

Schaffner Group
Annual Report

2018/19



Contents

3 Management report

- 3 Profile
- 4 Key share data
- 5 Key financials
- 6 To our shareholders
- 9 Divisions (operating segments)

15 Sustainability

20 Corporate governance

- 21 Basis of the corporate governance report
- 21 Governance-related events in fiscal year 2018/19
- 21 Group structure and significant shareholders
- 24 Capital structure
- 27 Board of Directors
- 34 Executive Committee
- 38 Compensation, share ownership and loans
- 38 Shareholder participation rights
- 40 Change-of-control clauses and takeover defenses
- 41 Auditors
- 42 Communication policy

44 Compensation report

- 45 Guiding principles
- 45 Responsibility and procedures for determining compensation
- 46 Compensation system for the Board of Directors
- 47 Compensation system for the Executive Committee
- 50 Compensation of the members of the Board of Directors and Executive Committee for fiscal year 2017/18

54 Financial report

- 55 Consolidated financial statements of the Schaffner Group
- 84 Company financial statements of Schaffner Holding AG

96 Addresses

About the cover photo

The Schaffner Group is the leading provider of power electronic systems for the power supply of electrical systems in rail vehicles. For instance, Schaffner products ensure the trouble-free functioning of on-board electronics in modern multiple-unit trains for urban rail lines. In the train sets, Schaffner components are used in applications such as heating, air-conditioning, video monitoring and passenger information systems.

Structure of this report

This annual report comprises the business review and financial reporting of the Schaffner Group, as well as its sustainability, corporate governance and compensation reports, for fiscal year 2018/19.

Accounting standard

The information on the financial position, results of operations and cash flows of the Schaffner Group has been prepared in accordance with the Swiss Accounting and Reporting Recommendations (Swiss GAAP FER) and is in compliance with Swiss law.

External auditors

Parts of the reporting of the Schaffner Group are audited by third parties. The audit firm BDO AG, Solothurn, has audited the compensation report and the consolidated and parent company financial statements and issued unqualified audit opinions on them.

As a result of rounding, minor variances in calculated sums and percentages are possible in this annual report.

In the interest of readability, this report may sometimes use language that is not gender neutral. Any gender-specific references should be understood to include masculine, feminine and neuter as the context permits.

This English version of the Schaffner Group annual report is a translation from German and is provided solely for readers' convenience. Only the German version is binding.

Shaping Electrical Power

The Schaffner Group is a global leader in solutions that ensure the efficient and reliable operation of power electronic systems by shaping electrical power. The Group's portfolio includes EMC filters, power magnetic components, power quality filters and the related services. For the automobile industry, Schaffner develops and manufactures components for antennas for keyless authentication systems, as well as filter solutions for hybrid and electric vehicles and their charging infrastructure. Schaffner components are also deployed in electronic motor controls, rail technology applications, machine tools and robots, electrical infrastructure, power supplies for electronic devices, and wind power and photovoltaic systems. Headquartered in Switzerland, Schaffner serves its customers globally through its engineering and manufacturing centers in Asia, Europe and North America.

		2018/19	2017/18	2016/17	2015/16	2014/15
Number of shares (par value of CHF 32.50)		635,940	635,940	635,940	635,940	635,940
Weighted average number of shares outstanding (entitled to dividend)		634,231	634,326	635,282	635,594	634,117
Earnings per share (EPS)	in CHF	11.36	14.81	13.77	0.29	12.14
Shareholders' equity per share	in CHF	99.42	92.80	85.54	72.64	79.24
Repayment of excess share premium, per share	in CHF	2.50 ¹	6.50	6.50	0.00	6.50
Dividend per share	in CHF	2.50 ¹	0	0	0	0
Free float	in %	99.7	99.7	99.8	99.9	99.8
Share price²						
High for year	in CHF	330	355	335	247	304
Low for year	in CHF	190	277	222	203	215
At end of year	in CHF	203	343	317	240	218
Market capitalization²						
High for year	in CHF million	210	226	213	157	193
Low for year	in CHF million	121	176	141	129	137
At end of year	in CHF million	129	218	202	153	139

¹ Subject to approval by the Annual General Meeting on 14 January 2020.

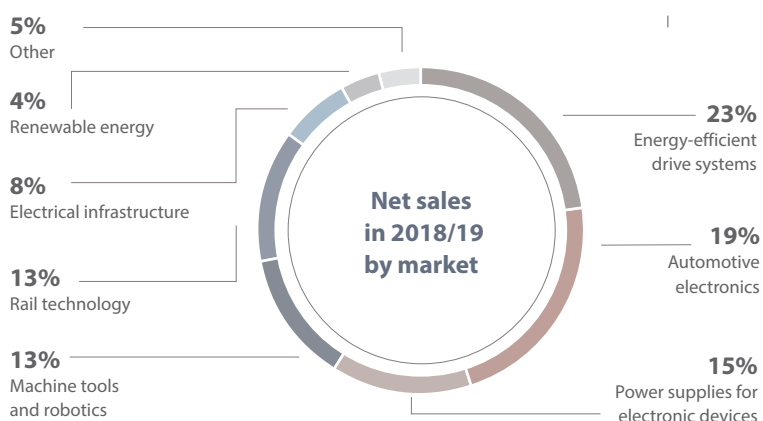
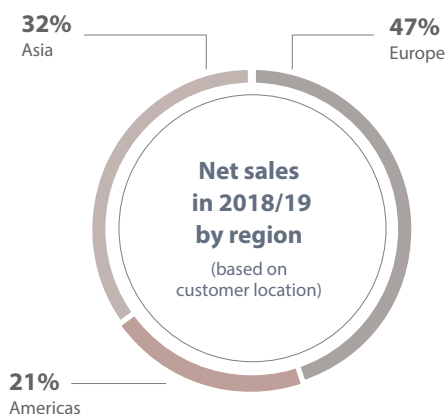
² Period: fiscal year from 1 October to 30 September. Source: Bloomberg.

Trading of the Company's securities

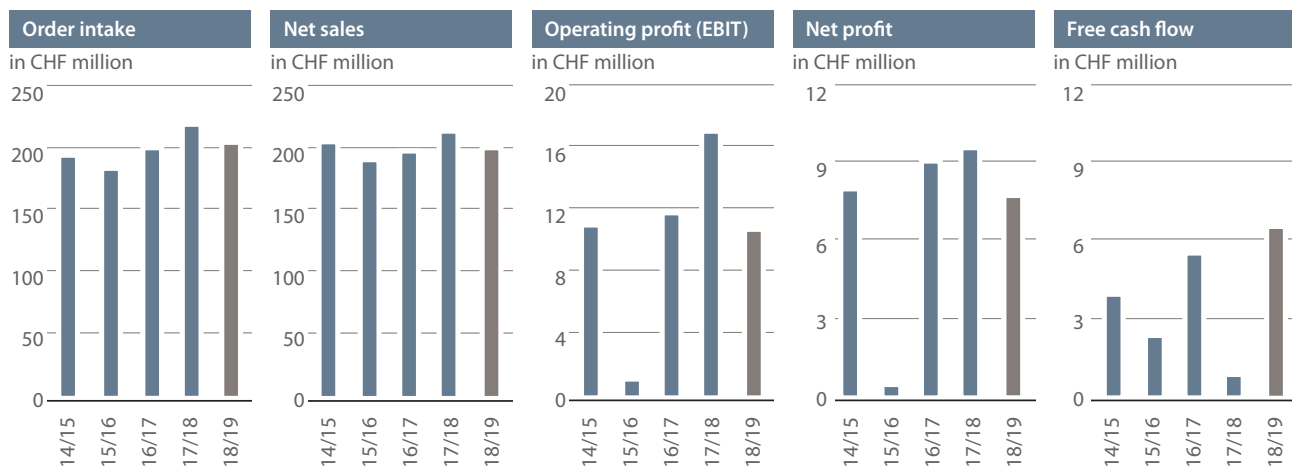
The registered shares of Schaffner Holding AG are traded on the SIX Swiss Exchange under Securities No. 906209.

Ticker symbol

Registered shares: SAHN



Group	In CHF '000	2018/19	2017/18	2016/17	2015/16	2014/15
Order intake		200,674	223,450	199,504	187,380	196,205
Net sales		197,387	221,521	195,707	185,563	201,782
Operating profit (EBIT)		9,803	17,158	11,476	1,367	10,799
In % of net sales		5.00	7.7	5.9	0.7	5.4
Net profit for the period		7,207	9,392	8,747	184	7,700
In % of net sales		3.60	4.2	4.4	0.1	3.9
Free cash flow		6,253	518	4,993	2,394	3,796
Number of employees (headcount)		2,422	2,825	2,588	2,340	2,400
Segments	In CHF '000					
EMC division						
Order intake		104,348	116,653	102,165	92,439	96,465
Segment sales		106,923	115,896	98,280	93,835	95,346
Segment EBIT		15,165	17,788	13,346	8,731	9,108
In % of segment sales		14.2	15.3	13.6	9.3	9.6
Power Magnetics division						
Order intake		56,887	57,772	49,428	46,735	59,378
Segment sales		51,952	56,604	50,042	45,373	63,637
Segment EBIT		-3,311	-6,782	-6,967	-13,810	1,593
In % of segment sales		-6.4	-12.0	-13.9	-30.4	2.5
Automotive division						
Order intake		39,439	49,025	47,911	48,205	40,362
Segment sales		38,511	49,022	47,385	46,355	42,799
Segment EBIT		2,548	11,303	9,427	11,334	6,256
In % of segment sales		6.6	23.1	19.9	24.5	14.6
Consolidated balance sheet	In CHF '000	30.09.2019	30.09.2018	30.09.2017	30.09.2016	30.09.2015
Total assets		141,879	148,480	137,299	122,740	131,639
Non-current assets		45,021	37,394	35,666	37,017	35,221
Current assets		96,858	110,546	101,633	86,322	96,418
Total liabilities		78,652	89,462	82,899	76,547	81,244
Shareholders' equity		63,227	59,018	54,400	46,193	50,395
Equity ratio in %		44.5	39.7	39.6	37.6	38.3



In a demanding fiscal year, Schaffner lays the foundation for growth to come

In fiscal 2018/19, the weakening of the global automotive market and the slowdown in world economic growth were key influences that, spreading outward from China and Northeast Asia, also affected the Schaffner Group's business in Europe and North America. The record sales of the prior year therefore could not be repeated. However, Schaffner is purposefully investing in the development of new high-margin growth segments, thus creating the basis for future growth.

The Schaffner Group in fiscal 2018/19 booked new orders of CHF 200.7 million (2017/18: CHF 223.5 million). Net sales were 197.4 million (prior year/PY: CHF 221.5 million), a decrease of 10.9%, or 9.3% in local currencies. The Group's book-to-bill ratio in the fiscal year was 1.02 (PY: 1.01). The sales reduction involved all divisions, with Automotive seeing the largest decrease. The sales decline had two main causes: the significantly lower momentum of important end markets as a result of the trade tensions between the USA and China, and the expiration of projects in the Automotive division. The exchange rate situation was also a downside factor. Schaffner immediately responded to these developments with additional cost reduction measures, but continues to invest judiciously in the future.

The gross margin was 27.9% (PY: 28.4%). Operating profit (EBIT) decreased to CHF 9.8 million (PY: CHF 17.2 million), due mainly to the reduction in the Automotive business and generally lower utilization at most production plants. The resulting EBIT margin in the fiscal year was 5.0% (PY: 7.7%). The comparable EBIT margin in the prior year was 7.2%, i.e., excluding that year's combined net positive one-time effect of CHF 1.2 million from insurance payments after the fire at the plant in Thailand in late 2017 and costs for the restructuring of the Power Magnetics division. Net profit for the period decreased by CHF 2.2 million, to CHF 7.2 million (PY: CHF 9.4 million). Excluding the prior year's one-off negative CHF 2.7 million impact of the US tax reform (US Tax Cuts and Jobs Act), the decrease would have been CHF 4.9 million. Earnings per share came to CHF 11.36 (PY: CHF 14.81). Free cash flow improved significantly to CHF 6.3 million (PY: CHF 0.5 million). As a result of the capacity adjustments to match the new market conditions, the worldwide employee headcount decreased by 403 individuals to 2,422.

Schaffner continued to invest about 8% of sales in research and development, with the central focus in the year being placed on the advancement of the comprehensive portfolio featuring EMC filters, particularly for applications in new market and customer segments. Schaffner also drove forward the development of EMC filters for the specific requirements of electromobility and launched the latest generation of antennas for vehicle keyless authentication systems. The first significant orders at the beginning of the new fiscal year demonstrate the opportunities for success offered by these new product platforms.

Business is broad-based

The Schaffner Group's businesses continue to be supported by a broad geographic base. Europe's share of Group sales in the fiscal year grew slightly to 47% (PY: 45%). The decreased sales share of the Asia region, at 32% (PY: 35%), reflected especially the slowing market growth in China. The Americas contributed 21% of sales (PY: 20%). In terms of its end markets as well, the Schaffner Group is broadly diversified. The market for energy-efficient drive systems, at 23% in the year (PY: 23%), again generated the largest portion of the Group's revenue. Despite the weakness in the automobile industry, automotive electronics once again was the second largest sales sector, at 19% (PY: 22%). The sales share earned with products for power supplies of electronic devices was 15% (PY: 14%). Rail technology made up 13% (PY: 13%), and the machine tools and robotics sector also brought in a steady 13% (PY: 13%) of the Schaffner Group's sales.



Urs Kaufmann, Chairman of the Board of Directors

Marc Aeschlimann, Chief Executive Officer

EMC division

The EMC division, the leader in the global market for EMC filters, operating in an increasingly demanding environment especially in the second half of the year, generated new orders of CHF 104.3 million in fiscal 2018/19 (PY: CHF 116.7 million). Its net sales were CHF 106.9 million (PY: CHF 115.9 million). The book-to-bill ratio was 0.98 (PY: 1.01). The EMC division had segment profit (EBIT) of CHF 15.2 million (PY: CHF 17.8 million) and its EBIT margin remained attractive at 14.2% (PY: 15.3%). The share provided by the EMC division's Power Quality business unit grew somewhat in the year under review.

Power Magnetics division

The Power Magnetics division, which completed its restructuring in fiscal 2018/19, recorded net sales of CHF 52.0 million in the year (PY: CHF 56.6 million). The segment loss (EBIT) was halved to CHF 3.3 million (PY: CHF 6.8 million). With new orders of CHF 56.9 million (PY: CHF 57.8 million), the book-to-bill ratio was 1.09.

Automotive division

Given the sharp downturn in the global automotive market at the end of 2018, combined with the expiration of projects, net sales of the Automotive division in fiscal 2018/19 contracted significantly from the prior year to CHF 38.5 million (PY: CHF 49.0 million). Segment profit (EBIT) fell markedly to CHF 2.6 million (PY including one-time effects: CHF 11.3 million); the EBIT margin declined to 6.6% (PY: 23.1%). With new orders of CHF 39.4 million (PY: CHF 49.0 million), the book-to-bill ratio in the reporting period was 1.02 (PY: 1.0).

Strengthened balance sheet

The Schaffner Group's financing structure remains sound. At the year-end reporting date of 30 September 2019, total assets showed a decrease to CHF 141.9 million (PY: CHF 148.5 million). The Group was able to reduce net working capital to CHF 38.3 million (PY: CHF 44.1 million). Net debt fell to CHF 15.7 million (PY: CHF 19.1 million). Shareholders' equity was up slightly at the balance sheet date to CHF 63.2 million (PY: CHF 59.0 million), making for an increase in Schaffner's equity ratio to 44.5% (PY: 39.7%). Equity per share amounted to CHF 99.42 (PY: CHF 92.80).

Risk management

At its meeting on 3 May 2019 the Board of Directors, as part of ongoing risk management, assessed the business risks of the Schaffner Group and adopted the risk report and the measures set out in it. The subjects of focus in the year were cyber security, warranty risks, the dependence on the global economic situation, and currency risks.

Distribution proposal to shareholders

Schaffner Holding AG pursues an earnings-based dividend policy. In setting the amount of the distribution, the Board is guided by a target range of 40% to 50% of net profit. For fiscal year 2018/19 the Board will propose to shareholders at the Annual General Meeting on 14 January 2020 to make a distribution of CHF 5.00 per share (PY: CHF 6.50), which represents 44% (PY: 44%)

of the Group's net profit. Per share entitled to dividends, the planned distribution consists of an ordinary dividend of CHF 2.50 from retained earnings and a distribution (exempt from Swiss anticipatory tax) of CHF 2.50 from the distributable share premium reserve.

Changes on the Board of Directors and Executive Committee

Suzanne Thoma will step down from the Board of Directors of Schaffner Holding AG at the Annual General Meeting (AGM) on 14 January 2020. The Board thanks Suzanne Thoma warmly for the valuable and close collaboration over the years and wishes her all the best for the future. At the AGM, the Board will propose that shareholders re-elect the remaining four members of the Board for the term ending at the conclusion of the next AGM.

On 1 November 2018, Martin Lütenegger assumed the leadership of the Automotive division, and since 19 November 2018, Daniel G. Zeidler is in charge of the Power Magnetics division. As well, on 1 April 2019, Christian Herren became the Group's new CFO, succeeding Kurt Ledermann, who had held the position for ten years.

Outlook

Owing to the continuing subdued sentiment in world markets, Schaffner expects the business environment in 2019/20 to still remain demanding. However, the strategic projects are progressing to plan and Schaffner is resolutely investing in new products and markets that will have a positive impact on business in the medium term. Schaffner is thus strengthening the foundation for future growth. Positive impetus in the first quarter of the new fiscal year was provided by the new major orders from various well-known car manufacturers. The latest-generation antennas for keyless authentication systems should positively affect earnings from fiscal 2020/21. In the current new fiscal year, the Automotive division expects a still challenging situation, as the short-term project pipeline heralds a subdued trajectory. Schaffner chooses not to issue quantified guidance for fiscal year 2019/20, against the backdrop of the high volatility and limited visibility in the Group's markets. For the medium term, however (assuming macroeconomic and currency stability), Schaffner's targets are unchanged at organic sales growth averaging about 5% per year and an EBIT margin in the range of 8% to 10%.

Thank you

A big thank-you goes to Schaffner's employees. Their technical excellence, creativity and strong commitment have been indispensable to all parts of the Group. We thank our customers for their valued partnership and their high confidence in our solutions. The Board of Directors and Executive Committee also sincerely thank the loyal shareholders of the Schaffner Group. By their steadfast support, they give Schaffner added stability and are integral to the Group's sustained success.



Urs Kaufmann
Chairman of the Board



Marc Aeschlimann
Chief Executive Officer

Divisions

Schaffner made focused investments in the development of new business segments

Schaffner expects continuing worldwide growth in the use of electronic systems and in demand for electric energy. Ever-rising numbers of electronic systems must work together efficiently and meet high standards of reliability. This megatrend offers long-term potential for the Schaffner Group, the world's only one-stop provider of EMC, power quality and power magnetics solutions for the efficient and reliable operation of power electronic systems.

EMC division



Leading market position maintained

The EMC division develops and manufactures standard components and custom solutions that protect power electronic systems from line interference (thus ensuring electromagnetic compatibility) and safeguard their reliable operation. The most important sales markets include energy-efficient drive systems, electric infrastructure, machine tools and robotics. Other applications are power supplies for electronic devices (such as in medical technology), rapid charging systems for electric vehicles, and the growing market for LED lamps.

In fiscal 2018/19 the EMC division acquitted itself well in an economic environment that, especially in the second half of the year, became more demanding. With sales of CHF 106.9 million (PY: CHF 115.9 million), the division accounted for 54% (PY: 52%) of the Schaffner Group's sales. The decrease of 7.7% (or 5.8% in local-currency terms) from the prior year's record result was due mainly to restrained investment in key markets. The strain in world markets also led to a slight revenue decline in the Power Quality business unit, which is integrated in the EMC division. The division's new orders in the fiscal year amounted to CHF 104.3 million (PY: CHF 116.7 million), with a book-to-bill ratio of 0.98 (PY: 1.01). As visibility in the EMC division's end markets should remain low for the time being, Schaffner is projecting continuing sluggish demand for the first half of 2019/20 in particular.

Underpinned by a continuing very good gross margin, the EMC division earned a segment profit (EBIT) of CHF 15.2 million (PY: CHF 17.8 million), with the EBIT margin remaining at an attractive 14.2% (PY: 15.3%).

Reacting to the growing global uncertainty over the economic trend, many distributors reduced their inventory levels, notably in the latter half of fiscal 2018/19, despite partly stable demand from their end customers. While this inventory drawdown amplified the revenue reduction in the reporting period, upon an improvement in the investment climate it should have a positive impact on new orders for the EMC division.

Besides the ongoing further development of the existing products and solutions, in 2018/19 the EMC division invested heavily in EMC filter applications for new market and customer segments. For instance, additional growth potential is found in new products for the rapidly growing market of smart grids. Exciting application opportunities are also created by new filter solutions for the power supplies of LED lighting. The focused investment in these new, promising applications continues to be pursued despite the current demanding market environment.



IEC inlet filter (power entry module) for use in medical devices and other applications



Current-compensated choke for LED lighting, building services and other uses

Financials

in CHF m, except %	2018/19	2017/18	Change
Order intake	104.3	116.7	-10.5%
Segment sales	106.9	115.9	-7.7%
Segment EBIT	15.2	17.8	-14.6%
Segment EBIT margin	14.2%	15.3%	-

Power Magnetics division



Loss cut in half

The Power Magnetics division develops and manufactures components to ensure the reliable operation of power electronic systems, and builds customized transformers. Schaffner's solutions safeguard high levels of energy conversion efficiency and assure optimum adaptation of the systems to electricity grids. The main sales markets include rail technology, energy-efficient drive systems, energy supply, and renewable energy sources, such as wind power.

The Power Magnetics division, which completed its restructuring in fiscal 2018/19, recorded net sales of CHF 52.0 million in the year (PY: CHF 56.6 million). As in the prior year, it thus generated 26% of the Schaffner Group's sales. The segment loss (EBIT) was halved in the reporting period to CHF 3.3 million (PY: CHF 6.8 million), corresponding to an EBIT margin of -6.4% (PY: -12.0%). The unsatisfactory divisional result is explained in part by high warranty costs for products supplied in the past, and insufficient utilization in some plants. In the year under review, new orders of CHF 56.9 million (PY: CHF 57.8 million) surpassed net sales by almost CHF 5 million, for a book-to-bill ratio of 1.09.

Financials

in CHF m, except %	2018/19	2017/18	Change
Order intake	56.9	57.8	-1.5%
Segment sales	52.0	56.6	-8.2%
Segment EBIT	-3.3	-6.8	51.5%
Segment EBIT margin	-6.4%	-12.0%	-

While demand in the Americas was very good during the whole fiscal year, Europe and particularly Asia saw a slight pullback in the second half of the year. The foremost reason for this was a temporary delay in the production of high-speed trains in China. In Europe, customers postponed two significant projects. Given the continuing narrow customer base, these deferrals could not be made up for with other orders. In fiscal year 2018/19, except in the USA, these developments translated into underutilization of the manufacturing plants and a corresponding negative impact on margins.

In rail technology, Schaffner is the leading provider of power electronic systems for the power supply of electrical systems in rail vehicles. In the year, this position was further cemented through collaboration with a specialized contract manufacturer in India on selected projects.

The Power Magnetics division has started the new fiscal year 2019/20 with a sustained good order situation in the Americas. In China, demand will stabilize beginning in the second quarter of 2019/20 with the rising production of a new generation of trains that have a top speed of 250 kilometers per hour. This and the demand in the Americas should both be positive for the division's results, even as order volume remains unsatisfactory in Europe.

