

Schaffner Group
Annual Report
2017/18



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About the cover photo

The future of mobility is electric. Setting the course for tomorrow, Schaffner therefore already offers a growing range of solutions for e-mobility. Schaffner solutions prevent disturbances in the on-board power electronics of electric vehicles (EV) and ensure reliable and highly efficient energy transmission, including in EV charging stations.

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 2017/18.

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 entry systems, and 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.

The EMC division is the world market leader in EMC filters. It develops and manufactures standard and custom components that protect power electronic systems from line interference (thus ensuring electromagnetic compatibility, or EMC) and safeguard their reliable operation in power grids. As well, the division develops and builds active and passive power quality filters to assure the best quality of electric power. The key sales markets include energy-efficient drive systems, electrical infrastructure, machine tools and robotics, power supplies for electronic devices, rapid charging systems for electric vehicles, and renewable energy.

The Power Magnetics division (PM) develops and manufactures components to ensure the reliable operation of power electronic systems, and builds customized high-performance transformers for demanding applications. Schaffner 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, charging infrastructure for electromobility, and renewable energy.

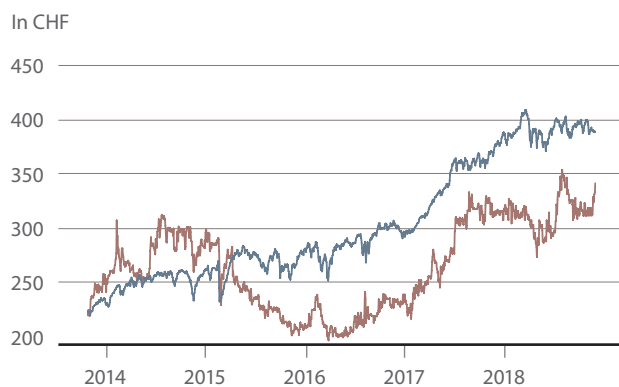
The Automotive division (AM) supports leading automobile manufacturers and system suppliers with its specialized EMC expertise, including particularly in the development and manufacturing of filter solutions for hybrid and electric vehicles. In the world market for antennas used in keyless entry systems for vehicles, Schaffner is the global number two.

		2013/14	2014/15	2015/16	2016/17	2017/18
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)		633,349	634,117	635,594	635,282	634,326
Earnings per share (EPS)	in CHF	19.94	12.14	0.29	13.77	14.81
Shareholders' equity per share	in CHF	104.80	79.24	72.64	85.54	92.80
Repayment of excess share premium, per share	in CHF	6.50	6.50	0.00	6.50	6.50 ¹
Free float	in %	99.5	99.8	99.9	99.8	99.7
Share price²						
High for year	in CHF	315	304	247	335	355
Low for year	in CHF	250	215	203	222	277
At end of year	in CHF	295	218	240	317	343
Market capitalization²						
High for year	in CHF million	200	193	157	213	226
Low for year	in CHF million	159	137	129	141	176
At end of year	in CHF million	188	139	153	202	218

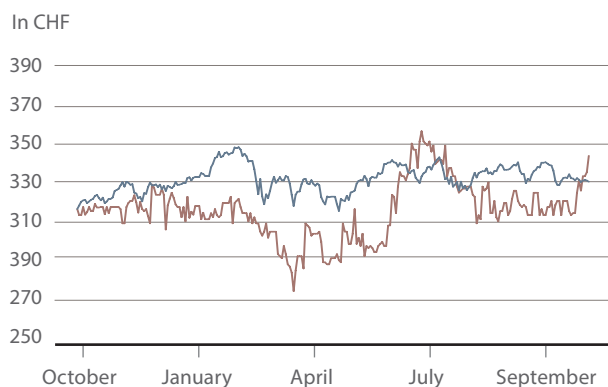
¹ Subject to approval by the Annual General Meeting on 15 January 2019.

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

Five-year share price performance, 01.10.2013 to 30.09.2018³



One-year share price performance, 01.10.2017 to 30.09.2018³



³ Source: Thomson Reuters Datastream

- Schaffner registered shares
- SPI EXTRA® (adjusted)

Trading of the Company's securities

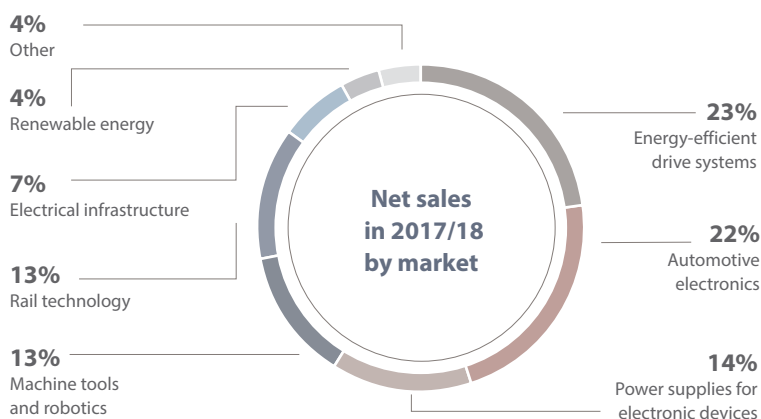
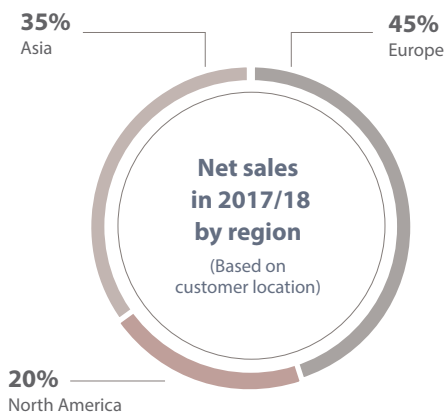
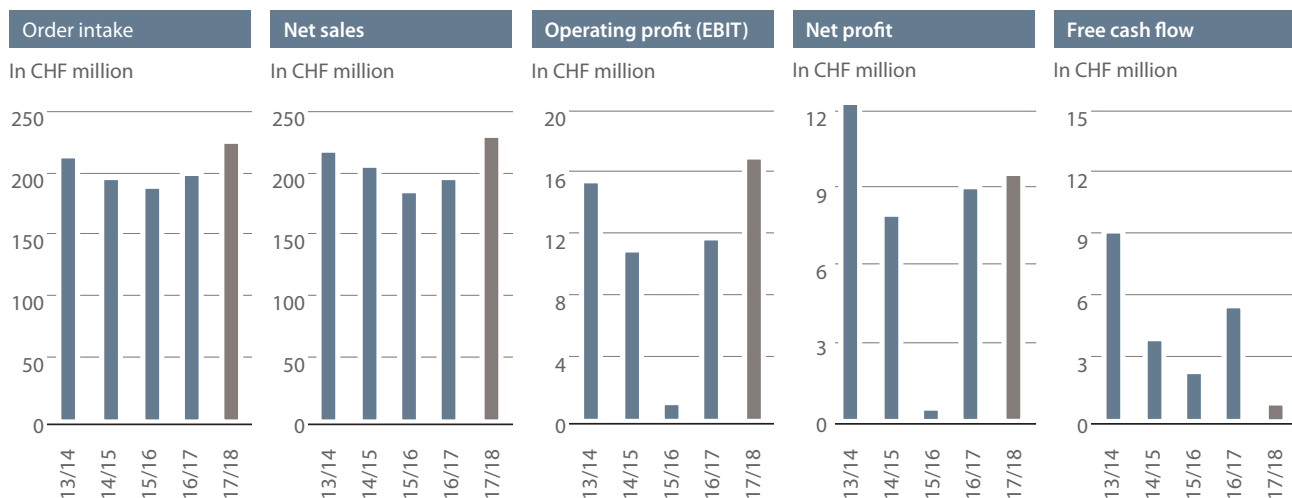
The registered shares of Schaffner Holding AG are traded on the SIX Swiss Exchange under Securities No. 906209.

Ticker symbol

Registered shares: SAHN

In CHF '000	2013/14	2014/15 ¹	2015/16	2016/17	2017/18
Order intake	215,925	196,205	187,380	199,504	223,450
Net sales	214,572	201,782	185,563	195,707	221,521
Net sales, EMC division	109,993	95,346	93,835	98,280	115,895
Segment profit, EMC division	15,850	9,108	8,731	13,346	17,788
Net sales, Power Magnetics division	67,311	63,637	45,373	50,042	56,604
Segment profit, Power Magnetics division	4,302	1,593	- 9,186	- 6,967	- 5,504
Net sales, Automotive division	37,268	42,799	46,355	47,385	49,022
Segment profit, Automotive division	2,499	6,256	11,334	9,427	11,303
Operating profit (EBIT)	15,012	10,799	1,367	11,476	17,158
In % of net sales	7.0	5.4	0.7	5.9	7.7
Net profit for the period	12,628	7,700	184	8,747	9,392
In % of net sales	5.9	3.8	0.1	4.5	4.2
Total assets	154,452	131,639	122,740	137,299	148,480
Shareholders' equity	66,646	50,395	46,193	54,400	59,018
In % of total assets	43.2	38.3	37.6	39.6	39.7
Number of employees (full-time equivalents)	3,140	3,143	3,127	3,487	3,891

¹ From 2014/15, results are based on Swiss GAAP FER.



Schaffner continues profitable growth

In fiscal year 2017/18 the Schaffner Group took advantage of the favorable business environment and vigorously boosted its revenue. Operating profit also rose significantly. The EMC division expanded its leading position in the global EMC market and further increased its segment profit margin. The Automotive division maintained its strong position in the world market for vehicle keyless entry systems and once again achieved an attractive profit margin. In the Power Magnetics division, the turnaround made significant progress.

New orders for the Schaffner Group increased by 12% in fiscal year 2017/18 to CHF 223.5 million, from CHF 199.5 million in 2016/17, the prior fiscal year (PY). Net sales grew by 13% to a new total of CHF 221.5 million (PY: CHF 195.7 million). On a local-currency basis the growth was 10%. The book-to-bill ratio was 1.01 (PY: 1.02). All three divisions drove the good sales growth in the fiscal year under review. The EMC division won further projects and expanded its leading position in all geographic markets, with sales up 18%. In the Power Magnetics division, the restructuring was accelerated and, with 13% higher sales, growth was strong, especially in Europe and Asia. The Automotive division recorded stable demand, particularly in Europe, and with a 3% rise in sales further cemented its strong position as the number two in the international market for antennas for keyless entry systems.

In fiscal 2017/18, as in the prior year, the Group's gross margin stood at 28.4%. Operating profit (EBIT) rose to CHF 17.2 million (PY: CHF 11.5 million), with the EBIT margin improving to 7.7% (PY: 5.9%). One-time effects from insurance payments after the fire at the plant in Thailand at the end of 2017 and costs from the restructuring of the Power Magnetics division had a net positive impact of CHF 1.2 million on operating profit. Net profit for the year was CHF 9.4 million (PY: CHF 8.7 million). Reflected in this result was an exceptional write-down of CHF 2.7 million on deferred tax assets in the USA as a consequence of the 2017 Tax Cuts and Jobs Act. Earnings per share amounted to CHF 14.81 (PY: CHF 13.77). As a result of the increase in capital expenditures – such as for the purchase of the previously leased production building in Hungary – and volume-driven higher net working capital, free cash flow in the year under review was CHF 0.5 million (PY: CHF 5.0 million).

The good capacity utilization led to an increase in staff. The number of Schaffner employees worldwide in full-time equivalents rose by 404 to 3,891 FTE. At the headquarters in Switzerland, Schaffner continued to employ about 100 people.

In fiscal 2017/18 the Group invested CHF 16.9 million in research and development (PY: 16.7 million). The central focus of the development activities, besides the continual advancement of the comprehensive portfolio featuring EMC filters as well as chokes and transformers for power electronics, was on new EMC filters specifically designed for the requirements of electromobility. These will have a positive impact on business for Schaffner in the medium term.

Strong growth in Europe

Schaffner recorded sales growth in every region in the fiscal year, launching new products and making further gains in market share. The strongest increase came in Europe, where sales climbed 20%. Europe accounted for 45% of Group sales in the year under review (PY: 42%). With sales growth of 9%, Asia represented 35% (PY: 36%) of the consolidated sales figure. Sales in North America were up 5% and represented 20% (PY: 22%) of the Group total. Schaffner has a broad sales base in its core markets. Sales of energy-efficient drive systems grew by 27% in the year and, with a share of 23% (PY: 20%), made up the largest component of Group sales, followed by automotive electronics with a share of 22% (PY: 24%) and power supplies for electronic devices at a share of 14% (PY: 15%). With substantial sales growth of 30%, the rail technology core market reached a share of 13% of the Group total (PY: 12%) and thus caught up to the machine tools and robotics sector, which also accounted for 13% (PY: 15%).



Urs Kaufmann, Chairman of the Board of Directors

Marc Aeschlimann, Chief Executive Officer

EMC division

The EMC division won various projects against major competitors in fiscal 2017/18 and further strengthened its leading position in the global market for EMC filters. Its sales grew by a significant 18% to CHF 115.9 million (PY: CHF 98.3 million). New orders went up from CHF 102.2 million to CHF 116.7 million. Segment profit grew by a disproportionately rapid 33% to a new total of CHF 17.8 million (PY: CHF 13.3 million). Thanks to continued progress in operational excellence, the segment profit margin rose further to 15.3% (PY: 13.6%). In the power quality market, Schaffner presented the new generation of active harmonic filters in the reporting period. Demand for the latest generation of passive harmonic filters introduced in the prior year was especially high in Asia.

