

Schaffner Group
Annual Report
2016/17



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About the cover photo

Solutions from Schaffner allow the reliable functioning of rapid charging stations for electric vehicles. The system on the cover photograph is installed in Differdange, Luxembourg. In this system by the Dutch company Heliox, DC filters of type FN2200 from Schaffner support the efficient operation of several electric transit buses.

Structure of this report

This annual report comprises the business review and financial reporting of the Schaffner Group, as well as its corporate governance and compensation reports, for fiscal year 2016/17.

Accounting and financial reporting

The information on the financial position, results of operations and cash flows of the Schaffner Group has been prepared in accordance with the current 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.

Sustainability

Information about the social performance of the Schaffner Group can be found at:
www.schaffner.com/sustainability.

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 company'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 convenience and safety features in cars, and filter solutions for electric vehicles and their charging infrastructure. Schaffner components are deployed in electronic motor controls, in wind power and photovoltaic systems, rail technology applications, machine tools and robots, electrical infrastructure, and in power supplies for electronic devices. 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 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'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, electrical infrastructure, renewable energy, rapid charging systems for electric vehicles, power supply systems for electronic devices, as well as machine tools and robotics.

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 the optimum adaptation of the systems to electricity grids. The main sales markets include rail technology, energy-efficient drive systems, renewable energy, and charging infrastructure for electromobility.

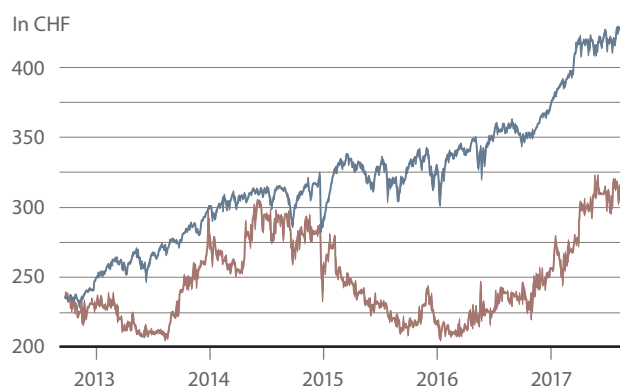
The Automotive division (AM) supports leading automobile manufacturers and system suppliers with its specialized EMC expertise, including particularly in the development and manufacturing of filters for the drive systems of hybrid and electric vehicles. In the world market for antennas used in keyless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

		2012/13	2013/14	2014/15	2015/16	2016/17
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)		633,859	633,349	634,117	635,594	635,282
Earnings per share (EPS)	in CHF	9.64	19.94	12.14	0.29	13.77
Shareholders' equity per share	in CHF	91.33	104.80	79.24	72.64	85.54
Repayment of excess share premium, per share	in CHF	4.50	6.50	6.50	0.00	6.50 ¹
Free float	in %	99.2	99.5	99.8	99.9	99.8
Share price²						
High for year	in CHF	240	315	304	247	335
Low for year	in CHF	203	250	215	203	222
At end of year	in CHF	227	295	218	240	317
Market capitalization²						
High for year	in CHF million	153	200	193	157	213
Low for year	in CHF million	129	159	137	129	141
At end of year	in CHF million	144	188	139	153	202

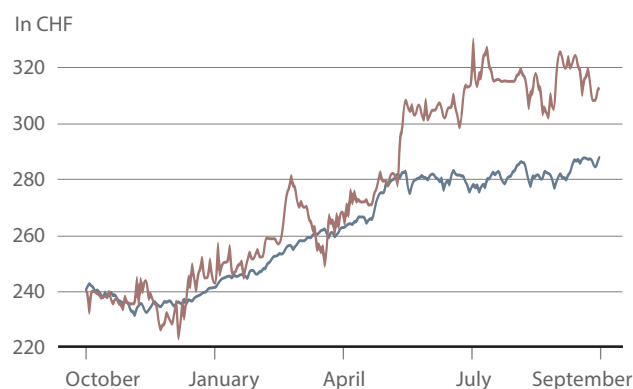
¹ Subject to approval by the Annual General Meeting on 11 January 2018.

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

Share price performance 1 October 2012 to 30 September 2017³



Share price performance 1 October 2016 to 30 September 2017³



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.

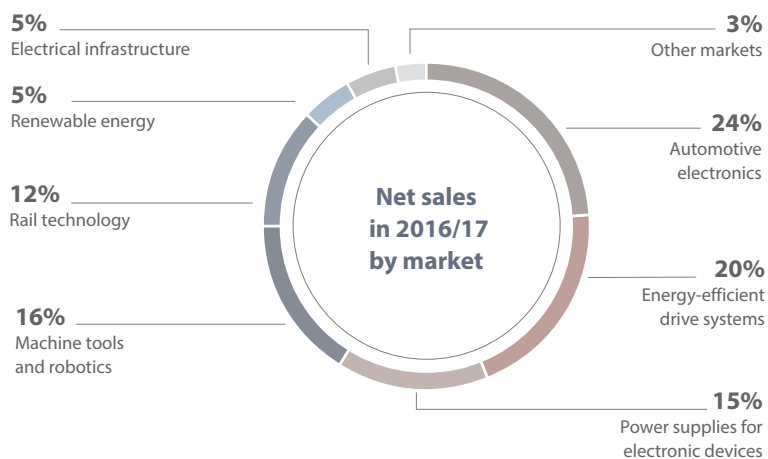
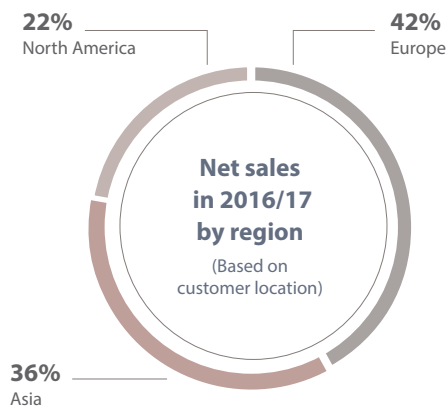
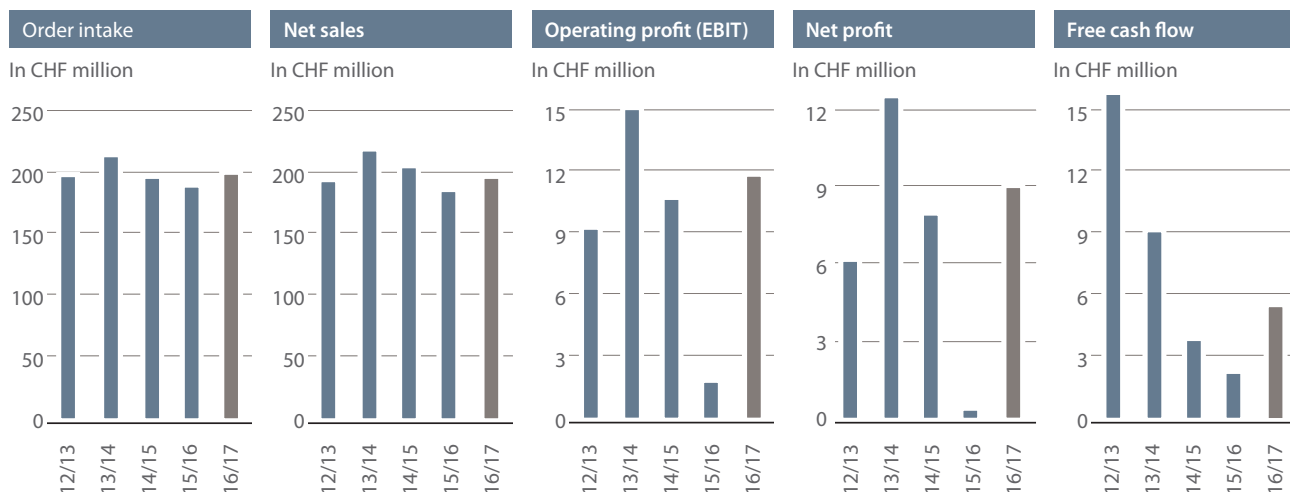
Ticker symbol

Registered shares: SAHN

In CHF '000	2012/13	2013/14	2014/15 ¹	2015/16 ²	2016/17
Order intake	196,846	215,925	196,205	187,380	199,504
Net sales	194,889	214,572	201,782	185,563	195,707
Net sales, EMC division	109,686	109,993	95,346	93,835	98,280
Segment profit, EMC division	13,987	15,850	9,108	8,731	13,346
Net sales, Power Magnetics division	53,924	67,311	63,637	45,373	50,042
Segment profit, Power Magnetics division	2,953	4,302	1,593	- 9,186	- 6,967
Net sales, Automotive division	31,280	37,268	42,799	46,355	47,385
Segment profit, Automotive division	- 2,037	2,499	6,256	11,334	9,427
Operating profit (EBIT)	9,205	15,012	10,799	1,367	11,476
In % of net sales	4.7	7.0	5.4	0.7	5.9
Net profit for the period	6,108	12,628	7,700	184	8,747
In % of net sales	3.1	5.9	3.8	0.1	4.5
Total assets	138,727	154,452	131,639	122,740	137,299
Shareholders' equity	58,081	66,646	50,395	46,193	54,400
In % of total assets	41.9	43.2	38.3	37.6	39.6
Number of employees (full-time equivalents)	2,817	3,140	3,143	3,127	3,487

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

² Restated.