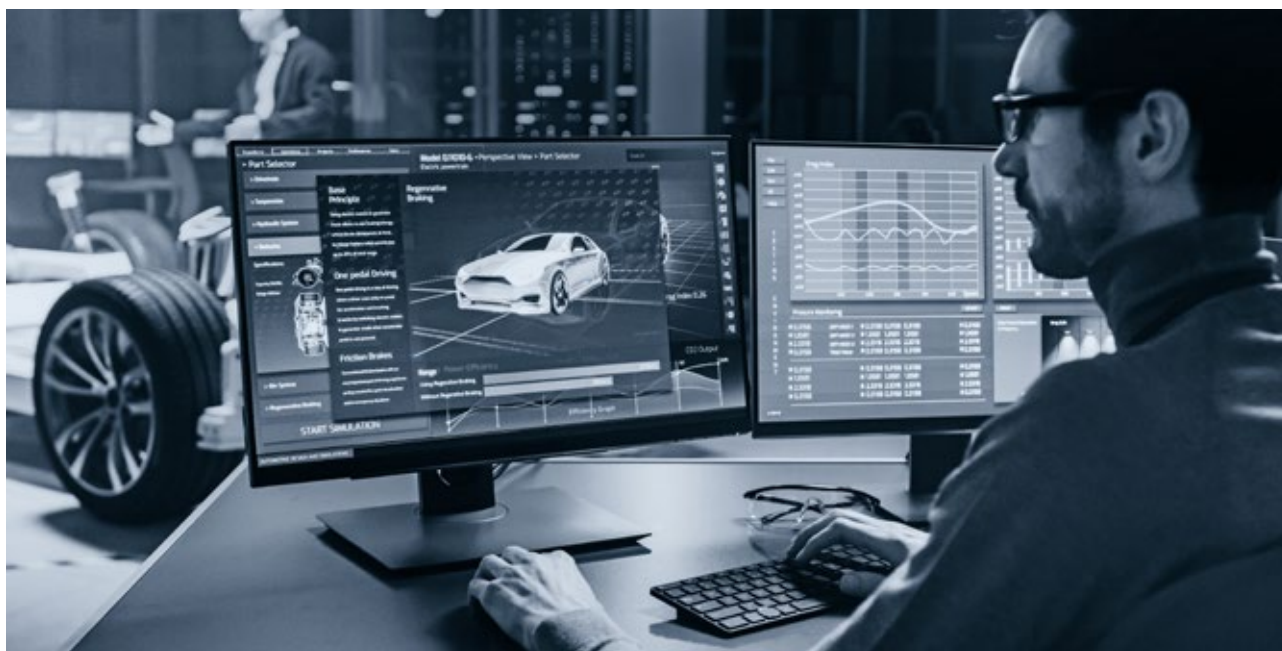


Common-mode and differential-mode inductor for medium-voltage applications, such as in rail technology



Compact medium-frequency transformer for use in building services, among other applications

Automotive division



New orders strengthen medium-term outlook – fiscal 2019/20 still strained

The Automotive division is one of the world's top two suppliers of antennas for vehicle keyless authentication systems. With its specialized EMC expertise, it also supports leading automobile manufacturers and system vendors in the development and manufacturing of filter solutions for hybrid and electric vehicles.

The global automotive market cooled abruptly since the end of 2018. The significant decline in demand for new vehicles forced automakers to streamline their product ranges and reduce the number of units built. For some model series, production was even discontinued early. In the Automotive division in fiscal year 2018/19 this led to a significant sales reduction to CHF 38.5 million (PY: CHF 49.0 million). As a result, the division's share of the Schaffner Group's sales eased from 22% to 20%.

Financials

in CHF m, except %	2018/19	2017/18	Change
Order intake	39.4	49.0	-19.6%
Segment sales	38.5	49.0	-21.4%
Segment EBIT	2.6	11.3	-77.4%
Segment EBIT margin	6.6%	23.1%	-

Segment EBIT fell markedly to CHF 2.6 million (PY: CHF 11.3 million); the EBIT margin declined to 6.6% (PY: 23.1%). Excluding the prior year's positive one-time effect from insurance benefits after the industrial fire in Thailand, segment EBIT fell by CHF 6.3 million. The decrease was driven primarily by the underutilization in antenna production as a result of the significantly reduced unit volume. It was also partly due to the fact that higher-margin markets and products were disproportionately affected by the weakness in demand. With new orders of CHF 39.4 million (PY: CHF 49.0 million), the book-to-bill ratio in fiscal 2018/19 was 1.02 (PY: 1.0).

Notwithstanding the market situation, in the fiscal year the Automotive division invested substantially in new products and solutions. Thus, strides were made in the development of new filter solutions for use in hybrid and electric vehicles, and new longer-range antennas for keyless authentication systems were taken to market readiness. This groundwork already bore dividends: At the beginning of the new, 2019/20 fiscal year, Schaffner received large multi-year orders from several big-name car manufacturers, mainly for the latest generation of antennas for use in new model platforms. Once the production lines are in place, the new orders, in step with the market launch of the new vehicles, will make a growing contribution to the division's results from fiscal 2020/21. A positive impact, after a phase-in period, will also come from the new plant in Thailand, which is equipped with cutting-edge manufacturing technology and will commence operation incrementally in early 2020.

Thanks to the major orders won at the start of the new fiscal year for antennas for keyless authentication systems, the Automotive division has a well-filled order pipeline in the medium term. In the short run, however, the situation for the Automotive division continues to be challenging, as demand in 2019/20 is expected to remain subdued.

Schaffner is well-positioned in solutions for the international automobile industry and is a partner in various projects of important companies for the development of electric powertrains to be used in high-volume model series. In the medium term in the Automotive division, Schaffner is thus aiming for growth above the Group average, with an EBIT margin in the low double-digit percentage range.



High-voltage DC filter for reducing electromagnetic interference noise and meeting automotive standards in electric vehicles



Interior antenna for use in keyless authentication systems for vehicles

Sustainability

2018
19

Sustainability matters

Sustainable practices are a high priority for the Schaffner Group. Its corporate culture is marked by a holistic approach, based on honesty, respect, fairness and a sense of social responsibility as a global company. With innovative spirit and engineering excellence, Schaffner supports the efficient and reliable use of electrical energy. Systematic quality and environmental management ensure that international standards are met or exceeded.

As an active member of the UN Global Compact, the corporate sustainability initiative that has been joined by more than 9,900 companies from over 160 countries, Schaffner is committed to honoring the ten principles of the Compact, which address human rights, labor, the environment and anti-corruption. These principles form an integral part of all employment contracts. Schaffner expects its employees to be accountable for their actions, to treat people, society and the environment respectfully and to act with integrity. Schaffner's manufacturing and logistics centers apply an environmental management system that meets the international ISO 14001 standard. The operating facilities also fulfil the requirements of ISO 45001. This new international standard for health and safety management systems allows the systematic improvement of workplace safety and serves the enhanced protection of employees' health. The latest relevant report (Communication on Progress) of Schaffner Holding AG is available at: www.unglobalcompact.org/participation/report/cop/create-and-submit/active/428053

In addition, the Schaffner Group has adopted the Code of Conduct of the Responsible Business Alliance (RBA), the leading industry coalition of its kind. This Code is a set of social, environmental and ethical industry standards for implementing sustainable processes in supply chains. Schaffner is committed to ensuring safe working conditions, respectful and dignified treatment of employees and sustainable manufacturing processes in the entire value chain. The RBA Code of Conduct can be viewed at: www.responsiblebusiness.org/standards/code-of-conduct

Schaffner also supports the Conflict Minerals Act for the protection of human rights in the mining industry, particularly in the extraction of ore to produce tin, tantalum, tungsten and gold in conflict regions. More information can be found at: www.business-humanrights.org/en/conflict-peace/conflict-minerals

Commitment of the Executive Committee

The Executive Committee of the Schaffner Group actively supports the efforts to improve sustainability. The relevant key performance indicators are reported periodically to the Executive Committee. It discusses the results and takes corresponding action as part of a continuous process of improvement.

Social performance

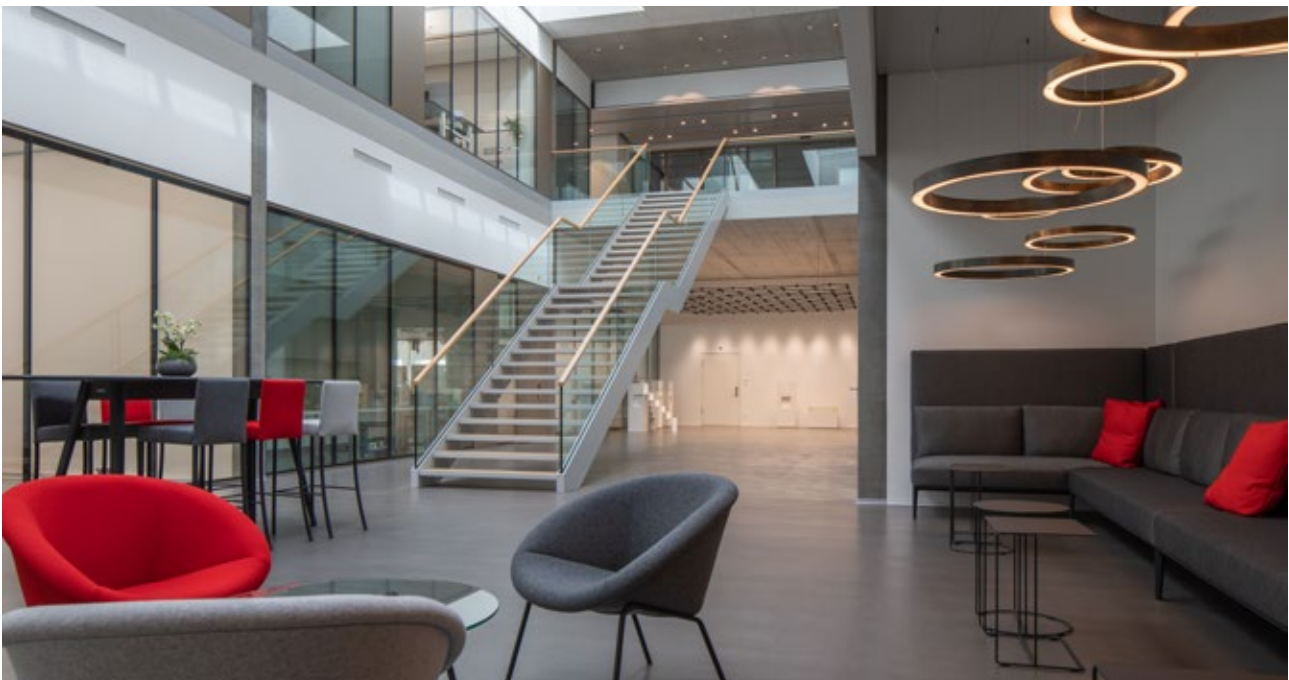
People make the difference: In its role as an employer, the Group pursues a socially responsible and progressive personnel policy. Schaffner promotes the diversity of employees in its international organization and supports them in the intercultural collaboration at work. With production centers on three continents, cross-cultural cooperation is practiced as a day-to-day reality at Schaffner. At the Swiss headquarters in Luterbach alone, people from eighteen different nations work together and bring their unique perspectives to the work process. Language courses in German and English foster employee integration and facilitate cohesive work across international borders.

Schaffner is also engaged in furthering cooperation between generations and brings together employees of all age groups. Young learners with their high digital affinity introduce new perspectives in this collaboration, while older colleagues are able to share their comprehensive knowledge and experience.

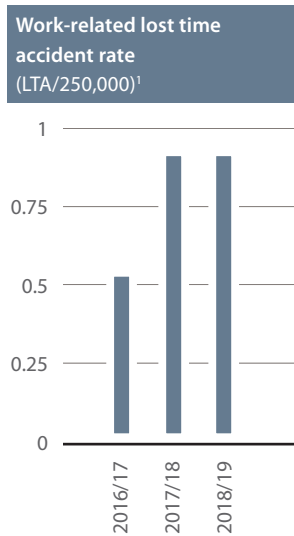
As a forward-looking and fair employer, Schaffner supports the compatibility of career and family life with family-friendly working conditions. Schaffner accommodates the social trend of a changing division of responsibilities within the family through programs for female and male employees, including offering paternity leave and flexible part-time schedules. This enables fathers to participate equally in family care.

The values initiative launched in fiscal year 2017/18 to strengthen the corporate culture was continued in 2018/19, further entrenching the Schaffner Values throughout the Group. The five fundamental values – leadership, ownership, customer focus, openness, and passion – apply worldwide, but are to be practiced in diverse forms according to the local cultures. To help achieve this, local ambassadors initiate specific activities that focus on local challenges and needs in concrete ways. A keynote event in the year under review was the meeting of Schaffner’s global senior management, which was dedicated to the topic of leadership culture. Training activities that built on this and were spread over the year further reinforced the establishment of the fundamental values in the entire group. Shared standards provide guidance for managers and create the basis for transferring responsibility to employees and promoting their greater autonomy – empowerment that boosts performance.

With the move to the company’s new office building at the headquarters in Luterbach, the office concept was transformed. The new, ample workspace built to an open-plan design strengthens collaboration, encourages communication and allows easy interaction between staff. In addition, Schaffner offers new forms of workplace arrangements, such as home office and co-working. This addresses employees’ changing requirements for the work environment, while also helping to improve sustainability by relieving strain on regional transportation infrastructure.



In the new head office building in Luterbach, abundant light and transparency of design ensure a pleasant work atmosphere



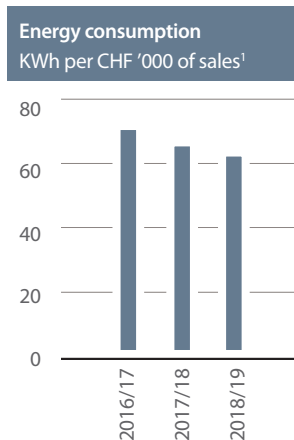
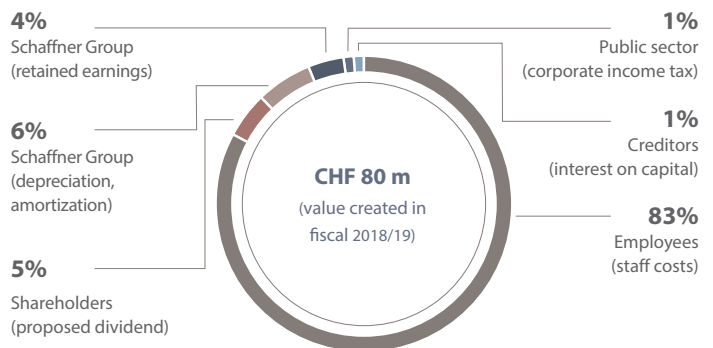
¹ For the fiscal year from October to September.

Schaffner conscientiously promotes employee health and workplace safety. Regular compliance checks are carried out at the Group sites. The results are analyzed and, as part of the continual advancement of workplace safety and employee health, the findings are used in setting the health and safety objectives both for the Group and the individual sites. Schaffner maintains an occupational health management system, for which a focus topic is chosen each year. Against the backdrop of the move to the new office building at the Luterbach headquarters, the focal theme in 2019 was ergonomics in the workplace. Employees' awareness of good ergonomics was raised in workshops and they were involved in the procurement of the office furniture. The health program also includes an in-house sports offering, as well as regular "apple weeks" to encourage a healthy diet.

Schaffner pursues active employee development, and expects employees to engage in their personal development and do their part to keep pace with the Group's dynamic evolution. In turn, the Group is committed to supporting employees in their professional growth. Amid the digital transformation of business, the need to ensure continued employability is gaining in importance. Individual training and development goals are set together with the employees, who are supported with funding and/or time in reaching these objectives.

Schaffner employees receive a significant share of the value generated by the Group. In fiscal year 2018/19, Schaffner's value generation amounted to CHF 80 million. Of this total, 83% was directly or indirectly paid to employees, and 1% went to the public sector in the form of corporate income tax. Five percent is available for distribution to shareholders (subject to their approval at the Annual General Meeting) and 6% remained in the company as depreciation, amortization and retained earnings.

Sharing of value generated in 2018/19



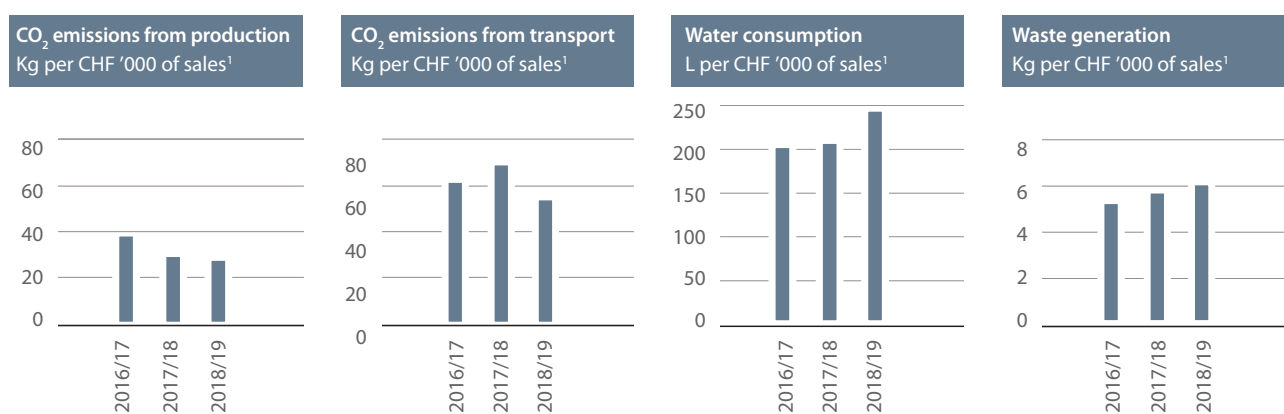
¹ July to June.

Environmental performance

Schaffner is progressively making the operating business in its whole value chain more effective and efficient. A particular focus of these efforts is on reducing energy consumption in and CO₂ emissions from its business activities. In this way, Schaffner contributes to the reduction of climate-harming greenhouse gas emissions. Overall, the Schaffner Group's energy costs represent less than 1% of its sales.

In the development of new products, the use of materials and processes responsible for the production of greenhouse gases is avoided to the extent possible. For example, in the EMC and Automotive divisions, filters were marked with labels instead of ink, thus reducing the use of solvents to a minimum. The Schaffner Group's transformer plant in the USA offers customers the capability to rewind old transformers on the existing structure and thus extend their service life. The old copper is collected and recycled.

With the relocation to new buildings at two sites, Schaffner also further lowered its CO₂ emissions: In Luterbach, the staff moved into the new head office premises as planned at the end of August 2019. The new building is heated primarily with groundwater. The geothermal probes required for this can also be used to cool the technical facilities as needed. Some of the electricity for the operation of the building is supplied by an efficient solar power system. A further reduction in CO₂ emissions will be made possible by the newly constructed manufacturing building previously damaged by fire in December 2017 at the plant in Lamphun, Thailand.



¹ July to June.

The global presence of the Schaffner Group, with production centers in Asia, Europe and the USA, substantially reduces transport costs. For the transport needs that do arise, the share of air freight is continually and systematically lowered in favor of sea freight, which allows a further decrease in CO₂ emissions (per unit of weight and distance). However, as a result of the manufacturing disruption after the fire in Thailand, an additional volume of freight temporarily had to be transported by air in fiscal 2017/18 to avoid delays in deliveries to customers. This led to a short-term increase in CO₂ emissions. Once the supply situation normalized, the CO₂ output was cut again markedly in fiscal 2018/19, to well below the pre-fire level.

The absolute amount of CO₂ emitted in connection with business travel eased slightly in fiscal 2018/19, while seeing a small increase in relation to sales. In China and Thailand, Schaffner also offers free employee transportation to and from work and thus helps reduce the CO₂ emissions caused by individual commuting.

In Hungary, additional initiatives for the reduction and reuse of waste were launched. For example, greater awareness was promoted among all staff and waste separation was further optimized.

At the new headquarters in Luterbach, employees use reusable rather than disposable coffee cups. As well, the availability of chilled sparkling water on tap eliminates the need for PET bottles.

The reported increase in waste generation is due to a past error in data collection. Previously at the plant in Thailand, not all materials that were recycled were recorded as waste. This was corrected in fiscal year 2018/19, leading to a rise in the amount of waste reported relative to sales.

The significant increase in water consumption in fiscal 2018/19 resulted entirely from the construction of the new building in Thailand.

Corporate governance

2018 19

Contents

21	Basis of the corporate governance report
21	Governance-related events in fiscal year 2018/19
21	Group structure and significant shareholders
24	Capital structure
27	Board of Directors
34	Executive Committee
38	Compensation, share ownership and loans
38	Shareholder participation rights
40	Change-of-control clauses and takeover defenses
41	Auditors
42	Communication policy

1 Basis of the corporate governance report

This corporate governance report of Schaffner Holding AG (“the Company”) describes the principles of governance and control of the Schaffner Group, based on the Directive on Information Relating to Corporate Governance (DCG) issued by the SIX Swiss Exchange. Unless indicated otherwise, the information in this report for fiscal year 2018/19 is as at 30 September 2019 or for the year then ended. This corporate governance report substantially follows the current guidelines and recommendations of the Swiss Code of Best Practice for Corporate Governance issued by Economiesuisse, the Swiss business federation. The principles and rules of corporate governance are set out in the Articles of Association and the Organizational Regulations (German name: Organisationsreglement) of Schaffner Holding AG, which, like all of the Company’s relevant corporate governance documents, can be found at: www.schaffner-ir.com/news-presentations/news

2 Governance-related events in fiscal year 2018/19

2.1 Resolutions of the most recent Annual General Meeting

At the 23rd Annual General Meeting (AGM) of Schaffner Holding AG on 15 January 2019, shareholders re-elected the existing Board members Philipp Buhofer, Urs Kaufmann, Gerhard Pegam, Suzanne Thoma and Georg Wechsler as members of the Board of Directors for the term ending at the conclusion of the next AGM. Urs Kaufmann was re-elected as the Chairman of the Board of Directors for the term ending at the conclusion of the next AGM and, together with Philipp Buhofer and Suzanne Thoma, was appointed as a member of the Nomination and Compensation Committee. Shareholders at the 23rd AGM also reappointed the lawyer and notary Wolfgang Salzmann as the independent proxy for a further fiscal year and re-elected BDO AG, Solothurn, as the external auditors for fiscal year 2018/19. As well, the AGM approved the distribution of CHF 6.50 per share entitled to dividends, from the distributable share premium reserve. The AGM adopted the compensation report for fiscal year 2017/18 in a consultative vote. For the compensation of the Board of Directors, the shareholders approved a maximum aggregate amount of CHF 600 thousand for the period to the 24th AGM, which will be held on 14 January 2020. For the compensation of the Executive Committee for fiscal year 2019/20, shareholders approved a maximum aggregate amount of CHF 4,000 thousand. The minutes of the 23rd Annual General Meeting of Schaffner Holding AG can be accessed on the Schaffner Group’s website under the “Annual General Meeting” tab found at:

www.schaffner-ir.com/annual-general-meeting/documentation

2.2 Changes in Executive Committee membership

On 1 November 2018, Martin Lütenegger took over the leadership of the Automotive division as Executive Vice President; on 19 November 2018, Daniel G. Zeidler assumed the management of the Power Magnetics division as Executive Vice President; and on 1 April 2019, Christian Herren took over as Chief Financial Officer from Kurt Ledermann, who left the Group at the end of March.

3 Group structure and significant shareholders

3.1 Group structure

3.1.1 Group operating structure

The Schaffner Group has a divisional organizational structure with the three segments EMC, Power Magnetics and Automotive. The reporting to the Executive Committee follows this structure.