Power Magnetics division

The Power Magnetics division continues to be in turnaround mode. Despite a poor start to the year in North America, the segment's sales in fiscal 2017/18 were pushed up by 13% to CHF 56.6 million (PY: CHF 50.0 million). The growth came mainly from Europe and Asia. Demand was particularly good in the core market of rail technology. The division's new orders grew by 17% to CHF 57.8 million (PY: CHF 49.4 million). Under the temporary leadership of a turnaround manager, the division's restructuring was accelerated and the organization further streamlined. The renegotiation of supply contracts with unsatisfactory margins was largely completed. The segment result was again affected by one-off costs related to the restructuring; on balance, the Power Magnetics division registered a segment loss of CHF 5.5 million in the fiscal year (PY: loss of CHF 7.0 million). The segment profit margin was -9.7% (PY: -13.9%). Schaffner is completing the restructuring of the Power Magnetics division in the first half of 2018/19 and expects it to reach break-even in the second half of the fiscal year.

Automotive division

In fiscal year 2017/18 the Automotive division increased its sales by 3% to CHF 49.0 million (PY: CHF 47.4 million). New orders grew by 2% to CHF 49.0 million (PY: CHF 47.9 million). Strong growth was recorded in Europe in the year under review, while demand declined in the second half of the year in Asia. Segment profit rose to CHF 11.3 million (PY: CHF 9.4 million), reflecting one-off effects from insurance benefits after the fire at the plant in Thailand. The segment profit margin was 23.1% (PY: 19.9%). Adjusted for the one-time effects, the profit margin was 18.2%. Factors detracting from the margin were shifts in the product mix, mainly due to the regional distribution of orders, as well as an unfavorable currency trend.

Sound financing structure

The Schaffner Group has a sound financing structure. At the year-end reporting date of 30 September 2018, total assets showed an increase to CHF 148.5 million from the prior year-end of 30 September 2017 (PY: CHF 137.3 million). As a result of the strong volume growth, net working capital rose to CHF 44.1 million (PY: CHF 35.7 million). Net debt increased to CHF 19.1 million (PY: CHF 12.6 million). At the reporting date, shareholders' equity was CHF 59.0 million (PY: CHF 54.4 million) and the equity ratio measured 39.7% (PY: 39.6%). Equity per share amounted to CHF 92.80 (PY: CHF 85.54).

Risk management

At its meeting on 4 May 2018 the Board of Directors assessed the business risks of the Schaffner Group as part of its ongoing risk management and adopted the risk report and the measures set out in it.

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 2017/18 the Board will propose to shareholders at the Annual General Meeting on 15 January 2019 to pay an unchanged dividend of CHF 6.50 per share, which represents 44% of the Group's net profit. As in past years, the distribution is to take the form of a tax-free repayment of capital.

Changes in management

At the Annual General Meeting on 11 January 2018, Daniel Hirschi retired from the Board of Directors of Schaffner Holding AG after serving for eight years, including as Chairman until 2017. On 1 January 2018, Max Bänziger took over the responsibilities of Chief Operating Officer from his predecessor Ah Bee Goh, who retired from the Group at the end of 2017 after reaching the age limit. The Group's Executive Committee will be significantly further strengthened in the first quarter of fiscal 2018/19 by the appointment of Martin Lütenegger as head of the Automotive division and Daniel G. Zeidler as head of the Power Magnetics division.

Outlook

The Schaffner Group has started fiscal year 2018/19 with a good order backlog. Although the momentum is likely to be lower than in the year under review due to rising uncertainty in global markets and the trade dispute between the USA and China, and price pressure will probably continue, the Group is aiming for further growth at constant exchange rates. For the current new fiscal year, Schaffner plans further, forward-looking investments in the expansion of the business segments. The medium-term target of organic sales growth of 5% per year on a multi-year average basis remains in place. With the imminent completion of the Power Magnetics division restructuring, Schaffner sets the medium-term target range for the Group's EBIT margin at 8%–10% and currently expects to already reach this target in this fiscal year.

Thank you

Many thanks go to Schaffner's employees around the world. Their professionalism and passion have been crucial for the strong growth of the Schaffner Group in fiscal 2017/18. The Board and management would also like to thank all shareholders, customers and suppliers sincerely for their confidence and close cooperation.



Urs Kaufmann
Chairman of the Board



Marc Aeschlimann
Chief Executive Officer

Solid foundation for further growth

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

In fiscal 2017/18 the EMC division expanded its leading position in the global market for EMC filters and accounted for 52% of the Schaffner Group's sales. In the power quality market, Schaffner presented the new generation of active harmonic filters in the reporting period. Demand for the latest generation of passive harmonic filters introduced in the prior year was especially high in Asia. As a global organization, the EMC division is well-placed to exploit attractive growth opportunities and steadily strengthen its position.

Financials		2017/18	Change from prior year
Order intake	CHF m	116.7	+14.5
Segment sales	CHF m	115.9	+17.6
Segment profit	CHF m	17.8	+4.4
Segment profit margin	%	15.3	–



Power Magnetics division

The Power Magnetics division delivered significant sales growth in fiscal year 2017/18, and contributed a 26% share of Group sales. The growth was achieved primarily in Europe and Asia, and in rail technology, a core market. Future potential for the division also lies in components for use in rapid charging stations for electric vehicles. Schaffner is completing the restructuring of the Power Magnetics division in the first half of 2018/19 and expects it to reach break-even in the second half of the fiscal year.

Financials		2017/18	Change from prior year
Order intake	CHF m	57.8	+8.3
Segment sales	CHF m	56.6	+6.6
Segment profit	CHF m	- 5.5	+1.5
Segment profit margin	%	- 9.7	-



Automotive division

Of the Schaffner Group's fiscal 2017/18 sales, 22% came from the Automotive division. About 90% of these sales were earned with antennas for use in vehicle keyless entry systems. The Automotive division also further expanded its position in the market for EMC filters for electromobility applications. Schaffner expects that in one to two years from now the electric vehicle market will account for a rising share of the Automotive segment's sales.

Financials		2017/18	Change from prior year
Order intake	CHF m	49.0	+1.1
Segment sales	CHF m	49.0	+1.6
Segment profit	CHF m	11.3	+1.9
Segment profit margin	%	23.1 ¹	-

¹ Or 18.2 % after excluding one-time effects.

Sustainability

2017
18

Sustainability matters

The Schaffner Group places a high priority on sustainability. 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 ensures that international standards are met or exceeded.

As an active member of the UN Global Compact, which as of mid-2018 has been joined by more than 13,000 companies worldwide, Schaffner is committed to honoring the ten principles of the Compact, which address human rights, labor, the environment and anti-corruption. These principles are 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 centers apply an environmental management system in accordance with the international ISO 14001 standard; acquired companies are also integrated into this system. Moreover, the Group's plants in Asia, Hungary and Germany are compliant with OHSAS-18 001 (Occupational Health and Safety Assessment Series), a process that has systematically improved workplace safety and the 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/417024

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 mining 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

Social performance

Schaffner's people are the key to its success. The Group pursues a socially responsible and progressive personnel policy. Schaffner promotes the diversity of employees in its international organization and supports employees in the intercultural collaboration at work. With production centers on three continents, cross-cultural cooperation is practiced as a day-to-day reality. At the Swiss headquarters in Luterbach alone, employees from fourteen different nations work together and bring their unique perspectives to the work process.

Schaffner is also engaged in furthering cooperation between generations, which is gaining additional importance as demographic change brings an increase in the number of older employees.

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 the changing division of responsibilities within families through programs for female and male employees, including paternity leave and flexible part-time schedules so that fathers are able to participate equally in family care.

In fiscal year 2017/18, Schaffner launched an initiative to strengthen the corporate culture by developing and establishing the Schaffner Values. To achieve the involvement of employees at every level, an interdisciplinary core team was formed that, together with a global team of ambassadors, worked throughout the Group to introduce and implement the Schaffner Values. This strengthens the Group's worldwide cohesion and ensures that local needs are incorporated into the Schaffner Values. By the end of fiscal 2017/18, the Schaffner Values had been presented at all Group locations worldwide and introduced with interactive training, taking into account the respective cultural circumstances. The values will be reinforced on an ongoing basis through further training courses.

The Schaffner value system is built on five fundamental values, which form the basis for working together within the Schaffner Group.

	<p>Leadership</p> <p>Schaffner managers are role models for their staff. They communicate the company's vision with persistence and ensure that employees know the goals and achieve them together. Schaffner places great importance on the personal development of its employees, in which they are supported by their supervisors.</p>
<p>Ownership</p> <p>Schaffner employees think for themselves and look beyond their own area of responsibility; this creates the basis for working in a solution-focused way. They are accountable for fulfilling their duties and for the consequences of their actions.</p>	
	<p>Customer focus</p> <p>Schaffner employees make every effort to understand the needs of their customers and to offer them tailor-made solutions. They are not only service providers but expert partners both to external and internal clients, and do everything possible to fulfill the expectations placed in them.</p>

Openness

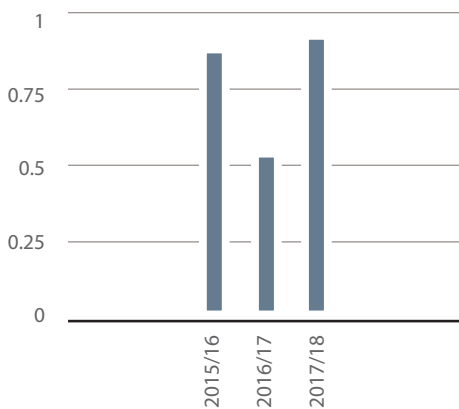
Schaffner employees value and take advantage of the cultural diversity of the Group’s global organization. A feedback culture and knowledge-sharing promote synergies, a positive working environment and continual improvement in work quality.



Passion

The passion that Schaffner employees bring to their work and products, and that drives them to give their best every day for external and internal clients, is contagious and helps create a motivating work environment.

Work-related lost-time accident rate
LTA per 250,000 work hours¹



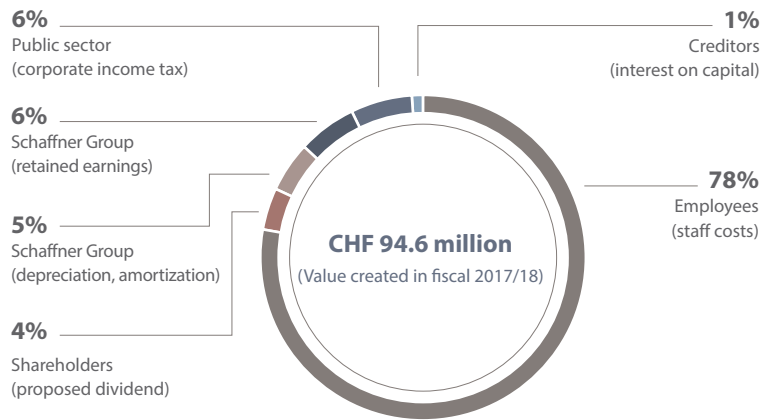
¹ For the fiscal year from October to September.

Schaffner is dedicated to promoting employees' health and workplace safety. Regular compliance checks are carried out at the Group sites. Findings relevant to the continuous advancement of workplace safety and support of employee health are analyzed and used in setting the health and safety objectives to be achieved at Group level and at the individual sites. Schaffner maintains an occupational health management system, for which a focus topic is chosen each year. The workshops for employees in 2018 focused on stress prevention and healthy sleep behavior. The program also includes an in-house sports offering, as well as regular “apple weeks” that 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 return, the Group is committed to supporting employees in their professional development. Individual training and development goals are set together with the employees, who are supported with funding and/or time in reaching these objectives. Through Schaffner’s own talent management program, employees are supported in their professional development and prepared for higher responsibilities within the Group.

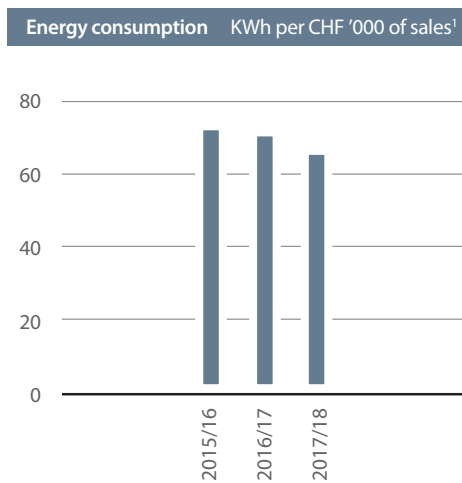
Schaffner employees receive a significant share of the value generated by the Group. In fiscal year 2017/18, Schaffner's value generation amounted to CHF 94.6 million, or 14% more than one year earlier. Of this total, 78% was directly or indirectly paid to employees and 6% flowed to the public sector in the form of corporate income tax. Four percent is available for distribution to shareholders (subject to their approval at the Annual General Meeting) and 11% remained in the company as depreciation, amortization and retained earnings.

Sharing of value generated in 2017/18



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 and CO₂ emissions in its business activities. Schaffner's aim is to help reduce climate-harming greenhouse gas emissions. Overall, the Schaffner Group's energy costs represent less than 1% of its sales.

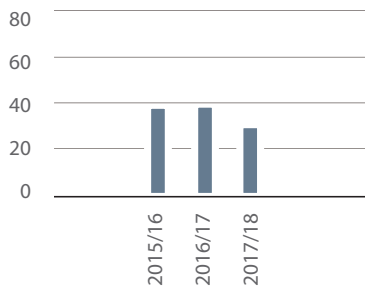


¹ Both values are measured for the period from July to June.

