneration is in the form of shares. The number of shares depends on the average price in October/November. They have a staggered lock-in period of 1 to 4 years. Disbursement took place in December. The taxable value of the shares, which includes the discount for the lock-in period, is CHF 69 266 for Mr. Heinz Loosli (previous year CHF 103 870), CHF 34 591 for Mr. Bruno Malinek and CHF 30 276 for Mr. Thomas F. Bögli (previous year CHF 30 295).

5) Provision of company cars, etc.

6) Payments made by the employer to the state pension schemes (AHV/IV) and the occupational pension scheme

The highest compensation was paid to Mr. Alexander von Witzleben, Chairman of the Board of Directors (previous year Mr. Heinz Loosli, CEO).

No securities or loans were provided to members of Group Management in the reporting years.

## 4 COMPENSATION FOR FORMER MEMBERS OF GOVERNING BODIES

According to ERCO (the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares), Group Management of Feintool consists of the roles of CEO and CFO. The remuneration below refers to the period after departure (from September 1, 2016, to December 31, 2016):

| **4.1 Former members of Group Management** (including related parties) in CHF | Fixed salary [2] | Variable salary [3] | Shares/options [4] | Benefits in kind [5] | Contributions to pension plans [6] | Total |
|---|---|---|---|---|---|---|
| 2016 total for Heinz Loosli [1] | 153 332 | 85 860 | 39 979 | 1 600 | 53 390 | **334 161** |
| 2015 total for members who left Group Management | – | – | – | – | – | **–** |

1) Mr. Heinz Loosli was employed as CEO until August 31, 2016. The remuneration refers to the period after September 1, 2016.

2) Contractually agreed salary (excluding tax-allowable expenses).

3) Likely bonus in accordance with individual contractual agreements. Payment in each case is made in the new financial year. The 2016 bonus entitlement relates to the whole financial year and was calculated on a straight-line, pro rata basis for this presentation.

4) Fixed entitlement in Swiss francs. Remuneration is in the form of shares. The number of shares depends on the average price in October/November. They have a staggered lock-in period of 1 to 4 years. Disbursement is in December. The 2016 share entitlement relates to the whole financial year and was calculated on a straight-line, pro rata basis for this presentation. The taxable value of the shares, including the discount for the lock-in period, is CHF 34 633 for the 2016 financial year.

5) Provision of company cars, etc.

6) Payments made by the employer to the state pension schemes (AHV/IV) and the occupational pension scheme.

# Report of the Statutory Auditor

**To the General Meeting of Shareholders of Feintool International Holding AG, Lyss**

We have audited the accompanying remuneration report of Feintool International Holding AG for the year ended December 31, 2016. The audit was limited to the information according to articles 14-16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the tables 3.1, 3.2.1 and 4.1 on pages 118 to 120 of the compensation report.

**Responsibility of the Board of Directors**

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 for the year ended December 31, 2016 of Feintool International Holding AG complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Rolf Hauenstein
Licensed Audit Expert
Auditor in Charge

Pascal Schmid
Licensed Audit Expert

Zurich, March 6, 2017

# GLOSSARY

**Anticipated order releases in the series parts business –** In the System Parts segment, orders backlog represents anticipated releases over the next six months. The customer can postpone, amend or cancel these releases at any time. To that extent, orders backlog in the series parts business is merely an important leading indicator.

**Artemis Beteiligungen I AG –** Investment company controlled by Franke Artemis Holding/Michael Pieper, which acquired a majority share of 50.32 % in Feintool as of 30 September 2014. It acquired all the shares from its affiliate Artemis Beteiligungen III AG, which held a majority share in Feintool as of April 7, 2011.

**Automatic transmission –** This contributes to improved driving comfort in cars and helps reduce fuel consumption. Feintool's fineblanked and formed parts are ideally suited to the highly complex design and precision requirements. Types include continuously variable transmissions (CVT), dual clutch transmissions (DCT) and stepped automatic transmissions with up to nine gears at present.

**Carbon Disclosure Project –** A not-for-profit organization that aims to create greater transparency as regards climate-changing greenhouse gas emissions; it acts on behalf of investors by annually collecting data and information on $CO_2$ emissions and climate hazards and risks, as well as the reduction targets and strategies of the companies taking part on a voluntary basis; it also manages the biggest database of its kind in the world.

**Cash flow/drain –** Periodic cash surplus/shortfall from operations; an indicator of the financial power of a company.

**Chipless forming –** Forming means changing the shape of sheet steel with tools using processes such as bending. Unlike forging and casting techniques, chipless forming shapes the piece without the use of mechanical processing or machining (removing material). Nor does it rely on heat (cold forming). Chipless forming is an efficient technique that is particularly suitable for the manufacture of complex precision components such as those required by the automotive industry.