The chart below shows the Group's operating structure at 30 September 2019:

Annual General Meeting

Board of Directors

Risk and Audit Committee, Nomination and Compensation Committee

Executive Committee

Group functions

EMC division, Power Magnetics division, Automotive division

The Chief Executive Officer (CEO) has responsibility for the operational management of the Schaffner Group. He is also the head of the Executive Committee, which is the top echelon of the Group's operational management. The management of the Schaffner Group is provided by the Board of Directors and (through the Board's delegation of authority) by the CEO and the Executive Committee.

The responsibilities of the Board, the CEO and the Executive Committee, and the division of responsibilities between them, are described in this corporate governance report from page 29 in section 5.5, from page 32 in section 5.6 and from page 34 in section 6.

The Executive Committee had the following structure at 30 September 2019:

Executive Committee

Marc Aeschlimann	Chief Executive Officer
Christian Herren	Chief Financial Officer
Max Bänziger	Chief Operating Officer
Martin Lüteneegger	Executive Vice President
Guido Schlegelmilch	Executive Vice President
Daniel G. Zeidler	Executive Vice President

More information about the Executive Committee is provided on page 34 in section 6 of this corporate governance report.

3.1.2 Listed companies

The Schaffner Group maintains an international presence through its own subsidiaries and a network of independent distributors. The parent company of the Schaffner Group is Schaffner Holding AG, whose shares are traded on the SIX Swiss Exchange.

Schaffner Holding AG is the only Group company listed on a stock exchange.

Schaffner Holding AG is a public limited company incorporated in Switzerland and has its registered office in Luterbach. At 30 September 2019 the share capital consisted of 635,940 ordinary registered shares with a total nominal value of CHF 20,668,050.

Registered office	4542 Luterbach, Switzerland
Listing exchange and regulatory standard	SIX Swiss Exchange, Swiss Reporting Standard
Security number	906209
ISIN	CH 0 009 062 099
Ticker symbol	SAHN
Nominal value per share	CHF 32.50

Key share data for Schaffner Holding AG is provided on page 4 of this annual report.

3.1.3 Non-listed Group companies

The directly and indirectly held companies consolidated in the Group accounts of Schaffner Holding AG are shown on page 87 of this report in the notes to the consolidated financial statements.

3.2 Significant shareholders

At 30 September 2019 there were 1,170 shareholders registered with voting rights in the share register of Schaffner Holding AG (prior year: 1,113). Of the issued shares, 99.5% represented free float (prior year: 99.7%). Schaffner Holding AG held 0.5% of the shares as treasury shares (prior year: 0.3%). At 30 September 2019, shares of unregistered owners amounted to 15.2% of the issued shares (prior year: 19.7%).

The following table shows the shareholder structure of Schaffner Holding AG at the balance sheet date and names those shareholders who reported holding 3% or more of the voting rights of Schaffner Holding AG.

Shareholder	Equity interest
Shareholder group BURU Holding AG	24%
J. Safra Sarasin Investmentfonds AG	10%
UBS Fund Management (Switzerland) AG	8%
Mirabaud – Equities Swiss Small and Mid	5%
Credit Suisse Funds AG	4%

In connection with the disclosure obligations under stock exchange law for shareholders whose share of voting rights reaches, rises above or falls below certain thresholds, the following shareholders filed notifications with Schaffner Holding AG and SIX Swiss Exchange AG in fiscal year 2017/18.

18 October 2018	Credit Suisse Funds AG: Exceeded 3% of voting rights
31 October 2018	Cologne Advisors LLP: Camox Master Fund fell below 3% of voting rights
1 November 2018	UBS Fund Management (Switzerland) AG: RoPAS (CH) Institutional Fund-Equities Switzerland exceeded 3% of voting rights
23 January 2019	Credit Suisse Funds AG: CS (CH) Small Cap Switzerland Equity Fund exceeded 3% of voting rights
14 September 2019	BURU Holding AG: Change in composition of a group
18 September 2019	IPConcept (Luxemburg) S.A.: Fortezza Finanz Aktienwerk (Teil I FCP) fell below 3% of voting rights

Further information on significant shareholders is provided on page 91 in the notes to the company financial statements of Schaffner Holding AG. As well, a current list of significant shareholders is available on the website of the SIX Swiss Exchange at: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html?companyId=SCHAFFNER

3.3 Cross-shareholdings

There were no cross-shareholdings between Schaffner and other publicly traded companies.

4 Capital structure

4.1 Issued share capital

Schaffner Holding AG has an issued share capital of CHF 20,668,050, consisting of 635,940 registered shares with a nominal value of CHF 32.50 per share. The issued shares are fully paid. Each share carries one vote at the General Meeting. All shares not held by the Company or by one of its subsidiaries carry dividend and voting rights.

4.2 Authorized unissued capital

4.2.1 Authorized capital for equity-based compensation

Schaffner Holding AG does not have unissued authorized capital designated for use in equity compensation plans (such capital is referred to in German as “bedingtes Kapital”).

4.2.2 Other authorized capital

The other authorized capital (i.e., authorized capital for purposes other than equity compensation; in German: genehmigtes Kapital) created by the Annual General Meeting on 12 January 2016 was not utilized within the period allowed, which ended 13 January 2017. Schaffner Holding AG currently does not have such other authorized capital.

4.3 Changes in equity in the last three fiscal years

The Annual General Meetings on 18 January 2018 (for fiscal year 2016/17) and 15 January 2019 each passed a resolution to distribute CHF 6.50 per share (exempt from Swiss anticipatory tax) to shareholders in the form of a repayment of excess share premium. For fiscal year 2015/16 no dividend was paid.

The changes in share capital, in share premium, in retained earnings and in the other components of consolidated equity are presented in detail in the consolidated financial statements, on page 58 of this annual report 2018/19. The comparative information on changes in equity for the three prior years is found on page 60 of the consolidated financial statements in the annual report 2017/18, on page 59 of the annual report 2016/17 and page 64 of the annual report 2015/16.

4.4 Shares and participation certificates

4.4.1 Shares

The 635,940 issued shares of Schaffner Holding AG have a nominal value of CHF 32.50 per share. Each share carries one vote and is entitled to dividends.

Subject to provisions (i), (ii) and (iii) below, the shares are issued in uncertificated form and maintained as book-entry securities.

Transfers of or dispositions regarding book-entry securities, including the granting of interests therein as collateral, are subject to the Swiss Federal Act on Book-Entry Securities. If uncertificated shares are transferred by assignment, the transfer is valid only if notified to the Company.

(i) Shares maintained as book-entry securities may be withdrawn from the custody system by the Company.

(ii) Shareholders are not entitled to require the printing and delivery of certificates (physical securities) or the conversion of registered shares issued in one form into another form. The Company may, however, at any time print and deliver certificates (single share certificates, collective certificates or global certificates) or convert uncertificated or certificated shares into another form, and may cancel issued certificates that are returned to the Company. Shareholders that are registered in the share register may at any time request a certification of ownership of their shares from the Company.

(iii) By amending the Articles of Association, the General Meeting of shareholders may at any time convert registered shares into bearer shares or bearer shares into registered shares.

4.4.2 Participation certificates

There were no participation certificates of Schaffner Holding AG at 30 September 2019 (participation certificates, or Partizipationsscheine in German, essentially are a type of preference share).

4.5 Dividend right certificates

Schaffner Holding AG had not issued any dividend right certificates as of 30 September 2019 (dividend right certificates, or Genussscheine in German, essentially are preference shares for related parties).

4.6 Restrictions on transferability and nominee registration

Registered shares of Schaffner Holding AG may be acquired by all legal or natural persons. The purchase of Schaffner shares is subject to registration restrictions concerning the recognition and registration of share purchasers, and of nominees, as voting shareholders. These restrictions are specified in detail in the Share Registration Regulation of Schaffner Holding AG. The Share Registration Regulation was issued by the Board of Directors in reliance on sections 685a and 685d et seq. of the Swiss Code of Obligations and article 6 of the Articles of Association, and can be viewed under the “Annual General Meeting” tab found on the following web page of the Schaffner Group:

www.schaffner-ir.com/news-presentations/news

4.6.1 Recognition of share purchasers as voting shareholders

Shareholders or beneficial owners are deemed to be those persons registered in the Company’s share register. In accordance with article 6 para. 3 of the Articles of Association of Schaffner Holding AG, purchasers of shares are upon their request recorded as voting shareholders in the share register by the Board of Directors if the purchasers expressly state that they have acquired and will hold the shares for their own account. Recognition as a shareholder with voting rights thus requires both that the shareholder in question bears the economic risk incident to ownership of the shares to be registered, and that, in the application for registration, the shareholder expressly declares to the Company that the shareholder has acquired and will hold the shares for the shareholder’s own account. In reliance on article 6 para. 3 of the Articles of Association and the recognition requirements derived from it, applicants (purchasers holding legal title to the shares) are thus not recognized as voting shareholders if they have acquired, and are holding, the shares as a result of a securities lending transaction or similar transaction that gives them legal ownership without the associated economic risk.

4.6.2 Registration of share purchasers

For each registration in the share register as a voting shareholder, a personally signed registration application or a registration authorization must be on file at the respective SIX SIS AG custodian bank, containing all of the following information:

- › For individuals: Last name, first name, nationality, and address
- › For legal entities: Entity name, registered office, and address

Every registration in the share register requires evidence of the acquisition of full legal title to the shares or evidence of the establishment of beneficial ownership, and always requires an express declaration that the shares were acquired and are held by the applicant in the applicant’s own name and for the applicant’s own account.

In the case of registration applications by shareholders holding the shares for their own account where the applicant has reported holding 3% or more of the voting rights of Schaffner Holding AG, the registration is not performed until the Company has received a complete disclosure notification by the applicant pursuant to section 120 of the Financial Market Infrastructure Act (also referred

to in German as FinfraG). If the disclosure notification meets the legal requirements (i.e., contains the legally required information about the beneficial owner), the applicant (i.e., the acquired stock) is registered in the share register as having voting rights. If the disclosure notification is not made within the 20-day deadline specified in section 685g of the Swiss Code of Obligations, or is incomplete, the application for registration with voting rights is denied and the shareholder (i.e., the acquired stock) is registered in the share register as non-voting.

4.6.3 Registration of nominees

Persons who do not expressly declare in their registration application that they hold the shares for their own account are classified as nominees. In accordance with article 6 para. 4 of the Articles of Association, by default any single nominee is registered in the share register as holding voting shares only up to a maximum of 5% of the Company's share capital recorded in the Swiss commercial register of companies. Above this limit of 5%, the Board of Directors registers shares of nominees in the share register as voting shares only if:

- (i) the nominee discloses the names, addresses and holdings of Company shares of the persons for whose account the nominee holds 0.5% or more of the total registered-share capital recorded in the commercial register, and
- (ii) an agreement exists between the nominee and the Company which specifies the nominee's position and the details of the nominee's notification obligations.

The registrar (the company retained to operate the share register) is responsible for sending the nominee agreement to the respective nominee and collecting the information to be disclosed. If complete disclosure is not made by the 20-day deadline specified in section 685g of the Swiss Code of Obligations, or if no nominee agreement is concluded between the Company and the nominee within this period, the nominee is registered in the share register as non-voting in respect of these shares. To the extent permitted by law, the Board of Directors is authorized to enter into agreements with nominees regarding reporting obligations. On a case-by-case basis, the Board may approve exceptions to the nominee rules.

Where legal entities or groups with joint legal status are related to one another by capital, voting rights, management or in some other manner, they are deemed collectively to constitute a single purchaser. This also applies to all natural persons, legal entities or groups with joint legal status that by agreement, as a syndicate or in any other way act in a coordinated manner with a view to circumventing the nominee rules. The Company may void registrations in the share register with retroactive effect from the date of registration if they were based on false information given by the purchaser. The purchaser must be informed of the deletion immediately.

Registered non-voting shareholders and registered non-voting nominees cannot exercise the voting rights associated with the shares nor exercise other rights related to the voting rights. However, they are not restricted in exercising any of their other shareholder rights, including pre-emptive rights. At the General Meeting the shares registered as non-voting are treated as unrepresented (see section 685 f (2) and (3) of the Swiss Code of Obligations).

The registration restrictions described above also apply to shares bought or subscribed through the exercise of pre-emptive rights, options or conversion rights.

At 30 September 2019, 15.2% (prior year: 19.7%) of all issued shares were unregistered or were registered as non-voting shares.

4.7 Convertible bonds and options

4.7.1 Convertible bonds

There are no outstanding convertible bonds of Schaffner Holding AG.

4.7.2 Share option plans

The share option plan for upper management and members of the Board of Directors of the Schaffner Group (the Employee Share Option Plan) expired on 21 November 2018. As of 30 September 2019, Schaffner Holding AG no longer has a share option plan.

5 Board of Directors

5.1 Members of the Board

The Articles of Association require the Board of Directors of Schaffner Holding AG to have between three and seven members.

On 30 September 2019 the Board of Directors consisted of five, non-executive members. In the three years prior to the reporting period (fiscal years 2015/16, 2016/17 and 2017/18), none of these Board members were members of Schaffner's Executive Committee or of the management of a subsidiary, and none had or have material business relationships with the Schaffner Group. The members of the Board of Schaffner Holding AG are thus independent within the meaning of the Swiss Code of Best Practice for Corporate Governance issued by Economiesuisse, the Swiss business federation.

In fiscal year 2018/19 the Board of Directors of Schaffner Holding AG had the following members:

Urs Kaufmann, Chairman, born 1962, member of the Board since 2017

Degree in Engineering, Federal Institute of Technology (ETH), Zurich; Senior Executive Program, IMD, Lausanne

Since 2017 is Chairman of the Board of Directors of Huber+Suhner AG, Herisau. Became a Board member of Huber+Suhner AG in 2014 and, from 2014 to 2017, held the dual role of Board member and CEO. From 2002 to 2017 was CEO of Huber+Suhner AG, having joined its Executive Committee in 2001. Previously held various management positions in the same group since 1994. From 1987 to 1993 worked as project manager, production manager and sales manager at Zellweger Uster AG in Switzerland and the USA.

Philipp Buhofer, Vice Chairman, born 1959, member of the Board since 2017

Degree in Business Administration, Lucerne University of Applied Sciences (HWV), Horw

Since 1997 has been an independent entrepreneur and member of boards of directors. From 2002 to 2003 held the dual role of Chairman of the Board of Directors and CEO of EPA AG, Zurich, from 1997 to 2001 was a member of its Board of Directors, and from 1987 to 1997 was a member of its Executive Committee. From 1984 to 1987 was Manager of Purchasing and Marketing for Metro International, Baar, Düsseldorf and Hong Kong.

Gerhard Pegam, born 1962, member of the Board since 2013

Electrical Engineer, Klagenfurt Technical College, Austria

From 2001 to beginning of 2012 was CEO of Epcos AG. From 2009 to 2012 was a member of the Board of Directors of Epcos parent company TDK-EPC Corp. From middle of 2011 to mid-2012 was a Corporate Officer of TDK Corporation, Japan, and from 2004 to 2012 was a member of the Board of ZVEI, the German Electrical and Electronic Manufacturers' Association. From 1999 to 2001 was COO of Epcos AG. Between 1982 and 1999 held various management positions at Epcos, Siemens and Philips.

Suzanne Thoma, born 1962, member of the Board since 2012

PhD in Technical Sciences and MSc in Chemical Engineering, Federal Institute of Technology (ETH), Zurich

Since 2013: CEO of the BKW Group, Berne. Previously member of the Group Executive Committee of BKW AG, Berne, in charge of the Networks division. From 2007 to 2009 was head of the Automotive division of the Wicor Group, Rapperswil-Jona. Earlier, from 2002 to 2007 was CEO of Rolic Technologies Ltd., Allschwil, and from 1990 to 2002 worked for Ciba Spezialitätenchemie AG (now BASF AG) in various positions and countries.

Georg Wechsler, born 1956, member of the Board since 2012

Degree in Business Administration; Swiss Certified Accountant

From 1994 to January 2016 was CFO and member of the Group Executive Committee of Model Holding AG, Weinfelden. Previously worked in various roles for, among others, Zurmont Finanz AG, Zurich; Zellweger Uster AG, Uster; and KPMG Fides, Zurich.

The Secretary of the Board (since April 2019) is Christian Herren, CFO of the Schaffner Group. The Secretary is not a member of the Board.

5.2 External activities and interests**Philipp Buhofer**

Philipp Buhofer is Chairman of the Board of Cham Group AG, Cham; Chairman of the Board of Kardex AG, Zurich; member of the Board of Rapid Holding AG, Dietikon; Chairman of the Board of Dax Holding AG, Hagendorn; and member of the Board and CEO of BURU Holding AG, Hagendorn.

Urs Kaufmann

Urs Kaufmann is Chairman of the Board of Huber + Suhner AG, Herisau, a member of the Board of SFS Group AG, Heerbrugg, of Gurit Holding AG, Wattwil, of Vetropack Holding AG, Bülach, and of Müller Martini Holding AG, Hergiswil, and a member of the executive committees of Swissmem and the Swiss Employers Confederation.

Gerhard Pegam

Gerhard Pegam is Vice Chairman of the Board of OC Oerlikon Corporation AG, Pfäffikon, and a member of the Supervisory Board of Süss Microtech AG, Garching, Germany.

Suzanne Thoma

Suzanne Thoma is a member of the Board of OC Oerlikon Corporation, Pfäffikon, of the Beckers Group, Berlin, Germany, and of UPM Corporation, Helsinki, Finland.

Georg Wechsler

Georg Wechsler is a member of the Board of Swiss Casinos Holding AG, Zurich, of Swiss Casinos Zürich AG, Zurich, of Swiss Casinos Services AG, Zurich, of Mespas AG, Zurich, and of Sport und Event Holding AG, Berne.

5.3 Restrictions on positions outside the Group

Outside the Schaffner Group, a member of the Board of Directors may hold a maximum of five positions as a member of the highest-level governing or administrative body of other listed companies and a maximum of five positions as a member of such a body in non-listed legal entities within the meaning of section 12 para. 1 (1) OAEC.

For the purpose of this provision, positions (including employment positions) at companies controlled by the Company or positions/employment which the respective member assumes in the capacity of member of the Schaffner Board of Directors (e.g., at joint ventures or pension funds of the Schaffner Group or at companies in which the Company holds a significant non-consolidated interest) are not deemed to be positions/employment outside the Schaffner Group.

The following are counted as a single position for the purpose of this provision: positions/employment at mutually related companies outside the Schaffner Group, dual roles, and positions which are assumed in the capacity of a member of the top governing or administrative body or executive management of a legal entity outside the Schaffner Group (e.g., positions at joint ventures or pension funds of that legal entity or at companies in which that legal entity holds a significant non-consolidated interest).

5.4 Board elections and terms

The members of the Board of Schaffner Holding AG are annually elected individually by the General Meeting. Board members may be re-elected for consecutive terms. Board members must be shareholders of the Company and be less than 70 years of age on the day of their election or re-election.

The General Meeting annually elects the Chairman of the Board of Directors and, individually, each member of the Nomination and Compensation Committee (who must be members of the Board), and the independent proxy. Their term of office ends at the conclusion of the next Annual General Meeting.

5.5 Internal organization

Except for the election of the Board Chairman and the members of the Nomination and Compensation Committee by the General Meeting, the Board of Directors constitutes itself in its first meeting of each term, in accordance with article 15 of the Articles of Association. The Board may appoint a Vice Chairman from among its members, who assumes the Chairman's responsibilities when the latter is unavailable. The Board designates its Secretary, who need not be a member of the Board.

5.5.1 Division of responsibilities within the Board

Urs Kaufmann has been the Chairman of the Board of Directors, and Philipp Buhofer has been the Vice Chairman, since the 2017 Annual General Meeting. Urs Kaufmann also chairs the Nomination and Compensation Committee. The Risk and Audit Committee is chaired by Georg Wechsler. The Board has no other standing committees or designated positions.

5.5.2 Composition, purpose and responsibilities of Board committees

The Board of Directors of Schaffner Holding AG maintains the Board committees detailed below. Their principal purpose is to provide decision support to the Board in special subject areas. The Board's duties and powers always remain with the full Board.

The Board committees are made up solely of non-executive members of the Board. The committees brief the Board on their conclusions and proposals at the ordinary Board meetings. However, in urgent matters they immediately inform the Chairman of the Board or the Chief Executive Officer, at any time. Outside the ordinary Board meetings, the Board committee members also work directly with members of the Executive Committee (which is the Group's top echelon of operational management and is not a Board committee). New committees may be formed at any time as required.

The term of office of committee members normally coincides with their term as Board members.

5.5.2.1 Nomination and Compensation Committee

The Nomination and Compensation Committee has the following general responsibilities:

- › Establishment and periodic review of the Schaffner Group's compensation policy and principles, performance criteria and performance targets; periodic review of the implementation of the foregoing items and submission of proposals and recommendations to the Board of Directors
- › Preparation of all relevant decisions of the Board of Directors with respect to compensation of the members of the Board of Directors and the Executive Committee, submission of proposals to the Board regarding the nature and amount of the annual compensation of the members of the Board of Directors and Executive Committee, and preparation of the proposal for the respective maximum aggregate amount
- › Submission of proposals to the Board for the list of potential recipients of performance-related compensation and for setting the annual performance targets for this compensation
- › Development of equity incentive plans, and submission of proposals to the Board with respect to the selection of plan participants and the granting of shares, the issue price and vesting or holding periods under equity incentive plans
- › Decision-making or decision support in accordance with legal requirements or provisions of the Articles of Association
- › Staff promotions to the Executive Committee
- › New hiring or dismissal of Executive Committee members; in the case of new hiring, members of the Nomination and Compensation Committee participate in the evaluation of prospective staff

The Board of Directors may assign further duties to the Nomination and Compensation Committee with respect to compensation, human resources and related areas. The Board sets out the organization, procedures and reporting modalities of the Nomination and Compensation Committee in the Organizational Regulations.

Membership of the Nomination and Compensation Committee

The Nomination and Compensation Committee is made up of two or more Board members elected to the committee by the General Meeting. The Board of Directors elects the chair of the committee.

Members at 30 September 2019	Since AGM:
Urs Kaufmann , committee chairman	2017
Philipp Buhofer	2018
Suzanne Thoma	2012

The Nomination and Compensation Committee convenes as often as business requires, and at least twice per year. The committee may invite other Board members, Executive Committee members and specialists to its meetings as required. Generally the meetings are attended by the Chief Executive Officer and Chief Financial Officer as well as the Head of Corporate Human Resources. The Head of Corporate HR is not a member of the Executive Committee. Additional persons may be asked to attend, at the discretion of the committee chair.

5.5.2.2 Risk and Audit Committee

The Risk and Audit Committee acts solely in an advisory capacity. It assists the Executive Committee in handling financial matters and risk management. At the same time, on behalf of the Board of Directors, the Risk and Audit Committee monitors performance especially in the following areas of responsibility of the Executive Committee:

- › Appropriateness and validity of the Group's accounting
- › Consolidated annual financial statements
- › Analysis of the various risks to which the Schaffner Group is exposed
- › Organization and processes of the system of internal control
- › Organization and processes of risk management
- › Tax planning
- › Financial part of the rolling forecast
- › Other major responsibilities of the finance department

The Risk and Audit Committee, on behalf of the Board, receives the audit reports of the external independent auditors on the company financial statements and consolidated financial statements and presents the reports to the Board for review and comment. The committee regularly briefs the Board on the results of its verification activities and submits the necessary proposals for courses of action to the Board Chairman for consideration by the Board.

Membership of the Risk and Audit Committee

The Risk and Audit Committee consists of two or more Board members elected to the committee by the General Meeting. The Board of Directors elects the chairperson of the committee. The majority of the committee's members, and especially the chairman, should have experience in finance and accounting and be independent.