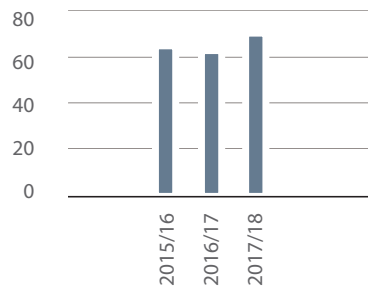
In the development of new products, care is taken to avoid, as far as possible, the use of materials and processes responsible for the production of greenhouse gases. For example, in the EMC and Automotive divisions, filters were marked with labels instead of ink, thus reducing the use of solvents to a minimum. The Schaffner Group's transformer plant in North America offers customers the capability to rewind old transformers on the existing structure and thus extend their service life. This allows much of the materials to be reused. Replaced copper is collected and recycled.

With coming moves to new buildings at two of its sites, Schaffner is also further lowering CO₂ emissions: In Luterbach, the relocation to the new headquarters is planned for late summer 2019. The new building will be heated mainly with geothermal probes that draw energy from groundwater, and which can also be used to cool the technical facilities as needed. As well, an efficient solar power system will supply electricity for the operation of the building. A further reduction in CO₂ emissions will be made possible by the new construction that will replace the manufacturing building damaged by fire in December 2017 at the plant in Lamphun, Thailand.

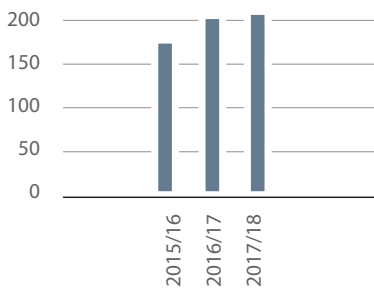
CO₂ emissions from production
Kg per CHF '000 of sales¹



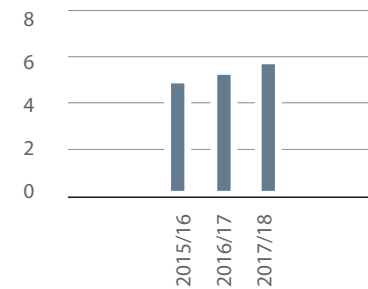
CO₂ emissions from transport
Kg per CHF '000 of sales¹



Water consumption
L per CHF '000 of sales¹



Waste generation
Kg per CHF '000 of sales¹



¹ Both values are measured for the period from July to June.

The global presence of the Schaffner Group, with production centers in Asia, Europe and the USA, enables substantial savings to be realized in transport costs. The share of air freight is systematically lowered in favor of sea freight, which allows a further decrease in CO₂ emissions (per unit of weight and distance transported). However, as a result of the manufacturing disruption following 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. In the year under review, goods produced in Shanghai were for the first time shipped to Europe by rail, as an alternative to air freight. Rail is about two weeks faster than sea freight, with a CO₂ load approximately 40 times less than for air freight.

While the amount of CO₂ emitted in connection with business travel in fiscal 2017/18 remained at the prior-year level in absolute terms, it fell significantly in relation to sales. The introduction of Skype for Business markedly improved communication over the Internet by enabling remote Group meetings to be held easily by video conference.

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.

Corporate governance

2017 18

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1 Basis of the corporate governance report

This corporate governance report of Schaffner Holding AG (“the Company”) describes the principles of leadership and control at the top organizational levels of the Company, 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 2017/18 is as at 30 September 2018 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 the following website:

www.schaffner-ir.com

2 Governance-related events in fiscal year 2017/18

2.1 Resolutions of the 22nd Annual General Meeting

At the 22nd Annual General Meeting (AGM) of Schaffner Holding AG on 11 January 2018, 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. Daniel Hirschi, who had served for eight years as a member of the Board of Directors – until 2017 as Chairman – did not stand for reelection. Urs Kaufmann was reelected 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 Compensation Committee. Shareholders at the 22nd AGM also reappointed the lawyer and notary Wolfgang Salzmann as the independent proxy for a further fiscal year and reelected BDO AG, Solothurn, as the external auditors for fiscal year 2017/18. 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 2016/17 in a consultative vote. For the compensation of the five-member Board of Directors, the shareholders approved a maximum aggregate amount of CHF 600 thousand for the term ending at the 23rd AGM, which will be held on 15 January 2019. For the compensation of the Executive Committee for fiscal year 2018/19 (based on the assumption that, in fiscal 2018/19, the Executive Committee will consist of a CEO and three other members), the shareholders approved a maximum aggregate amount of CHF 3,200 thousand. The minutes of the 22nd Annual General Meeting of Schaffner Holding AG can be accessed on the Schaffner Group’s website under the “Annual General Meeting” tab, at the following web address:

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

2.2 Changes in Executive Committee membership

On 1 January 2018, Max Bänziger assumed the responsibilities of Chief Operating Officer (COO) from Ah Bee Goh, who retired from the Group at the end of 2017 after reaching the age limit.

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 2018:

Annual General Meeting
Board of Directors Risk and Audit Committee, Compensation Committee, Nomination 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, CEO and Executive Committee, and the division of responsibilities between them, are described in this corporate governance report from page 26 in section 5.5, from page 29 in section 5.6 and from page 31 in section 6.

The Executive Committee had the following members and structure at 30 September 2018:

Executive Committee	
Marc Aeschlimann	Chief Executive Officer
Kurt Ledermann	Chief Financial Officer
Max Bänziger	Chief Operating Officer
Guido Schlegelmilch	Executive Vice President

More information about the Executive Committee is provided from page 31 of this corporate governance report, in section 6.

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 2018 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 82 of this report in the notes to the consolidated financial statements.

3.2 Significant shareholders

At 30 September 2018 there were 1,113 shareholders registered with voting rights in the share register of Schaffner Holding AG (prior year: 1,194). Of the issued shares, 99.7% represented free float (prior year: 99.8%). Schaffner Holding AG held 0.3% as treasury shares (prior year: 0.2%). At 30 September 2018, shares of unregistered owners amounted to 19.7% of the issued shares (prior year: 17.5%).

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 / M. Buhofer / R. Lombard	20%
J. Safra Sarasin Investmentfonds AG	10%
UBS Fund Management (Switzerland) AG	7%
Mirabaud – Equities Swiss Small and Mid	5%
Fortezza Finanz Aktienwerk (Teil 1 FCP)	3%
Cologne Advisors LLP	3%
Jörg Wolle	3%

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.

30 January 2018	Credit Suisse Funds AG: Fell below 3% of voting rights
11 April 2018	Cologne Advisors LLP: Camox Master Fund exceeded 3% of voting rights

Further information on significant shareholders is provided on page 93 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 has unissued authorized capital of CHF 590,850 to satisfy obligations under equity incentive plans. This capital (in German: bedingtes Kapital) consists of up to 18,180 fully payable registered shares with a nominal value of CHF 32.50 per share. Detailed information can be found on page 79 of this annual report 2017/18 of the Schaffner Group, in section 15 of the notes to the consolidated financial statements.

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 12 January 2016 (for fiscal year 2014/15) and 18 January 2018 (for fiscal year 2016/17) each passed a resolution to distribute CHF 6.50 per share (exempt from Swiss anticipatory tax) 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 60 of this annual report 2017/18. The comparative information on changes in equity for the three prior years is found on page 59 of the consolidated financial statements in the annual report 2016/17, on page 64 of the annual report 2015/16 and page 65 of the annual report 2014/15.

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 printing and delivery of certificates (physical securities) or to 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 convert bearer shares into registered shares.

4.4.2 Participation certificates

There were no participation certificates of Schaffner Holding AG at 30 September 2018 (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 2018 (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 of the Schaffner Group website at: www.schaffner-ir.com

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 share-holders 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 the balance sheet date of 30 September 2018, 19.7% (prior year: 17.5%) 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 plan

The share option plan for senior operational management and members of the Board of Directors of the Schaffner Group (the Employee Share Option Plan) is described in detail on page 79 in the consolidated financial statements.

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 2018 the Board of Directors consisted of five, non-executive members. In the three years prior to the reporting period (fiscal years 2014/15, 2015/16 and 2016/17), 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.

In fiscal year 2017/18 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 in 2014 and, from 2014 to 2017, was the Designated Representative of its Board. From 2002 to 2017 was CEO of Huber+Suhner, having joined its Executive Committee in 2001. Previously held various management positions in the same group. 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 (HWW), Horw

Since 1997 is an independent entrepreneur and member of boards of directors. From 2002 to 2003 was Designated Representative and Chairman of the Board of Directors 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

From 1 January 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, Zurmunt Finanz AG, Zurich; Zellweger Uster AG, Uster; and KPMG Fides, Zurich.

The Secretary of the Board, since June 2008, is Kurt Ledermann, 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; Chairman of the Board of Rapid Holding AG, Dietikon; Chairman of the Board of DAX Holding AG, Hagendorn; Designated Representative of the Board 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 Federation.

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 UPM Corporation, Finland, and a member of the Board of the Beckers Group, Sweden.

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 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 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 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 Compensation Committee and the Nomination 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 CEO, 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 Compensation Committee

The 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 identifying 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

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

Membership of the Compensation Committee

The 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 2018	Since AGM:
Urs Kaufmann , committee chairman	2017
Philipp Buhofer	2018
Suzanne Thoma	2012

The Compensation Committee convenes as often as business requires, and not less than 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 CEO, the Chief Financial Officer (CFO) and the Head of Corporate Human Resources. The Head of Corporate HR is not a member of the Executive Committee.

In the year under review the Compensation Committee was assisted by external advisors in revising the compensation system. The advising external consultancy is a leading international firm specializing in compensation and value-driven business management. It does not provide other services to Schaffner.

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 chair 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 2018	Since AGM:
Georg Wechsler , committee chairman	2012
Philipp Buhofer	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 CEO and the CFO usually attend the meetings. Additional persons may be asked to attend (particularly representatives of the auditors), at the discretion of the committee chairman.

5.5.2.3 Nomination Committee

The Nomination Committee acts solely in an advisory capacity. It regularly reports the results of its activities to the Board and submits the necessary proposals on the following types of matters to the Board Chairman for transaction by the Board:

- › Staff promotions to the Executive Committee
- › New hiring or dismissal of Executive Committee members; in the case of new hiring, members of the Nomination Committee participate in the evaluation of prospective staff

Membership of the Nomination Committee

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

The Nomination Committee meets as often as business requires, and generally at least once per year. Every member may request a meeting. Generally the meetings are attended by the CEO, the CFO and 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.

5.5.3 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 eight times. The following overview shows the individual Board members' attendance at Board and Board committee meetings:

Attendance at meetings	BD	RAC	CC	NC
Number of meetings held	8	2	4	5
Urs Kaufmann, Chairman	8	2	4	5
Philipp Buhofer, Vice Chairman	7	2	3	3
Daniel Hirschi, to January 2018	3	–	2	2
Gerhard Pegam	7	1	–	–
Suzanne Thoma	8	–	4	5
Georg Wechsler	7	2	–	–
Meeting length in hours	135–545 min.	110 min.	90 min.	60–90 min.
Average length in hours	270 min.	110 min.	90 min.	60 min.

BD Board of Directors

RAC Risk and Audit Committee

CC Compensation Committee

NC Nomination Committee

The CEO and CFO 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 Vice Chairman of the Board, the members and chair of the 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 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 CEO is responsible for the overall operational management of the Company. He has responsibility for the long-term success of the Group in terms of 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 CEO and CFO 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 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 CEO and CFO 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 as needed. 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.

In the year under review the Schaffner Executive Committee had four 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 terms of 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.
- › Submitting proposals to the Board, especially regarding strategy and financial targets, as well as regarding all business that requires Board approval under the Articles of Association, the Authorization Policy or the Organizational Regulations
- › Submitting proposals to the Nomination Committee for the nomination and removal of members of the Executive Committee
- › Submitting proposals to the 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 Committee 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 CEO 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 President

The Executive Vice President (EVP) is accountable for achieving the objectives within his 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 CEO 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 of the Group functions of the individual Executive Committee members
- › 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 CEO with due regard to the opinions expressed by the Executive Committee's members.

In fiscal year 2017/18 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, Univ. of Southern California
With the Schaffner Group since 1 September 2017 as CEO. Previously CEO of R&S Group, CEO of Piffner 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, born 1968

MSEE Degree in Electrical Engineering, Federal Institute of Technology (ETH), Zurich; Master of Arts HSG, University of St. Gallen
With the Schaffner Group since 1 June 2008 as CFO, and additionally as interim CEO from 16 July 2016 to 31 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.

Ah Bee Goh, COO (to 31 December 2017), born 1950

Honours Bachelor of Science in Production Engineering, University of Strathclyde; MSc in Industrial Engineering, National University of Singapore; MSc in Finance, University of Leicester; MBA, University of Surrey
With the Schaffner Group from 1 July 2007. Was VP, Manufacturing until 30 September 2011; COO from 1 October 2011. Previously Managing Director at Leica Instruments, Singapore, and in various management roles at Maxtor Peripherals, Seagate Technology and Tandon/Western Digital.

Max Bänziger, COO (from 1 January 2018), born 1967

MSc degree in Industrial Engineering and Management and BSc degree in Electrical Engineering, Federal Institute of Technology (ETH), Zurich
Joined the Schaffner Group in 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 1 February 2009 as Managing Director, Schaffner Deutschland. Executive VP and Head of EMC division since 1 October 2011. Previously held various management positions at Philips Semiconductors and NXP Semiconductors.

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 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 41 to 54 of this annual report.