Growth in sales and profit

The Schaffner Group returned to growth in fiscal year 2016/17 and strongly improved its profitability. All three divisions contributed to the sales growth. The EMC division cemented its leading position in the global EMC market and raised its segment profit margin significantly. The Automotive division maintained its strong position in the market for keyless entry systems and again delivered an attractive profit margin. In the Power Magnetics division, the restructuring yielded the first results.

Compared to one year earlier, order intake in 2016/17 rose by 6.5% to CHF 199.5 million (prior year or PY: CHF 187.4 million) and net sales increased by 5.5% to CHF 195.7 million (PY: CHF 185.6 million). On a local-currency basis the sales growth was 6.6%. The book-to-bill ratio in fiscal year 2016/17 was 1.02 (PY: 1.01). All three divisions were responsible for the sales growth. With a gain of 5% in sales, the EMC division consolidated its leading market position. In the Power Magnetics division, sales growth of 10% reflects signs of a positive trend reversal. The Automotive division grew its sales by 2% despite a difficult environment in the US and South Korean markets.

Gross margin improved by 2.8 percentage points to 28.4% (PY: 25.6%) as a result partly of the higher volumes. Operating profit (EBIT) grew to CHF 11.5 million (PY: CHF 1.4 million) and net profit for the year rose to CHF 8.7 million (PY: CHF 0.2 million). The EBIT margin was 5.9% (PY: 0.7%) and earnings per share expanded to CHF 13.77 (PY: CHF 0.29). Free cash flow increased to CHF 5.0 million (PY: CHF 2.4 million).

In fiscal 2016/17 the Group invested CHF 16.7 million in research and development, the same amount as in the prior year. The 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. Moreover, in the fiscal year, the second generation of power quality filters was developed further as planned.

Worldwide, the average number of permanent employees over the year increased by 360 to 3,487 full-time equivalents, due mainly to the higher volume of production. In Switzerland, Schaffner continued to employ about 100 people. Important groundwork was laid by re-filling two positions on the Group's Executive Committee. On 1 September 2017 the new Chief Executive Officer took over the operational management of the Schaffner Group from the Chief Financial Officer, who had filled this role on an interim basis since the middle of 2016; and at the end of September 2017 the Group named the successor of the existing Chief Operating Officer, who is retiring at the end of 2017.

Strong growth in Europe

The good economic situation supported healthy growth of the Schaffner Group in fiscal year 2016/17. With sales growth of 11.4% in Europe, this region represented 42% (PY: 40%) of Group sales. In North America, sales increased by 4.3%, leaving the region's share of the Group total at 22% as in the prior year. Asia, after a slight sales decrease of 0.2% in the region, accounted for 36% (PY: 38%) of Group sales. The growth of the Schaffner Group in its core markets is broad-based. Sales were up 40% year-over-year in the machine tools and



Urs Kaufmann, Chairman of the Board of Directors

Marc Aeschlimann, Chief Executive Officer

robotics sector, 12% in power supplies for electronic devices, and 8% in the rail technology sector. The Group's largest core markets, as in the year before, were automotive electronics at 24% of sales (PY: 25%) and energy-efficient drive systems at 20% (PY: 22%).

EMC division

In the year under review the EMC division expanded the number of its new customers worldwide and consolidated its leading market position. This was helped both by the reinforcement of sales activities in North America, and by significant EMC project wins in Germany and China, where slight gains in market share were made. In the fiscal year the power quality business, which is integrated in the EMC division, launched the second generation of harmonic filters and expanded its service and sales network. EMC remained the Schaffner Group's largest division in fiscal 2016/17 with a sales share of 50.2% (PY: 50.6%). The division's sales grew by 4.7% to a new total of CHF 98.3 million (PY: CHF 93.8 million). Its segment profit was boosted by 52.9% to CHF 13.3 million (PY: CHF 8.7 million), with the segment profit margin increasing to 13.6% (PY: 9.3%). Thanks to further advances in operational excellence, EMC was able to slightly reduce production costs despite higher raw material prices.

Power Magnetics division

The Power Magnetics division remains in turnaround mode. A good performance was seen particularly in sales in the core market of rail technology in China. The restructuring of the plants in North America and Hungary is progressing to plan and Schaffner expects continuing gradual improvement in the situation thanks to the measures initiated. With growth of 10.3% to CHF 50.0 million (PY: CHF 45.4 million), the Power Magnetics division contributed 25.6% (PY: 24.5%) of the Schaffner Group's sales in 2016/17. The segment loss was reduced from the prior year's CHF 13.8 million (which included restructuring costs of CHF 4.6 million) to CHF 7.0 million in the year under review. The persistent work to improve the profitability of the Power Magnetics division continues.

Automotive division

In fiscal year 2016/17 the Automotive division increased its sales by 2.2% to CHF 47.4 million (PY: CHF 46.4 million). With a sales share of 24.2% (PY: 25.0%), the division confirmed its strategic position as the third pillar of the Schaffner Group. Segment profit eased somewhat to CHF 9.4 million (PY: CHF 11.3 million), and the segment profit margin was 19.9% (PY: 24.5%). After a slight softening in demand at the beginning of the third quarter – mainly in North America and South Korea – sales picked up in the fourth quarter of fiscal 2016/17; sales in Europe remained strong throughout the year. Schaffner's Automotive division is the global number two in the market for antennas for keyless entry systems. As well, in 2016/17 a multi-year contract was won to supply filters for electric vehicles to a European premium car manufacturer. The first deliveries are planned for fiscal 2017/18.

Sound financing structure

The Schaffner Group's financing structure remains sound. At the year-end reporting date of 30 September 2017, total assets showed an increase to CHF 137.3 million (PY: CHF 122.7 million). Net working capital was CHF 35.7 million (PY: CHF 34.1 million). Net debt fell to CHF 12.6 million (PY: CHF 16.0 million). Shareholders equity' at the balance sheet date was CHF 54.4 million (PY: CHF 46.2 million) and equity per share amounted to CHF 85.54 (PY: CHF 72.64). The equity ratio, at 39.6% (PY: 37.6%), was in the target range.

Risk management

At its meeting on 2 March 2017 the Board of Directors, as part of the continuous risk management, assessed the business risks of the Schaffner Group and adopted the risk report and the measures set out within it.

Distribution proposal to shareholders

The Board of Directors of Schaffner Holding AG pursues a sustainable 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 2016/17 the Board will propose to the Annual General Meeting on 11 January 2018 to pay a dividend of CHF 6.50 in the form of a tax-free repayment of capital.

Changes in management

At the Annual General Meeting on 12 January 2017, Philipp Buhofer and Urs Kaufmann were elected as new members of the Board of Directors of Schaffner Holding AG. At the same time, Urs Kaufmann was elected as Chairman of the Board and Philipp Buhofer was elected as Vice Chairman. Herbert Bächler, a member of the Board since the 2009 AGM, did not stand for re-election. On 1 September 2017, Marc Aeschlimann took over the position of Chief Executive Officer and the operational management of the Schaffner Group from Chief Financial Officer Kurt Ledermann, who had performed the CEO responsibilities on an interim basis since the middle of 2016. Max Bänziger was appointed as the new Chief Operating Officer at the end of September 2017. On 1 January 2018 he will succeed his predecessor Ah Bee Goh in this role, who is retiring at that time.

Outlook

Following a slower third quarter of 2016/17, the Schaffner Group registered growing demand from the fourth quarter of the year under review and had a good start to fiscal 2017/18. Given an unbroken positive economic environment and a stable trend in currency markets, Schaffner expects continuing sales growth, especially in the core markets of rail technology, energy-efficient drive systems, power supplies for electronic devices, machine tools, and electromobility. On the assumption of a merely small increase in raw material prices, and despite lasting price pressure in some market segments, an EBIT margin in the mid-single digits is currently expected for fiscal year 2017/18. As before, the Schaffner Group continues to aim for organic sales growth of 5% per year on a multi-year average basis, and for an EBIT margin of at least 8% in the medium term.

A word of thanks

In fiscal year 2016/17 the employees of the Schaffner Group made an integral contribution to the positive results through their commitment and hard work. A special thank-you goes to them all. We also sincerely thank our customers, partners and shareholders for their trust and support.