Members at 30 September 2019	Since AGM:
Georg Wechsler , committee chairman	2012
Philipp Buhofner	2017
Gerhard Pegam	2013

The Risk and Audit Committee meets as often as business requires, and generally at least twice per year. Every member may request a meeting. The Chairman of the Board, the Chief Executive Officer and the Chief Financial Officer usually attend the meetings. At the discretion of the committee chairman, additional persons may be asked to attend (particularly representatives of the auditors).

5.5.3 Procedures of the Board and of its committees

Meetings of the Board of Directors are called by the Chairman or Vice Chairman or, if both are unavailable, by another Board member. The Board convenes as often as business requires or when a Board member requests it, but not less than once per quarter. Board meetings are normally called in writing, stating the agenda items. The agenda is set by the Chairman, who also includes items proposed by the Executive Committee. Board meetings are called at least ten days before the meeting date. In urgent matters, the requirement for written notice and/or for ten days' notice can be waived, in which case this must be noted in the minutes of the meeting.

The Board of Directors has a quorum when the majority of its members are in attendance for oral discussions and votes. Members may also be present by telephone or via electronic media (for example, videoconferencing). Resolutions are passed by a simple majority of votes. In the event of an equality of votes, the chairman of the meeting has a second or casting vote. For the purpose of resolutions concerning capital increases, the Board has a quorum irrespective of the number of members present. Unless a member requests an oral discussion, the Board may also vote on its resolutions by written ballot (submitted by mail,

fax or e-mail). In such a “postal” vote (also known as a written resolution), passage of a resolution requires the affirmative vote of the majority of all Board members. Postal votes and their outcome must be recorded in the minutes of the next meeting.

The Chairman of the Board (or if unavailable, the Vice Chairman or another deputy) prepares and chairs the meetings of the Board. He is responsible for the proper calling and conducting of the meetings and for the timely and appropriate briefing of the Board members.

In the reporting period the Board met nine times. The following overview shows the individual Board members’ attendance at Board and Board committee meetings:

Attendance at meetings

	BD ¹	RAC ¹	NCC ¹
Number of meetings held	9	2	2
Urs Kaufmann, Chairman	9	2 ²	2
Philipp Buhofer, Vice Chairman	9	2	2
Gerhard Pegam	9	2	–
Suzanne Thoma	8	–	2
Georg Wechsler	9	2	–
Meeting length	140-480 min.	85-120 min.	90-180 min.
Average length	260 min.	103 min.	135 min.

¹ BD: Board of Directors; RAC: Risk and Audit Committee; NCC: Nomination and Compensation Committee.

² Urs Kaufmann attends the RAC meetings as an advisory member.

The Chief Executive Officer and Chief Financial Officer attend the ordinary meetings of the Board. For the discussion of specific matters, the Board calls on members of the Executive Committee, other management staff or external advisors to attend its meetings as required. In the year under review, no external advisors were called to any significant extent.

5.6 Division of authority

The Board of Directors of Schaffner Holding AG is responsible for determining Group strategy. It reviews the Group’s broad plans and objectives and identifies internal and external risks and opportunities. Decisions on matters within the Board’s non-delegable and inalienable responsibilities defined in article 18 of the Articles of Association and section 716a of the Swiss Code of Obligations are reserved for the Board.

Schaffner Holding AG is the holding company for the Schaffner Group. As a consequence, the Board of Directors has the following responsibilities in particular:

- › Overall management of the Schaffner Group
- › Setting and approving the strategy and business planning of the Schaffner Group and supervising their implementation
- › Ensuring the efficiency (as necessary for implementation assurance) of accounting, financial controls, risk management and reporting
- › Appointment and removal of the Executive Committee and authorized signatories
- › Regular review of business activities
- › Approval of the decisions of the Executive Committee on the filing, defending or handling of lawsuits, administrative or arbitration proceedings, and on the settlement of litigation where the amount in dispute exceeds CHF 1,000 thousand
- › Decisions on matters not reserved for or transferred to another body by law, by the Articles of Association or by the Organizational Regulations

- › Formulation and preparation of resolutions for consideration by the General Meeting
- › Presentation to the General Meeting of nominations for the election of the Chairman and members of the Board, the members and chair of the Nomination and Compensation Committee, the independent proxy and the external auditors
- › Proposal to the General Meeting regarding the approval of compensation, that is, the respective maximum aggregate compensation of the whole Board of Directors for the term from the Annual General Meeting to the next AGM and of the whole Executive Committee for the fiscal year next following the AGM, in accordance with articles 24 and 25 of the Articles of Association.
- › Setting the compensation of the individual Board members and Executive Committee members within the respective approved maximum aggregate amount
- › Approval of compensation of new Executive Committee members for a fiscal year for which the General Meeting has already approved the compensation or the maximum aggregate amount of compensation, in reliance on and within the limits of article 26 of the Articles of Association (“additional amount”)
- › Decisions on fixed compensation of the Board of Directors and Executive Committee, variable cash compensation and other compensation of the Executive Committee, and awards of shares of Schaffner Holding AG to the individual members of the Board and of the Executive Committee, subject to the provisions of the law, the Articles of Association and applicable regulations, and except inasmuch as decisions are reserved for the General Meeting
- › Approval for Executive Committee members to accept additional positions within the meaning of article 23 of the Articles of Association
- › Founding of subsidiaries, corporate mergers, and acquisition of business interests or their sale, their pledging as collateral or their liquidation
- › Entry by the Company into fundamentally new business activities, and material changes to the existing portfolio of businesses
- › Acquisition, mortgaging and sale of real estate
- › Establishment and closing of branch offices
- › Approval of the decisions of the Executive Committee in all matters outside the scope of day-to-day business (those matters not covered by the Authorization Policy) that could give rise to one-time obligations or commitments of more than CHF 500 thousand or to recurring obligations or commitments in an annual amount of more than CHF 250 thousand

To an extent consistent with the applicable legal provisions and the Articles of Association, the Board of Directors has delegated the operational management of the Schaffner Group to the Executive Committee, led by the Chief Executive Officer. The Chief Executive Officer is responsible for the overall operational management of the Company. He has responsibility for the long-term success of the Group in line with the strategy set by the Board of Directors. The Chief Financial Officer has responsibility for financial, tax and capital management. He is also responsible for the transparency of the financial results and for ensuring high-quality, timely financial reporting.

5.7 Monitoring and control in respect of the Executive Committee

Board of Directors

The Executive Committee provides the Board with a monthly written report on the Group’s financial results. The reporting consists of the consolidated balance sheet, income statement, statement of changes in equity, a statement of changes in provisions, and the cash flow statement. The data are compared against the prior-year results. The Board of Directors regularly discusses the monthly reports at its meetings. The Chief Executive Officer and Chief Financial Officer attend the meetings. The Executive Committee carries out a risk assessment at least once per year and reports on the findings to the Board of Directors. In this assessment the general risks are analyzed and rated. Monitoring-and-control points and processes are defined based on the risk assessment and are implemented by the respective process owners. The Board of Directors monitors the assessment of the Group’s risks and verifies the implementation of risk management.

Other tools for the monitoring and control of the Executive Committee are the following:

- › Periodic communication of the Executive Committee's forecasts for revenue and for the key earnings and financial position data
- › Rolling forecast
- › Annual strategic analytical reviews of the Group and the divisions
- › A multi-year plan regularly updated by the Executive Committee
- › Special reports by the Executive Committee on significant investments, acquisitions and partnerships

The CEO keeps the Board informed of all significant events. He promptly informs the Chairman of the Board of any exceptional developments.

Even outside the Board meetings, beyond the monthly reporting by the Executive Committee, every member of the Board may request further information from individual members of the Executive Committee on the business performance and other important matters.

Chairman of the Board

The Board Chairman regularly meets with the Chief Executive Officer and Chief Financial Officer to discuss current business performance and activities.

Committees

Outside the ordinary Board meetings, the Board committee members also work directly with members of the Executive Committee (which is the Group's top level of operational management and is not a Board committee).

Internal audit

In view of the size of the company, the Schaffner Group elects not to maintain a dedicated internal audit function. Instead, focused internal special audits are conducted by units of the Schaffner Group, with the participation of external consultants when required. The results of these special audits are reported to the chairman of the Risk and Audit Committee.

6 Executive Committee

The responsibilities and powers of the Executive Committee are specified in the Organizational Regulations. Its main responsibilities are:

- › Operational management
- › Optimization of internal organization and processes
- › External representation of the Schaffner Group
- › Internal and external communication

Under the Articles of Association, the employment agreements of Executive Committee members must either have a fixed term of not more than one year, or be of indefinite duration with a notice period of not more than twelve months.

At 30 September 2019 the Schaffner Executive Committee had six members.

Chief Executive Officer

The Chief Executive Officer (CEO) is responsible for the overall operational management of the Company. He has responsibility for the long-term success of the Group in line with the strategy set by the Board of Directors. The CEO is responsible in particular for:

- › Ensuring the implementation of the Board's decisions
- › Representing Schaffner Holding AG to the public and in important associations, institutions, etc.
- › Proposals to the Board of Directors, especially regarding strategy and financial targets, as well as regarding all business which requires Board approval under the Articles of Association, the Authorization Policy or the Organizational Regulations
- › Proposals to the Nomination and Compensation Committee for the nomination and removal of members of the Executive Committee
- › Proposals to the Nomination and Compensation Committee for the fixed compensation, variable cash compensation, other compensation, and awards of shares of Schaffner Holding AG, for the individual members of the Executive Committee
- › Linking Group strategy and operational management by performing the following duties:
 - › Formulation of Group strategy and Group policy, for presentation to and approval by the Board of Directors
 - › Ensuring the achievement of the strategic direction set by the Board
 - › Leadership of the Group's operational management, including balancing short-term targets with the needs of Group strategy
- › Preparation of the Group's financial plans, particularly the annual targets and medium-term planning, with accountability for the overall financial performance against the targets set by the Board of Directors
- › Leadership of the Executive Committee and the other positions reporting to the CEO
- › Management development for the Company and preparation of performance appraisals of the Executive Committee members for the attention of the Nomination and Compensation Committee
- › Ensuring the Group's adherence to internal policy and regulations and the Code of Conduct, and safeguarding compliance with the Articles of Association and applicable legal requirements
- › Communication between the Executive Committee and Board of Directors to ensure early and exact briefing of the Board

Chief Financial Officer

The Chief Financial Officer (CFO) devises the framework for all strategic and operational controllership activities, ensures the Group's secure financing, optimizes its financing structure, and supports the Chief Executive Officer and the other Executive Committee members in all financial matters.

Chief Operating Officer

The Chief Operating Officer (COO) is responsible for the achievement of the Group's productivity, efficiency and quality targets.

Executive Vice Presidents

The Executive Vice Presidents (EVPs) are accountable for achieving the objectives within their area of responsibility. These include, in particular, achieving a leading market position as well as continuous innovation to support lasting competitiveness.

6.1 Responsibilities and members of the Executive Committee

The Executive Committee is the Group's highest-ranking operational management body and supports the Chief Executive Officer in fulfilling his role of managing the Group's activities. The Executive Committee consists of the officers named in the list below and has the following responsibilities within the parameters set by the Board of Directors:

- › Active participation in the process of planning and implementing the Board-approved strategy
- › Efficient and effective fulfilment of the Executive Committee's main duties, with close cooperation between its members
- › Proposal and execution of strategic plans
- › Management by the individual Executive Committee members of the respective Group functions
- › All matters outside the scope of day-to-day business (those not covered by the Authorization Policy) that do not give rise to one-time obligations or commitments of more than CHF 500 thousand or to recurring obligations or commitments in an annual amount of more than CHF 250 thousand
- › Keeping of the accounting records in accordance with the law, the specific provisions of the accounting standards adopted by Schaffner Holding AG, and the Listing Rules of the SIX Swiss Exchange
- › Human resources policy, HR management and labor relations

The members of the Executive Committee are active participants in its consensus-oriented decision process. Decisions are made by consensus or, where no consensus can be reached, are made by the Chief Executive Officer with due regard to the opinions expressed by the Executive Committee's members.

In fiscal year 2018/19 the Executive Committee of the Schaffner Group had the following members:

Marc Aeschlimann, CEO, born 1968

Degree in Electrical Engineering, Federal Institute of Technology (ETH), Zurich; MBA, Marshall Business School, University of Southern California
With the Schaffner Group since 1 September 2017 as CEO. Previously CEO of R&S Group, CEO of Pfiffner Messwandler, and CEO of Franke Coffee Systems after various management positions at the Franke Group, including five years in China as Head of Food Service Systems for the Asia, Pacific & Middle East region. Earlier worked as a consultant at Helbling Management Consulting.

Kurt Ledermann, CFO (until 31 March 2019), born 1968

MSEE Degree in Electrical Engineering, Federal Institute of Technology (ETH), Zurich; Master of Arts HSG, University of St. Gallen
Was with the Schaffner Group from June 2008 to March 2019 as CFO, and additionally as interim CEO from July 2016 to August 2017. Previous roles included Executive VP of Finance & IT, RUAG Aerospace; Head of Finance & Accounting, Schaffner Group; CFO, Medivision; Group Controller and Head of Investor Relations, Sika Group

Christian Herren, CFO (from 1 April 2019), born 1976

MA Degree in Management, University of Freiburg
With the Schaffner Group since 2007; from June 2009 was Head of Corporate Finance & Accounting and deputy CFO; from July 2016 to September 2017 served as interim CFO of the Schaffner Group. Before his activities at Schaffner, was Corporate Financial Controller for Straumann Group and worked in financial auditing at KPMG.

Max Bänziger, COO, born 1967

MSc degree in Industrial Engineering and Management and BSc degree in Electrical Engineering, Federal Institute of Technology (ETH), Zurich
With the Schaffner Group since November 2017; COO since 1 January 2018. Previously COO of Carlo Gavazzi Automation Components, Head of Operations at Huber+Suhner Wires+Cables, and Head of Operations at Mettler Toledo Laboratory & Weighing Technologies.

Guido Schlegelmilch, Executive VP, born 1964

Degree in Business Engineering and PhD, Darmstadt University of Technology

With the Schaffner Group since February 2009 as Managing Director, Schaffner Deutschland. Executive VP and Head of EMC division since October 2011. Previously held various management positions at Philips Semiconductors and NXP Semiconductors.

Martin Lütenegger, Executive VP (from 1 November 2018), born 1969

Degree in Mechanical Engineering, Federal Institute of Technology (ETH), Lausanne; Marketing Director Diploma, Berne University

With the Schaffner Group since 1 November 2018 as Executive VP and Head of Automotive division. Previously held management positions in divisional management and market development at internationally operating companies in the automotive supply industry, notably as member of the Executive Board and Division Head at Sonceboz Automotive, Sonceboz, Switzerland, member of the Executive Committee and Head of Automotive division at Styner+Bienz Formtech, Berne, and member of the Executive Committee of JESA, Villars-sur-Glâne.

Daniel G. Zeidler, Executive VP (from 19 November 2018), born 1972

Degree in Industrial Management and Manufacturing, Federal Institute of Technology (ETH), Zurich; Executive MBA, University of St. Gallen

With the Schaffner Group since 19 November 2018 as Executive VP and Head of Power Magnetics division. Previously was Managing Director of Trasfor SA and held various management positions at ABB, including General Manager of its Generator Circuit Breaker unit from 2011 to 2016.

6.2 External activities and interests**Marc Aeschlimann**

Member of the Board of Directors of Wartmann Technologie AG, Oberbipp.

Kurt Ledermann

Vice Chairman of the Board of Anlagestiftung Winterthur AWi, Zurich (an investment foundation for occupational pensions).

The other members of the Executive Committee do not hold any positions in governing or supervisory bodies of any significant organization, institution or foundation under private or public law. They have no permanent management or advisory positions in significant interest groups and hold no public or political office.

6.3 Restrictions on positions outside the Group

Outside the Schaffner Group, a member of the Executive Committee may hold a maximum of two positions on the highest-level governing or administrative body of other listed companies and of non-listed legal entities within the meaning of section 12 para. 1 (1) OAEC; this limit is set out in section 2.4 para. 8 of the Organizational Regulations of Schaffner Holding AG.

For the purpose of this provision, positions (including employment positions) at companies controlled by the Company or positions/employment which the respective member assumes in the capacity of member of the Schaffner Executive Committee (e.g., at joint ventures or pension funds of the Schaffner Group or at companies in which the Company holds a significant non-consolidated interest) are not deemed to be positions/employment outside the Schaffner Group.

The following are counted as a single position for the purpose of this provision: positions/employment at mutually related companies outside the Schaffner Group, dual roles, and positions which are assumed in the capacity of a member of the top governing or administrative body or executive management of a legal entity outside the Schaffner Group (e.g., positions at joint ventures or pension funds of that legal entity or at companies in which that legal entity holds a significant non-consolidated interest).

Executive Committee members require the approval of the Board of Directors to accept positions/employment outside the Schaffner Group.

6.4 Management contracts

Schaffner Holding AG and its Group companies have no management contracts with third parties.

7 Compensation, share ownership and loans

Information on compensation, shareholdings and loans of the Board of Directors and Executive Committee is provided in the compensation report of the Schaffner Group on pages 44 to 53 of this annual report

8 Shareholder participation rights

8.1 Voting rights restrictions and proxy voting

At 30 September 2019 there were 1,170 shareholders registered in the share register. Each share of Schaffner Holding AG, with the exception of any shares held by the Company (treasury shares), carries one vote at the General Meeting of shareholders. There are no restrictions on voting rights.

Every shareholder with voting rights may have his shares represented by the independent proxy or by a proxy that the shareholder has appointed. The proxy need not be a shareholder.

Representation of shareholders requires the presentation of a written proxy (a written power of attorney), the recognition of which is a matter for the Board of Directors. Shareholders may also use electronic means to issue proxy mandates and directions to the independent proxy.

In the notice of the General Meeting, the Board of Directors announces the record date (at which registration in the share register is required for participation in and voting at the meeting), and the details of the written and electronic proxies and instructions.

The General Meeting annually elects an independent proxy, whose term of office ends at the conclusion of the next Annual General Meeting. Re-election for consecutive terms is permitted. Natural persons, legal entities and partnerships are all eligible for election. If the Company does not have an independent proxy, the Board of Directors appoints one for the next General Meeting.

8.2 Quorums under the Articles of Association

Except as otherwise required by law or the Articles of Association, the General Meeting passes its resolutions and decides its elections by an absolute majority of the votes cast, excluding abstentions and blank and invalid votes. If an election is not completed in the first round and there is more than one candidate, a second round of voting is held, which is decided by a relative majority. In the event of an equality of votes, the chairman of the meeting has the casting vote. The Articles of Association of Schaffner Holding AG do not provide for quorums that go beyond the provisions of Swiss corporation law.

8.3 Calling of the General Meeting

The General Meeting is called by the Board of Directors no later than 20 days before the meeting date, by issuing a notice in the Company's official gazette for statutory notices. Notice of the meeting may additionally be sent by letter to all shareholders registered in the share register. In addition to the meeting date, hour and place, the notice must state the items of business to be discussed and the resolutions proposed by the Board of Directors and any proposed by shareholders that have requested a General Meeting or have put forward an item for discussion at the meeting.

Resolutions cannot be passed on matters that have not been announced in this manner, except for motions to call an Extraordinary General Meeting or to conduct a special audit.

Shareholders representing at least 10% of the share capital may submit a request – which is binding on the Company – to call an Extraordinary General Meeting. Such a request must be in writing and state the business to be discussed and the proposed resolutions.

8.4 Placing business on the General Meeting agenda

One or more shareholders who together represent at least 5% of the share capital, or shares with a nominal value of at least CHF 1,000,000, whichever is less, may by their written request have business placed on the agenda of a General Meeting; the request must state the proposed resolutions. Such a request must be received by the Company no later than 45 days before the General Meeting.

8.5 Registration in the share register

In accordance with article 6 para. 1 of the Articles of Association, Schaffner Holding AG maintains a share register. The Company may outsource the operation of the share register to a company specializing in such services (a registrar). At present the share register is operated by ShareCommService AG, based in Glattbrugg, Switzerland. The manager of the share register is Schaffner's CFO. In matters concerning the share register, the CFO reports to the Chairman of the Board. The Chairman and the CEO receive regular reports on the shareholder structure (including share deregistrations above a certain size of shareholding). The Board of Directors annually receives a report on the shareholder structure.

The Share Registration Regulation of Schaffner Holding AG sets out the details of the rules governing registration in the share register, including particularly the related authority structure, the maintenance of the share register, and the monitoring of the shareholdings recorded in it. The Share Registration Regulation was issued by the Board of Directors in reliance on sections 685a and 685d et seq. of the Swiss Code of Obligations and article 6 of the Articles of Association. The Regulation can be viewed under the "Annual General Meeting" tab found at:

www.schaffner-ir.com/annual-general-meeting/documentation

Further information regarding restrictions on transferability and nominee registrations is given on page 25 of this corporate governance report in section 4.6.

Shares for which the requirements (as set out in the Share Registration Regulation or in any amendments thereto) for registration as a voting shareholder are not, or no longer, fulfilled are registered in the share register as non-voting shares.

These registration restrictions also apply to shares bought or subscribed through the exercise of options, pre-emptive rights or conversion rights.

The authority structure for the approval of shareholder registrations in the share register is as follows:

- › Registration applications for up to 5,000 shares per transaction that clearly do or clearly do not meet the requirements for registration as a voting shareholder or nominee: Approval by the registrar (the company commissioned to operate the share register)

- › Applications for registration as a nominee: Approval by the registrar
- › Registration applications for more than 5,000 shares per transaction, and all other transactions which do not clearly meet the requirements for registration as a voting shareholder or voting nominee, or in which there is uncertainty: Approval by the manager of the share register
- › All registration applications of shareholders or groups of shareholders that hold the shares for their own account and have reported holding 3% or more of the voting rights of Schaffner Holding AG: Approval by the manager of the share register

Exceptional cases can at any time be referred for approval to the Chairman or, if absent, to the Vice Chairman of the Board.

The Board may, after hearing the affected party, void (delete) the party's registration in the share register as a voting shareholder, retroactively to the date of registration, if the registration was the result of false information supplied by the purchaser, and instead register the affected party as a non-voting shareholder. Registrations can also be deleted (or reclassified as non-voting) when a registered shareholder refuses, despite prior warning, to provide the requested information or fails to provide requested documentation (of beneficial ownership, etc.). The authority to decide on deleting or reclassifying the registration of a voting shareholder or nominee or on terminating the relationship with a nominee rests with the Chairman of the Board of Directors. The purchaser must be informed of the deletion immediately.

Under article 13 para. 4 of the Articles of Association, in the notice of the General Meeting the Board of Directors announces the record date at which registration in the share register is required for participation in and voting at the meeting, and thereby indicates the length of the period for which the share register will be closed. The record date for registration is generally the fifth trading day before the day of the General Meeting. Accordingly, the closure of the share register is generally in effect from the fourth trading day before the day of the General Meeting until and including the day of the General Meeting.

Deletions from the share register can be made during the closure. Thus, despite the closure, a share seller is struck from the share register to the extent of the shares sold, if the sale is reported to the Company or to the manager of the share register during the closure. An admission ticket for the General Meeting already issued in the seller's name is automatically rendered void by the deletion from the share register. In the event of the partial sale of a shareholding, the delivered admission ticket must be exchanged at the registration desk on the day of the General Meeting. The invitation to the General Meeting shall note this requirement.

9 Change-of-control clauses and takeover defenses

9.1 Requirement to make a public tender offer

The Articles of Association of Schaffner Holding AG contain neither an opting-up nor an opting-out clause. Therefore, any person or entity acquiring one-third (33⅓%) or more of the voting rights of Schaffner Holding AG must, under section 135 para. 1 of the Financial Market Infrastructure Act, make a public tender offer for all remaining shares.