8 Shareholder participation rights

8.1 Voting rights restrictions and proxy voting

At 30 September 2018 there were 1,113 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 share-holder 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 of the website at:

www.schaffner-ir.com

Further information regarding restrictions on transferability and nominee registrations is given from page 22 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 either clearly meet 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 share-holder, 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 Employee Share Option Plan 1998 (ESOP) and in the Restricted Share Plan (RSP) have the right to immediately exercise some or all of their options and/or sell some or all of their restricted 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 2017/18, BDO AG billed the Schaffner Group a total of CHF 203 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 201 thousand).

10.3 Additional fees

In addition, BDO AG invoiced the Schaffner Group CHF 10 thousand (prior year: CHF 25 thousand) for other services, which had the following composition:

In CHF '000	2017/18	2016/17
Tax consulting	0	9
Miscellaneous	10	16

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 CEO and CFO 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, Schaffner under the Listing Rules especially communicates information relevant to the share price (so-called “ad-hoc” disclosures), in accordance with sections 53 and 54 of the Listing Rules. The Schaffner 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
- › Road shows

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.

An important source of current in-depth information on the Group, including products and contact details, are these web pages:
www.schaffner.com
www.schaffner-ir.com

Investor relations contacts

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

› Kurt Ledermann, Chief Financial Officer
kurt.ledermann@schaffner.com

Financial calendar

<u>15 January 2019</u>	<u>23rd Annual General Meeting</u>
<u>7 May 2019</u>	<u>Publication of half-year report 2018/19</u>
<u>5 December 2019</u>	<u>Publication of annual report 2018/19</u>
<u>14 January 2020</u>	<u>24th Annual General Meeting</u>

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

Compensation report

2017 18

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1 Introduction

The compensation report of Schaffner Holding AG for 2017/18 provides an overview of the remuneration principles and compensation plans of the Schaffner Group. It describes how compensation is determined and contains detailed information on the compensation of the members of the Board of Directors and Executive Committee in fiscal year 2017/18.

This compensation report was drafted in accordance with the following regulatory provisions: the Ordinance Against Excessive Compensation at Listed Companies (OAEC) (VegüV), and section 95 para. 3 of the Swiss constitution; the Directive on Information Relating to Corporate Governance (the Corporate Governance Directive, or DCG), issued by the SIX Swiss Exchange; and the Swiss Code of Best Practice for Corporate Governance, issued by Economiesuisse.

In the Articles of Association of Schaffner Holding AG, the complete provisions concerning the principles of compensation for the Board of Directors and Executive Committee are found in the following articles: the compensation principles, in article 24; the voting on 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. 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), compensation is covered in section 2.4. 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.

On 1 October 2018 – subject to the approval of the 23rd Annual General Meeting on 15 January 2019 of the corresponding amendments to the Articles of Association – the Board of Directors put into effect a revised policy for setting the compensation of the management of the Schaffner Group (titled “Remuneration Policy for Board of Directors and Selected Key Employees of Schaffner Holding AG”).

2 Guiding principles

Based on the conviction that the performance of the Schaffner Group is powered in large measure by the quality and commitment of its people, the compensation policy is designed to attract, motivate and retain qualified employees for the long term. Performance-related compensation acts as an incentive for entrepreneurial thinking and action. The compensation system of the Schaffner Group supports these key goals. The most important principles underlying the remuneration system are:

- › Compensation that is performance-related and market-competitive
- › Promotion of the Group's financial and business success
- › Fairness and transparency in decisions on compensation
- › Appropriate balance of short-term and long-term compensation
- › Promotion of long-term engagement of the management to align its interests with those of shareholders

3 Responsibility and procedures for determining compensation

The Board of Directors annually submits a compensation report for shareholders’ consultative vote at the General Meeting. The report discloses the compensation provided in the most recent fiscal year ended before the date of the AGM.

The Board of Directors annually submits a proposal to the General Meeting for the approval of a maximum aggregate amount of compensation for the Board of Directors for the term ending at the next Annual General Meeting and for the Executive Committee for the fiscal year (1 October to 30 September) next following the AGM. Every year at the AGM, binding votes are held on the maximum aggregate amounts, which encompass the following items:

Board of Directors

- › Fixed compensation of the Board of Directors
- › Share awards to the members of the Board of Directors

Executive Committee

- › Fixed compensation of the Executive Committee
- › Variable and other compensation of the Executive Committee
- › Share awards to the members of the Executive Committee
- › Pension and other benefits

If the General Meeting declines to approve the maximum aggregate amount of compensation for the Board of Directors and/or for the Executive Committee, the Board may convene a new General Meeting.

Approval and authority levels for compensation decisions

Matter for decision	General Meeting	Board of Directors	Compensation Committee	CEO
Articles of Association (related to compensation)	Approves	Reviews	Proposes	–
Compensation policy and guidelines	–	Approves	Proposes	–
Maximum aggregate compensation of the Board of Directors and the Executive Committee	Approves	Reviews	Proposes	–
Compensation of the Board of Directors	–	Approves	Proposes	–
Compensation of the CEO	–	Approves	Proposes	–
Compensation of the other members of the Executive Committee	–	Approves	Reviews	Proposes
Restricted share awards	–	Approves	Reviews	Proposes
Compensation report	Consultative vote	Approves	Proposes	–

3.1 Compensation Committee

The Board of Directors is supported by a Compensation Committee, which consists of two or more members of the Board.

The Compensation Committee has the following general responsibilities:

- › Establishment and regular review of the Schaffner Group’s compensation policy and principles, performance criteria and performance targets; review of the implementation of the foregoing items and submission of proposals and recommendations to the Board of Directors regarding compensation policy and principles
- › 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; in particular, submission of proposals regarding the nature and amount of the annual compensation of the members of the Board of Directors and Executive Committee, and preparation of the proposals for the respective maximum aggregate amounts of compensation
- › Submission of proposals to the Board for identifying 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

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

3.2 Membership of the Compensation Committee

The 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 2018	Since AGM:
Urs Kaufmann , committee chairman	2017
Philipp Buhofner	2018
Suzanne Thoma	2012

The Compensation Committee convenes as often as business requires, and not less than twice per year. The committee may invite other Board members, Executive Committee members and specialists to its meetings as required. In the next Board meeting after a meeting of the Compensation Committee, the Board discusses and decides upon the recommendations of the Compensation Committee. The Board has access to all records and documents of the Compensation Committee if required.

The four meetings in the year under review were attended by the Chief Executive Officer, the Chief Financial Officer and the Head of Corporate Human Resources. The latter is not a member of the Executive Committee. At the Compensation Committee meetings, the CEO, CFO and Head of Corporate HR are not entitled to vote on compensation and are not present when their own performance or their own compensation are discussed and determined.

In the year under review, the Compensation Committee completely revised the compensation system of the Schaffner Group, in close consultation with an external advisor. The external consultancy is a leading international firm specializing in compensation and value-driven business management. It does not provide other services to Schaffner. The new compensation system enters into effect on 1 October 2018, subject to the retroactive approval by the 23rd Annual General Meeting on 15 January 2019 of the corresponding amendments to the Articles of Association.

4 Compensation system for the Board of Directors

4.1 Non-executive members of the Board

For their service on the Board – primarily preparing for and participating in Board meetings and working on the Board committees – the non-executive members of the Board receive a fixed annual fee in cash, a flat expense allowance, and shares of the Company under the equity incentive plan of Schaffner Holding AG; the value of the share awards must not exceed the amount of the fixed annual fee.

The members of the Board committees (Compensation Committee, Nomination Committee, and Risk and Audit Committee), in addition to the fixed fee for Board members, receive a flat annual committee fee, which differs in amount between committee chairs and the other committee members. Even if the recipient sits on several committees, this flat committee fee is paid only once per person. No other compensation is paid.

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 beginning immediately after the AGM and ending at the conclusion of the next AGM. The amount of the compensation for each Board member is set on a discretionary basis, taking into consideration the amount of responsibility assigned, the complexity of the duties, the required professional and personal qualifications and the expected demands on the Board member's time. Compensation levels also take into account remuneration at a sample of comparable, small-capitalization industrial companies listed on the Swiss stock exchange.

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.

Where members move from the Executive Committee to the Board of Directors or vice versa, the individual's entire compensation for the year under review is reflected and disclosed under the new position. When new members join the Board of Directors, they are compensated in this capacity generally from the month in which they take up the position.

When a member leaves the Board of Directors, compensation is paid until and including the month of departure.

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 Compensation Committee annually proposes to the Board of Directors the compensation of the Chief Executive Officer, and reviews the proposals of the CEO for the compensation of the other Executive Committee members.

The total compensation for a given member of the Executive Committee is based primarily on the amount of responsibility assigned, the individual's qualifications, the complexity of the duties involved, the level of target achievement, and the local labor market conditions in comparable industry sectors. The compensation consists of short-term incentives (base salary and variable cash compensation), long-term incentives (shares), and benefits (pension benefits and other compensation). As peers for compensation benchmarking, internationally operating Swiss industrial companies are used that are comparable in terms of annual sales, number of employees, industry sector and organizational structure (divisional structure, diversified product portfolio, international activities, etc.).

When required, international compensation analyses for selected management positions are assisted by a consulting firm specializing in international pay comparisons.

The compensation of the CEO and the other members of the Executive Committee consists of a fixed component, a variable cash element based on company performance, a variable cash element based on personal performance, and restricted share awards under the equity incentive plan of the Company, subject to the following qualifications and supplementary information:

- › The gross monthly salary is disclosed under fixed compensation.
- › All payments to pension plans and the contributions to management pension plans are reported under “pension costs”.
- › An individual’s performance-based compensation must not exceed the amount of his fixed compensation.
- › When new members join the Executive Committee, they are compensated in this capacity generally from the month in which they take up the position.
- › Where members move from the Executive Committee to the Board of Directors or vice versa, the individual’s entire compensation for the year under review is reflected and disclosed under the new position.
- › When a member leaves the Executive Committee, compensation is paid until the date of departure.

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).

5.1 Fixed base salary

The members of the Executive Committee receive a fixed base salary. The base salary is determined on a discretionary basis and takes into account the individual’s duties and amount of responsibility, the formal qualifications and experience required, as well as the market environment.

5.2 Variable cash compensation

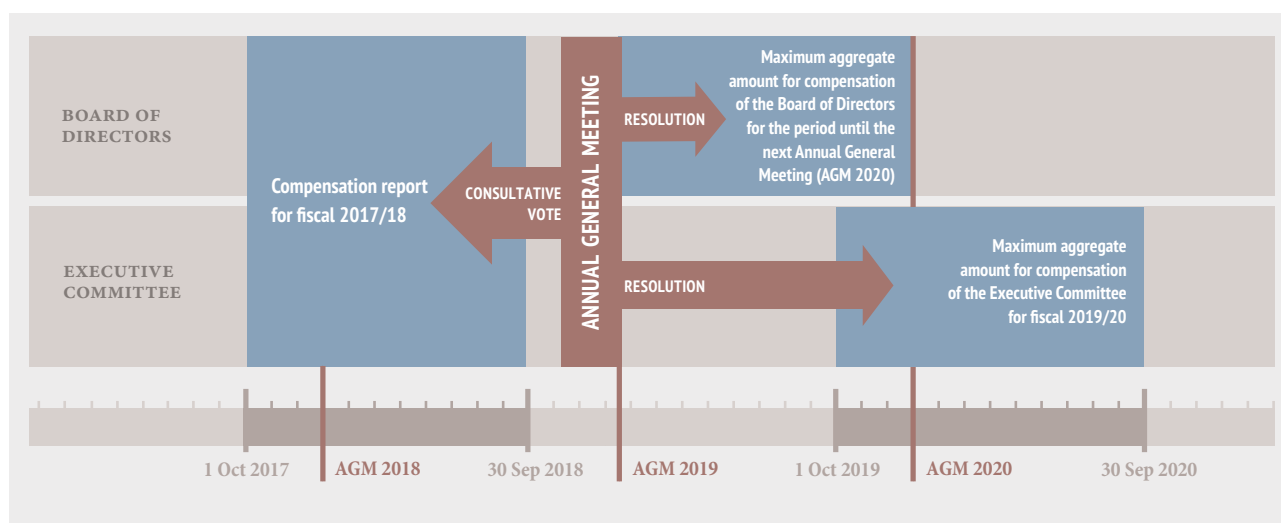
The variable, performance-related cash compensation (Management Incentive Plan, or MIP) is based on net profit for the period and on performance against personal targets. The performance-related compensation of the members of the Executive Committee is determined according to the following principles:

- › The target amount of performance-based compensation is contractually agreed (note: the target amount is the amount payable on exact achievement of the performance targets). This target amount can equal up to 50% of the fixed compensation.
- › The performance-related compensation can decrease to 0% of the target amount if the performance targets are not achieved, or can increase up to a maximum of 200% of the target amount if the performance targets are significantly surpassed.
- › The percentage share of net profit for the period is set by the Board of Directors individually for each Executive Committee member for several years at a time.
- › The personal performance targets are set anew at the beginning of each fiscal year by the Board of Directors. These are strategic, financial and/or individual targets. Performance against targets (i.e., target achievement) is evaluated by the Board after the end of the fiscal year.
- › The performance-related compensation is paid in cash.
- › After the annual financial statements have been audited, the Board decides the actual amounts of variable cash compensation, which may differ from the amounts accrued in the financial statements. The variable cash compensation is ordinarily awarded and paid after the annual financial statements have been adopted by the Annual General Meeting.