Urs Kaufmann
Chairman of the Board



Marc Aeschlimann
Chief Executive Officer

Leading solutions for the flawless operation of power electronic systems

Schaffner expects continuing worldwide growth in the use of electronic systems and in demand for electric energy. Electronic systems in ever-rising numbers must work together dependably and meet high standards of efficiency. This represents solid potential for the Schaffner Group, the world's only one-stop provider of EMC, power quality and power magnetics solutions that assure the efficient and reliable operation of power electronic systems.



EMC division

In fiscal 2016/17 the EMC division consolidated its leading position in the global market for EMC filters and accounted for 50.2% of the Schaffner Group's sales. As a global organization it is well-positioned to grow slightly faster than the market in the long term and exploit attractive growth opportunities. One area of potential is electromobility. Thus, the division already supplies EMC filters to manufacturers of rapid charging stations for electric vehicles.

Financials		2016/17	Change from prior year
Order intake	CHF m	102.2	+9.7
Segment sales	CHF m	98.3	+4.4
Segment profit	CHF m	13.3	+4.6
Segment profit margin	%	13.6	-



Power Magnetics division

In fiscal year 2016/17 the Power Magnetics division contributed 25.6% of Group sales. After sweeping structural adjustments in Europe and North America, it remains in turnaround mode. As a result of the low commodity prices, the drive systems business, with solutions for the oil, gas and mining industry, continues to be difficult. By contrast, the Power Magnetics division sees attractive business opportunities in the global rail technology market and in components for rapid charging stations for electric vehicles, as well as in directly supplying OEM manufacturers, particularly in North America.

Financials		2016/17	Change from prior year
Order intake	CHF m	49.4	+2.7
Segment sales	CHF m	50.0	+4.7
Segment profit	CHF m	-7.0	+6.8 ¹
Segment profit margin	%	-13.9	-

¹ Including restructuring costs in fiscal year 2015/16.



Automotive division

Of the Schaffner Group's fiscal 2016/17 sales, 24.2% came from the Automotive division. About 90% of this revenue was earned with antennas for use in keyless entry systems for vehicles. The Automotive division also expanded its position in the market for EMC filters for electromobility applications. A multi-year order from a European premium car manufacturer has already been won and talks with further partners are being pursued intently. Schaffner today expects that, in two to three years from now, the electric vehicle market will account for a rising share of the Automotive segment's sales.

Financials		2016/17	Change from prior year
Order intake	CHF m	47.9	-0.3
Segment sales	CHF m	47.4	+1.0
Segment profit	CHF m	9.4	-1.9
Segment profit margin	%	19.9	-

Corporate governance

2016 17

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1 Basis of the corporate governance report

This corporate governance report describes the principles of leadership and control at the top organizational levels of the Schaffner Group, in accordance with the Directive on Information Relating to Corporate Governance (DCG) issued by SIX Swiss Exchange AG. Unless indicated otherwise, the information in this report for fiscal year 2016/17 is as at 30 September 2017 or for the year then ended. The corporate governance of the Schaffner Group substantially follows the guidelines and recommendations of the Swiss Code of Best Practice for Corporate Governance (first published in 2002, revised in 2007, 2014 and 2016). The Schaffner Group's corporate governance principles and regulations are set out in its Articles of Association and in its Management Organization Regulations (the name of the latter document in German is "Organisationsreglement").

All relevant corporate governance documents are available at the following web address:
www.schaffner-ir.com

As an active participant in the UN Global Compact, the Schaffner Group is committed to honoring the principles of the Compact regarding human rights, labor, the environment and the prevention of corruption. Schaffner expects its employees to be accountable for their actions, to respect people, society and the environment, to follow applicable rules and act with integrity. The Group's current relevant report (Communication on Progress) is available at:

<https://www.unglobalcompact.org/participation/report/cop/create-and-submit/active/330661>

The Schaffner Group has also adopted the Electronic Industry Code of Conduct (EICC) and is committed to its implementation in all Schaffner companies. This is to ensure that working conditions in the whole Schaffner supply chain are safe, that employees are treated with respect and dignity, and that manufacturing operations are environmentally sound. The EICC can be viewed at:
<http://www.responsiblebusiness.org/standards/code-of-conduct/>

The Schaffner Group 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.

2 Governance-related events in fiscal year 2016/17

2.1 Resolutions of the General Meeting

On 12 January 2017 at the 21st Annual General Meeting (AGM) of Schaffner Holding AG, shareholders elected Philipp Buhofer and Urs Kaufmann as members of the Board of Directors for the term ending at the conclusion of the next AGM. Philipp Buhofer replaces Herbert Bächler, who had served as a Board member for eight years and did not stand for re-election. Urs Kaufmann was elected as the Chairman of the Board of Directors and as a member of the Compensation Committee, for the term ending at the conclusion of the next AGM. For the same term, the existing Board members Daniel Hirschi, Gerhard Pegam, Suzanne Thoma and Georg Wechsler were re-elected to the Board, and Daniel Hirschi and Suzanne Thoma were re-elected as members of the Compensation Committee. The shareholders also reappointed the lawyer and notary Wolfgang Salzmann as the independent proxy and re-elected BDO AG, Solothurn, as the external auditors for fiscal year 2016/17. The shareholders also followed the proposal of the Board of Directors to forgo payment of a dividend, and adopted the compensation report for fiscal year 2015/16 in a consultative vote.

For the compensation of the six-member Board of Directors, the shareholders approved a maximum aggregate amount of CHF 650 thousand for the period to the next AGM. For the compensation of the Executive Committee, which is made up of the Chief Executive Officer and four other members, the shareholders approved a maximum aggregate amount of CHF 4,000 thousand for fiscal year 2017/18. The minutes of the 21st 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 September 2017, Marc Aeschlimann assumed his position as Chief Executive Officer of the Schaffner Group, taking over from Kurt Ledermann, the Chief Financial Officer, who had served as CEO on an interim basis from 16 July 2016 to 31 August 2017.

3 Group structure and significant shareholders

3.1 Group structure

3.1 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 2017:

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 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 Chief Executive Officer and the Executive Committee.

The division of responsibilities between the Board, the Chief Executive Officer and the Executive Committee is described in this corporate governance report on page 21 in section 5.5, on page 24 in section 5.6 and on page 27 in section 6.

The Executive Committee had the following structure at 30 September 2017:

Executive Committee

Marc Aeschlimann	Chief Executive Officer
Kurt Ledermann	Chief Financial Officer
Ah Bee Goh	Chief Operating Officer
Guido Schlegelmilch	Executive Vice President

More information about the Executive Committee is provided on page 27 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 2017 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 2017 there were 1,194 shareholders registered with voting rights in the share register of Schaffner Holding AG (prior year: 1,300). Of the issued shares, 99.8% represented free float (prior year: 100%). Schaffner Holding AG held 0.2% as treasury shares (prior year: 0.0%). At 30 September 2017, shares of unregistered owners amounted to 17.5% of the issued shares (prior year: 16.6%).

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

Shareholder	Equity interest
Shareholder group BURU Holding AG	20%
J. Safra Sarasin Investmentfonds AG	10%
UBS Fund Management (Switzerland) AG	7%
Mirabaud – Equities Swiss Small and Mid	5%
Fortezza Finanz Aktienwerk (Teil I FCP)	3%
Credit Suisse Funds AG	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 2016/17.

25 February 2017	Mirabaud – Equities Swiss Small and Mid: Exceeded 3% of voting rights
25 February 2017	UBS Fund Management (Switzerland) AG: RoPAS (CH) Institutional Fund-Equities Switzerland: Fell below 5% of voting rights held through a single fund
20 April 2017	Jörg Wölle: Exceeded 3% of voting rights
17 May 2017	Fortezza Finanz Aktienwerk (Teil I FCP): Exceeded 3% of voting rights
20 May 2017	UBS Fund Management (Switzerland) AG: RoPAS (CH) Institutional Fund-Equities Switzerland: Fell below 3% of voting rights held through a single fund
15 June 2017	Shareholder group BURU Holding AG: Change in composition of a group

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 2016/17 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., capital for purposes other than equity compensation) 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 thus does not have other authorized capital.

4.3 Changes in equity in the last three fiscal years

The Annual General Meeting on 15 January 2015 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.

The Annual General Meeting on 12 January 2016 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.

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 59 of this annual report 2016/17. The comparative information on changes in equity for the three prior years is found in the consolidated financial statements on page 64 of the annual report 2015/16, page 65 of the annual report 2014/15 and page 65 of the annual report 2013/14.

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 attracts 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 2017 (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 2017 (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 shareholders if they have acquired, and are holding, the shares as a result of a securities lending transaction or similar transaction that gives them legal ownership without the associated economic risk.