9.2 Clauses on changes of control

In either of the following two cases, the participants in the Schaffner Holding AG Restricted Share Plan (RSP) and Long-Term Incentive Plan (LTIP) have the right to immediately sell some or all of their shares, without regard to the holding periods:

- › If any person or entity directly or indirectly acquires sufficient shares in the Company to become obligated under section 135 para. 1 Financial Market Infrastructure Act to make a tender offer for all other outstanding shares of the Company, or
- › If Schaffner Holding AG sells all or a substantial portion of the Company's assets.

10 Auditors

10.1 Duration of audit firm's engagement and tenure of lead audit partner

10.1.1 Starting date of current audit engagement

The external independent audit firm is elected annually by the General Meeting. Since fiscal year 2015/16, BDO AG, Solothurn, is the independent auditor of Schaffner Holding AG and, as the Group's audit firm, is responsible for the auditing of the Schaffner Group.

10.1.2 Date of first appointment of lead audit partner

The lead audit partner at the external auditors (the person in charge of the audit engagement), Beat Rüfenacht, has held this position since fiscal year 2015/16. The lead audit partner's tenure is limited by law to seven years.

10.2 Audit fees

In fiscal year 2018/19, BDO AG billed the Schaffner Group a total of CHF 226 thousand for services in connection with the auditing of the company financial statements of Schaffner Holding AG and the consolidated financial statements of the Schaffner Group (prior year: CHF 203 thousand).

10.3 Additional fees

In addition, BDO AG invoiced the Schaffner Group CHF 6 thousand (CHF 10 thousand) for other services, which had the following composition:

In CHF '000	2018/19	2017/18
Tax consulting	0	0
Miscellaneous	6	10

10.4 Informational instruments pertaining to external audits

The Risk and Audit Committee, on behalf of the Board of Directors, annually reviews the license, performance, fees and independence of the external auditors and recommends to the Board which external auditors to propose for election by the General Meeting. It also ensures compliance with the legal requirement for rotation of the lead audit partner. The external auditors in the course of their audit activities regularly communicate their findings to the Risk and Audit Committee, along with any suggestions for improvement. The external auditors report to the Board in a comprehensive management letter (prepared after the audit of the annual financial statements) and through the "reports of the statutory auditor" published in the annual report.

The Risk and Audit Committee meets with the external auditors at least two times per year, sets the scope and objectives of the audits, and annually assesses the work of the external audit firm through a performance evaluation process. This process takes into account the committee's experience in working with the external audit firm and the audit firm's own quality assurance measures in respect of the engagement. The Risk and Audit Committee obtains assurance that the lead audit partner has the necessary technical qualifications and fulfills the requirements as to independence. The Chief Executive Officer and Chief Financial Officer also attend these meetings. The Board is briefed by the Risk and Audit Committee.

11 Communication policy

Schaffner follows a policy of open and active communication. As a company listed on the SIX Swiss Exchange, the Schaffner Group especially communicates information relevant to the share price (so-called “ad-hoc” disclosures), in accordance with section 53 and 54 of the Listing Rules. The Group’s financial reporting is in accordance with Swiss GAAP FER accounting standards. Where the Schaffner Group makes forward-looking statements, these statements are always based on management’s judgment, at the time of the statement, regarding the current and future position and performance of the company. It is not the policy of Schaffner Holding AG to update previously published information.

The Schaffner Group reports on its financial and business performance on a half-yearly basis, in the form of an interim report and an annual report which are published electronically on Schaffner’s website.

The investor relations activities of the Schaffner Group include the following events (among others), conducted in compliance with the ad-hoc-disclosure requirements of the SIX Swiss Exchange:

- › Annual General Meeting
- › Annual presentation of the full-year results
- › Conference calls (e.g., at publication of the half-year results)
- › Meetings with shareholders, investors and analysts
- › Roadshows

Media releases are available on the website of the Schaffner Group for at least two years after publication and can be accessed via the following link:

www.schaffner-ir.com/news-presentations/news

Annual and half-year-reports, corporate governance reports and compensation reports are available for at least five years on the website of the Schaffner Group at:

www.schaffner-ir.com/reports

Shareholders can receive the latest ad-hoc disclosures of Schaffner Holding AG by e-mail. Registration for this free service is offered on the website of the Schaffner Group at:

www.schaffner-ir.com/news-presentations/e-mail-service

Responsibility for the corporate communications of the Schaffner Group rests with the Chief Executive Officer. He is supported in investor relations by the Chief Financial Officer.

The Company’s official gazette for the publication of statutory and regulatory news is the Swiss Official Gazette of Commerce, or SOGC.

Important sources of current in-depth information on the Group, including products and contact details, are these websites and pages:

www.schaffner.com

www.schaffner-ir.com

Investor relations contacts

› Marc Aeschlimann, Chief Executive Officer
marc.aeschlimann@schaffner.com

› Christian Herren, Chief Financial Officer
christian.herren@schaffner.com

Financial calendar

<u>14 January 2020</u>	<u>24th Annual General Meeting</u>
<u>7 May 2020</u>	<u>Publication of half-year report 2019/20</u>
<u>8 December 2020</u>	<u>Publication of annual report 2019/20</u>
<u>12 January 2021</u>	<u>25th Annual General Meeting</u>

The fiscal year-end of Schaffner Holding AG is 30 September.

Compensation report

2018 19

Contents

- 45 Introduction
- 45 Guiding principles
- 45 Responsibility and procedures for determining compensation
- 46 Compensation system for the Board of Directors
- 47 Compensation system for the Executive Committee
- 50 Compensation of the members of the Board of Directors and Executive Committee for fiscal year 2018/19
- 52 Benefits to former members of management
- 52 Related parties
- 53 Report of the statutory auditor on the compensation report

1 Introduction

The compensation report of Schaffner Holding AG provides an overview of the remuneration principles and compensation system of the Schaffner Group. It describes how the compensation of the members of the Board of Directors and Executive Committee is determined, and gives information on the specific compensation provided to them. It fulfills the requirements of the Ordinance Against Excessive Compensation at Listed Companies (OAEC) which took effect in January 2014, and thus complies with the Swiss Code of Obligations. The compensation report is based on the Directive on Information Relating to Corporate Governance (The Corporate Governance Directive) issued by the SIX Swiss Exchange and on the Articles of Association of Schaffner Holding AG. It also takes into account the recommendations of the Swiss Code of Best Practice for Corporate Governance published by Economiesuisse, the Swiss business federation.

In the Articles of Association of Schaffner Holding AG, the complete provisions concerning the various aspects of compensation are found in the following articles: the compensation principles, in article 24; the approval of compensation by the Annual General Meeting, in article 25; the available additional amount for compensation of the Executive Committee where a previously approved aggregate maximum amount is not sufficient, in article 26; the rules regarding the principles of performance-related compensation, in article 28; the granting of shares, in article 29; and the granting of loans, other credit and pension benefits, in article 30. Article 19 sets out the responsibilities of the Nomination and Compensation Committee. In the Organizational Regulations of Schaffner Holding AG (a document known in German as Organisationsreglement that sets out the Company's governance structure and policies), the corresponding provisions are covered in section 2.4, Responsibilities of the Board of Directors. The Articles of Association and the Organizational Regulations are available in the Corporate Governance section of the website of Schaffner Holding AG at: www.schaffner-ir.com/corporate-governance/articles-of-association-organizational-regulations

2 Guiding principles

The success of the Schaffner Group is driven in large measure by the quality, entrepreneurship and commitment of its people. The compensation policy aims to attract qualified managers and staff, align their activities with the long-term corporate goals and the interests of shareholders, and ensure the competitive attractiveness of a career in the Schaffner Group. The compensation policy of the Schaffner Group is guided by the following criteria:

- › Performance-based and market-competitive, with fixed and variable compensation elements
- › Targets that are clearly defined and measurable
- › Promotion of the Group's financial and business success
- › Fairness and transparency in decisions on compensation
- › Balance of short-term and long-term compensation with defined upper and lower limits

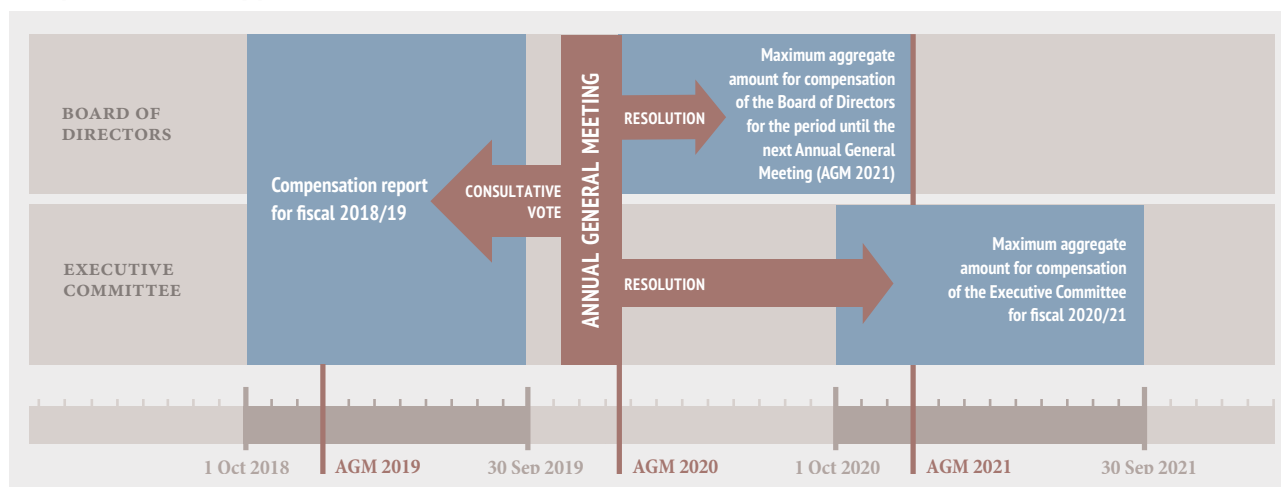
3 Responsibility and procedures for determining compensation

The Board of Directors has ultimate responsibility for the structuring and allocation of compensation. The compensation models used for the Board and the Executive Committee are set out in a compensation policy approved by the Board. The Board of Directors is supported in its work by the Nomination and Compensation Committee (NCC). The NCC reviews the compensation principles and prepares all relevant decisions on the compensation of the Board and the Executive Committee. From among the Board members, the General Meeting annually elects at least two members to the Nomination and Compensation Committee. The composition, responsibilities and operation of the NCC are described in the corporate governance report 2018/19 of Schaffner Holding AG in section 5.5.2.1 on page 30.

The Board of Directors annually submits a proposal to the Annual General Meeting for the approval of a maximum aggregate amount of compensation for the Board of Directors for the period until the next AGM and for the Executive Committee for the fiscal year (1 October to 30 September) next following the AGM.

Each year at the AGM, binding votes are held on the maximum aggregate amounts. If the AGM declines to approve the maximum aggregate amount for the Executive Committee and/or the Board of Directors, the Board may convene a new General Meeting.

Compensation and approval mechanism



4 Compensation system for the Board of Directors

4.1 Non-executive members of the Board

The compensation of the Board of Directors is set annually subject to the maximum aggregate amount approved by the AGM. The compensation is paid partly in cash and partly in the form of a fixed number of shares of Schaffner Holding AG. The Schaffner shares represent compensation designed to further the long-term performance of the Schaffner Group; they have a holding period of at least three years, during which they cannot be sold. The proportion of total compensation paid in the form of Schaffner shares is regularly reviewed by the NCC. Proposals for changes are submitted to the Board of Directors.

The compensation of the members of the Board is governed by article 24 para. 1 of the Articles of Association and has the following components:

a) Fixed cash compensation

Each member of the Board receives a fixed annual base compensation in cash (in fiscal year 2018/19: Chairman: CHF 170 thousand; other members: CHF 47 thousand). In addition, Board members receive a flat fee for their work on the Board committees (2018/19: committee chair: CHF 5 thousand; other committee members: CHF 3 thousand). This flat committee fee is paid only once per person, even if the recipient sits on several committees; the fee is included within the item fixed cash compensation.

b) Long-term compensation in shares of the Company

The Board members each also receive long-term compensation in the form of a fixed number of shares of the Company with a holding period of at least three years.

4.1.1 Additional information

The compensation of the Board members is reviewed annually and, subject to shareholder approval at the Annual General Meeting, is set prospectively by the full Board of Directors for the term of office beginning immediately after the AGM and ending at the conclusion of the next AGM. Reimbursement of expenses is not considered compensation.

The amount of the compensation for the individual Board members is set on a discretionary basis, taking into consideration the amount of responsibility assigned, the complexity of the duties involved, the required professional and personal qualifications and the expected demands on the Board member's time. The determination of compensation also takes into account an external benchmark in the form of a specific peer group of Swiss manufacturing companies. The composition of the peer group is described in the section on the compensation system for the Executive Committee.

No pension benefits or significant benefits in kind are provided to members of the Board of Directors.

Loans and other credit granted by the Company to a member of the Board of Directors, or guarantees or other security provided by the Company for obligations of a Board member, must not exceed CHF 50 thousand.

4.2 Executive members of the Board

The Board of Directors of Schaffner Holding AG has only non-executive members.

5 Compensation system for the Executive Committee

The total compensation for a given member of the Executive Committee is determined by the Board of Directors by taking into consideration the following factors:

- › External benchmark data from a defined peer group
- › Ensuring equal treatment within the Company
- › Amount of responsibility assigned, job qualifications, complexity of duties, and level of target achievement

The peer group used as a benchmark for comparison is selected from Swiss-based, internationally operating manufacturing companies in the Swiss Performance Index (SPI). The selection criteria are annual sales, number of employees, industry within the manufacturing sector, and similar complexity of structures (divisional structure, diversified product portfolio, international activities, etc.). The peer group includes the following companies among others: Adval Tech Holding AG, Carlo Gavazzi Holding AG, Kardex AG and Tornos Holding AG.

When required, to help determine Executive Committee compensation, the Board uses international compensation analyses for relevant management positions by a consulting firm specializing in salary benchmarking. The consulting firm involved has no other role with the Schaffner Group.

The compensation of the members of the Executive Committee is governed by article 24 para. 2 of the Articles of Association and has the following components:

a) Fixed cash compensation

The members of the Executive Committee receive a fixed base salary, which is paid monthly. The amount is determined by the Board individually for each member and on a discretionary basis, taking into account the role and amount of responsibility of the individual.

b) Variable cash compensation

The variable cash compensation is performance-based. It is tied to the achievement of corporate financial targets and personal targets.

The corporate financial targets are set annually in advance for a one-year performance period. In fiscal year 2018/19 these target metrics were Group net sales and EBIT, segment sales and EBIT, and Group net working capital. In fiscal 2017/18 the target metrics were Group net sales and EBIT and segment sales and EBIT.

The personal annual targets are set individually for each member of the Executive Committee before the start of the assessment period. They relate to current projects, the agreed strategic goals, and longer-term company performance and development.

Target achievement is evaluated by the Board after the end of the fiscal year. The target amount is contractually set and cannot exceed 50% of fixed compensation. The variable cash compensation can increase up to a maximum of 150% of the target amount if all targets are significantly surpassed, and can fall to 0% of the target amount if the targets are not achieved.

The weighting of the criteria used in determining the variable compensation is as follows:

Position	Group financial targets	Personal targets
Chief Executive Officer	60%	40%
Other members of the Executive Committee	40%–60%	40%–60%

c) Long-term compensation in shares of the Company

As long-term compensation, the members of the Executive Committee of Schaffner are annually awarded a variable number of shares of Schaffner Holding AG. The Schaffner shares represent compensation designed to further the long-term performance of the Schaffner Group and have a holding period of at least three years, during which they cannot be sold. They are awarded (granted) according to the following principles.

Long-term Incentive Plan (LTIP), in effect since fiscal year 2018/19

Under the Long-Term Incentive Plan (LTIP), the Board of Directors sets a target number of shares for each member of the Executive Committee. Once the annual financial statements are available, the Board, based on an assessment of the Group’s financial situation, outlook, market environment, progress in strategy execution, and the personal performance of the respective member of the Executive Committee, determines an individual target-achievement factor that can range from 0.5 to 1.5. The effective number of shares to be granted is calculated by multiplying the target number of shares by the individual achievement factor. The shares carry voting and dividend rights from the date of the award (the grant date) and are subject to a holding period of at least three years. As the LTIP involves a vesting period, the expense is recognized over the course of the entire vesting period.

Restricted Share Plan (RSP), in effect until fiscal year 2017/18

Until the end of fiscal 2017/18, the number of shares to be awarded was decided in the discretion of the Board of Directors. The shares carried voting and dividend rights from the date of the award and were subject to a holding period of at least three years. As the awards under the Restricted Share Plan did not have a vesting period, they were disclosed in the compensation report in the year of the grant.

d) Pension and other compensation

Pension benefits of Executive Committee members accrue only under pension plans and similar plans of the Company or its Group companies. The benefits of the plan participants and the employer contributions follow from the pension plans or from the respective sets of regulations. Depending on their specific position and country of residence, members of the Executive Committee are in some cases provided with a company car. As well, additional compensation may be paid in connection with postings to other countries (i.e., for expatriates). In the disclosures below, the value of any company car privileges and out-of-country allowances is reported under “other compensation”.

5.1 Additional information

When new members join the Executive Committee, they are compensated in this capacity from the month in which they take up the position. When a member leaves the Executive Committee, compensation is paid until the date of departure. The variable cash compensation and the share award can be reduced or canceled by the Board of Directors.

The compensation of the Executive Committee is reviewed annually by the Board of Directors. Every year, the Board proposes to shareholders at the Annual General Meeting the maximum aggregate compensation of the Executive Committee for the next fiscal year after the date of the AGM (the year beginning on the following 1 October).

5.2 Additional amount for members of the Executive Committee

If new members are appointed to, or existing members are promoted within, the Executive Committee and assume their new position after the AGM has approved the maximum aggregate amount of compensation for the Executive Committee for the respective fiscal year, then these new or promoted members may, for the period to the next AGM, be paid, in the case of a new CEO, up to 25% more than the amount which had been allocated to the previous CEO out of the maximum aggregate compensation last approved by the AGM for the whole Executive Committee, and in the case of a non-CEO member of the Executive Committee, be paid up to 25% more than the average total compensation per non-CEO member had been as per said last-approved maximum aggregate amount. The additional amount for members of the Executive Committee is governed by article 24 para. 26 of the Articles of Association.

5.3 Employment contracts

The members of the Executive Committee are generally employed under permanent contracts; all permanent contracts have notice periods of at most one year. There is no contractual advance compensation and no severance pay for Executive Committee members.

6 Compensation of the members of the Board of Directors and Executive Committee for fiscal year 2018/19

6.1 Compensation of the members of the Board of Directors for 2018/19

In the fiscal year under review, the members of the Board received aggregate fixed compensation of CHF 377 thousand (prior year: CHF 382 thousand). In addition, aggregate share-based compensation of CHF 156 thousand was granted under the RSP (prior year: CHF 228 thousand). This amount is based on the market value of a total of 625 shares (prior year: 725 shares), with a share price of CHF 251.00 on 3 January 2019 (prior year: CHF 315.00). Additionally, a total of 418 shares were granted on 29 November 2019 for recognition as an expense in fiscal year 2018/19 under the new LTIP (prior year: not applicable) at a share price of CHF 217.00.

The aggregate total compensation of the Board of Directors in the fiscal year under review was CHF 625 thousand (prior year: CHF 610 thousand). As the new share ownership plan (the LTIP) is associated with a vesting period, the shares granted under the LTIP are recognized in the year of vesting, using accrual accounting. The expired share ownership plan (the RSP) did not have a vesting period and expenses under it were thus recognized in the year of the actual grant. In fiscal 2018/19, this had the one-time transitional effect that expenses under both plans were recognized in the same fiscal year, despite the fact that no dual grant was made.

Compensation of the members of the Board of Directors

	Fixed cash compensation in CHF '000		Share-based compensation in CHF '000			Total compensation in CHF '000		Number of shares granted		
	2018/19	2017/18	2018/19		2017/18	2018/19	2017/18	2018/19		2017/18
			RSP ¹	LTIP ^{2,3}	RSP ¹			RSP	LTIP ³	RSP
Urs Kaufmann, Board Chairman ⁴	175	166	56	3.3	71	264	237	225	150	225
Daniel Hirschi, until January 2018	n/a	14	n/a	n/a	32	n/a	56	n/a	n/a	100
Philipp Buhofer, Board Vice Chairman ^{5,7}	50	50	25	15	32	90	82	100	67	100
Gerhard Pegam, Board member ⁷	50	50	25	15	32	90	82	100	67	100
Suzanne Thoma, Board member ⁵	50	50	25	15	32	90	82	100	67	100
Georg Wechsler, Board member ⁶	52	52	25	15	32	92	84	100	67	100
Total	377	382	156	91	228	625	610	625	418	725

¹ Measured at the closing share price at the grant date: CHF 251.00 in fiscal 2018/19 (grant date of 3 January 2019) and CHF 315.00 in fiscal 2017/18 (grant date of 3 January 2018).

² Measured at the closing share price of CHF 217.00 at the date of determination of the number of shares granted, at the Board meeting of 29 November 2019.

³ Representing eight-twelfths of the shares granted under the LTIP, as the Board of Directors is compensated on the basis of the period from one Annual General Meeting to the next.

⁴ Chairman of the Nomination and Compensation Committee (NCC)

⁵ Member of the NCC

⁶ Chairman of the Risk and Audit Committee (RAC)

⁷ Member of the RAC

No loans or other credit were granted to current or former members of the Board of Directors. As well, no compensation, loans or other credit were granted to parties related to members of the Board.

An overview of the shareholdings of the Board members of Schaffner Holding AG is found on page 90 in the 2018/19 financial report.

Compensation of the members of the Executive Committee for 2018/19

For the fiscal year under review (2018/19), the aggregate fixed compensation of the members of the Executive Committee was CHF 1,626 thousand (prior year: CHF 1,242 thousand). Their aggregate variable compensation for fiscal 2018/19 was CHF 494 thousand (prior year: CHF 625 thousand). This included equity compensation based on the market value of a total of 608 shares under the RSP (prior year: 520) at a share price of CHF 251.00 on 3 January 2019 (prior year: CHF 315.00). As well, a total of 973 shares were granted on 29 November 2019 for fiscal year 2018/19 under the new LTIP (prior year: not applicable) at a share price of CHF 217.00. No compensation was paid to former members of the Executive Committee.

The aggregate total compensation of the Executive Committee for fiscal year 2018/19 was CHF 2,562 thousand (prior year: CHF 2,376 thousand). As the new share ownership plan (the LTIP) is associated with a vesting period, the shares granted under it are recognized in the year of vesting, using accrual accounting. The expired share ownership plan (the RSP) did not have a vesting period and expenses under it were thus recognized in the year of the actual grant. In fiscal 2018/19 this had the one-time transitional effect that expenses under both plans were recognized in the same fiscal year, despite the fact that no dual grant was made.

Compensation of the Executive Committee

In CHF '000, except share counts	Highest individual compensation ¹		Total compensation of Executive Committee ²	
	2018/19	2017/18	2018/19	2017/18
Fixed cash compensation	400	400	1,626	1,242
Variable cash compensation ³	51	172	130	461
Share-based compensation – RSP ⁴	75	8	153	164
Share-based compensation – LTIP ⁵	81	n/a	211	n/a
Pension contributions	109	94	417	316
Other compensation	7	7	25	193
Total compensation	724	681	2,562	2,376
Number of shares granted				
RSP	300	25	608	520
LTIP	375	n/a	973	n/a

¹ Marc Aeschlimann, Chief Executive Officer

² Since November 2018 the Executive Committee has six members; previously it had four.