5.3 Equity incentive plan

The equity incentive plan (share ownership plan) of Schaffner Holding AG helps to ensure that the medium- and long-term interests of senior management are aligned with those of shareholders. The following criteria are used to determine the number of shares to be awarded to the members of the Board of Directors and Executive Committee under the equity incentive plan:

- › The number of shares to be awarded is set by the Board in its discretion, based on a proposal of the Compensation Committee; the aggregate amount of the shares awarded must not exceed 2% of the Company's share capital reported in the last annual report.
- › The shares are valued using the quoted market price at the date of the award (also referred to as the grant date).
- › The Board, based on a proposal of the Compensation Committee, sets the holding periods for the shares. These must be at least three years. However, the holding periods may terminate early in the event of a change of control or liquidation of the Company or the disability or death of the grantee.
- › The shares carry voting and dividend rights from the date of the award.
- › The shares required to deliver the equity incentive plan may be drawn from authorized capital designated for use in equity-based compensation (in German: bedingtes Kapital) or from other authorized capital (genehmigtes Kapital) or from treasury shares.
- › The value of the shares awarded is counted towards the maximum aggregate amount set prospectively by shareholders at the General Meeting.



Compensation system for the Chief Executive Officer

	Long-term target share of total compensation	Basis	Vehicle	Purpose	Drivers	Performance measures
Fixed base salary	50 – 60%	Employment contract	Monthly cash compensation	Base compensation for work performed; staff acquisition and retention	Position, market rates of pay, individual's skills and experience	–
Variable, performance-based compensation – management dividend	Approx. 10%	Management Incentive Plan (MIP)	Annual cash compensation	Alignment with shareholder interests; staff acquisition	Company performance	Net profit for the period
Variable, performance-based compensation – personal award	Approx. 10%	Management Incentive Plan (MIP)	Annual cash compensation	Alignment with shareholder interests; staff acquisition	Personal performance	Net sales, EBIT margin of the Group, strategy execution
Share-based compensation	5 – 15%	Restricted Share Plan (RSP)	Shares with mandatory holding period	Alignment with shareholder interests; staff retention	Share price over three years	Determined annually by the Board
Pension, insurance and perquisites	5 – 15%	Employment contract	Pensions and insurance plans, perquisites	Risk protection, staff acquisition and retention	Market practice, position as CEO	–

Compensation system for the other members of the Executive Committee

	Long-term target share of total compensation	Basis	Vehicle	Purpose	Drivers	Performance measures
Fixed base salary	50–60%	Employment contract	Monthly cash compensation	Base compensation for work performed; staff acquisition and retention	Position, market rates of pay, individual's skills and experience	–
Variable compensation – management dividend	Approx. 10%	Management Incentive Plan (MIP)	Annual cash compensation	Alignment with shareholder interests; staff acquisition	Company performance	Net profit for the period
Variable compensation – personal award	Approx. 10%	Management Incentive Plan (MIP)	Annual cash compensation	Alignment with shareholder interests; staff acquisition	Personal performance	Net sales, segment profit margin of the divisions, strategy execution
Share-based compensation	5–10%	Restricted Share Plan (RSP)	Shares with mandatory holding period	Alignment with shareholder interests; staff retention	Share price over subsequent three years	Determined annually by the Board
Pension, insurance and perquisites	5–15%	Employment contract	Pension and insurance plans, perquisites	Risk protection, staff acquisition and retention	Market practice, employee position	–

5.4 Additional amount for members of the Executive Committee

An “additional amount” within the meaning of section 19 OAEC (additional to the maximum aggregate amount) is available for Executive Committee members who are appointed after the approval of the current maximum aggregate amount. The value of the amount is governed by article 26 of the Company’s Articles of Association as follows: The additional amount for a new CEO must not be more than 25% higher than the amount which had been allocated to the previous CEO out of the maximum aggregate amount of compensation approved by the General Meeting for the respective fiscal year for the whole Executive Committee (it is important to note that the “additional” amount is thus called only because it is additional to the maximum aggregate amount – it is not additional to a predecessor’s compensation). For any other new member of the Executive Committee, the additional amount for each such member must not be more than 25% higher than the average total compensation of an Executive Committee member for the respective fiscal year. The average total compensation of a member of the Executive Committee is calculated as the approved maximum aggregate amount for the whole Executive Committee, less the amount attributable to the CEO, divided by the number of Executive Committee members (not counting the CEO) at the date of the approval by the General Meeting.

5.5 Loans, other credit, and pension benefits

Loans and other credit granted by the Company to a member of the Executive Committee, or guarantees or other sureties provided by the Company for obligations of an Executive Committee member, must not exceed CHF 50 thousand.

Pension and insurance 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 plans referred to in the previous paragraph or from the respective sets of regulations.

5.6 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 Board for fiscal year 2017/18

This section explains and describes the compensation paid by Schaffner Holding AG or its subsidiaries to the Board of Directors for fiscal year 2017/18.

6.1 Compensation of the members of the Board of Directors

The compensation of the members of the Board of Directors presented below includes the compensation in respect of the full year under review – consisting of cash fees and of restricted shares under the equity incentive plan of Schaffner Holding AG – subject to the following qualifications and supplementary information:

- › In the year under review, as in the prior year, the Company granted no loans or other credit of significant value to members of the Board of Directors and did not provide sureties or guarantees of significant value on behalf of Board members. As well, no such commitments or receivables were outstanding at the end of the fiscal year.
- › Neither Schaffner Holding AG nor another Group company waived repayment of any debt outstanding from a member of the Board of Directors.
- › In the year under review the members of the Board of Directors did not receive any fees or compensation for any additional services rendered to Schaffner Holding AG or another Group company.
- › In the year under review no compensation was paid to parties related to members of the Board of Directors.

6.2 Analysis of the Board's annual compensation

At the 2018 Annual General Meeting a maximum aggregate amount of CHF 600 thousand was approved for the compensation of the members of the Board of Directors for the term ending at the next AGM.

Board compensation for 2017/18

In CHF '000	Cash fees	Variable cash compensation	Restricted shares ¹	Pension costs	Other compensation	Total
Urs Kaufmann, Chairman	166		71			237
Daniel Hirschi, member until retirement in January 2018	14		32			46
Philipp Buhofer, Vice Chairman	50		32			82
Gerhard Pegam	50		32			82
Suzanne Thoma	50		32			82
Georg Wechsler	52		32			84
Total	382	0	228	0	0	610

¹ Measured at the closing share price of CHF 315.00 on the grant date of 3 January 2018.

The aggregate total compensation of the Board of Directors in the fiscal year under review was CHF 610 thousand (prior year: CHF 572 thousand). The increase in compensation of the Chairman of the Board is mainly due to the awarding of restricted shares, which were granted for the first time. As well, a base effect exists in that the Chairman's fee in the prior year was lower, reflecting the shorter period from the election at the January 2017 AGM to the prior-year reporting date at the end of September 2017. The effective increase in fiscal year 2017/18 was CHF 26 thousand. It reflects the responsibility as Chairman of the Board, the complexity of the duties involved, the required professional and personal qualifications, and the time demands of the position.

Board compensation for 2016/17 (adjusted¹)

In CHF '000	Cash fees	Variable cash compensation	Restricted shares ²	Pension costs	Other compensation	Total
Urs Kaufmann, Chairman, from January 2017	105		–			105
Daniel Hirschi, Chairman until January 2017, member thereafter	67		64			121
Herbert Bächler, until retirement in January 2017	17		32			44
Philipp Buhofer, Vice Chairman, from January 2017	38		–			38
Gerhard Pegam	50		32			77
Suzanne Thoma	50		32			77
Georg Wechsler	52		32			79
Total	379	0	193	0	0	572

¹ The prior year's values for restricted shares in this table, like the values for the fiscal year under review, are measured at the closing share price on the grant date. The corresponding fair values are shown in the table below.

² Measured at the closing share price of CHF 246.60 on the grant date of 4 January 2017.

The shares awarded to the Board of Directors under the Restricted Share Plan were as follows:

Restricted share awards

	2017/18			2016/17		
	Number of shares	Closing price at grant date in CHF '000 ¹	Fair value in CHF '000 ²	Number of shares	Closing price at grant date in CHF '000 ¹	Fair value in CHF '000 ²
Urs Kaufmann, Chairman, from January 2017	225	71	60	–	–	–
Daniel Hirschi, Chairman until January 2017, member thereafter until retirement in January 2018	100	32	26	260	64	54
Herbert Bächler, until retirement in January 2017	–	–	–	131	32	27
Philipp Buhofer, Vice Chairman, from January 2017	100	32	26	–	–	–
Gerhard Pegam	100	32	26	131	32	27
Suzanne Thoma	100	32	26	131	32	27
Georg Wechsler	100	32	26	131	32	27
Total	725	228	192	784	193	162

¹ Measured at the closing share price of, respectively, CHF 315.00 in 2017/18 (3 January 2018) and CHF 246.60 in 2016/17 (4 January 2017).

² Measured at a fair value of, respectively, CHF 264.48 in 2017/18 (3 January 2018) and CHF 207.05 in 2016/17 (4 January 2017).

The award of the shares is not tied to any specific conditions. Therefore there is no vesting period and the compensation is recognized at the grant date. The value recognized in staff costs at the grant date is based on the fair value of the shares. Fair value is measured at the quoted market price less a discount for the three-year holding period.

6.3 Board committee fees

The members of the Board committees (the Compensation Committee, Nomination Committee, and Risk and Audit Committee), in addition to the base fee for Board members, receive a flat annual committee fee totaling CHF 20 thousand for all recipients combined (prior year: CHF 23 thousand). A committee chair receives CHF 5 thousand (prior year: CHF 5 thousand) and the other committee members each receive CHF 3 thousand (prior year: 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 “cash fees”.

7 Compensation of the Executive Committee for fiscal year 2017/18

This section explains and describes the compensation paid by Schaffner Holding AG or its subsidiaries to the Chief Executive Officer and the other members of the Executive Committee for fiscal year 2017/18.

The remuneration of the members of the Executive Committee consists primarily of salaries, variable cash compensation, restricted shares under the equity incentive plan, and other compensation, such as contributions to rental or travel costs. The variable cash compensation is dependent upon corporate financial results and the achievement of personal performance targets.

The compensation of the Executive Committee disclosed below includes the compensation in respect of the full year under review, subject to the following qualifications and supplementary information:

- › All variable cash compensation is presented on an accrual basis, which means that 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.
- › Depending on their specific position and country of residence, members of the Executive Committee are in some cases provided with a company car. 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”.
- › Some members of the Executive Committee are also members of boards of directors of Group subsidiaries. Any directors’ fees for such board functions are paid to the employer of the Executive Committee member.
- › In the year under review, as in the prior year, no loans or other credit of significant value were granted to members of the Executive Committee and no sureties or guarantees of significant value were provided on their behalf. As well, no such commitments or receivables were outstanding at the end of the fiscal year.
- › Neither Schaffner Holding AG nor another Group company waived repayment of any debt outstanding from a member of the Executive Committee.
- › In the year under review the members of the Executive Committee did not receive any fees or compensation for any additional services rendered to Schaffner Holding AG or another Group company

7.1 Analysis of the Executive Committee's annual compensation

Executive Committee compensation for 2018/19

At the 2018 Annual General Meeting, a maximum aggregate amount of CHF 3,200 thousand was approved for the compensation of the Executive Committee for fiscal year 2018/19.

Executive Committee compensation for 2017/18

In CHF '000	Cash base salary	Variable cash compensation	Restricted shares ¹	Pension costs	Other compensation	Total compensation
Marc Aeschlimann, CEO, from 1 September 2017	400	172	8	94	7	681
Proportion of total compensation	59%	25%	1%	14%	1%	100%
Total for the other members of the Executive Committee (three persons)	842	289	156	222	186	1,694
Proportion of total compensation	50%	17%	9%	13%	11%	100%
Total	1,242	461	164	316	193	2,376
Proportion of total compensation	53%	19%	7%	13%	8%	100%

¹ Measured at the closing share price of CHF 315.00 on the grant date of 3 January 2018. The value recognized in staff costs at the grant date is based on the fair value of the shares (see below).

The compensation of the Executive Committee in the year under review increased by about 32% from the prior year. This was related primarily to the personnel changes within the Executive Committee. As well, the variable compensation rose as a result of the higher target achievement.

Executive Committee compensation for 2016/17 (adjusted¹)

In CHF '000	Cash base salary	Variable cash compensation	Restricted shares ²	Pension costs	Other compensation	Total compensation
Kurt Ledermann, CEO (interim) and CFO to 31 August 2017, CFO thereafter	347	83	78	92	109 ³	709
Proportion of total compensation	50%	12%	11%	13%	15%	100%
Total for the other members of the Executive Committee (two persons until 31 August 2017, three persons thereafter)	600	232	66	93	100	1,091
Proportion of total compensation	55%	21%	6%	9%	9%	100%
Total	947	315	144	185	209	1,800
Proportion of total compensation	53%	17%	8%	10%	12%	100%

¹ The prior year's values for restricted shares in this table, like the values for the fiscal year under review, are measured at the closing share price on the grant date. The corresponding fair values are shown in the table below.

² Measured at the closing share price of CHF 246.60 on the grant date of 4 January 2017.

³ In order to ensure a seamless transition when the new CEO assumed the position, the interim CEO was awarded a bonus of CHF 100 thousand in fiscal year 2016/17. This amount is included under "other compensation".