4.6.2 Registration of share purchasers

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

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

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

In the case of registration applications by shareholders holding the shares for their own account where the applicant has reported holding 3% or more of the voting rights of Schaffner Holding AG, the registration is not performed until the Company has received a complete disclosure notification by the applicant pursuant to section 120 of the Financial Market Infrastructure Act (also referred to in German as FinfraG). If the disclosure notification meets the legal requirements (i.e., contains the legally required information about the beneficial owner), the applicant (i.e., the acquired stock) is registered in the share register as having voting rights. If the disclosure notification is not made within the 20-day deadline specified in section 685g of the Swiss Code of Obligations, or is incomplete, the application for registration with voting rights is denied and the shareholder (i.e., the acquired stock) is registered in the share register as non-voting.

4.6.3 Registration of nominees

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

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

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

Where legal entities or groups with joint legal status are related to one another by capital, voting rights, management or in some other manner, they are deemed collectively to constitute a single purchaser. Also deemed a single purchaser are 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 also pre-emptive rights. At the General Meeting the shares registered as non-voting are treated as unrepresented (see section 685 f (2) and (3) of the Swiss Code of Obligations).

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

At 30 September 2017, 17.5% (prior year: 16.6%) 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 2017 the Board of Directors consisted of six, non-executive members. In the three years prior to the reporting period (fiscal years 2013/14, 2014/15 and 2015/16), none of these Board members were members of Schaffner's Executive Committee or of the management of a subsidiary, and none had or have material business relationships with the Schaffner Group. The members of the Board of Schaffner Holding AG are thus independent within the meaning of the Swiss Code of Best Practice for Corporate Governance issued by Economiesuisse, the Swiss business federation.

In fiscal year 2016/17 the Board of Directors of Schaffner Holding AG had the following members:

Urs Kaufmann, Chairman, born 1962

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

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.

Daniel Hirschi, born 1956

Degree in Engineering, Berne University of Applied Sciences, Biel

From 2006 to 2009 was CEO and Designated Representative of the Board of Directors of Benninger AG, Uzwil. From 1983 to 2005 served in various management functions at Saia-Burgess, Murten, including CEO from 2001 and Designated Representative of the Board from 2003.

Gerhard Pegam, born 1962

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

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

Degree in Business Administration; Swiss Certified Accountant

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

The Secretary of the Board, since 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 Kardex AG, Zurich; Chairman of the Board of Cham Paper Group Holding AG, Cham; Chairman of the Board of Rapid Holding AG, Dietikon; Designated Representative of the Board of BURU Holding AG, Hagendorn; member of the Board of Dax Holding AG, Hagendorn; and member of the Board of Lorzengrund Immobilien AG, Hagendorn.

Daniel Hirschi

Daniel Hirschi is a member of the Board, member of the Audit committee, and Chairman of the Compensation Committee, of Carlo Gavazzi Holding AG, Steinhausen; and Vice Chairman of the Board and Chairman of the Compensation Committee of Komax Holding AG, Dietikon.

Urs Kaufmann

Urs Kaufmann is a member of the Board and Chairman of the Compensation Committee of SFS Group AG, Heerbrugg; and of Gurit Holding AG, Wattwil, as well as a member of the Board of Vetropack Holding AG, Bülach and of Müller Martini Holding AG, Hergiswil; as well as a member of the Executive Committee of Swissmem.

Gerhard Pegam

Gerhard Pegam is a Vice Chairman of the Board and a member of the Audit Committee and the Strategy Committee 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, Helsinki, and a member of the Board of the Beckers Group, Berlin.

Georg Wechsler

Georg Wechsler holds various positions on the boards of companies not significant for the purposes of the Corporate Governance Directive of the SIX Swiss Exchange.

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) OAEK.

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 Shareholder 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

Since the 2017 Annual General Meeting, Urs Kaufmann has been the Chairman of the Board of Directors and Philipp Buhofer has been the Vice Chairman. 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 Chief Executive Officer, at any time. Outside the ordinary Board meetings, the Board committee members also work directly with members of the Executive Committee (which is the Group's top echelon of operational management and is not a Board committee). New committees may be formed at any time as required.

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

5.5.2.1 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 of the Compensation Committee in a committee charter.

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 chairperson of the committee.

Members at 30 September 2017	Since AGM
Urs Kaufmann , committee chairman	2017
Daniel Hirschi	2010
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 Chief Executive Officer and Chief Financial Officer as well as the Head of Corporate Human Resources, who is not a member of the Executive Committee.

In the fiscal year the Compensation Committee performed its duties without involving external advisors.

5.5.2.2 Risk and Audit Committee

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

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

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

Membership of the Risk and Audit Committee

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

Members at 30 September 2017	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 of Directors, the Chief Executive Officer and the Chief Financial Officer 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 2017	Since AGM
Urs Kaufmann , committee chairman	2017
Daniel Hirschi	2010
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 Chief Executive Officer and Chief Financial Officer as well as the Head of Corporate Human Resources, who is not a member of the Executive Committee. Additional persons may be asked to attend, at the discretion of the committee chairman.

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. When this occurs, it must be noted in the minutes of the meeting.

The Board of Directors has a quorum when the majority of its members participate in oral discussions and votes. Members may also be present by telephone or via electronic media (for example, videoconferencing). Resolutions are passed by a simple majority of votes. In the event of an equality of votes, the chairman of the meeting has a second or casting vote. For the purpose of resolutions concerning capital increases, the Board has a quorum irrespective of the number of members present. Unless a member requests an oral discussion, the Board may also vote on its resolutions by written ballot (submitted by mail, fax or e-mail). In such a “postal” vote (also known as a written resolution), passage of a resolution requires the affirmative vote of the majority of all Board members. Postal votes and their outcome must be recorded in the minutes of the next meeting.

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

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

Number of meetings attended	BD	RAC	CC	NC
Urs Kaufmann , Chairman	5	2	1	2
Philipp Buhofer , Vice Chairman	5	1	–	–
Daniel Hirschi	9	1	2	3
Herbertl Bächler	4	–	1	1
Gerhard Pegam	9	3	–	–
Suzanne Thoma	9	–	2	3
Georg Wechsler	9	3	–	–

BD Board of Directors

RAC Risk and Audit Committee

CC Compensation Committee

NC Nomination Committee

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

5.6 Division of authority

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

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

- › Overall management of the Schaffner Group
- › Setting and approving the strategy and business planning of the Schaffner Group and supervising their implementation
- › Ensuring the efficiency (as necessary for implementation assurance) of accounting, financial controls, risk management and reporting
- › Appointment and removal of the Executive Committee and authorized signatories
- › Regular review of business activities
- › Approval of the decisions of the Executive Committee on the filing, defending or handling of lawsuits, administrative or arbitration proceedings, and on the settlement of litigation where the amount in dispute exceeds CHF 1,000 thousand
- › Decisions on matters not reserved for or transferred to another body by law, by the Articles of Association or by the Organizational Regulations
- › Formulation and preparation of resolutions for consideration by the General Meeting
- › Presentation to the General Meeting of nominations for the election of the Chairman and Vice Chairman of the Board, the members and chairman 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 and whole Executive Committee for the fiscal year 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 not covered by the Authorization Policy) that could give rise to one-time obligations or commitments of more than CHF 500 thousand or to recurring obligations or commitments in an annual amount of more than CHF 250 thousand

To an extent consistent with the applicable legal provisions and the Articles of Association, the Board of Directors has delegated the operational management of the Schaffner Group to the Executive Committee, led by the Chief Executive Officer. The Chief Executive Officer is responsible for the overall operational management of the Company. He has responsibility for the long-term success of the Group in 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 Chief Executive Officer and Chief Financial Officer attend the meetings. The Executive Committee carries out a risk assessment at least once per year and reports on the findings to the Board of Directors. In this assessment, the general risks are analyzed and rated. Monitoring-and-control points and processes are defined based on the risk assessment and are implemented by the respective process owner. 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 Chief Executive Officer keeps the Board informed of all significant events. He promptly informs the Chairman of the Board of any exceptional developments.

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

Chairman of the Board

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

Committees

Outside the ordinary Board meetings, the Board committee members also work directly with members of the Executive Committee (which is the Group's top echelon 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 special audits are conducted by units of the Schaffner Group with the participation of the CFO and external consultants.

6 Executive Committee

The responsibilities and powers of the Executive Committee are specified in the Management Organization Regulations (German name: Organisationsreglement). 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 from three to four members. The new CEO joined the Executive Committee with effect from 1 September 2017, after the CEO function had been fulfilled on an interim basis from 16 July 2016 to 31 August 2017 by the Chief Financial Officer.

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 of Directors, especially regarding strategy and financial targets, as well as regarding all business which requires Board approval under the Articles of Association, the Authorization Policy or the Management Organization Regulations
- › Submitting proposals to the Nomination Committee for the nomination and removal of members of the Executive Committee
- › Submitting proposals to the Compensation Committee on 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, policy and procedures for the approval of 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 compliance with the Articles of Association and applicable legal requirements
- › Liaison between the Executive Committee and Board of Directors to ensure early and exact briefing of the Board

Chief Financial Officer

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

Chief Operating Officer

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

Executive Vice President

The Executive Vice President (EVP) is accountable for achieving the objectives within his area of responsibility. These targets and goals include, in particular, achieving a leading market position as well as continuous innovation to support lasting competitiveness.