³ All variable cash compensation is presented on an accrual basis; in other words, any variable cash compensation shown for a given fiscal year was earned in that year. In the annual financial statements, the variable cash compensation is recognized in the fiscal year in which it is earned, relying on the information available at the balance sheet date.

⁴ Measured at the closing share price at the grant date: CHF 251.00 in fiscal 2018/19 (grant date of 3 January 2019) and CHF 315.00 in fiscal 2017/18 (grant date of 3 January 2018).

⁵ Measured at the closing share price of CHF 217.00 at the date of determination of the number of shares granted, at the Board meeting of 29 November 2019.

No loans or other credit of significant value were granted to current or former members of the Executive Committee. As well, no compensation, loans or other credit were granted to parties related to Executive Committee members.

The shareholdings of the members of the Executive Committee of Schaffner Holding AG are disclosed on page 90 in the financial report 2018/19.

6.2 Management transactions

Since 1 July 2005, Schaffner Holding AG reports to the SIX Swiss Exchange the transactions in Schaffner shares and options concluded by members of the Board of Directors and of the Executive Committee or by parties related to them, including the names and positions of the persons concerned. Current information on management transactions is available on the website of the SIX Swiss Exchange at:

www.six-exchange-regulation.com/en/home/publications/management-transactions.html?companyId=SCHAFFNER

7 Benefits to former members of management

In the fiscal year under review, no compensation of any kind was paid to former members of the Board of Directors or Executive Committee in connection with their former positions. Furthermore, no security was provided on behalf of, and no loans, advances or other forms of credit were granted to, former members of the Board of Directors or Executive Committee or parties related to them. As well, no such commitments or receivables were outstanding at the end of the fiscal year.

8 Related parties

In the year under review, no fees or other compensation for services rendered to the Schaffner Group or to any of its subsidiaries were paid to parties related to members of the Board or of the Executive Committee.



To the General Meeting of
Schaffner Holding AG, Luterbach

Solothurn, 29 November 2019

Report of the statutory auditor on the compensation report

We have audited the compensation report dated 29 November 2019 of Schaffner Holding AG for the year ended 30 September 2019. The audit was limited to the information provided under articles 14 – 16 of the Ordinance against Excessive Compensation with respect to Listed Stock Corporations (the Ordinance) in sections 6 to 8 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 compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation with respect to Listed Stock Corporations. The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying compensation 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 compensation 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 compensation 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 compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation 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 compensation report of Schaffner Holding AG for the year ended 30 September 2019 complies with Swiss law and articles 14–16 of the Ordinance.

BDO Ltd

Beat Rüfenacht
Auditor in Charge
Licensed Audit Expert

Christoph Tschumi
Licensed Audit Expert

Financial report

2018 19

Contents

Consolidated financial statements of the Schaffner Group

- 55 Consolidated balance sheet
- 56 Consolidated income statement
- 57 Consolidated cash flow statement
- 58 Consolidated statement of changes in equity
- 59 Notes to the consolidated financial statements
- 81 Report of the statutory auditor on the consolidated financial statements

Company financial statements of Schaffner Holding AG

- 84 Company balance sheet
- 84 Company income statement
- 85 Notes to the company financial statements
- 92 Proposal for the appropriation of retained earnings
- 93 Report of the statutory auditor on the company financial statements

Consolidated balance sheet

In CHF '000	Note	30.09.2019	30.09.2018
Intangible assets	2	807	844
Property, plant and equipment	3	34,605	28,039
Other non-current financial assets		977	1,019
Deferred tax assets	13	8,632	8,032
Total non-current assets		45,021	37,934
Prepaid expenses and deferred income		912	2,220
Inventories	4	37,459	40,477
Other current financial assets		1,469	2,956
Other receivables		2,266	2,668
Trade receivables	5	36,739	43,129
Cash and cash equivalents		18,013	19,096
Total current assets		96,858	110,546
Total assets		141,879	148,480
Exchange differences		-15,882	-16,886
Retained earnings		27,329	19,608
Treasury shares		-800	-637
Share premium		31,912	36,265
Share capital		20,668	20,668
Total shareholders' equity		63,227	59,018
Deferred tax liabilities	13	510	475
Non-current provisions	6	4,214	4,579
Non-current borrowings	7	33,542	1,311
Total non-current liabilities		38,266	6,365
Accrued expenses		8,712	14,581
Current provisions	6	1,138	1,871
Other payables		5,727	4,159
Trade payables		24,612	25,606
Current borrowings	7	197	36,880
Total current liabilities		40,386	83,097
Total liabilities		78,652	89,462
Total liabilities and shareholders' equity		141,879	148,480

Consolidated income statement

(year ended 30 September)

In CHF '000	Note	2018/19	2017/18
Net sales of goods and services	14	197,387	221,521
Cost of sales		- 142,274	- 158,593
Gross profit		55,113	62,928
Marketing and selling expense		- 18,403	- 19,509
Research and development expense		- 16,144	- 16,897
General and administrative expense		- 10,762	- 11,848
Other operating income	9	0	4,172
Other operating expense	9	0	- 1,688
Operating profit (EBIT)		9,803	17,158
Financial income and expense	12	- 1,765	- 2,106
Profit before tax (EBT)		8,039	15,052
Income tax	13	- 832	- 5,660
Net profit for the period		7,207	9,392
Earnings per share in CHF	16		
Basic		11.36	14.81
Diluted		11.36	14.80

Consolidated cash flow statement

(year ended 30 September)

In CHF '000	Note	2018/19	2017/18
Net profit for the period		7,207	9,392
Depreciation and impairment of property, plant and equipment	3	4,376	4,454
Amortization and impairment of intangible assets	2	356	323
Loss on disposal of property, plant and equipment and intangible assets		439	1,646
Change in provisions	6	-1,077	561
Change in deferred tax	13	-615	2,778
Change in trade receivables		5,798	-2,176
Change in inventories		2,809	-3,822
Change in other receivables, prepaid expenses and deferred income		1,709	-482
Change in trade payables		-1,168	-5,051
Change in other current payables and accrued expenses		-6,566	1,216
Expense for share-based payments to staff		955	605
Exchange differences on intra-Group items		1,123	1,820
Other non-cash expenses		-528	347
Cash flow from operating activities		14,818	11,611
Purchase of property, plant and equipment	3	-8,461	-10,888
Disposal of property, plant and equipment		211	277
Purchase of intangible assets	2	-315	-482
Change in current financial assets		1,407	-1,670
Change in loan receivables and non-current financial assets		23	31
Cash flow from investing activities		-7,135	-12,732
Purchase of treasury shares	17	-829	-1,053
Exercise of employee share options	17	0	-273
Repayment of excess share premium		-4,129	-4,135
(- Repayment)/proceeds of borrowings		-3,659	9,560
Amortization in connection with finance leases		-211	-209
Cash flow from financing activities		-8,828	3,890
Effect of exchange rates on cash and cash equivalents		62	-147
Change in cash and cash equivalents		-1,083	2,622
Cash and cash equivalents at 1 October		19,096	16,474
Cash and cash equivalents at 30 September		18,013	19,096
Free cash flow¹		6,253	518
Included in cash flow from operating activities:			
Interest paid		-871	-822
Interest received		91	57
Income tax paid		-3,422	-2,861

¹ Cash flow from operating activities less net investment in property, plant and equipment and in intangible assets.

Consolidated statement of changes in equity

In CHF '000	Share capital	Share premium	Cumulative exchange differences	Retained earnings	Treasury shares	Total shareholders' equity
At 1 October 2017	20,668	40,783	- 16,968	10,216	- 299	54,400
Net profit for the period				9,392		9,392
Exchange differences			82			82
Treasury share transactions		- 110		- 605	- 338	- 1,053
Repayment of excess share premium ¹		- 4,135				- 4,135
Share option plans and restricted share plans		- 273		605		332
At 30 September 2018	20,668	36,265	- 16,886	19,608	- 637	59,018
Net profit for the period				7,207		7,207
Exchange differences			1,004			1,004
Treasury share transactions		- 224		- 442	- 163	- 829
Repayment of excess share premium ¹		- 4,129				- 4,129
Share option plans and restricted share plans				956		956
At 30 September 2019	20,668	31,912	- 15,882	27,329	- 800	63,227

¹ CHF 6.50 per share.

Share capital

The issued share capital of Schaffner Holding AG consists of 635,940 ordinary registered shares with a nominal value of CHF 32.50 per share. The issued shares are fully paid. Each share carries one vote at the General Meeting. All shares not held by the Company or by one of its subsidiaries are entitled to dividends.

The Group's legally required retained earnings and share premium totaled CHF 27.2 million at the balance sheet date (prior year: CHF 31.3 million). These reside in the holding company, Schaffner Holding AG.

Accounting policies

Basis of preparation

The consolidated financial statements comprise the individual financial statements of Schaffner Holding AG (the “Company”) and its subsidiaries (together, “Schaffner”, the “Group” or the “Schaffner Group”) as at 30 September 2018, drawn up in accordance with the uniform accounting policies of the Group.

The consolidated financial statements comply with Swiss law and have been prepared in accordance with all existing guidelines of the Swiss Accounting and Reporting Recommendations (Swiss GAAP FER). Measurement is based on historical cost or on fair value. The measurement principles for the individual balance sheet items are given in the accounting policies described below. The presentation currency of the consolidated financial statements is the Swiss franc.

With the aim of maximum transparency for readers of the financial statements, the Schaffner Group has decided to provide, in some areas, disclosures additional to those required by Swiss GAAP FER. In this way, Swiss GAAP FER serve as the foundation for the most transparent, easily understood and reader-friendly reporting possible.

The consolidated financial statements are prepared in German and translated into English. The English version is provided solely for readers’ convenience. Only the German version is definitive and legally binding.

Changes in accounting policies

In the year under review there were no changes in the guidelines of the Swiss Accounting and Reporting Recommendations (Swiss GAAP FER).

Assumptions and estimates

The consolidated financial statements of the Schaffner Group contain assumptions and estimates which affect the reported financial position, results of operations and cash flows. These assumptions and estimates were made on the basis of management’s best knowledge at the time of preparation of the accounts. Actual results may differ from the values presented.

Methods of consolidation

The consolidated financial statements comprise the financial statements of Schaffner Holding AG and of its subsidiaries. Schaffner Holding AG and the subsidiaries are included by full consolidation. Under this method, these companies’ assets, liabilities, income and expenses are fully included in the consolidated financial statements.

A subsidiary is a company over which Schaffner Holding AG directly or indirectly exercises control.

All intra-Group balances, income and expenses are eliminated on consolidation (both among the subsidiaries, and between them and Schaffner Holding AG). This also includes intra-Group profits on inventories and on non-current assets.

Companies acquired during the reporting period are included in the consolidated financial statements from the effective date of their acquisition. Companies divested during the reporting period remain included in the consolidated financial statements until the Group ceases to have control.

Translation of subsidiaries' functional currencies into the Group's presentation currency

All assets and liabilities in the balance sheets of foreign subsidiaries drawn up in foreign currencies are translated into Swiss francs (CHF) at period-end exchange rates (i.e., at closing rates for the reporting period). Expenses, income and cash flows are translated into Swiss francs at weighted average exchange rates for the reporting period, which approximate the actual transaction rates. Foreign exchange differences arising from the variation in applicable exchange rates are recognized directly in equity.

Foreign currency transactions

Foreign currency transactions of subsidiaries are translated into the functional currency of the subsidiary at exchange rates prevailing at the transaction date (i.e., at transaction rates). Their foreign currency balances are translated at period-end exchange rates. Gains and losses arising from the recovery, settlement or translation of foreign currency monetary assets and liabilities are recognized as income or expense in the income statement.

Intangible assets

Intangible assets are stated at historical cost less amortization and impairment. Amortization is applied on a straight-line basis over the assets' estimated useful life, which ranges from three to eight years.

a) Acquisitions and goodwill

Companies are consolidated from the date when control is acquired. Business combinations are accounted for using the acquisition method. The cost of an acquisition is calculated as the total consideration transferred, measured at fair value at the acquisition date.

Any contingent consideration payable is recognized at the acquisition date at fair value. Subsequent changes in the fair value of contingent consideration are recognized in the income statement.

The difference between the purchase price and the remeasured net assets of the acquired company is referred to as goodwill. Any potential intangible assets obtained through an acquisition which were not previously recognized by the acquired company, such as trademarks, usage rights and customer lists, are not recognized separately but remain part of goodwill. Goodwill arising from acquisitions is offset against consolidated equity at the acquisition date. On disposal of part of a business, goodwill previously offset against equity must be transferred to the income statement. The impacts of a hypothetical capitalization and amortization of the goodwill are disclosed in note 2 to the consolidated financial statements.

b) Internally generated intangible assets

Research and development costs for new products are fully recognized in the item "research and development expense" in the income statement.

Development costs for software are capitalized as intangible assets, provided that the software will generate a future economic benefit through sale or internal use and that the cost can be reliably estimated. Additional conditions for capitalization are the technical feasibility of the asset, the intention and ability to complete its development, and the availability of sufficient resources for the purpose.

Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less depreciation and impairment. They are depreciated on a straight-line basis over their estimated useful life, which is as follows:

Land	Not depreciated
Buildings	25–50 years
Leasehold Improvements	5–10 years
Machinery and equipment	5–10 years
Furniture and fixtures	5–10 years
Vehicles	3–6 years
Information technology hardware	3–5 years
Tools	1–5 years

Leases under which a Group company as lessee has substantially all the benefits and risks of ownership are classified as finance leases. The leased asset is capitalized at the lower of its fair value or the present value of the minimum lease payments, and a liability of the same amount is recognized in borrowings. The interest portion (the finance charge) of the lease payments is charged to the income statement. Payments made under operating leases are recognized as an expense in the income statement in equal installments over the life of the lease.

Impairment of non-financial assets

The recoverable amount of an asset is estimated whenever there is an indication of impairment. If the asset's carrying amount exceeds the recoverable amount, the difference is recorded as an impairment charge in the income statement. The recoverable amount is the higher of an asset's net selling price and its value in use. An asset's value in use is the present value of the estimated future cash flows from the asset.

Inventories

Products purchased for resale, and raw materials, are measured at the cost of purchase. Rebates received are deducted from purchase cost. Internally produced goods are measured at the cost of conversion, including an appropriate share of production overhead. Inventories in the balance sheet, and the charge to the income statement for the conversion cost of goods sold (cost of sales), are measured using the standard cost method. The standard costs are regularly reviewed and, when necessary, brought into line with current circumstances. Slow-moving inventories and those with a lower market value are written down. Unsaleable inventory is fully written off. Inventory is thus not measured at more than its net realizable value.

Trade receivables

The carrying amount (also known as carrying value) of trade receivables is their nominal value less a provision for doubtful debts, i.e., for impairment. Such write-downs are based on uniform rules under which impairment charges are provided individually for specific doubtful arrears. For those trade receivables on which impairment is not individually recognized, impairment is assessed collectively based on prior experience and the length of time overdue.

Securities held as current assets

Securities classified as current assets are measured at fair value, with unrealized gains and losses recognized in the income statement in finance income and expense. Where no fair value is known, they are measured at not more than cost less any impairment. Treasury shares are presented as a deduction from shareholders' equity.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, bank deposits in postal and other bank accounts, bank drafts and short-term time deposits with residual maturities of up to 90 days.

Provisions

Provisions are recognized when Schaffner has an obligation to a third party as a result of a past event, the amount of the obligation can be estimated reliably and it is probable that an outflow of resources will be required to settle the obligation. If the outflow of resources is not probable or its amount cannot be determined, the obligation is reported in contingent liabilities. The amount of the provision is based on a best estimate of the amount required to settle the obligation.

Where the effect of the time value of money is material, provisions are measured at the present value of the expected future expenditures.

Restructuring provisions are recognized if the costs attributable to a restructuring plan both can be determined reliably and represent a contractual obligation or a constructive obligation created by communication.

Revenue recognition and interest income

Net sales represent the revenue from goods sold and services rendered to third parties, net of discounts and other price reductions. Sales are recognized at the time that the benefits and risks of ownership of the products sold are transferred to the customer or the service is rendered; this timing depends on the agreed shipment terms (Incoterms).

Revenue is recognized if an economic benefit is likely to accrue to the Group and the amount of revenue can be reliably determined.

The sources of revenue of the Schaffner Group are detailed in note 14.

Pension obligations

The Schaffner Group operates a number of pension plans in various countries worldwide. The pension plans are generally financed by contributions from employees and the respective Group companies.

The economic effects arising from the pension plans are assessed annually. Any plan surpluses or deficits are determined using the annual financial statements of the respective pension arrangements, which are based on Swiss GAAP FER 26 in the case of the Swiss plans, or on methods recognized in the respective other countries in the case of foreign plans. An economic benefit is recognized as an asset if it is permitted and intended to use the plan surplus toward the future pension costs of the Schaffner Group. Where there are freely disposable employer contribution reserves, these are also capitalized. An economic obligation is recognized as a liability if the requirements for raising a provision are met. Changes in the economic benefit or obligation are taken to the income statement and recognized in staff costs, as are the contributions payable for the reporting period.

Segment reporting

The Schaffner Group is organized into three divisions: EMC, Power Magnetics and Automotive. This delineation of segments (i.e., divisions) is consistent with the internal reporting on the basis of which the chief decision maker responsible allocates resources to these segments and evaluates their profitability.

The Schaffner Group has identified its Executive Committee as this chief decision maker.

Segment profit or loss represents a segment's operating profit or loss before restructuring costs.

Income tax

Accrued expenses for current income tax are recognized in the period in which the profits arise, on the basis of the reported profits. Tax is calculated in conformity with the tax laws applicable in the individual countries.

Deferred tax is recognized using the liability method. Under this approach, the income tax effects of temporary differences between carrying amounts in the financial statements and their tax bases used in the calculation of taxable income are reported under non-current liabilities or non-current assets, using the tax rates that are expected to apply to the period in which an asset is recovered or a liability settled. The change in deferred tax is recognized in the income statement. Deferred tax liabilities are calculated on all taxable temporary differences.

Deferred tax assets, including assets for unused tax loss carry-forwards, are only recognized to the extent it is probable that future taxable profits will be available which will allow the assets to be utilized. The determination of the amount of deferred tax assets to be recognized involves assumptions and estimates by management as to the likely timing and amounts of future taxable profits.

Borrowings

Borrowings are recognized at their nominal amounts. Transaction costs incurred are recognized immediately in the income statement. Borrowings are classified as current liabilities unless the Group has the unconditional right to postpone the settlement of the debt until at least twelve months after the balance sheet date.

Share-based payments

Until including fiscal year 2018/19, the award of shares under the Restricted Share Plan, which are subject to a three-year holding period, was not tied to any vesting conditions. Therefore, there was no vesting period for these shares and the compensation was recognized in staff costs at the grant date.

With effect from 1 October 2018, the Board of Directors created a Long-Term Incentive Plan (LTIP). The fair value of the LTIP shares is measured at the quoted market price at the beginning of the vesting period (which starts at 1 October of the respective year), less a discount to compensate for the restricted status of the shares during the holding period. In setting the target number of shares, it is assumed that the target number will be multiplied by an achievement factor of 1.

1 Foreign currencies

In the consolidation of Group companies' separate financial statements, the following exchange rates were applied in translating foreign-currency-denominated accounts into Swiss francs::

Country or region	Currency	Balance sheet		Income statement	
		30.09.2019 In CHF	30.09.2018 In CHF	2018/19 In CHF	2017/18 In CHF
China	CNY 100	13.93	14.20	14.47	14.90
EU	EUR 100	108.57	113.15	112.08	116.01
UK	GBP 100	122.46	127.43	126.67	131.29
Hungary	HUF 100	0.32	0.35	0.35	0.37
India	INR 100	1.40	1.35	1.41	1.46
Japan	JPY 100	0.92	0.86	0.91	0.88
Sweden	SEK 100	10.15	10.98	10.66	11.42
Singapore	SGD 100	71.98	71.40	72.84	72.57
Thailand	THB 100	3.25	3.02	3.15	3.02
Taiwan	TWD 100	3.20	3.20	3.21	3.26
USA	USD 100	99.52	97.70	99.55	97.47

2 Intangible assets

In CHF '000	Technology and rights	Software	Total
Cost at 1 October 2017	447	9,757	10,204
Additions		482	482
Disposals		-30	-30
Exchange differences	-5	-3	-8
Cost at 30 September 2018	442	10,206	10,648
Additions		315	315
Disposals		-189	-189
Exchange differences	-17	4	-13
Cost at 30 September 2019	425	10,336	10,761
Accumulated amortization and impairment at 1 October 2017	-430	-9,089	-9,519
Amortization	-2	-321	-323
Disposals		26	26
Exchange differences	5	7	12
Accumulated amortization and impairment at 30 September 2018	-427	-9,377	-9,804
Amortization	-3	-353	-356
Disposals		189	189
Exchange differences	15	2	17
Accumulated amortization and impairment at 30 September 2019	-415	-9,539	-9,954
Net book value at 30 September 2018	15	829	844
Net book value at 30 September 2019	10	797	807

In the consolidated income statement, amortization of intangible assets is included within "cost of sales", "marketing and selling expense", "research and development expense", and "general and administrative expense". The net book values of the categories "technology and rights" and "software" primarily represent acquired intangible assets.

Goodwill

Goodwill acquired through a business combination is offset at the acquisition date against equity (in retained earnings). When goodwill is offset against equity, Swiss GAAP FER require reporting of the notional impacts of a hypothetical capitalization and amortization of goodwill. The hypothetical amortization is performed on a straight-line basis over a period of five years.

A hypothetical capitalization of goodwill would have had the following impacts on the financial statements:

In CHF '000	2018/19	2017/18
Cost at 1 October	17,260	17,196
Exchange differences	124	64
Cost at 30 September	17,384	17,260
Accumulated amortization and impairment at 1 October	- 16,600	- 15,235
Amortization	- 672	- 1,317
Exchange differences	- 112	- 48
Accumulated amortization and impairment at 30 September	- 17,384	- 16,600
Hypothetical net book value at 30 September	0	660

For fiscal year 2018/19, impairment testing of goodwill was no longer required, as its hypothetical net book value was zero.

In the past, consistent with the internal organizational and reporting structure, impairment testing of the goodwill offset against equity was conducted on an operating segment basis. For the purposes of impairment testing, the segments were thus designated as the relevant cash-generating units (CGU). The impairment test was performed based on indications that goodwill items could potentially be impaired. All of the Group's goodwill was allocable to the Power Magnetics segment and was tested for impairment. The recoverable amount of this segment was its value in use, which was calculated from discounted future cash flows based on the business plan for the next five years. The projection relied both on prior experience and on management's current judgment regarding the probable business trend in the relevant markets. An underlying assumption was that there would be no major organizational change. As the goodwill was already offset against equity at the acquisition date, an impairment of goodwill would not lead to a charge to income but merely to a disclosure in the notes.