The shares awarded to the Executive Committee under the Restricted Share Plan were as follows:

Restricted share awards

	2017/18			2016/17		
	Number of shares	Closing price at grant date in CHF '000 ¹	Fair value in CHF '000 ²	Number of shares	Closing price at grant date in CHF '000 ¹	Fair value in CHF '000 ²
Marc Aeschlimann, CEO, from 1 September 2017	25	8	7	–	–	–
Kurt Ledermann, CEO (interim) and CFO until 31 August 2017, CFO thereafter	270	85	71	316	78	65
Ah Bee Goh, COO, until 31 December 2017	125	39	33	134	33	28
Max Bänziger, COO, from 1 January 2018	–	–	–	–	–	–
Guido Schlegelmilch, EVP, EMC division	100	32	26	134	33	28
Total	520	164	138	584	144	120

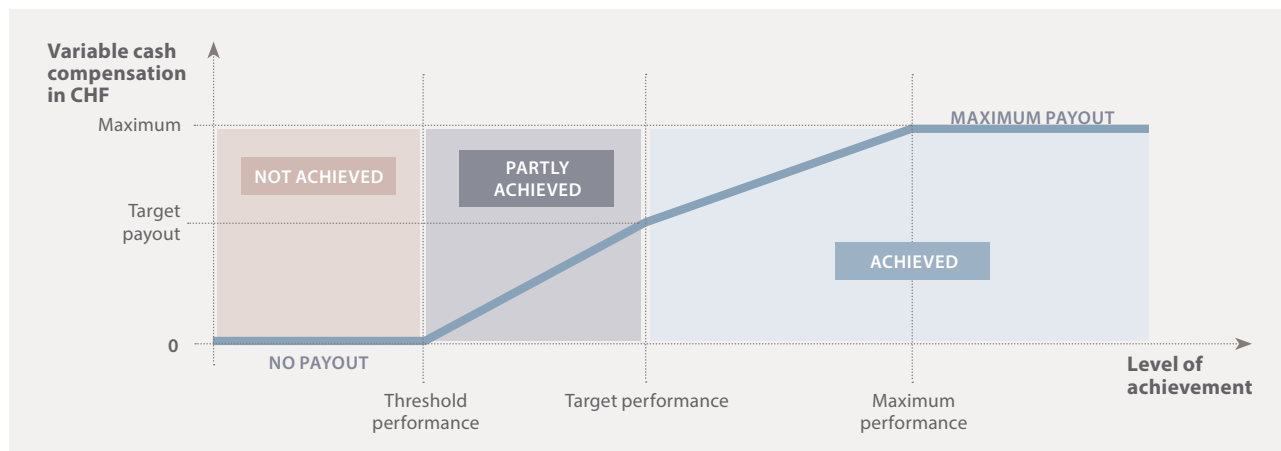
¹ Measured at the closing share price of, respectively, CHF 315.00 in 2017/18 (3 January 2018) and CHF 246.60 in 2016/17 (4 January 2017).

² Measured at a fair value of, respectively, CHF 264.48 in 2017/18 (3 January 2018) and CHF 207.05 in 2016/17 (4 January 2017).

The award of the shares is not tied to any specific conditions. Therefore there is no vesting period and the compensation is recognized at the grant date. The value recognized in staff costs at the grant date is based on the fair value of the shares. Fair value is measured at the quoted market price less a discount for the three-year holding period.

7.2 Target achievement

Below and above the target for each performance measure, a lower performance threshold (the “threshold” performance) and an upper performance limit (the “maximum” performance) are set. If the performance achieved is below the threshold level, no variable compensation is paid for this performance measure. If the performance exceeds the threshold but is below the target level, the target is considered partly achieved and the amount of variable compensation to be paid is interpolated on a straight-line basis. If the performance is at or above target, the target is considered achieved and the amount of variable compensation to be paid is interpolated on a straight-line basis, but cannot exceed the maximum payout.



7.3 Target achievement

The highest total compensation in the Schaffner Group for fiscal year 2017/18 was payable to Marc Aeschlimann, CEO. His total compensation for fiscal 2017/18, consisting of the fixed annual base salary, the variable performance-related compensation, long-term compensation elements, and pension and other compensation, amounted to CHF 681 thousand (prior year for Kurt Ledermann, interim CEO: CHF 709 thousand)

8 Former members of management

In the year under review, no compensation 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.

9 Related parties

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

10 Shares and options held by the members of the Board of Directors and Executive Committee

10.1 Registered shares

10.1.1 Board of Directors

Number of shares held at 30 September 2018	Freely transferable	Awarded 04.01.2016, blocked until 03.01.2019	Awarded 04.01.2017, blocked until 03.01.2020	Awarded 03.01.2018, blocked until 02.01.2021	Total
Urs Kaufmann, Chairman	–	–	–	225	225
Philipp Buhofer ¹ , Vice Chairman	129,047	–	–	100	129,147
Gerhard Pegam	0	145	131	100	376
Suzanne Thoma	353	145	131	100	729
Georg Wechsler	548	145	131	100	924
Total	129,948	435	393	625	131,401

¹ Including shares held by the shareholder group BURU Holding AG / M. Buhofer / R. Lombard.

10.1.2 Executive Committee

Number of shares held at 30 September 2018	Freely transferable	Awarded 04.01.2016, blocked until 03.01.2019	Awarded 04.01.2017, blocked until 03.01.2020	Awarded 03.01.2018, blocked until 02.01.2021	Total
Marc Aeschlimann, CEO	218	–	–	25	243
Kurt Ledermann, CFO	344	203	316	270	1,133
Max Bänziger, COO	0	0	0	0	0
Guido Schlegelmilch, EVP, EMC division	110	148	134	100	492
Total	672	351	450	395	1,868

10.2 Share options

In fiscal year 2012/13 the Board of Directors decided to replace the Employee Share Option Plan (ESOP) with a Restricted Share Plan (RSP). No new options have been awarded since including fiscal year 2012/13. However, any rights associated with previously issued options remain intact. These past awards were made in the discretion of the Board.

At 30 September 2017 (the end of the prior fiscal year), there were no longer any non-vested options, and all outstanding options were thus exercisable. The expiration date of the last outstanding options is 21 November 2018. However, the members of the Board of Directors and of the Executive Committee no longer hold any of the options.

10.3 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 the following link:

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



To the General Meeting of
Schaffner Holding AG, Luterbach

Solothurn, 3 December 2018

Report of the statutory auditor on the compensation report

We have audited the compensation report dated 3 December 2018 of Schaffner Holding AG for the year ended 30 September 2018. 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 9 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 dated 3 December 2018 of Schaffner Holding AG for the year ended 30 September 2018 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

2017 18

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Consolidated balance sheet

In CHF '000	Note	30.09.2018	30.09.2017
Intangible assets	2	844	685
Property, plant and equipment	3	28,039	23,088
Other non-current financial assets		1,019	1,056
Deferred tax assets	13	8,032	10,837
Total non-current assets		37,934	35,666
Prepaid expenses and deferred income		2,220	1,226
Inventories	4	40,477	37,222
Other current financial assets		2,956	1,916
Other receivables		2,668	3,155
Trade receivables	5	43,129	41,640
Cash and cash equivalents		19,096	16,474
Total current assets		110,546	101,633
Total assets		148,480	137,299
Exchange differences		-16,886	-16,968
Retained earnings		19,608	10,216
Treasury shares		-637	-299
Share premium		36,265	40,783
Share capital		20,668	20,668
Total shareholders' equity		59,018	54,400
Deferred tax liabilities	13	475	365
Non-current provisions	6	4,579	4,480
Non-current borrowings	7	1,311	28,852
Total non-current liabilities		6,365	33,697
Accrued expenses		14,581	12,431
Current provisions	6	1,871	1,492
Other payables		4,159	4,619
Trade payables		25,606	30,454
Current borrowings	7	36,880	206
Total current liabilities		83,097	49,202
Total liabilities		89,462	82,899
Total liabilities and shareholders' equity		148,480	137,299

Consolidated income statement

(year ended 30 September)

In CHF '000	Note	2017/18	2016/17
Net sales of goods and services	14	221,521	195,707
Cost of sales		- 158,593	- 140,119
Gross profit		62,928	55,588
Marketing and selling expense		- 19,509	- 17,099
Research and development expense		- 16,897	- 16,686
General and administrative expense		- 11,848	- 10,326
Other operating income	9	4,172	
Other operating expenses	9	- 1,688	
Operating profit (EBIT)		17,158	11,476
Finance income	12	841	2,660
Finance expense	12	- 2,947	- 3,221
Profit before tax (EBT)		15,052	10,915
Income tax	13	- 5,660	- 2,168
Net profit for the period		9,392	8,747
Earnings per share in CHF	16		
Basic		14.81	13.77
Diluted		14.80	13.76

Consolidated cash flow statement

(year ended 30 September)

In CHF '000	Note	2017/18	2016/17
Net profit for the period		9,392	8,747
Depreciation and impairment of property, plant and equipment	3	4,454	4,253
Amortization and impairment of intangible assets	2	323	643
Loss on disposal of property, plant and equipment and intangible assets		1,646	63
Change in provisions	6	561	-4,283
Change in deferred tax	13	2,778	206
Change in trade receivables		-2,176	-4,555
Change in inventories		-3,822	-5,582
Change in other receivables, prepaid expenses and deferred income		-482	-916
Change in trade payables		-5,051	7,019
Change in other current payables and accrued expenses		1,216	3,649
Expense for share-based payments to staff		605	564
Exchange differences on intra-Group items		1,820	-943
Other non-cash expenses		347	691
Cash flow from operating activities		11,611	9,556
Purchase of property, plant and equipment	3	-10,888	-5,279
Disposal of property, plant and equipment		277	991
Purchase of intangible assets	2	-482	-275
Change in current financial assets		-1,670	708
Change in loan receivables and non-current financial assets		31	35
Cash flow from investing activities		-12,732	-3,820
Purchase of treasury shares	17	-1,053	-1,059
Sale of treasury shares	17	0	47
Exercise of employee share options and purchase of restricted shares by staff	17	-273	-875
Repayment of excess share premium		-4,135	0
Proceeds from borrowings		9,560	0
Repayment of borrowings		0	-971
Amortization in connection with finance lease		-209	-197
Cash flow from financing activities		3,890	-3,055
Effect of exchange rates on cash and cash equivalents		-147	23
Change in cash and cash equivalents		2,622	2,704
Cash and cash equivalents at 1 October		16,474	13,770
Cash and cash equivalents at 30 September		19,096	16,474
Free cash flow¹		518	4,993
Included in cash flow from operating activities:			
Interest paid		-822	-1,091
Interest received		57	45
Income tax paid		-2,861	-848

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

Consolidated statement of changes in equity

	Share capital	Share premium	Cumulative exchange differences	Retained earnings	Treasury shares	Total shareholders' equity
In CHF '000						
At 1 October 2016	20,668	41,874	- 17,751	1,469	- 67	46,193
Net profit for the period as restated				8,747		8,747
Exchange differences			783			783
Treasury share transactions		- 136		- 564	- 232	- 932
Share option plans and restricted share plans		- 955		564		- 391
At 30 September 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

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.

There is also authorized unissued capital of 18,180 shares, with a total nominal value of CHF 591 thousand, that is reserved for the equity incentive plans (see note 15 on page 79; name of this capital in German: bedingtes Aktienkapital).

The Group's legally required retained earnings and share premium totaled CHF 31.3 million at the balance sheet date (prior year: CHF 35.5 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

The award of shares under the Restricted Share Plan, which are subject to a three-year holding period, is not tied to any vesting conditions. Therefore there is no vesting period and the compensation is recognized in staff costs at the grant date. Its fair value is measured at the quoted market price less a discount for the three-year holding period.

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	
		30.09.2018 In CHF	30.09.2017 In CHF	2017/18 In CHF	2016/17 In CHF
China	CNY 100	14.20	14.58	14.90	14.50
EU	EUR 100	113.15	114.55	116.01	109.42
UK	GBP 100	127.43	129.80	131.29	125.40
Hungary	HUF 100	0.35	0.37	0.37	0.35
India	INR 100	1.35	1.49	1.46	1.50
Japan	JPY 100	0.86	0.86	0.88	0.88
Sweden	SEK 100	10.98	11.87	11.42	11.38
Singapore	SGD 100	71.40	71.45	72.57	70.92
Thailand	THB 100	3.02	2.91	3.02	2.87
Taiwan	TWD 100	3.20	3.20	3.26	3.21
USA	USD 100	97.70	96.98	97.47	98.73

2 Intangible assets

In CHF '000	Technology and rights	Software	Intangible assets under construction	Total
Cost at 1 October 2016	428	9,517	0	9,945
Additions		248	27	275
Disposals		-60		-60
Reclassifications		27	-27	0
Exchange differences	19	25		44
Cost at 30 September 2017	447	9,757	0	10,204
Additions		482		482
Disposals		-30		-30
Exchange differences	-5	-3		-8
Cost at 30 September 2018	442	10,206	0	10,648
Accumulated amortization and impairment at 1 October 2016	-403	-8,491		-8,894
Amortization	-8	-635		-643
Disposals		60		60
Exchange differences	-19	-23		-42
Accumulated amortization and impairment at 30 September 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
Net book value at 30 September 2017	17	668	0	685
Net book value at 30 September 2018	15	829	0	844

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	2017/18	2016/17
Cost at 1 October	17,196	17,326
Exchange differences	64	-130
Cost at 30 September	17,260	17,196
Accumulated amortization and impairment at 1 October	-15,235	-14,033
Amortization	-1,317	-1,334
Exchange differences	48	132
Accumulated amortization and impairment at 30 September	16,600	-15,235
Hypothetical net book value at 30 September	660	1,961

Consistent with the internal organizational and reporting structure, impairment testing of the goodwill offset against equity is conducted on an operating segment basis. For the purposes of impairment testing, the segments are thus designated as the relevant cash-generating units (CGU). The impairment test is performed based on indications that goodwill items could potentially be impaired.