6.1 Responsibilities and members of the Executive Committee

The Executive Committee is the Group's highest-ranking operational management body and supports the Chief Executive Officer in fulfilling his responsibility for managing the Group's activities. It consists of the officers whose biographies are outlined below, and has the following responsibilities and accountabilities 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 actively involved in its consensus-oriented decision process. Decisions are made by consensus or, where no consensus can be reached, are made by the Chief Executive Officer with due regard to the opinions expressed by the Executive Committee's members.

In fiscal year 2016/17 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 Pfiffner Messwandler, and CEO of Franke Coffee Systems after various management positions at the Franke Group, including five years in China as Head of Food Service Systems for the Asia, Pacific & Middle East region. Earlier worked as a consultant at Helbling Management Consulting.

Kurt Ledermann, CFO, 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, 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 since 1 July 2007. Was VP, Manufacturing until 30 September 2011; COO from 1 October 2011. Previously Managing Director at Leica Instruments, Singapore, and various management roles at Maxtor Peripherals, Seagate Technology and Tandon/Western Digital.

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.

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 do not have any permanent management or advisory positions in significant interest groups or hold any 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 as a member of 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 Management Organization 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 37 to 53 of this annual report.

8 Shareholder participation rights

8.1 Voting rights restrictions and proxy voting

At 30 September 2017 there were 1,194 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 a proxy that he has appointed (which does not need to be a shareholder) or by the independent proxy.

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 Shareholder 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 special 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 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 one-tenth (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 thousand, 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 Chief Financial Officer. In matters concerning the share register, the CFO reports to the Chairman of the Board. The Chairman and the Chief Executive Officer 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 in the Annual General Meeting section of the website at:

www.schaffner-ir.com

Further information regarding restrictions on transferability and nominee registrations is given from page 17 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, delete the party's registration in the share register as a voting shareholder, retroactively to the date of registration, if the registration was the result of false information supplied by the purchaser, and instead register the affected party as a non-voting shareholder. Registrations can also be deleted (or reclassified as non-voting) when a registered shareholder refuses, despite prior warning, to provide the requested information or fails to provide requested documentation (of beneficial ownership, etc.). The authority to decide on deleting or reclassifying the registration of a voting shareholder or nominee or on terminating the relationship with a nominee rests with the Chairman of the Board of Directors. The purchaser must be informed of a 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 as a rule 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. This means that 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 the 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 2016/17, BDO AG billed the Schaffner Group a total of CHF 201 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 228 thousand).

10.3 Additional fees

In addition, BDO AG invoiced the Schaffner Group CHF 25 thousand (prior year: CHF 7 thousand) for other services, which had the following composition:

In CHF '000	2016/17	2015/16
Tax consulting	9	2
Miscellaneous	16	5

10.4 Informational instruments pertaining to external audits

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

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

11 Communication policy

Schaffner follows a policy of open and active communication with the public and the financial markets. The communication policy also adheres to the rules of the SIX Swiss Exchange and the applicable legal requirements. The Schaffner Group's financial reporting is in accordance with Swiss GAAP FER.

As a company listed on the SIX Swiss Exchange, Schaffner also publishes information relevant to the share price (so-called "ad-hoc" disclosures), in accordance with section 53 of the Listing Rules. In these communications 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. All publications are made available in electronic format on Schaffner's website and mailed on request.

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 for the publication of the half-year results and other news
- › Meetings with shareholders, investors and analysts
- › Road shows
- › Themed investor days

Media releases are available on the investor relations website of the Schaffner Group for at least two years after publication and can be accessed using 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 investor relations website of the Schaffner Group at:

www.schaffner-ir.com/reports

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

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

Responsibility for corporate communications 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.

Publications in connection with maintaining the listing of the Company's shares on the SIX Swiss Exchange are effected in accordance with the Listing Rules of the SIX Swiss Exchange. The Listing Rules can be viewed at:

www.six-exchange-regulation.com/dam/downloads/regulation/admission-manual/listing-rules/03_01-LR_en.pdf

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 contact

› Kurt Ledermann
Chief Financial Officer
kurt.ledermann@schaffner.com
T +41 32 681 66 08

Financial calendar

11 January 2018	22 nd Annual General Meeting
9 May 2018	Publication of half-year report 2017/18
6 December 2018	Publication of annual report 2017/18
15 January 2019	23 rd Annual General Meeting

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

Compensation report

2016 17

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1 Introduction

The compensation report 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 2016/17.

The Annual General Meeting of Schaffner Holding AG on 12 January 2017 voted on the compensation of the Board and the Executive Committee. At the AGM, three polls were conducted on the subject of compensation.

First, in accordance with the Swiss Code of Best Practice for Corporate Governance, a non-binding consultative vote was held on the compensation report for fiscal year 2015/16. As well, in accordance with the Ordinance Against Excessive Compensation at Listed Companies (OAEC) and the Articles of Association of Schaffner Holding AG, one binding vote each was separately held on the compensation of the Board for the period until the next Annual General Meeting and on the compensation of the Executive Committee for fiscal 2017/18.

All three proposed resolutions were accepted by shareholders at the AGM with more than 88% approval. The Board of Directors thanks the shareholders and takes the clear yes-vote as an expression of confidence. Going forward, the Board will continue to perform regular assessments and reviews of the compensation plans to ensure they optimally serve their purpose in a rapidly evolving business environment.

2 Basis of the compensation report

This compensation report provides information on the remuneration of the members of the Board of Directors and Executive Committee.

It 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 various aspects of compensation 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. The Articles of Association are available in the Corporate Governance section of the website of Schaffner Holding AG at: www.schaffner-ir.com

In the Management Organization Regulations (German name: Organisationsreglement) of Schaffner Holding AG, compensation is covered in section 2.4. The document (in German only) can be found under the Corporate Governance tab on the website of Schaffner Holding AG at: www.schaffner-ir.com

3 Guiding principles

Based on the conviction that the performance of the Schaffner Group depends in large measure on 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 a spur to entrepreneurial thinking and action. Schaffner's compensation plans are intended to support 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

4 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 period until the next Annual General Meeting and for the Executive Committee for the fiscal year (1 October to 30 September) next following the Annual General Meeting. 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 for the Executive Committee and/or Board of Directors, the Board may convene a new General Meeting.

Approval and authority levels for compensation decisions

Decision on ...	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	–

4.1 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 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 of the Compensation Committee in a committee charter.

4.2 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 chairman of the committee.

Members at 30 September 2017	Since AGM
Urs Kaufmann , committee chairman	2017
Daniel Hirschi	2010
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 deliberates and decides upon the recommendations of the Compensation Committee. The Board has access to all records and documents of the Compensation Committee.

All three meetings in the year under review were attended by the Chief Executive Officer (interim) and Chief Financial Officer, the Head of Corporate Finance & Accounting and the Head of Corporate Human Resources (the latter two are not members of the Executive Committee). However, the CEO and CFO, the Head of Corporate Finance & Accounting and the Head of Corporate HR are not entitled to vote on compensation and are not present when their own performance and compensation are discussed and determined.

In the fiscal year the Compensation Committee performed its duties without involving external advisors.

5 Compensation system for the Board of Directors

5.1 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 amount, which differs between committee chairmen and the other committee members. This flat committee fee is paid only once per person, even if the recipient sits on several committees. No other compensation is paid.

The compensation of the Board members is reviewed annually and set prospectively by the full Board of Directors, subject to shareholder approval at the Annual General Meeting, which votes on the compensation for the fiscal year next following the AGM (the fiscal year runs from 1 October to 30 September). 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 involved, 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.

5.2 Executive members of the Board

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

6 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 compensation of the Chief Executive Officer and the other members of the Executive Committee consists of a fixed component, a variable performance-related cash element, and restricted share awards under the equity incentive plan of the Company, subject to the following qualifications and supplementary information:

- › The fixed compensation is made up of the monthly salary and a contribution to the management pension plan.
- › All payments to pension plans, contributions to management pension plans and contributions in the form of premium reductions for insurance are reported within pension costs.
- › An individual's performance-based compensation must not exceed the amount of his fixed compensation.
- › The Chief Executive Officer and the other members of the Executive Committee may be awarded shares under the Company's equity incentive plan.
- › 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 Chief Executive Officer and the other members of the Executive Committee for the next fiscal year after the date of the AGM (the year beginning on the following 1 October).

6.1 Fixed base salary

The fixed base salary is determined on a discretionary basis, taking into account the individual's duties and amount of responsibility, the formal qualifications and experience required, as well as the market environment. The process for determining base salaries includes taking into consideration market levels of pay relevant to the respective country, based on the latest Mercer Total Remuneration Survey. In addition, the compensation of the Chief Executive Officer is benchmarked by referencing a sample of comparable, small-capitalization manufacturing firms listed on the Swiss stock exchange.