3 Property, plant and equipment

In CHF '000	Undeveloped land	Land and buildings	Plant and machinery	IT hardware	Other tangible assets	Assets under construction	Total
Cost at 1 October 2017	177	13,401	47,001	2,779	2,568	1,988	67,914
Additions		3,701	2,299	320	139	4,908	11,367
Disposals		-1,875	-3,267	-194	-309	-374	-6,019
Reclassifications		308	2,734	31	27	-3,100	0
Exchange differences	-9	-111	228	-10	5	-96	7
Cost at 30 September 2018	168	15,424	48,995	2,926	2,430	3,326	73,269
Additions		122	1,014	550	1,051	8,122	10,859
Disposals		-411	-1,193	-186	-199	-185	-2,175
Reclassifications		202	3,274	-1	1,269	-4,744	0
Exchange differences	-12	-201	1,215	-35	14	282	1,263
Cost at 30 September 2019	156	15,136	53,305	3,254	4,565	6,801	83,217
Accumulated depreciation and impairment at 1 October 2017		-8,124	-32,183	-2,340	-2,179	0	-44,826
Depreciation		-667	-3,249	-330	-149		-4,395
Disposals		1,402	2,228	179	292		4,101
Impairment			-59				-59
Reclassifications		-27	27				0
Exchange differences		20	-78	13	-6		-51
Accumulated depreciation and impairment at 30 September 2018		-7,396	-33,314	-2,478	-2,042	0	-45,230
Depreciation		-624	-3,347	-234	-171		-4,376
Disposals		285	864	181	195		1,525
Reclassifications			1,266		-1,266		0
Exchange differences		-12	-544	35	-9		-530
Accumulated depreciation and impairment at 30 September 2019		-7,747	-35,075	-2,496	-3,293	0	-48,611
Net book value at 30 September 2018	168	8,028	15,681	448	388	3,326	28,039
Of which finance leases		2,000					2,000
Net book value at 30 September 2019	156	7,388	18,230	758	1,272	6,801	34,605
Of which finance leases		1,813					1,813

In the consolidated income statement, depreciation of property, plant and equipment is included within “cost of sales”, “marketing and selling expense”, “research and development expense”, and “general and administrative expense”.

At the end of the fiscal year there were commitments to purchase property, plant and equipment in the amount of CHF 2.6 million (end of prior year: CHF 1.2 million). Additions to property, plant and equipment included investment of CHF 2.9 million not yet paid (end of prior year: CHF 0.5 million).

Property, plant and equipment are covered by a Group-wide insurance policy. The maximum insured amount is CHF 80 million per claim.

The strong increase in property, plant and equipment in the fiscal year was attributable in part to the previous year's fire at the Automotive division's manufacturing facility in Thailand and the resulting new construction there (see note 9).

Operating leases

The future minimum payments under operating lease agreements not cancelable within one year (mainly rent for office and manufacturing space) are presented in the table below:

In CHF '000	30.09.2019	30.09.2018
Minimum lease payments due:		
Within 1 year	2,412	2,281
In more than 1 year and up to 5 years	7,802	8,870
In more than 5 years	10,782	4,814
Total minimum payments	20,996	15,965

Finance leases

The carrying amount of assets held under finance leases was CHF 1.8 million (end of prior year: CHF 2.0 million) and related to the leased logistics center in Wittelsheim, France. The associated obligations under finance leases were CHF 1.2 million (end of prior year: CHF 1.5 million).

4 Inventories

In CHF '000	30.09.2019	30.09.2018
Raw materials	14,741	14,802
Work in process and semi-finished goods	3,088	5,406
Finished goods	19,629	20,269
Total inventories	37,459	40,477

Inventory provisions

In CHF '000	2018/19	2017/18
At 1 October	2,654	3,512
Created	1,281	568
Used	-700	-1,125
Unused amounts reversed	-210	-247
Exchange differences	-68	-55
At 30 September	2,957	2,653

5 Trade receivables

In CHF '000	30.09.2019	30.09.2018
Trade receivables from non-Group entities, gross	36,840	43,220
Provision for doubtful debts	-101	-91
Total trade receivables	36,739	43,129

Provision for doubtful debts

In CHF '000	2018/19	2017/18
At 1 October	91	226
Created	150	156
Used	-24	-190
Unused amounts reversed	-118	-92
Exchange differences	2	-9
At 30 September	101	91

The ageing of trade receivables is detailed in the following table:

In CHF '000	Total	Not yet due	Overdue			
			Up to 30 days	30 to 60 days	61 to 90 days	More than 90 days
Trade receivables at 30 September 2018	43,220	32,782	7,112	1,962	719	645
Trade receivables at 30 September 2019	36,840	25,827	7,022	2,701	997	293

6 Provisions

In CHF '000	Warranty provisions	Pension provisions	Restructuring provisions	Other provisions	Total
At 1 October 2017	2,002	3,056	0	914	5,972
Created	1,277	494	1,278	81	3,130
Used	-372	-285	-445	-230	-1,332
Unused amounts reversed	-912		-220	-105	-1,237
Exchange differences	-34	2	-43	-8	-83
At 30 September 2018	1,961	3,267	570	652	6,450
Created	1,469	560		263	2,292
Used	-1,183	-175	-524	-636	-2,518
Unused amounts reversed	-798	-18	-35		-851
Exchange differences	-37	11		6	-20
At 30 September 2019	1,412	3,645	11	284	5,352
Non-current provisions	766	3,216	0	598	4,579
Current provisions	1,195	51	570	54	1,871
Total provisions at 30 September 2018	1,961	3,267	570	652	6,450
Non-current provisions	556	3,645	0	13	4,214
Current provisions	856	0	11	272	1,138
Total provisions at 30 September 2019	1,412	3,645	11	284	5,352

Current provisions relate to cash outflows expected to occur within twelve months. Non-current provisions relate to outflows due after more than twelve months; where the time value of money is significant, the expected cash flows are discounted.

Warranty provisions

The warranty provisions were created primarily for the warranty risks inherent in the nature of the business activities. Warranty provisions are measured based on historical experience regarding repairs and returns and adjusted to reflect current sales volumes. The outflows are expected to occur within the next three fiscal years.

For specific warranty claims, additional provisions are created if the lump-sum provisions are either insufficient for these claims or are not intended for them.

Pension provisions

The pension provisions consist primarily of provisions for defined benefit plans in Germany, Thailand and France.

Restructuring provisions

In the prior fiscal year, restructuring provisions were created for further optimization measures in the Power Magnetics division in Europe. As of the end of fiscal 2018/19, these measures were largely completed.

Other provisions

The utilization of CHF 0.6 million of “other provisions” was related in particular to a court case in France entailing customs risks.

7 Borrowings

The average interest rate payable on borrowings in fiscal year 2018/19 was 2.2% (prior year: 1.9%). The composition of borrowings is shown in the following table:

In CHF '000	Effective interest rate at 30.09.2019	30.09.2019	30.09.2018
Bank loans in Switzerland	Libor (min. 0%) + 1.40%	32,504	36,692
Finance leases	4.51%	1,234	1,499
Total borrowings		33,738	38,191
Of which:			
Current borrowings		197	36,880
Non-current borrowings		33,541	1,311

The debt financing of the Schaffner Group is assured through credit lines with four banks, with a credit limit of CHF 15 million per facility. These credit agreements are tied to covenants, which were fulfilled both during the year and at the balance sheet date. The contractual covenants relate to metrics that include net debt/EBITDA, equity, and equity ratios.

The remaining maturities of the Group's individual bank borrowings at the balance sheet date ranged up to three months. Under the credit agreements, they can be rolled over continuously until at least 30 June 2023.

8 Contingent liabilities and pledged assets

As a company with worldwide operations, Schaffner is exposed to numerous legal risks. The outcome of currently pending legal proceedings cannot be predicted with certainty. Provisions are established inasmuch as the financial consequences of a past event can be estimated reliably and the estimate can be confirmed by independent expert opinion.

Assets of CHF 396 thousand (prior year: CHF 223 thousand) were pledged as collateral for electricity consumed and for pension liabilities.

9 Other operating income and expenses

In the prior year, at the end of December 2017, the Schaffner Automotive division's production plant in Thailand was heavily damaged by a fire. The ability to make deliveries to customers was maintained at all times in the prior year through effective crisis management and the rapid restoration of manufacturing capacity.

Other operating income in the prior year included primarily the insurance benefits of CHF 4.1 million for the damaged and destroyed property, plant and equipment in connection with the fire in Thailand; other operating expenses reflected the net book values of these fixed assets of CHF 1.7 million.

The other insured costs in the amount of approximately CHF 3.6 million related to the reconstruction were offset in the respective items of the income statement by business interruption insurance commitments and payments.

10 Staff costs

In CHF '000	2018/19	2017/18
Wages and salaries	48,667	55,184
Share-based payments expense (Long-Term Incentive Plan) ¹	352	0
Share-based payments expense (Restricted Share Plan) ¹	310	413
Social security costs	10,272	10,958
Temporary employees and other staff costs	6,657	7,385
Total staff costs	66,259	73,940

¹ See note 15, page 77. The difference relative to the consolidated statement of changes in equity is attributable to the compensation of the Board of Directors.

11 Pension obligations

There are various pension plans for the employees of the Schaffner Group. The pension fund of Schaffner's Swiss companies is a private sector pension arrangement in the legal form of a foundation. It administers the delivery of Schaffner's mandatory (legislated) and voluntary post-employment benefits in Switzerland under the Swiss Federal Act on Occupational Retirement, Survivors' and Disability Pensions (the BVG).

The top governing body of the pension fund of Schaffner's Swiss companies is the foundation's board of directors, made up of equal numbers of employee and employer representatives. The benefits provided by the pension fund, their financing, the organization and administration of the fund, the relationship to the sponsoring companies and to the plan participants (active employees and pension recipients) are all specified in the regulations of the Schaffner Group's Swiss pension fund. These regulations are issued by the foundation's board of directors.

The board may delegate the operational management to a management body. The foundation is under the oversight of the supervisory authority of the Canton of Solothurn.

Under the pension plan, employees and their survivors are insured against the economic consequences of old age, disability and death. The insured benefits exceed the legal requirements and are paid out as annuities or in lump sums. All insurance risks are fully reinsured. The pension plan is financed from contributions and investment returns. The sponsoring companies choose between two versions of savings plan. Within the savings plan selected, the participants choose between a basic and a premium plan. The sponsoring companies and the participants pay the contributions to the pension fund based on a percentage of the participants' insured pay. The amount of the contributions is calibrated so that the contributions and the expected return on the plan's investments will safeguard the ability to pay the plan obligations (benefits).

The foundation's board of directors is responsible for the investment of the plan assets. The organization of the investing activities and the associated authority structure are set out in the investment regulations of the pension fund, which are issued by the board of the foundation. The investment regulations supplement the applicable legislative framework. They determine the asset allocation and set out the qualitative and quantitative guidelines for the individual asset classes. The plan assets are invested in such a way as to ensure capital preservation and an appropriate return on capital, good diversification of risks, and cover of the foreseeable cash requirements. The foundation's board of directors has delegated responsibility for the implementation of the investing activities to an investment committee. The investment activities of the Schaffner Group's Swiss pension fund are performed by external providers (asset managers) and supervised by the investment committee. The plan assets are invested in accordance with legal requirements and the guidelines set by the foundation's board and consist of a well-diversified portfolio of investments in Switzerland and other countries. The custodians are recognized Swiss banking institutions.

The overall pension plan situation in the Group is as follows.

Employer contribution reserve

At 30 September 2019 there was no remaining employer contribution reserve (ECR, consisting of prepaid employer contributions for future periods). At the end of fiscal 2017/18 the Schaffner Group still held an ECR at its Swiss pension fund, in the amount of CHF 15 thousand. This was completely utilized in the fiscal year under review.

In CHF '000	Nominal amount	Amount subject to usage restriction	Balance	Balance	Net contribution from ECR recognized in staff costs	
	30.09.2019	30.09.2019	30.09.2019	30.09.2018	2018/19	2017/18
Pension plans	0	0	0	15	15	526
Balance	0	0	0	15	15	526

Economic benefit/economic obligation and pension costs

The table below presents the economic benefit or economic obligation at the end of the year under review and the prior year, and the resulting change in pension costs:

In CHE '000	Plan surplus/ (–deficit)	Economic benefit/ (–obligation) of the Schaffner Group		Exchange differences	Change recognized in income statement ¹	Accrued contri- butions	Pension costs recognized in staff costs	
	30.09.2019	30.09.2019	30.09.2018	2018/19	2018/19	2018/19	2018/19	2017/18
Plans with a surplus	0	0	0	0	0	1,111	1,111	1,097
Unfunded plans	0	–2,966	–2,546	141	279	585	864	506
Balance	0	–2,966	–2,546	141	279	1,696	1,974	1,603

¹ Change in economic benefit or obligation of the Schaffner Group.

Most Schaffner subsidiaries operate defined contribution pension arrangements. Under these, as a rule, the employees and employer pay into pension funds administered by third parties. The Schaffner Group has no payment obligations beyond making these contributions. The contributions are recognized in staff costs.

The pension fund of the Swiss companies of the Schaffner Group reported a surplus under FER 26. The revaluation reserve has reached its target amount.

The economic obligation recognized in the balance sheet for unfunded pension plans was CHF 3.0 million (prior year: CHF 2.5 million) and related to the pension plans in Germany, France, Thailand, Italy and Japan.

12 Finance income and expense**Finance income**

In CHF '000	2018/19	2017/18
Interest income	93	57
Foreign exchange gains	2,161	784
Total finance income	2,254	841

Finance expense

In CHF '000	2018/19	2017/18
Interest cost	–869	–831
Foreign exchange losses	–2,838	–1,779
Other finance expense	–312	–337
Total finance expense	–4,019	–2,947

13 Income tax

In CHF '000	2018/19	2017/18
Current tax in respect of the current year	-1,503	-2,628
Adjustments in respect of prior periods, net	56	-254
Current tax	-1,447	-2,882
Current tax	-1,447	-2,882
Deferred tax	615	-2,778
Income tax	-832	-5,660

Deferred tax liabilities of CHF 3.0 million (prior year: liabilities of CHF 2.6 million) for temporary differences in connection with reinvested profits in subsidiaries were unrecognized at the end of the fiscal year, as the Group is able to control the timing of reversal of these differences and no repayment is planned for the foreseeable future.

Tax loss carryforwards

At 30 September 2019 there were tax loss carryforwards and interest carryforwards of CHF 23.6 million (prior year: CHF 33.2 million) for which no deferred tax assets were recognized. The reason for the non-recognition is that it is considered unlikely the potential tax assets would be applied to taxable profits within the period allowed. The average tax rate applicable to the tax loss carryforwards would be 23.8% (prior year: 23.6%).

These loss carryforwards and interest carryforwards expire on the following schedule:

In CHF '000	2018/19	2017/18
Expiry in 1 year	-0	0
Expiry in 2 years	0	65
Expiry in 3 years	0	0
Expiry in 4 years	0	0
Expiry in 5 years	0	9,550
Expiry in more than 5 years	23,589	23,558
Total unused tax loss carryforwards	23,589	33,173
Potential positive tax effect	5,614	7,829

Reconciliation of profit before tax (EBT) to income tax expense:

In CHF '000	2018/19	2017/18
Profit before tax reported in the income statement	8,039	15,052
Nominal tax rate	23%	23%
Expected income tax at nominal tax rate	-1,849	-3,462
Effect of non-recognition of tax loss carryforwards	-655	-1,935
Effect of tax rates/tax bases other than nominal tax rate/tax bases	1,094	2,105
Effect of expenses not deductible for tax purposes	-201	-146
Effect of non-taxable income	12	513
Utilization of previously unrecognized tax losses or gains	658	382
Adjustments in respect of prior periods	56	-254
Non-refundable withholding taxes	-124	-143
Change in recognition of tax loss carryforwards	180	0
Effect of changes in tax rates or of new taxes	0	-2,720
Other	-3	0
Income tax (-expense) reported in the income statement	-832	-5,660

For the tax reconciliation, the tax rate under the so-called home-based approach was used, i.e., the tax rate of 23% that applies to the Group's principal activities in Switzerland. The weighted average applicable tax rate based on the subsidiaries' results from ordinary activities was 25.7% (prior year: 8.9%).

The prior year's effect of changes in tax rates resulted from the Tax Cuts and Jobs Act passed in the United States in December 2017, which stipulated a reduction in the corporate tax rate from 2018, among other changes. Accordingly, the deferred tax assets for temporary differences for the US subsidiaries were measured at a new, lower rate. This increased the income tax expense for the prior year by CHF 2.7 million.

At the balance sheet date the deferred tax liabilities and assets were attributable to items in the balance sheet as follows:

In CHF '000	2018/19	2017/18
Intangible assets	2,100	2,354
Property, plant and equipment	-855	-755
Other non-current assets	0	-48
Inventories	1,889	1,710
Trade receivables	-3	4
Provisions	696	605
Trade and other payables	1,308	825
Tax loss carryforwards	2,986	2,861
Net deferred tax assets	8,121	7,556
Of which:		
Reported in the balance sheet as deferred tax liabilities	-510	-475
Reported in the balance sheet as deferred tax assets	8,632	8,032

14 Operating segments

The Schaffner Group consists of three reportable segments: Electromagnetic Compatibility, Power Magnetics and Automotive. They are the organizational units for which results are reported to the Executive Committee.

Electromagnetic Compatibility (EMC)

The EMC division develops and manufactures standard and custom components that protect power electronic systems from line interference (thus ensuring electromagnetic compatibility) and safeguard their reliable operation in power grids. As well, the division's Power Quality business unit develops and manufactures active and passive filter solutions to assure the best quality of electric power. The key sales markets include energy-efficient drive systems, renewable energy, power supply systems for electronic devices, as well as machine tools and robotics.

Power Magnetics (PM)

The Power Magnetics division develops and manufactures components to ensure the reliable operation of power electronic systems, and builds customized high-performance transformers for demanding applications. Schaffner solutions deployed in solar inverters and converters in wind turbines safeguard high levels of energy conversion efficiency and assure optimum adaptation to electricity grids. Schaffner components are also integrated into compact, high-performance and energy-efficient locomotive drive systems, where they eliminate network interference from powerful motors.

Automotive (AM)

The Automotive division develops and manufactures components for keyless authentication systems and solutions for the drive trains of hybrid and electric vehicles. Working closely with leading automobile manufacturers and automotive suppliers, Schaffner engineers leverage their specialized EMC expertise to support customers in the development of new models.

Corporate

The "corporate" column comprises all costs for Group functions that cannot be allocated to a particular segment. These are primarily the expenses of Schaffner Holding AG.

No operating segments have been aggregated to form these reportable operating segments.

Segment profit or loss represents a segment's operating profit or loss before restructuring costs.

The restructuring expenses of the Power Magnetics division consisted primarily of the costs in connection with further optimization measures in Europe.

2018/19	EMC	PM	AM	Corporate	Group
In CHF '000					
Net sales	106,923	51,952	38,512		197,387
Segment profit/(-loss)	15,165	-3,311	2,548	-4,599	9,803
Operating profit/(-loss) (EBIT)	15,165	-3,311	2,548	-4,599	9,803
Net finance expense					-1,765
Profit before tax (EBT)					8,039
Income tax					-832
Net profit for the period					7,207

2017/18	EMC	PM	AM	Corporate	Group
In CHF '000					
Net sales	115,895	56,604	49,022		221,521
Segment profit/(-loss)	17,788	-5,504	11,303	-5,151	18,436
Restructuring-related expenses		-1,278			-1,278
Operating profit/(-loss) (EBIT)	17,788	-6,782	11,303	-5,151	17,158
Net finance expense					-2,106
Profit before tax (EBT)					15,052
Income tax					-5,660
Net profit for the period					9,392

Information by region

In the analysis below, net sales with external customers are attributed to regions based on customer location.

2018/19	Europe	Asia	Americas	Group
In CHF '000				
Net external sales	92,072	63,284	42,030	197,387

2017/18	Europe	Asia	Americas	Group
In CHF '000				
Net external sales	99,999	77,299	44,223	221,521

15 Share-based payments

The Schaffner Group maintains several equity incentive plans (share ownership plans) for upper management employees and the Board of Directors. These are option-based plans (ESOP) and share-based plans (RSP/LTIP).

In fiscal year 2012/13 the Board of Directors decided to replace the Employee Share Option Plan for upper management employees and Board members (ESOP) with a share-based plan. As a result, no new options have been issued since including fiscal year 2012/13. The last issued options expired in the fiscal year under review.

Option-based incentive plans

From 1 October 1998 on, the Group granted options over ordinary registered shares of Schaffner Holding AG to upper management employees and to members of the Board of Directors. The basis for the awards of such options was the Schaffner Holding AG Employee Share Option Plan 1998 (ESOP). The shares required to satisfy the obligations under the ESOP were drawn (i) from authorized unissued share capital of Schaffner Holding AG and (ii) from treasury shares.

Share options under the ESOP ordinarily vested in four annual installments of 25%, beginning one year after the grant date. Four years after the grant date, all granted options were thus ordinarily vested. Unexercised options expired seven years after the grant date.

Share options were granted for the last time on 21 November 2011.

	30.09.2019		30.09.2018	
	Number of share options outstanding	Average exercise price in CHF	Number of share options outstanding	Average exercise price in CHF
At 1 October	740	235	4,060	236
Granted in the year	0		0	
Exercised in the year	0	0	-3,320	236
Expired/canceled in the year	-740	235	0	
At 30 September	0	0	740	235
Of which:				
Vested	0	0	740	235
Uncovered	0		0	

The terms of the share options outstanding at the end of the fiscal year were as follows:

Expiry date	30.09.2019		30.09.2018	
	Number of share options outstanding	Exercise price in CHF	Number of share options outstanding	Exercise price in CHF
21.11.2018	0	235.00	740	235.00
Total	0		740	

In the year under review no expense for share option plans was recognized in the income statement.

Share-based incentive plans

Restricted Share Plan

Until recently, upper management employees and the members of the Board of Directors were annually granted shares under the Restricted Share Plan. The final grants under this plan were made on 3 January 2019 for fiscal year 2017/18. The shares are subject to a three-year holding period, during which they carry full voting and dividend rights. If the recipient leaves the company during the holding period, the shares do not revert to the company, but remain subject to the holding period.

In 2018/19, a total of 2,097 shares (prior year: 2,288 shares) with a fair value of CHF 211 per share were granted (prior year: CHF 264). The expense of CHF 442 thousand (prior year: CHF 605 thousand) was recognized in the same fiscal year.

Long-Term Incentive Plan

Effective 1 October 2018, the Restricted Share Plan (RSP) was replaced with a Long-Term Incentive Plan (LTIP). The members of the Board of Directors and selected key personnel of the company are each allocated a contractually agreed target number of shares. This target number of shares is multiplied by an achievement factor between 0.5 and 1.5 that is set by the Board.

The shares are subject to a holding period of at least three years, during which they carry full voting and dividend rights. If the recipient leaves the company during the holding period, the shares do not revert to the company, but remain subject to the holding period.

For the fiscal year under review, based on the assumption of an achievement factor of 1, a total target number of 2,145 shares was allocated under the LTIP and recognized as an expense. The fair value of CHF 258.17 per share was expensed in the fiscal year at a total amount of CHF 513 thousand. The actual, final number of shares to be granted was to be determined by the Board of Directors after the reporting period, on 29 November 2019.

16 Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to shareholders of Schaffner Holding AG by the weighted average number of ordinary shares outstanding during the reporting period, excluding ordinary shares purchased by the Group and held as treasury shares.

	2018/19	2017/18
Basic earnings per share		
Net profit for the period in CHF '000	7,207	9,392
Weighted average number of shares outstanding entitled to dividend	634,231	634,326
Basic earnings per share in CHF	11.36	14.81

Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit for the period attributable to shareholders of Schaffner Holding AG by the weighted average number of ordinary shares outstanding during the reporting period, including all shares that would result from the exercise of any potentially dilutive outstanding share options.

	2018/19	2017/18
Diluted earnings per share		
Net profit for the period in CHF '000	7,207	9,392
Relevant share options outstanding, in number of shares	0	191
Weighted average number of shares outstanding used in calculation of diluted earnings per share	634,231	634,517
Diluted earnings per share in CHF	11.36	14.80

17 Treasury shares

	Number of shares	Average share price in CHF	At average price in CHF '000
At 1 October 2017	1,004	298	299
+ Purchase ¹	3,298		1,053
– Shares utilized for restricted share plans ²	–2,288		–605
Valuation differences ³			–110
At 30 September 2018	2,014	316	637
+ Purchase ¹	3,466		829
– Shares utilized for restricted share plans ²	–2,097		–442
Valuation differences ³			–224
At 30 September 2019	3,383	236	800

¹ At share prices quoted at the transaction date.