All of the Group's goodwill is allocated to the Power Magnetics segment and was tested for impairment. The recoverable amount of this segment is its value in use, which is calculated from discounted future cash flows based on the business plan for the next five years. The projection relies both on prior experience and on management's current judgment regarding the probable business trend in the relevant markets. An underlying assumption is that there will be no major organizational change.

It was confirmed that the hypothetical goodwill allocable to the Power Magnetics segment was not impaired.

As the goodwill is 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 2016	169	13,968	43,061	2,410	2,436	1,424	63,468
Additions		321	1,220	358	223	3,157	5,279
Disposals		-1,445	-602	-61	-171	-102	-2,381
Reclassifications		249	2,272	24	5	-2,550	0
Exchange differences	8	308	1,050	48	75	59	1,548
Cost at 30 September 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
Accumulated depreciation and impairment at 1 October 2016		-7,852	-28,992	-2,068	-2,056	0	-40,968
Depreciation		-767	-2,995	-292	-157		-4,211
Disposals		630	537	62	97		1,326
Impairment			-42				-42
Exchange differences		-135	-691	-42	-63		-931
Accumulated depreciation and impairment at 30 September 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
Net book value at 30 September 2017	177	5,277	14,818	439	389	1,988	23,088
Of which finance lease		2,135					2,135
Net book value at 30 September 2018	168	8,028	15,681	448	388	3,326	28,039
Of which finance lease		2,000					2,000

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”.

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

At the end of the fiscal year the Group had commitments to purchase property, plant and equipment in the amount of CHF 1,185 thousand (prior year: CHF 1,168 thousand).

The strong increase in property, plant and equipment in the fiscal year was related both to the fire at the Automotive division’s manufacturing plant in Thailand (see note 9) and the purchase of the previously leased production site property in Hungary for CHF 3.6 million.

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	30.09.2018	30.09.2017
Minimum lease payments due:		
Within 1 year	2,281	3,491
In more than 1 year and up to 5 years	8,870	4,490
In more than 5 years	4,814	0
Total minimum payments	15,965	7,981

Finance leases

The carrying amount of assets held under finance leases was CHF 2.0 million (prior year: CHF 2.1 million) and related to the leased logistics center in Wittelsheim, France. The associated obligations under finance leases were CHF 1.5 million (prior year: CHF 1.7 million).

4 Inventories

In CHF '000	30.09.2018	30.09.2017
Raw materials	14,802	14,340
Work in process and semi-finished goods	5,406	3,411
Finished goods	20,269	19,471
Total inventories	40,477	37,222

Inventory provisions

In CHF '000	2017/18	2016/17
At 1 October	3,512	3,269
Created	568	1,315
Used	-1,125	-810
Unused amounts reversed	-247	-376
Exchange differences	-55	114
At 30 September	2,653	3,512

5 Trade receivables

In CHF '000	30.09.2018	30.09.2017
Trade receivables from non-Group entities, gross	43,220	41,866
Provision for doubtful debts	-91	-226
Total trade receivables	43,129	41,640

Provision for doubtful debts

In CHF '000	2017/18	2016/17
At 1 October	226	455
Created	156	106
Used	-190	0
Unused amounts reversed	-92	-342
Exchange differences	-9	7
At 30 September	91	226

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

In CHF '000	Total	Not yet due	Overdue			
			Up to 30 days	31 to 60 days	61 to 90 days	More than 90 days
Trade receivables at 30 September 2017	41,866	32,631	4,999	2,328	525	1,383
Trade receivables at 30 September 2018	43,220	32,782	7,112	1,962	719	645

6 Provisions

In CHF '000	Warranty provisions	Pension provisions	Restructuring provisions	Other provisions	Total
At 1 October 2016	2,280	3,622	3,100	1,093	10,095
Created	639	226		77	942
Used	-98	-135	-2,864	-118	-3,215
Unused amounts reversed	-860	-758	-207	-185	-2,010
Exchange differences	41	101	-29	47	160
At 30 September 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
Non-current provisions	861	2,932	0	687	4,480
Current provisions	1,141	124	0	227	1,492
Total provisions at 30 September 2017	2,002	3,056	0	914	5,972
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

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 a period extending from the subsequent fiscal year to three years after the balance sheet date.

For specific warranty claims, additional provisions are created if the lump-sum provisions are either insufficient for these claims or 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 financial year under review, restructuring provisions were created for further optimization measures in the Power Magnetics division in Europe. Provisions in the amount of CHF 0.4 million were already used in the year under review. The outflow of the remaining CHF 0.6 million is expected to occur within twelve months.

Other provisions

The item "other provisions" consists largely of a provision of CHF 0.6 million for a court case in France representing customs risks. CHF 0.1 million was used for this purpose in the year under review.

7 Borrowings

The average interest rate payable on borrowings in fiscal year 2017/18 was 1.9% (prior year: 2.9%).

The composition of borrowings is shown in the following table:

In CHF '000	Effective interest rate at 30.09.2018	30.09.2018	30.09.2017
Bank loans in Switzerland	Libor (min. 0%) + 1.00%	36,692	27,334
Finance leases	4.51%	1,499	1,724
Total borrowings		38,191	29,058
Of which:			
Current borrowings		36,880	206
Non-current borrowings		1,311	28,852

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 less intangible assets.

The remaining maturities of the Group's individual bank borrowings at the balance sheet date ranged up to nine months. Under the credit agreements, they can be rolled over continuously until at least 30 June 2019.

The renegotiation of the credit agreements is in progress at the time of preparation of this report.

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 223 thousand (prior year: CHF 224 thousand) were pledged as collateral for electricity consumed and for pension liabilities.

9 Other operating income and expenses

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

Other operating income 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 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	2017/18	2016/17
Wages and salaries	55,184	50,835
Share-based payments expense ¹	413	402
Social security costs	10,958	9,471
Temporary employees and other staff costs	7,385	5,343
Total staff costs	73,940	66,051

¹ See note 15, page 79

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

The Schaffner Group holds an employer contribution reserve (ECR, consisting of prepaid employer contributions for future periods) at its Swiss pension fund. Its amount was CHF 15 thousand at the balance sheet date (prior year: CHF 541 thousand). This is used toward current contributions and is therefore capitalized in other current financial assets.

In CHF '000	Nominal amount	Amount subject to usage restriction	Balance	Balance	Net contribution from ECR recognized in staff costs	
	30.09.2018	30.09.2018	30.09.2018	30.09.2017	2017/18	2016/17
Pension plans	15	0	15	541	526	387
Balance	15	0	15	541	526	387

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 CHF '000	Plan surplus/ (–deficit)	Economic benefit/ (–obligation) of the Schaffner Group		Exchange differences	Change ¹ recognized in income statement	Accrued contributions	Pension costs recognized in staff costs	
	30.09.2018	30.09.2018	30.09.2017	2017/18	2017/18	2017/18	2017/18	2016/17
Plans with a surplus	68	0	0	0	0	1,097	1,097	1,051
Unfunded plans	0	–2,546	–2,326	49	171	334	506	–391
Balance	68	–2,546	–2,326	49	171	1,431	1,603	660

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 2.5 million (prior year: CHF 2.3 million) and related to the pension plans in Germany, France, Thailand, Italy and Japan.

12 Finance income and expense**Finance income**

In CHF '000	2017/18	2016/17
Interest income	57	45
Foreign exchange gains	784	2,615
Total finance income	841	2,660

Finance expense

In CHF '000	2017/18	2016/17
Interest cost	–831	–1,064
Foreign exchange losses	–1,779	–1,818
Other finance expense	–337	–339
Total finance expense	–2,947	–3,221

13 Income tax

In CHF '000	2017/18	2016/17
Current tax in respect of the current year	-2,628	-2,270
Adjustments in respect of prior periods, net	-254	308
Current tax	-2,882	-1,962
Current tax	-2,882	-1,962
Deferred tax	-2,778	-206
Income tax	-5,660	-2,168

Deferred tax liabilities of CHF 2.6 million (prior year: liabilities of CHF 2.1 million) for temporary differences in connection with reinvested profits in subsidiaries were not recognized 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 2018 there were tax loss carryforwards and interest carryforwards of CHF 33.2 million (prior year: CHF 28.5 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 23.6% (prior year: 28.8%).

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

In CHF '000	2017/18	2016/17
Expiry in 1 year	0	1,120
Expiry in 2 years	65	200
Expiry in 3 years	0	108
Expiry in 4 years	0	0
Expiry in 5 years	9,550	0
Expiry in more than 5 years	23,558	27,081
Total unused tax loss carryforwards and interest carryforwards	33,173	28,509
Potential positive tax effect	7,829	8,210

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

In CHF '000	2017/18	2016/17
Profit before tax reported in the income statement	15,052	10,915
Nominal tax rate	23%	23%
Expected income tax at nominal tax rate	-3,462	-2,510
Effect of non-recognition of tax loss carryforwards	-1,935	-2,224
Effect of tax rates/tax bases other than nominal tax rate/tax bases	2,105	2,019
Effect of expenses not deductible for tax purposes	-146	3
Effect of non-taxable income	513	0
Utilization of previously unrecognized tax losses or gains	382	314
Adjustments in respect of prior periods	-254	308
Non-refundable withholding taxes	-143	-148
Change in recognition of tax loss carryforwards	0	8
Effect of changes in tax rates or of new taxes	-2,720	-2
Other	0	64
Income tax (-expense) reported in the income statement	-5,660	-2,168

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 8.9% (prior year: 2.6%).

The Tax Cuts and Jobs Act passed in the United States in December 2017 stipulates 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 year under review 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	2017/18	2016/17
Intangible assets	2,354	4,292
Property, plant and equipment	-755	-923
Other non-current assets	-48	-64
Inventories	1,710	2,136
Trade receivables	4	3
Provisions	605	533
Trade and other payables	825	1,452
Tax loss carryforwards	2,861	3,043
Net deferred tax assets	7,556	10,472
Of which:		
Reported in the balance sheet as deferred tax liabilities	-475	-365
Reported in the balance sheet as deferred tax assets	8,032	10,837

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 entry 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 business 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.

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 expenses		-1,278			-1,278
Operating profit/(-loss) (EBIT)	17,788	-6,782	11,303	-5,151	17,158
Finance income					841
Finance expense					-2,947
Profit before tax (EBT)					15,052
Income tax					-5,660
Net profit for the period					9,392

2016/17	EMC	PM	AM	Corporate	Group
In CHF '000					
Net sales	98,280	50,042	47,385		195,707
Segment profit/(-loss)	13,346	-6,967	9,427	-4,330	11,476
Operating profit/(-loss) (EBIT)	13,346	-6,967	9,427	-4,330	11,476
Finance income					2,660
Finance expense					-3,221
Profit before tax (EBT)					10,915
Income tax					-2,168
Net profit for the period					8,747

Information by region

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

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

2016/17	Europe	Asia	North America	Group
In CHF '000				
Net external sales	83,046	70,682	41,979	195,707

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).

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 Restricted Share Plan (RSP). As a result, no new options have been issued since including fiscal year 2012/13. However, any rights associated with previously issued options remain intact.

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 can be drawn (i) from authorized unissued share capital of CHF 591 thousand, consisting of 18,180 registered shares of Schaffner Holding AG, and (ii) from treasury shares.

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

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

	30.09.2018		30.09.2017	
	Number of share options outstanding	Average exercise price in CHF	Number of share options outstanding	Average exercise price in CHF
At 1 October	4,060	236	16,675	224
Granted in the year	0		0	
Exercised in the year	- 3,320	236	- 12,415	221
Expired/canceled in the year	0		- 200	160
At 30 September	740	235	4,060	236
Of which:				
Vested	740	235	4,060	236
Covered by treasury shares	740		1,004	
Covered by authorized unissued share capital	0		3,056	
Uncovered	0		0	

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

Expiry date	30.09.2018		30.09.2017	
	Number of share options outstanding	Exercise price in CHF	Number of share options outstanding	Exercise price in CHF
29.11.2017	0	240.50	795	240.50
21.11.2018	740	235.00	3,265	235.00
Total	740		4,060	

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

Share-based incentive plans

Restricted Share Plan

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.

In the year under review, 2,288 shares (prior year: 2,722 shares) with a fair value of CHF 264 per share (prior year: CHF 207 per share) were granted. The expense of CHF 605 thousand (prior year: CHF 564 thousand) was recognized in the year under review.

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.

	2017/18	2016/17
Basic earnings per share		
Net profit for the period in CHF '000	9,392	8,747
Weighted average number of shares outstanding entitled to dividend	634,326	635,282
Basic earnings per share in CHF	14.81	13.77

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 all potentially dilutive outstanding share options.

	2017/18	2016/17
Diluted earnings per share		
Net profit for the period in CHF '000	9,392	8,747
Relevant share options outstanding, in number of shares	191	619
Weighted average number of shares outstanding used in calculation of diluted earnings per share	634,517	635,901
Diluted earnings per share in CHF	14.80	13.76

17 Treasury shares

	Number of shares	Average share price in CHF	At average price in CHF '000
At 1 October 2016	293	229	67
+ Purchase ¹	4,103		1,059
– Sale ¹	– 170		– 47
– Shares utilized for option-based incentive plans ²	– 500		– 80
– Shares utilized for restricted share plans ²	– 2,722		– 564
Valuation differences ³			– 136
At 30 September 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

¹ At share prices quoted at the transaction date.

² At the exercise price (in the case of option-based incentive plans) or at fair value (in the case of restricted share plans).

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 48.