6.2 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:

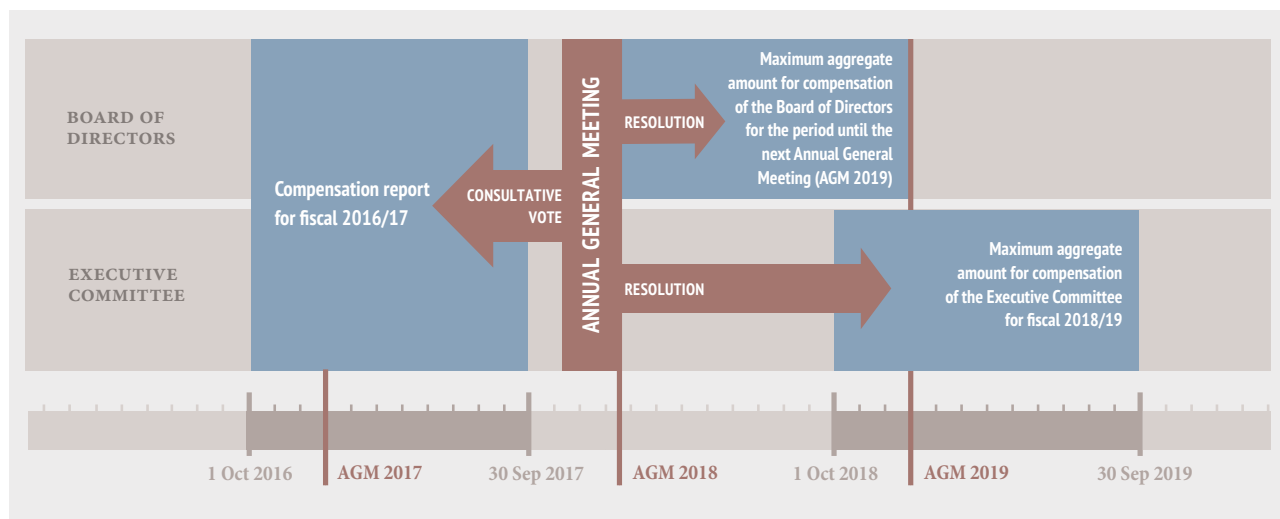
- › The target amount of performance-based compensation is contractually agreed (note: the target amount is the amount payable on exact achievement of the performance targets). This target amount can equal up to 50% of the fixed compensation.
- › The performance-related compensation can decrease to 0% 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 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 AGM.

6.3 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 allocated 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 be more than 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.
- › 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 and approval mechanism



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	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 Pay for performance	Company performance	Net profit for the period
Variable compensation – personal award	Approx. 10%	Management Incentive Plan (MIP)	Annual cash compensation	Pay for performance	Personal performance	Net sales, EBIT of the Group, strategy execution
Share-based compensation	5–15%	Restricted Share Plan (RSP)	Shares with mandatory holding period	Staff retention Alignment with shareholder interests	Share price over 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, 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	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 Pay for performance	Company performance	Net profit for the period
Variable compensation – personal award	Approx. 10%	Management Incentive Plan (MIP)	Annual cash compensation	Pay for performance	Personal performance	Net sales, segment profit of the divisions, strategy execution
Share-based compensation	5 – 10%	Restricted Share Plan (RSP)	Shares with mandatory holding period	Staff retention Alignment with shareholder interests	Share price over 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	–

6.4 Additional amount for members of the Executive Committee

An “additional amount” within the meaning of section 19 OAEK (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 Chief Executive Officer 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.

6.5 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 domestic and foreign pension plans and similar plans of the Company or its Group companies.

The benefits of the plan participants and the employer contributions follow from those plans or the respective sets of regulations.

6.6 Employment contracts

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

7 Compensation of the Board for fiscal year 2016/17

This section of the compensation report and the section that follows provide information on the compensation paid by Schaffner Holding AG or its subsidiaries for fiscal year 2016/17 to the Board of Directors, the Chief Executive Officer and the other members of the Executive Committee.

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

- › The expense for restricted share awards consists of the fair value of awarded restricted shares attributable to the given fiscal year.
- › In the year under review, as in the prior year, no loans or other credit of significant value were granted to members of the Board of Directors and no sureties or guarantees of significant value were provided 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.

7.1 Analysis of the Board's annual compensation

Board compensation until the next Annual General Meeting

At the 2017 Annual General Meeting a maximum aggregate amount of CHF 650 thousand was approved for the compensation of the Board of Directors for the period until the next Annual General Meeting.

Board compensation for 2016/17

The compensation of the Board of Directors increased slightly in the year under review. This resulted mainly from the fact that the number of Board members increased by one person.

in CHF '000	Cash fees	Variable cash compensation	Restricted shares	Pension costs	Other compensation	Total
Urs Kaufmann, Chairman from January 2017	105					105
Daniel Hirschi, Chairman until January 2017, member thereafter	67		54			121
Herbert Bächler, member until January 2017	17		27			44
Philipp Buhofer, member from January 2017	38					38
Gerhard Pegam	50		27			77
Suzanne Thoma	50		27			77
Georg Wechsler	52		27			79
Total	379	0	162	0	0	541

Board compensation for 2015/16

in CHF '000	Cash fees	Variable cash compensation	Restricted shares	Pension costs	Other compensation	Total
Daniel Hirschi, Chairman	117		60			177
Herbert Bächler	52		30			82
Gerhard Pegam	50		30			80
Suzanne Thoma	50		30			80
Georg Wechsler	52		30			82
Total	321	0	180	0	0	501

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

Restricted share awards

	2016/17		2015/16	
	Number of shares	Value in CHF '000' ¹	Number of shares	Value in CHF '000' ¹
Daniel Hirschi, Chairman until January 2017, member thereafter	260	54	291	60
Herbert Bächler	131	27	145	30
Gerhard Pegam	131	27	145	30
Suzanne Thoma	131	27	145	30
Georg Wechsler	131	27	145	30
Total	784	162	871	180

¹ The award of shares under the Restricted Share Plan is not tied to any vesting conditions. Therefore there is no vesting period and the compensation is recognized at the grant date, in staff costs. Its fair value is measured at the quoted market price, less a discount for the three-year holding period.

7.2 Fees to members of Board committees

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 amount totaling CHF 23 thousand overall (prior year: CHF 21 thousand). A committee chairman 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; it is included within the item "cash fees".

8 Compensation of the Executive Committee for fiscal year 2016/17

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.
- › The expense for restricted share awards consists of the fair value of awarded restricted shares attributable to the given fiscal year.
- › 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 is paid for 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”.
- › In order to ensure a seamless transition at the start of the new CEO’s term of office, the interim CEO was awarded a bonus of CHF 100 thousand, which 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.

8.1 Analysis of the Executive Committee’s annual compensation

Executive Committee compensation for 2017/18

At the 2017 Annual General Meeting, a maximum aggregate amount of CHF 4,000 thousand was approved for the compensation of the Executive Committee for fiscal year 2017/18.

Executive Committee compensation for 2016/17

In the year under review, the compensation of the Executive Committee decreased by 22% compared to the prior year. This was related primarily to the personnel changes within the Executive Committee (the resignation of Eduard Hadorn as Executive Vice President effective 31 March 2016, the departure of Alexander Hagemann as CEO on 15 July 2016 and the joining of Marc Aeschlimann as CEO on 1 September 2017).

Executive Committee compensation for 2016/17

in CHF '000	Base salary	Variable cash compensation	Restricted share awards	Pension costs	Other compensation	Total compensation
Kurt Ledermann, CEO (interim) and CFO to 31 August 2017, CFO thereafter	347	83	65	92	109	696
	50 %	12 %	9 %	13 %	16 %	100 %
Total for the other members of the Executive Committee	600	232	55	93	100	1 080
	56 %	21 %	5 %	9 %	8 %	100 %
Total	947	315	120	185	209	1 776
	53 %	18 %	7 %	10 %	12 %	100 %

Executive Committee compensation for 2015/16

in CHF '000	Base salary	Variable cash compensation	Restricted share awards	Pension costs	Other compensation	Total compensation
Alexander Hagemann, to 15 July 2016	495	0	95	131	84	805
	61 %	0 %	13 %	16 %	10 %	100 %
Total for the other members of the Executive Committee	1,027	0	132	196	121	1,476
	70 %	0 %	9 %	13 %	8 %	100 %
Total	1,522	0	227	327	205	2,281
	67 %	0 %	10 %	14 %	9 %	100 %