² At fair value.

³ The difference between the average purchase price and the exercise price or selling price is taken to share premium.

18 Related parties

All transactions with subsidiaries were completely eliminated on consolidation.

Information on the amounts of compensation of the Board of Directors and Executive Committee is provided in the compensation report from page 46.

19 Release of the consolidated financial statements for publication

The consolidated financial statements were released by the Board of Directors of Schaffner Holding AG on 29 November 2019 for publication and will be presented to shareholders for adoption at the Annual General Meeting on 14 January 2020.

20 Events after the balance sheet date

No events have occurred after the balance sheet date that have a material effect on the amounts in the consolidated financial statements.

21 Companies of the Schaffner Group

The following companies' results were consolidated in the accounts of the Schaffner Group at 30 September 2019:

Company	Registered office	Capital in '000	Group's interest in %
Schaffner Holding AG	Luterbach, Switzerland	CHF 20,668	100%
Schaffner International AG	Luterbach, Switzerland	CHF 250	100%
Schaffner EMV AG	Luterbach, Switzerland	CHF 14,000	100%
Schaffner Oy	Lohja, Finland	EUR 34	100%
Schaffner EMC S.A.S.	Wittelsheim, France	EUR 5,330	100%
Schaffner Ltd.	Wokingham, UK	GBP 50	100%
Schaffner EMV Hungary Kft.	Kecskemét, Hungary	HUF 8,000	100%
Schaffner EMC S.r.l.	Milano, Italy	EUR 100	100%
Schaffner Deutschland GmbH	Büren, Germany	EUR 380	100%
Schaffner PM Services GmbH	Büren, Germany	EUR 25	100%
Schaffner EMC AB	Sollentuna, Sweden	SEK 200	100%
Schaffner EMC, Inc.	Edison, NJ, USA	USD 1,030	100%
Schaffner MTC LLC	Wytheville, VA, USA	USD 2,676	100%
Schaffner EMC Ltd.	Shanghai, China	CNY 52,815	100%
Schaffner EMC K.K.	Tokyo, Japan	JPY 10,000	100%
Schaffner EMC Pte. Ltd.	Singapore	SGD 1,200	100%
Schaffner EMC Co. Ltd.	Lamphun, Thailand	THB 140,000	100%
Schaffner EMV Ltd. (Taiwan Branch)	Taipei, Taiwan	TWD 5,000	100%
Schaffner India Pvt. Ltd.	Bangalore, India	INR 1,000	100%



To the General Meeting of
Schaffner Holding AG, Luterbach

Solothurn, 29 November 2019

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Schaffner Holding AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 30 September 2019, the consolidated statement of income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 55 to 80) give a true and fair view of the consolidated financial position of the Group as at 30 September 2019, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.



Key Audit Matter

How our audit addressed the Key Audit Matter

Valuation of the production facilities of the Power Magnetics (PM) segment

The reporting for the PM segment shows loss of approximately CHF 3.3 million for the fiscal year 2018/19. For this reason, the production facilities assigned to this segment were tested for any impairment.

Whether these assets maintain their value depends on the achievement of sufficient future cash inflows.

We treated the assessment of the valuation of the production facilities in the PM segment as a key audit matter for two reasons:

First, the share of the production facilities assigned to this segment is material. Second, significant management judgments are involved in arriving at assumptions in connection with future segment results and with discount rates applied to forecast cash flows.

The Group's disclosures on the production facilities and on the reporting segments are included in notes 3 and 14 to the consolidated financial statements.

Valuation of deferred tax assets

Deferred tax assets of CHF 8.6 million are recognized in the consolidated financial statements. Details on their composition and origin are included in note 13 to the consolidated financial statements.

The realization of these potential future tax savings depends on the achievement of sufficient taxable income.

This item is large in amount and, in our view, was of particular significance in the audit, as the underlying projections are to a high degree based on management's estimates and assumptions.

We received the valuation records related to the impairment testing prepared by the Group. By additional discussions with management, we obtained an understanding of the manner in which management arrived at the valuations.

Specifically, we assessed whether the use of the discounted cash flow (DCF) model is appropriate. We also tested mathematical accuracy, as well as the attainability of the underlying projections. Further, using external sources, we validated the input factors used to calculate the discount rate.

By discussions with management, we obtained an understanding of the manner in which the deferred tax assets were determined.

Taking into account tax legislation aspects, we analyzed and tested the plausibility of the prepared reconciliations of the tax base to the balance sheet in accordance with Swiss GAAP FER.

We also challenged the projections in terms of their achievability and tested their mathematical accuracy.



Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

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

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

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

This description forms part of our auditor's report.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a 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.

Solothurn, 29 November 2019

BDO Ltd

Beat Rüfenacht
Auditor in Charge
Licensed Audit Expert

Christoph Tschumi
Licensed Audit Expert

Balance sheet

In CHF '000	Note	30.09.2019	30.09.2018
Cash and cash equivalents, and current assets with a quoted market price	2.1	43	99
Other current receivables	2.2	4,526	3,620
Prepaid expenses and deferred income		0	62
Current assets		4,569	3,781
Non-current receivables	2.3	1,845	0
Investments in subsidiaries	2.4	85,251	85,251
Non-current assets		87,096	85,251
TOTAL ASSETS		91,665	89,032
Current interest-bearing liabilities	2.5	3,656	4,200
Other current payables	2.6	13,654	7,492
Accrued expenses	2.7	464	838
Current liabilities		17,774	12,530
Non-current provisions	2.8	7	7
Non-current liabilities		7	7
Total liabilities		17,781	12,537
Share capital	1.1	20,668	20,668
Legally required capital reserves			
– Share premium	2.9	23,081	27,210
Legally required retained earnings			
– General legally required retained earnings		4,134	4,134
Discretionary retained earnings			
– Earnings brought forward		25,120	23,041
– Net profit for the year		1,681	2,079
Treasury shares	5.1	–800	–637
Shareholders' equity		73,885	76,495
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		91,665	89,032

Income statement

(year ended 30 September)

In CHF '000	Note	2018/19	2017/18
Operating income	3.1	5,693	7,157
Net sales of services		5,693	7,157
Staff costs		–2,289	–2,938
Other operating expenses	3.2	–1,839	–2,076
Operating profit before interest and tax (EBIT)		1,565	2,143
Finance income	3.3	455	179
Finance expense	3.4	–174	–37
Profit before tax (EBT)		1,846	2,285
Direct tax		–164	–206
Net profit for the year		1,681	2,079

1 Background information and basis of preparation

1.1 General information

Legal form, registered office and share capital

Schaffner Holding AG (“the Company”) was founded as a stock corporation in Switzerland and has its registered office in Luterbach in the canton of Solothurn. Its share capital is CHF 20,668,050, consisting of 635,940 registered shares with a nominal value of CHF 32.50 per share. The issued shares are fully paid.

Purpose of the Company

The Company’s purpose is the acquisition and management of equity interests in commercial, financial and industrial enterprises in Switzerland and abroad, and the purchase and sale of any types of securities, movable assets and real property.

Average full-time equivalents in the year

Schaffner Holding AG did not employ more than 50 full-time equivalents on average over the year (prior year: not more than 50).

Level of audit

The audit of Schaffner Holding AG by the audit firm is an ordinary audit, as the conditions under section 727 et seq. of the Swiss Code of Obligations for this highest level of audit assurance are met.

1.2 Accounting policies

Accounting principles

These company financial statements were prepared in accordance with the principles of the applicable Swiss Accounting Law (Title 32 of the Swiss Code of Obligations). Those key accounting principles that are not prescribed by law are set out below.

Omission of management report, cash flow statement and supplementary disclosures in the notes

As Schaffner Holding AG prepares consolidated financial statements under a recognized accounting standard (Swiss GAAP FER), it has elected in these company financial statements, as permitted by law, to dispense with preparing a management report and to omit a cash flow statement and (in the notes) to omit the supplementary information on interest-bearing liabilities and accounting fees.

Estimates and assumptions by management

The accounting in accordance with the Swiss Code of Obligations requires certain assumptions and estimates by management. These judgments are made on an ongoing basis and take into consideration past experience and other factors (such as expectations of future events that seem reasonable under the circumstances). The actual subsequent outcomes may differ from these assumptions and estimates. It should be borne in mind that hidden reserves may be created and released to safeguard the sustained success of the Company.

Related parties

Related parties include the subsidiaries, the members of the Board of Directors and the shareholders of the Company. Transactions with related parties are conducted at arm’s length.

Cash and cash equivalents, and current assets with a quoted market price

The item “cash and cash equivalents, and current assets with a quoted market price” consists of cash on hand, bank deposits, and short-term money market investments with a term to maturity of up to three months. Securities held as current assets are measured at the quoted market price at the balance sheet date. No revaluation reserve is maintained.

Other current receivables and payables

Other current receivables and payables consist primarily of the intra-Group pass-throughs to and from the subsidiaries. These assets and liabilities are recognized at their nominal value.

Treasury shares

Treasury shares are measured at cost at the time of acquisition and are recognized as a deduction item in equity. On subsequent resale, the gain or loss is recognized in the income statement as finance income or expense. The subsidiaries do not hold treasury shares of Schaffner Holding AG.

Operating income

Operating income consists of income from subsidiaries and intra-Group income from licenses and management fees.

Share-based payments

Upper management employees and the members of the Board of Directors are annually granted restricted shares. The shares are subject to a three-year holding period, during which they carry full voting and dividend rights. If the recipient leaves the company during the holding period, the shares do not revert to the company, but remain subject to the holding period.

2 Notes to the balance sheet

2.1 Cash and cash equivalents, and current assets with a quoted market price

In CHF '000	30.09.2019	30.09.2018
Bank deposits	43	99
Total	43	99

2.2 Other current receivables

In CHF '000	30.09.2019	30.09.2018
Other receivables from non-Group entities	25	33
Other receivables from subsidiaries	4,501	3,587
Total	4,526	3,620

2.3 Non-current receivables

In CHF '000	30.09.2019	30.09.2018
Non-current receivables from subsidiaries	1,845	0
Total	1,845	0

2.4 Investments in subsidiaries

Directly held

In CHF '000, except %	Details	30.09.2019	30.09.2018
Schaffner EMV AG	Share capital	CHF 14,000	CHF 14,000
Luterbach, Switzerland	Equity/voting interest	100%	100%
Schaffner International AG	Share capital	CHF 250	CHF 250
Luterbach, Switzerland	Equity/voting interest	100%	100%
Schaffner EMV Hungary Kft.	Share capital	HUF 8,000	HUF 8,000
Kecskemét, Hungary	Equity/voting interest	2%	2%

Indirectly held

In CHF '000, except %	Details	30.09.2019	30.09.2018
Schaffner Oy	Share capital	EUR 34	EUR 34
Lohja, Finland	Equity/voting interest	100%	100%
Schaffner EMC S.A.S.	Share capital	EUR 5,330	EUR 5,330
Illzach, France	Equity/voting interest	100%	100%
Schaffner Ltd.	Share capital	GBP 50	GBP 50
Wokingham, United Kingdom	Equity/voting interest	100%	100%
Schaffner EMV Hungary Kft.	Share capital	HUF 8,000	HUF 8,000
Kecskemét, Hungary	Equity/voting interest	98%	98%
Schaffner EMC S.r.l.	Share capital	EUR 100	EUR 100
Milan, Italy	Equity/voting interest	100%	100%
Schaffner EMC AB	Share capital	SEK 200	SEK 200
Sollentuna, Sweden	Equity/voting interest	100%	100%
Schaffner EMC Inc.	Share capital	USD 1,030	USD 1,030
Edison, NJ, USA	Equity/voting interest	100%	100%
Schaffner MTC LLC	Share capital	USD 2,676	USD 2,676
Wytheville, VA, USA	Equity/voting interest	100%	100%
Schaffner EMC Ltd.	Share capital	CNY 52,815	CNY 52,815
Shanghai, China	Equity/voting interest	100%	100%
Schaffner EMC K.K.	Share capital	JPY 10,000	JPY 10,000
Tokyo, Japan	Equity/voting interest	100%	100%
Schaffner EMC Pte. Ltd.	Share capital	SGD 1,200	SGD 1,200
Singapore	Equity/voting interest	100%	100%
Schaffner EMC Co. Ltd.	Share capital	THB 140,000	THB 140,000
Lamphun, Thailand	Equity/voting interest	100%	100%
Schaffner EMV Ltd.	Share capital	TWD 5,000	TWD 5,000
Taipei City, Taiwan	Equity/voting interest	100%	100%
Schaffner Deutschland GmbH	Share capital	EUR 380	EUR 380
Büren, Germany	Equity/voting interest	100%	100%
Schaffner PM Services GmbH	Share capital	EUR 25	EUR 25
Büren, Germany	Equity/voting interest	100%	100%
Schaffner India Pvt. Ltd.	Share capital	INR 1,000	INR 1,000
Bangalore, India	Equity/voting interest	100%	100%

2.5 Interest-bearing liabilities

In CHF '000	30.09.2019	30.09.2018
Interest-bearing liabilities to subsidiaries	3,656	4,200
Total	3,656	4,200
Of which:		
Current interest-bearing liabilities	3,656	4,200
Non-current interest-bearing liabilities	0	0

2.6 Other current payables

In CHF '000	30.09.2019	30.09.2018
Other liabilities to non-Group entities	74	134
Other liabilities to social security plans	25	29
Other liabilities to subsidiaries	13,555	7,329
Total	13,654	7,492

2.7 Accrued expenses

In CHF '000	30.09.2019	30.09.2018
Accrued tax	185	121
Accrued social security expenses	58	54
Accrued performance-related compensation	116	427
Other accrued expenses	105	236
Total	464	838

2.8 Non-current provisions

In CHF '000	30.09.2019	30.09.2018
Provisions for length-of-service awards	7	7
Total	7	7

2.9 Share premium

In CHF '000	30.09.2019	30.09.2018
Share premium	23,081	27,210
Total	23,081	27,210

Share premium represents the additional paid-in capital from capital increases, less the dividend payments made to date. The tax treatment of the distribution from share premium is the same as for a repayment of share capital. The Swiss Federal Tax Administration has confirmed that the reported share premium is recognized as additional paid-in capital within the meaning of section 5 (1bis) of the Act on Anticipatory Tax.

3 Notes to the income statement

3.1 Operating income

In CHF '000	2018/19	2017/18
Income from management fees	3,034	3,720
Income from licensing	2,659	3,437
Total	5,693	7,157

3.2 Other operating expenses

In CHF '000	2018/19	2017/18
General and administrative expense	-1,101	-1,208
Consulting expenses	-571	-717
Miscellaneous operating expenses	-167	-151
Total	-1,839	-2,076

3.3 Finance income

In CHF '000	2018/19	2017/18
Interest income from non-Group entities	1	4
Interest income from subsidiaries	78	57
Other finance income	0	6
Exchange differences	376	112
Total	455	179

3.4 Finance expense

In CHF '000	2018/19	2017/18
Interest expense with subsidiaries	-35	-37
adjusted investment result third party	-140	0
Exchange differences	0	0
Total	-174	-37

4 Notes on compensation

4.1 Shares, options and conversion rights held by the members of the Board of Directors and Executive Committee

	30.09.2019	30.09.2018
	Number of shares held	Number of shares held
Board of Directors		
Urs Kaufmann, Chairman	950	225
Philipp Buhofer ¹	154,347	129,147
Gerhard Pegam	476	376
Suzanne Thoma	829	729
Georg Wechsler	1,024	924
Total holdings of the Board of Directors	157,626	131,401
Executive Committee		
Marc Aeschlimann, CEO	1,043	243
Kurt Ledermann, CFO, until 31 March 2019		1,133
Christian Herren, CFO, from 1 April 2019	320	
Max Baenziger, COO	88	0
Guido Schlegelmilch, Executive VP, EMC division	482	492
Martin Lütenegeger, Executive VP, AM division, from 1 November 2018	35	
Daniel G. Zeidler, Executive VP, PM division, from 19 November 2018	30	
Total holdings of the Executive Committee	1,998	1,868

¹ Including shares held by the shareholder group BURU Holding AG.

In the year under review, Schaffner did not grant loans or other credit to current or past members of the Board of Directors, members of the Executive Committee or parties related to them.

4.2 Equity securities awarded

The following equity securities (shares) were granted to the Board of Directors, the Executive Committee and other employees of the Schaffner Group in the respective fiscal year:

	2018/19		2017/18	
	Number of shares	In CHF '000	Number of shares	In CHF '000
Awarded to the Board of Directors	625	157	725	228
Awarded to the Executive Committee	608	153	520	164
Awarded to other employees	864	217	1,043	329
Total	2,097	526	2,288	721

5 Other information

5.1 Treasury shares

	Number of shares	Average share price in CHF	Value at avg share price in CHF '000
At 1 October 2017	1,004	298	299
+ Purchase ¹	3,298		1,053
– Shares utilized for restricted share plans ¹	– 2,288		– 605
Valuation differences ²			– 110
At 30 September 2018	2,014	316	637
+ Purchase ¹	3,466		829
– Shares utilized for restricted share plans ¹	– 2,097		– 442
Valuation differences ²			– 224
At 30 September 2019	3,383	236	800

¹ At share prices quoted at the transaction date.

² At the year-end closing share price or average exercise price of the options, whichever was less.

5.2 Significant shareholders

Shareholders with positions of 3% or more in shares of Schaffner Holding AG at the balance sheet date are named below, based on the latest published notifications at the time:

	30.09.2019		30.09.2018	
	Number of shares	Equity interest	Number of shares	Equity interest
Shareholder group BURU Holding AG	154,347	24.27%	129,147	20.29%
J. Safra Sarasin Investmentfonds AG	62,271	9.79%	62,271	9.79%
UBS Fund Management (Switzerland) AG	50,104	7.88%	43,101	6.78%
Mirabaud - Equities Swiss Small and Mid	29,002	4.56%	29,002	4.56%
Credit Suisse Funds AG	23,953	3.77%		
Fortezza Finanz Aktienwerk (Teil 1 FCP)			19,200	3.02%
Dr. Jörg Wolle ¹			19,100	3.00%
Cologne Advisors LLP			19,090	3.00%
Shareholders with interests of less than 3%	312,880	49.20%	313,015	49.22%
Free float	632,557	99.47%	633,926	99.68%
Treasury shares	3,383	0.53%	2,014	0.32%
Total shares outstanding	635,940	100.00%	635,940	100.00%

¹ Since 12 September 2019, Dr. Jörg Wolle is part of the shareholder group BURU Holding AG.

5.3 Total amount of security pledged for liabilities of third parties

In CHF '000	30.09.2019	30.09.2018
Guarantee obligations	66,000	49,500
Of which utilized in subsidiaries in respect of credit obligations	25,991	26,056

Joint and several liability

The Group's Swiss companies are treated as a single entity for the purposes of value-added taxation. Schaffner Holding AG therefore has joint and several liability for the Swiss subsidiaries' VAT obligations to the Swiss federal tax authority.

Under Group-wide agreements with Commerzbank and Credit Suisse, Schaffner Holding AG as a participant in the Group's cash pool has joint and several liability to the extent of its free reserves.

5.4 Residual amount of lease obligations

In CHF '000	30.09.2019	30.09.2018
Due in:		
Up to 1 year	27	28
More than 1 and up to 5 years	52	59
More than 5 years	0	0
Total	78	88

5.5 Significant events after the balance sheet date

No events have occurred after the balance sheet date that have a material effect on the amounts in the company financial statements.

5.6 Release of the company financial statements for publication

The company financial statements were released by the Board of Directors of Schaffner Holding AG on 29 November 2019 for publication and will be presented to shareholders for adoption at the Annual General Meeting on 14 January 2020.

5.7 Proposal for the appropriation of retained earnings

At the Annual General Meeting the Board of Directors will propose to allocate retained earnings as follows:

In CHF '000	30.09.2019	30.09.2018 ¹
Earnings brought forward	25,119	23,040
Net profit for the year	1,681	2,079
Retained earnings available for distribution	26,800	25,119
Transfer to legally required reserves ²	0	0
Distribution of CHF 2.50 per share entitled to dividends	-1,581	0
Earnings carried forward	25,219	25,119

¹ Amounts approved by shareholders at last year's Annual General Meeting.

² No further transfers to general legally required retained earnings are necessary under section 671 para. 4 of the Swiss Code of Obligations, as this reserve already represents 20% of share capital.

In CHF '000, except share counts	30.09.2019	30.09.2018 ¹
Distributable share premium reserve brought forward	0	0
Transfer from share premium account to distributable share premium reserve	1,581	4,121
Distribution of CHF 2.50 (prior year: CHF 6.50) per share entitled to dividends, exempt from Swiss anticipatory tax	-1,581	-4,121
Distributable share premium reserve carried forward	0	0
Total number of shares outstanding	635,940	635,940
Number of treasury shares	-3,383	-2,014
Number of shares entitled to dividends ²	632,557	633,926

¹ Amounts approved by shareholders at last year's Annual General Meeting.

² Shares entitled to dividends are those shares not held by the Company or one of its subsidiaries.



To the General Meeting
of Schaffner Holding AG, Luterbach

Solothurn, 29 November 2019

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Schaffner Holding AG, which comprise the balance sheet as at 30 September 2019 and the income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion the financial statements (pages 84 to 92) as at 30 September 2019 comply with Swiss law and the company's articles of association.

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

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



Key Audit Matter

How our audit addressed the key audit matter

Valuation of investments in subsidiaries

At 30 September 2019 the financial statements show investments in subsidiaries totalling CHF 85.3 million. Investments in subsidiaries are recognized at historical cost less any adjustments for impairments. At 30 September 2019, no impairment was recognized.

In our view this item, which is very large in amount, was of particular significance, as management's valuation method for evaluating the need for impairment charges involves a high degree of management judgment.

The company's disclosures on investments in subsidiaries are included in note 2.4 to the financial statements.

By inspecting the valuation records and discussions with management, we obtained an understanding of how management determines the need for impairment charges.

Specifically, we evaluated whether management's valuation of the investments in subsidiaries as a group of assets is appropriate when taking into account intra-group linkages and whether the carrying amount is reasonable in relation to the market capitalization of the Schaffner Group.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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



Report on Other Legal and Regulatory Requirements

In accordance with article 728a 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 and the distribution of capital reserves complies with Swiss law and the company's articles of incorporation.

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

Solothurn, 29 November 2019

BDO Ltd

Beat Rüfenacht
Auditor in Charge
Licensed Audit Expert

Christoph Tschumi
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Important note on forward-looking statements

This report contains certain forward-looking statements, which may be identified by the use of expressions such as “could”, “propose”, “opens up opportunities”, “outlook”, “attractive” or similar wording. Such forward-looking statements reflect management’s current opinion and are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Schaffner Group to differ materially from those contained or implied in such statements. These include, but are not limited to, risks related to the success of and demand for the Group’s products, the potential for its products to become obsolete, the Group’s ability to protect its patents, the Group’s ability to develop and market new products quickly enough, the rapidly changing and competitive environment in which the Group operates, the regulatory environment, fluctuation in foreign exchange rates, the Group’s ability to generate revenue and net profits, and its ability to carry out expansion or cost control projects in a timely manner. Should one or more such risks or uncertainties materialize or come to bear, or should assumptions that underlie this report prove incorrect, the actual results could differ materially from the outcomes suggested in this report. The information in this report represents the best knowledge at the time of first publication. The Schaffner Group does not undertake any obligation to update any forward-looking statements contained herein, whether as a result of new information, future events or otherwise.

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