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 3 December 2018 for publication and will be presented to shareholders for adoption at the Annual General Meeting on 15 January 2019.

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 2018:

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, 3 December 2018

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 2018, the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 57 to 82) give a true and fair view of the consolidated financial position of the Group as at 30 September 2018 and of 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 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

Taking into account the restructuring expenses, the PM division posted a loss of about CHF 6.8 million for fiscal year 2017/18. The production facilities allocated to this division were therefore reviewed for possible 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 8.0 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. We involved our own expert to assist us in this work

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. We involved our own experts to assist us in this work.



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, 3 December 2018

BDO Ltd

Beat Rüfenacht

Auditor in Charge

Licensed Audit Expert

Christoph Tschumi

Licensed Audit Expert

Balance sheet

In CHF '000	Note	30.09.2018	30.09.2017
Cash and cash equivalents, and current assets with a quoted market price	2.1	99	60
Other current receivables	2.2	3,620	1,196
Prepaid expenses and deferred income		62	159
Current assets		3,781	1,415
Investments in subsidiaries	2.3	85,251	85,251
Non-current assets		85,251	85,251
TOTAL ASSETS		89,032	86,666
Current interest-bearing liabilities	2.4	4,200	4,879
Other current payables	2.5	7,492	2,202
Accrued expenses	2.6	838	697
Current liabilities		12,530	7,778
Non-current provisions	2.7	7	7
Non-current liabilities		7	7
Total liabilities		12,537	7,785
Share capital	1.1	20,668	20,668
Legally required capital reserves			
Share premium	2.8	27,210	31,338
Legally required retained earnings			
General legally required retained earnings		4,134	4,134
Discretionary retained earnings			
Earnings brought forward		23,041	22,362
Net profit for the year		2,079	679
Treasury shares	5.1	-637	-299
Shareholders' equity		76,495	78,881
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		89,032	86,666

Income statement

(year ended 30 September)

In CHF '000	Note	2017/18	2016/17
Operating income	3.1	7,157	6,375
Net sales of services		7,157	6,375
Staff costs		-2,938	-2,980
Other operating expenses	3.2	-2,076	-2,011
Operating profit before interest and tax (EBIT)		2,143	1,384
Finance income	3.3	179	36
Finance expense	3.4	-37	-641
Profit before tax (EBT)		2,285	779
Direct tax		-206	-100
Net profit for the year		2,079	679

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. This share-based payment represents compensation solely for the work done in the year of the award. The entire expense is therefore recognized in the award year.

2 Notes to the balance sheet

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

In CHF '000	30.09.2018	30.09.2017
Bank deposits	99	60
Total	99	60

2.2 Other current receivables

In CHF '000	30.09.2018	30.09.2017
Other receivables from non-Group entities	33	32
Other receivables from subsidiaries	3,587	1,164
Total	3,620	1,196

2.3 Investments in subsidiaries

Directly held

In CHF '000, except %	Details	30.09.2018	30.09.2017
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	30.09.2018	30.09.2017
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%

2.4 Interest-bearing liabilities

In CHF '000	30.09.2018	30.09.2017
Interest-bearing liabilities to subsidiaries	4,200	4,879
Total	4,200	4,879
Of which:		
Current interest-bearing liabilities	4,200	4,879
Non-current interest-bearing liabilities	0	0

2.5 Other current payables

In CHF '000	30.09.2018	30.09.2017
Other liabilities to non-Group entities	134	321
Other liabilities to social security plans	29	27
Other liabilities to subsidiaries	7,329	1,854
Total	7,492	2,202

2.6 Accrued expenses

In CHF '000	30.09.2018	30.09.2017
Accrued tax	121	
Accrued social security expenses	54	68
Accrued performance-related compensation	427	191
Other accrued expenses	236	438
Total	838	697

2.7 Non-current provisions

In CHF '000	30.09.2018	30.09.2017
Provisions for length-of-service awards	7	7
Total	7	7

2.8 Share premium

In CHF '000	30.09.2018	30.09.2017
Share premium	27,210	31,338
Total	27,210	31,338

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	2017/18	2016/17
Income from management fees	3,720	3,367
Income from licensing	3,437	3,008
Total	7,157	6,375

3.2 Other operating expenses

In CHF '000	2017/18	2016/17
General and administrative expense	-1,208	-956
Consulting expenses	-717	-612
Miscellaneous operating expenses	-151	-443
Total	-2,076	-2,011

3.3 Finance income

In CHF '000	2017/18	2016/17
Interest income from non-Group entities	4	2
Interest income from subsidiaries	57	26
Other finance income	6	8
Exchange differences	112	0
Total	179	36

3.4 Finance expense

In CHF '000	2017/18	2016/17
Interest expense with subsidiaries	-37	-55
Exchange differences	0	-586
Total	-37	-641

4 Notes on compensation

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

	30.09.2018		30.09.2017	
	Number of shares held	Number of share options held	Number of shares held	Number of share options held
Board of Directors				
Urs Kaufmann, Chairman	225	0	0	0
Daniel Hirschi, member until January 2018			1,365	0
Philipp Buhofer ¹	129,147	0	129,047	0
Gerhard Pegam	376	0	384	0
Suzanne Thoma	729	0	629	0
Georg Wechsler	924	0	824	0
Total holdings of the Board of Directors	131,401	0	132,249	0
Executive Committee				
Marc Aeschlimann, CEO	243	0	218	0
Kurt Ledermann, CFO	1,133	0	2,250	700
Max Bänziger, member from 1 November 2017; COO	0	0		
Ah Bee Goh, COO, until 31 December 2017			782	200
Guido Schlegelmilch, Executive VP, EMC division	492	0	717	500
Total holdings of the Executive Committee	1,868	0	3,967	1,400

¹ Including shares held by the shareholder Group BURU Holding AG / M. Buhofer / R. Lombard.

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:

	2017/18		2016/17	
	Number of shares	In CHF '000	Number of shares	In CHF '000
Awarded to the Board of Directors	725	192	784	162
Awarded to the Executive Committee	520	138	584	121
Awarded to other employees	1,043	275	1,354	280
Total	2,288	605	2,722	563

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 2016	293	229	67
+ Purchase ¹	4,103		1,059
- Sale ¹	- 170		- 47
- Shares utilized for option-based incentive plans ²	- 500		- 80
- Shares utilized for restricted share plans ²	- 2,722		- 564
Valuation differences ³			- 136
At 30 September 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

¹ At share prices quoted at the transaction date.

² At the exercise price (in the case of option-based incentive plans) or at fair value (in the case of restricted share plans).

³ 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:

	30.09.2018		30.09.2017	
	Number of shares	Equity interest	Number of shares	Equity interest
Shareholder group BURU Holding AG / M. Buhofer / R. Lombard	129,147	20.31%	129,047	20.29%
J. Safra Sarasin Investmentfonds AG	62,271	9.79%	62,271	9.79%
UBS Fund Management (Switzerland) AG	43,101	6.78%	43,101	6.78%
Mirabaud – Equities Swiss Small and Mid	29,002	4.56%	29,002	4.56%
Credit Suisse Funds AG			19,112	3.01%
Fortezza Finanz Aktienwerk (Teil 1 FCP)	19,200	3.02%	19,200	3.02%
Dr Jörg Wolle	19,100	3.00%	19,100	3.00%
Cologne Advisors LLP	19,090	3.00%		
Shareholders with interests of less than 3%	313,015	49.22%	314,103	49.39%
Free float	633,926	99.68%	634,936	99.84%
Treasury shares	2,014	0.32%	1,004	0.16%
Total shares outstanding	635,940	100.00%	635,940	100.00%

5.3 Total amount of security pledged for liabilities of third parties

In CHF '000	30.09.2018	30.09.2017
Guarantee obligations	49,500	49,500
Of which utilized in subsidiaries in respect of credit obligations	26,056	21,606

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	30.09.2018	30.09.2017
Due in:		
Up to 1 year	28	26
More than 1 and up to 5 years	59	87
More than 5 years	0	0
Total	88	113

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 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 3 December 2018 for publication and will be presented to shareholders for adoption at the Annual General Meeting on 15 January 2019.

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	30.09.2018	30.09.2017 ¹
Earnings brought forward	23,040	22,362
Net profit for the year	2,079	679
Retained earnings available for distribution	25,119	23,040
Transfer to legally required reserves ²	0	0
Earnings carried forward	25,119	23,040

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	30.09.2018	30.09.2017 ¹
Distributable share premium reserve brought forward	0	0
Transfer from share premium account to distributable share premium reserve	4,121	4,128
Distribution of CHF 6.50 (prior year: CHF 6.50) per share entitled to dividends, exempt from Swiss anticipatory tax	-4,121	-4,128
Distributable share premium reserve carried forward	0	0
Total number of shares outstanding	635,940	635,940
Number of treasury shares	-2,014	-1,004
Number of shares entitled to dividends ²	633,926	634,936

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, 3 December 2018

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 2018 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 86 to 94) as at and for the year ended 30 September 2018 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 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 2018 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 2018, 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 2.3 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 association, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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



Report on Other Legal and Regulatory Requirements

In accordance with article 728a 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 share premium complies with Swiss law and the company's articles of association.

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

Solothurn, 3 December 2018

BDO Ltd

Beat Rüfenacht
Auditor in Charge
Licensed Audit Expert

Christoph Tschumi
Licensed Audit Expert



Headquarters and global innovation and development center

Switzerland
Schaffner Holding AG
 Nordstrasse 11
 4542 Luterbach
 T +41 32 681 66 26
 switzerlandsales@schaffner.com
 www.schaffner.com



Customer service and application centers

China
Schaffner EMC Ltd. Shanghai
 T20-3, No 565 Chuangye Road
 Pudong New Area
 201201 Shanghai
 T +86 21 3813 9500
 F +86 21 3813 9501 / 02
 cschina@schaffner.com
 www.schaffner.com.cn

Finland
Schaffner Oy
 Sauvonrinne 19 H
 08500 Lohja
 T +358 50 468 7284
 finlandsales@schaffner.com

France
Schaffner EMC S.A.S.
 16-20, Rue Louis Rameau
 95875 Bezons
 T +33 1 34 34 30 60
 F +33 1 39 47 02 28

Germany
Schaffner Deutschland GmbH
 Schoemperlenstrasse 12B
 76185 Karlsruhe
 T +49 721 56910
 F +49 721 569110
 germanysales@schaffner.com

India
Schaffner India Pvt. Ltd.
 Unit 59, Level, Mfar Greenheart 7
 Manyata Tech Park,
 Hebbal Outer Ring Road
 560045 Bangalore
 T +91 80 6781 9805
 F +91 80 6781 9998
 indiasales@schaffner.com

Italy
Schaffner EMC S.r.l.
 Via Ticino, 30
 20900 Monza (MB)
 T +39 039 21 41 070
 italysales@schaffner.com

Japan
Schaffner EMC K.K.
 1-32-12, Kamiyama, Setagaya-ku
 7F Mitsui-Seimei Sangenjaya Bldg.
 154-0011 Tokyo
 T +81 3 5712 3650
 F +81 3 5712 3651
 japansales@schaffner.com
 www.schaffner.jp

Singapore
Schaffner EMC Pte Ltd.
 Blk 3015A Ubi Road 1
 408705 Singapore
 T +65 6377 3283
 F +65 6377 3281
 singaporesales@schaffner.com

Spain
Schaffner EMC España
 Calle Caléndula 93, Miniparc III, Edificio E
 El Soto de la Moraleja, Alcobendas
 28109 Madrid
 T +34 917 912 900
 F +34 917 912 901
 spainsales@schaffner.com

Sweden
Schaffner EMC AB
 Tegeluddsvägen 76, 2tr
 115 28 Stockholm
 T +46 8 5050 2425
 swedensales@schaffner.com
 www.schaffner.com

Switzerland
Schaffner EMV AG
 Nordstrasse 11
 4542 Luterbach
 T +41 32 681 66 26
 switzerlandsales@schaffner.ch

Taiwan
Schaffner EMV Ltd.
 20th Floor-2, No. 97
 Section 1, XinTai 5th Road
 XiZhi District
 New Taipei City 22175
 P +886 2 26975500
 F +886 2 26975533
 www.schaffner.com.tw
 taiwansales@schaffner.com

Thailand
Schaffner EMC Co. Ltd.
 Northern Region Industrial Estate
 67 Moo 4 Tambon Ban Klang Amphur
 Muangg P.O. Box 14
 Lamphun 51000
 T +66 53 58 11 04
 F +66 53 58 10 19
 thailandsales@schaffner.com

UK
Schaffner Ltd.
 5 Ashville Way
 Molly Millars Lane
 Wokingham
 Berkshire RG41 2PL
 T +44 118 977 0070
 F +44 118 979 2969
 uksales@schaffner.com
 www.schaffner.uk.com

USA
Schaffner EMC Inc.
 52 Mayfield Avenue
 08837 Edison, New Jersey
 T +1 800 367 5566
 T +1 732 225 9533
 F +1 732 225 4789
 usasales@schaffner.com
 www.schaffnerusa.com

Schaffner North America
 6722 Thirlane Road
 24019 Roanoke, Virginia
 T +1 276 228 7943
 F +1 276 228 7953
 usasales@schaffner.com
 www.schaffnerusa.com

Schaffner North America
 823 Fairview Road
 24382 Wytheville, Virginia
 T +1 276 228 7943
 F +1 276 228 7258
 usasales@schaffner.com
 www.schaffnerusa.com

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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Schaffner Holding AG
Nordstrasse 11
4542 Luterbach, Switzerland

- › T +41 32 681 66 26
- › www.schaffner-ir.com
- › www.schaffner.com