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

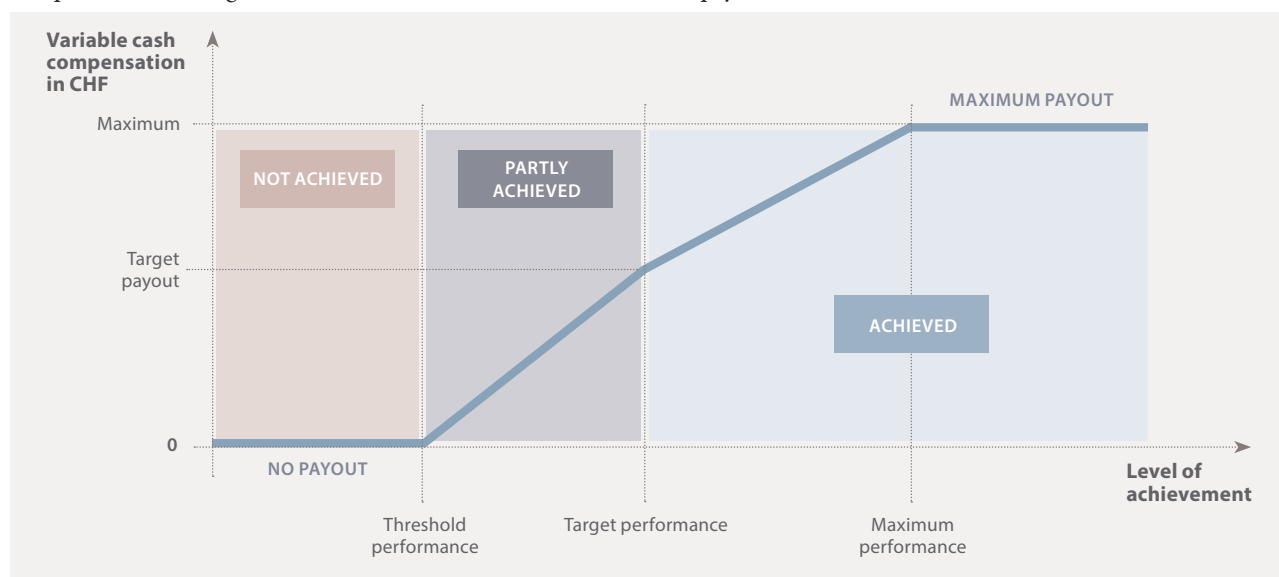
Restricted share awards

	2016/17		2015/16	
	Number of shares	Value in CHF '000 ¹	Number of shares	Value in CHF '000 ¹
Kurt Ledermann, CEO (interim) and CFO to 31 August 2017, CFO thereafter	316	65	203	42
Ah Bee Goh, COO	134	28	148	30
Guido Schlegelmilch, EVP, EMC division	134	28	148	30
Alexander Hagemann, CEO, to 15 July 2016	-	-	463	95
Eduard Hadorn, to 31 March 2016	-	-	148	30
Total	584	121	1,110	227

¹ The award of shares under the Restricted Share Plan is not tied to any vesting conditions. Therefore there is no vesting period and the compensation is recognized at the grant date, in staff costs. Its fair value is measured at the quoted market price, less a discount for the three-year holding period.

8.2 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.



In view of the financial results in fiscal 2016/17, the Board of Directors decided not to pay any variable compensation to the members of the Executive Committee for the fiscal year under review.

8.2.1 Target achievement by the interim Chief Executive Officer 2016/17

Performance measure	Target	Target share of total variable cash compensation	Target achievement	Variable cash compensation
Net sales	CHF 199 million	15.0%	Partly achieved	
EBIT	CHF 13.2 million	15.0%	Partly achieved	
Strategy execution ¹	Qualitative	20.0%	Achieved	
Net profit (management dividend)	CHF 12 million	50.0%	Partly achieved	
Total		100%	72%	CHF 83 thousand

¹ Target achievement regarding strategy execution is assessed by the Compensation Committee. The assessment result is proposed to the Board of Directors for approval. The Board then decides in its discretion.

8.2.2 Target achievement by the other members of the Executive Committee 2016/17

Performance measure	Target	Target share of total variable cash compensation	Target achievement	Variable cash compensation
Subsegment sales	CHF 80.5 million	7.5%	Exceeded	
Subsegment profit	CHF 12.2 million	7.5%	Significantly exceeded	
Segment profit, EMC division	CHF 9.7 million	7.5%	Exceeded	
Growth in segment profit, PM division	CHF 10.4 million	2.5%	Not achieved	
Segment profit, AM division	CHF 12.0 million	5.0%	Not achieved	
Strategy execution ¹	Qualitative	20.0%	Partly achieved	
Net profit (management dividend)	CHF 12.0 million	50.0%	Partly achieved	
Total		100%	95%	CHF 232 thousand

¹ Target achievement regarding strategy execution is assessed by the Compensation Committee. The assessment result is proposed to the Board of Directors for approval. The Board then decides in its discretion.

8.3 Highest total compensation

The highest total compensation in the Schaffner Group for fiscal year 2016/17 was payable to Kurt Ledermann, who was interim CEO from 16 July 2016 to 31 August 2017 and CFO thereafter. His total compensation for fiscal 2016/17, consisting of the fixed annual base salary, the variable performance-related compensation, long-term compensation elements, and pension contributions and other compensation, amounted to CHF 696 thousand (prior year for Alexander Hagemann: CHF 805 thousand).

9 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.

10 Related parties

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

11 Shares and options held by the Board of Directors

11.1 Registered shares

At 30 September 2017	Freely transferable	Awarded 05.01.2015, blocked until 04.01.2018	Awarded 04.01.2016, blocked until 03.01.2019	Awarded 04.01.2017, blocked until 03.01.2020	Total
Urs Kaufmann, Chairman, from January 2017	0	0	0	0	0
Daniel Hirschi, Chairman until January 2017, member thereafter	598	216	291	260	1,365
Philipp Buhofer ¹	129,047	0	0	0	129,047
Gerhard Pegam	0	108	145	131	384
Suzanne Thoma	245	108	145	131	629
Georg Wechsler	440	108	145	131	824
Total	130,330	540	726	653	132,249

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

11.2 Management transactions

Since 1 July 2005, Schaffner Holding AG reports to the SIX Swiss Exchange the transactions in Schaffner shares and options concluded by members of the Board of Directors or by parties related to them, including the names and positions of the persons concerned.

Transactions of the members of the Board of Directors in fiscal year 2016/17

Transaction date	Transaction type	Number of shares	CHF '000
12.01.2017	Purchase (RSP) ¹	784	186
13.01.2017	Sale (exersale) ²	- 1,000	- 90
15.05.2017	Sale (exersale) ²	- 660	- 44
13.07.2017	Sale (exersale) ²	- 500	- 49
30.08.2017	Sale (exersale) ²	- 500	- 44
Total		- 1,876	- 41

¹ Purchase of shares under the Restricted Share Plan (RSP), at the market price at the time of the grant.

² Exercise of options with subsequent sale of the shares.

Current information on management transactions is available on the website of the SIX Swiss Exchange at the following link:
<https://www.six-exchange-regulation.com/de/home/publications/management-transactions.html?companyId=SCHAFFNER>

12 Shares and options held by the Executive Committee

12.1 Registered shares

Held at 30 September 2017	Freely transferable	Awarded 05.01.2015, blocked until 04.01.2018	Awarded 04.01.2016, blocked until 03.01.2019	Awarded 04.01.2017, blocked until 03.01.2020	Total
Marc Aeschlimann, CEO	218	-	-	-	218
Kurt Ledermann, CFO	1,580	151	203	316	2,250
Ah Bee Goh, COO	390	110	148	134	782
Guido Schlegelmilch, EVP, EMC division	325	110	148	134	717
Total	2,513	371	499	584	3,967

12.2 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 there were no longer any non-vested options and all outstanding options were thus exercisable.

Share options

Held at 30 September 2017	Grant date	Expiry date	Exercise price in CHF	Total number of share options
Kurt Ledermann, CFO	21.11.2011	21.11.2018	235.00	700
Ah Bee Goh, COO	30.11.2010	29.11.2017	240.50	200
Guido Schlegelmilch, EVP, EMC division	21.11.2011	21.11.2018	235.00	500
Total				1,400

12.3 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 Executive Committee or by parties related to them, including the names and positions of the persons concerned.

Transactions of the Executive Committee members in fiscal year 2016/17

Transaction date	Transaction type	Number of shares	CHF '000
30.11.2016	Sale (exersale) ¹	– 200	– 51
12.01.2017	Purchase (RSP) ²	584	139
15.01.2017	Sale (exersale) ¹	– 520	– 37
18.05.2017	Sale (exersale) ¹	– 100	– 7
03.05.2017	Sale (exersale) ¹	– 300	– 99
03.07.2017	Sale (exersale) ¹	– 425	– 37
Total		– 961	– 92

¹ Exercise of options with subsequent sale of the shares.

² Purchase of shares under the Restricted Share Plan (RSP), at the market price at the time of grant.