**Dual-clutch transmission –** Automatic gearbox that uses two clutches to enable a fully automatic gear change without interrupting the flow of power.

**Earnings per share (EPS) –** Net income divided by the average number of shares in circulation.

**EBIT –** Earnings before interest and taxes: a company's operating profit before deduction of interest and taxes.

**EBIT margin –** The ratio of EBIT to sales.

**EBITDA –** Earnings before interest, taxes, depreciation and amortization: a company's earnings before taking account of these items; one of the most meaningful indicators of profitability.

**EBITDA margin –** The ratio of EBIT to sales.

**Equity ratio –** Ratio of shareholders' equity to total assets; key indicator of the financial stability of a company.

**ERCO –** The Ordinance Against Excessive Remuneration in Listed Companies Limited by Shares is a set of implementing rules issued by the Federal Council that takes effect on January 1, 2014; however, listed companies have until their 2015 annual general meeting to ensure full implementation of all provisions. The background to the ordinance is the so-called Minder Initiative "against fat-cat salaries", which was accepted in a referendum of Swiss voters in March 2013.

**Fineblanking –** In contrast to conventional blanking, which uses one force only (cutting force), fineblanking involves three forces. Two firmly clamp the material from above and below; only then does the cutting force come into effect. This produces clean, crack- and tear-free blanked surfaces, smooth components, and low finishing requirements.

**Free cash flow –** The operating cash flow less the cash flow from investment activities; shows how much money will be available for shareholder dividends and/or for paying back third-party loans.

**Freefloat –** Percentage of the shares in a company that are not held by shareholders with more than 5 percent of the share capital each. Shares held by investment companies are always included in the free float.

**IAS –** International Accounting Standards; part of IFRS.

**IFRS –** International Financial Reporting Standards.

**Net working capital (NWC) –** Amount by which a company's current non interest-bearing assets exceed its current non interest-bearing liabilities.

**Net debt –** Amount by which interest-bearing liabilities exceed interest-bearing assets plus cash and cash equivalents.

**Orders received/order backlog capital goods business –** In the Fineblanking Technology segment, orders received/order backlog comprise legally binding orders.

**Overall Equipment Effectiveness (OEE) –** A comprehensive production parameter that combines availability, machine performance and quality, and thus serves to evaluate the manufacturing plant.

**Press portfolio –** Feintool's fineblanking presses are designed to enable cost-effective production of precision parts. Feintool has three press series to suit different requirements:

- **HFAplus –** Hydraulic fineblanking presses. Mainly used for three-dimensional parts with stringent fineblanking and forming requirements. The HFTfit model was developed and launched specifically for the requirements of the Asian market.
- **XFTspeed –** Servo-mechanical fineblanking presses. Mainly used for thin, delicate and critical parts that require a high level of precision, output and process reliability.
- **X-TRA –** Servo-hydraulic fineblanking presses. Mainly used for high-volume flat parts. Thanks to their servo drive, X-TRA presses are particularly suitable for processing high-tensile and stainless steels.

**Servo drive –** Feintool uses servo drive for both mechanical and hydraulic fineblanking presses. The advantage of this is that ram travel can be programmed precisely. This means that the speed of the blanking process, which takes just a fraction of a second, can be reduced in a controlled manner in order to protect the workpiece and the tool. The ram then moves to the next stroke even more quickly. Servo-driven presses considerably increase output.

**Simulation –** Experimental analysis of fineblanking and forming processes using complex software.

**Stroke rate –** Number of strokes completed by a fineblanking press in one minute.

**Technology Centre –** Lyss facility at which the entire fineblanking process takes place, from research and development, to engineering and through to tool production, testing and approval. At all other sites around the world, these are sales and service subsidiaries with a focus on the provision of advice and the sale of presses, systems, peripherals and tool systems. All technology centres form part of the Fineblanking Technology segment.

**Tools –** Tools are where components are made in fineblanking presses or forming systems. To increase the cost-effectiveness and efficiency of production, Feintool combines fineblanking and forming processes in one tool. A three-stage tool, for example, can simultaneously cut, bend and deburr. A ready-to-install multifunctional component requires just one press and one tool.

# ADDRESSES OF OUR OPERATING COMPANIES

as at December 31, 2016

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## Imprint

**The 2016 Report is available in German and English. The printed German version is authoritative.**

**Published by** Feintool International Holding AG
**Concept, design and production** Feintool Corporate Communications
**English version** 24translate GmbH, Hamburg, Germany

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