Current information on management transactions is available on the website of the SIX Swiss Exchange at the following link:
<https://www.six-exchange-regulation.com/de/home/publications/management-transactions.html?companyId=SCHAFFNER>

13 Equity overhang and dilution

At 30 September 2017 there were a total of 4,773 outstanding share options and blocked shares (prior year: 10,848). The equity overhang – the ratio of this total to the total number of shares outstanding – amounted to 0.8% (prior year: 1.7%).

The equity burn rate is defined as the number of shares granted in the fiscal year, divided by the total number of shares outstanding. In fiscal 2016/17 the number of shares granted was 1,237 (prior year: 1,981) and the Group's equity burn rate was 0.2% (prior year: 0.3%).



To the General Meeting of
Schaffner Holding AG, Luterbach

Solothurn, 6 December 2017

Report of the statutory auditor on the compensation report

We have audited the compensation report dated 6 December 2017 of Schaffner Holding AG for the year ended 30 September 2017. 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 7 to 10 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 6 December 2017 of Schaffner Holding AG for the year ended 30 September 2017 complies with Swiss law and articles 14 – 16 of the Ordinance.

BDO Ltd

Christoph Tschumi
Licensed Audit Expert

Beat Rüfenacht
Auditor in Charge
Licensed Audit Expert

Financial report

2016 17

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Consolidated balance sheet

In CHF '000	Note	30.09.2017	Restated 30.09.2016
Intangible assets	2	685	1,051
Property, plant and equipment	3	23,088	22,500
Other non-current financial assets	4	1,056	1,978
Deferred tax assets	13	10,837	10,889
Total non-current assets		35,666	36,418
Prepaid expenses and deferred income		1,226	1,344
Inventories	5	37,222	30,840
Other current financial assets		1,916	2,037
Other receivables		3,155	2,021
Trade receivables	6	41,640	36,310
Cash and cash equivalents		16,474	13,770
Total current assets		101,633	86,322
Total assets		137,299	122,740
Exchange differences		- 16,968	- 17,751
Retained earnings		10,216	1,469
Treasury shares		- 299	- 67
Share premium		40,783	41,874
Share capital		20,668	20,668
Total shareholders' equity		54,400	46,193
Deferred tax liabilities	13	365	251
Non-current provisions	7	4,480	5,428
Non-current borrowings	8	28,852	29,540
Total non-current liabilities		33,697	35,219
Accrued expenses		12,431	8,989
Current provisions	7	1,492	4,668
Other payables		4,619	4,231
Trade payables		30,454	23,172
Current borrowings	8	206	268
Total current liabilities		49,202	41,328
Total liabilities		82,899	76,547
Total liabilities and shareholders' equity		137,299	122,740

Since the beginning of fiscal year 2016/17, external costs for product development are no longer capitalized. For comparability the prior-year results have been restated to match the presentation of the period under review.

Consolidated income statement

(year ended 30 September)

In CHF '000	Note	2016/17	Restated 2015/16
Net sales of goods and services	14	195,707	185,563
Cost of sales		– 140,119	– 138,149
Gross profit		55,588	47,414
Marketing and selling expense		– 17,099	– 18,121
Research and development expense		– 16,686	– 16,684
General and administrative expense		– 10,327	– 11,242
Operating profit (EBIT)		11,476	1,367
Finance income	12	2,660	1,700
Finance expense	12	– 3,221	– 3,097
Profit/(–loss) before tax (EBT)		10,915	– 30
Income tax	13	– 2,168	214
Net profit for the period		8,747	184
Earnings per share in CHF	16		
Basic		13.77	0.29
Diluted		13.76	0.29

Since the beginning of fiscal year 2016/17, external costs for product development are no longer capitalized. For comparability the prior-year results have been restated to match the presentation of the period under review.

Consolidated cash flow statement

In CHF '000	Note	2016/17	Restated 2015/16
Net profit for the period		8,747	184
Depreciation and impairment of property, plant and equipment	3	4,253	5,020
Amortization and impairment of intangible assets	2	643	878
Loss on disposal of property, plant and equipment and intangible assets		63	143
Change in provisions	7	-4,283	4,725
Change in deferred tax	13	206	-2,584
Change in trade receivables		-4,555	-2,187
Change in inventories		-5,582	1,012
Change in other receivables, prepaid expenses and deferred income		-916	-190
Change in trade payables		7,019	-2,477
Change in other current payables and accrued expenses		3,649	1,064
Expense for share-based payments to staff		564	688
Exchange differences on intra-Group items		-943	897
Other non-cash expenses ¹		691	44
Cash flow from operating activities		9,556	7,218
Purchase of property, plant and equipment	3	-5,279	-4,582
Disposal of property, plant and equipment		991	0
Purchase of intangible assets	2	-275	-242
Change in current financial assets		708	1,765
Change in loan receivables and non-current financial assets		35	-7
Cash flow from investing activities		-3,820	-3,066
Purchase of treasury shares	17	-1,059	-687
Sale of treasury shares	17	47	29
Exercise of employee share options and purchase of restricted shares by staff		-875	-74
Repayment of excess share premium		0	-4,133
Proceeds from borrowings		0	1,124
Repayment of borrowings		-971	-9,007
Amortization in connection with finance lease		-197	-182
Cash flow from financing activities		-3,055	-12,931
Effect of exchange rates on cash and cash equivalents		23	-129
Change in cash and cash equivalents		2,704	-8,908
Cash and cash equivalents at 1 October		13,770	22,679
Cash and cash equivalents at 30 September		16,474	13,770
Free cash flow²		4,993	2,394
Included in cash flow from operating activities:			
Interest paid		-1,091	-739
Interest received		45	46
Income tax paid		-848	-1,807

¹ Consists primarily of unrealized currency effects on loans and of the utilization of the employer contribution reserve.

² Cash flow from operating activities less net investment in property, plant and equipment and in intangible assets.

Since the beginning of fiscal year 2016/17, external costs for product development are no longer capitalized. For comparability the prior-year results have been restated to match the presentation of the period under review.

Consolidated statement of changes in equity

In CHF '000	Share capital	Share premium	Cumulative exchange differences	Retained earnings	Treasury shares	Total shareholders' equity
At 1 October 2015 as reported	20,668	46,283	- 17,938	1,681	- 299	50,395
Restatement for development costs				- 396		- 396
At 1 October 2015 as restated	20,668	46,283	- 17,938	1,285	- 299	49,999
Net profit for the period as restated				184		184
Exchange differences			187			187
Treasury share transactions		- 154		- 688	232	- 610
Repayment of excess share premium ¹		- 4,133				- 4,133
Share option plans and restricted share plans		- 122		688		566
At 30 September 2016 as restated	20,668	41,874	- 17,751	1,469	- 67	46,193
Net profit for the period				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

¹ CHF 6.50 per share.

Since the beginning of fiscal year 2016/17, external costs for product development are no longer capitalized. For comparability the prior-year results have been restated to match the presentation of the period under review.

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 (name of this capital in German: bedingtes Aktienkapital; see note 15, page 79).

The Group's legally required retained earnings and share premium totaled CHF 35.5 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 2017, 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

a) Revised policies for revenue recognition under Swiss GAAP FER

On 1 January 2016, revised and expanded rules for the recognition, presentation and disclosure of revenue took effect. These changes in accounting standards were created by amendments to the Swiss GAAP FER Conceptual Framework and FER 3 and FER 6.

The long-standing accounting principles of the Schaffner Group were and are already in accordance with the revised revenue recognition standards under Swiss GAAP FER. The changes thus have no impact on the revenue recognition of the Group. No restatement of prior-year revenue was required.

b) Change in policy for the capitalization of development costs

Consistent with Conceptual Framework item 30 and Swiss GAAP FER 10, Schaffner has decided no longer to capitalize external development costs for new products, as this is not customary in the industry and a difference in accounting practice detracts from comparability. The prior year has been restated accordingly.

The effect of this change on the comparative prior year is that the development costs of CHF 203 thousand which had been capitalized in that period are charged to the item “research and development expense”. The opening balance of CHF 396 thousand brought forward from the 2014/15 fiscal year has been charged to retained earnings.

The following table presents the effect of the restatement related to development costs on net profit for the prior year.

	2015/16
Net profit for the period as reported	387
Restatement for research and development costs	–203
Net profit for the period as restated	184

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 to do so.

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	
		30.09.2017 In CHF	30.09.2016 In CHF	2016/17 In CHF	2015/16 In CHF
China	CNY 100	14.58	14.61	14.50	15.12
EU	EUR 100	114.55	108.78	109.42	109.28
UK	GBP 100	129.80	126.31	125.40	139.88
Hungary	HUF 100	0.37	0.35	0.35	0.35
India	INR 100	1.49	1.46	1.50	1.48
Japan	JPY 100	0.86	0.96	0.88	0.89
Sweden	SEK 100	11.87	11.31	11.38	11.69
Singapore	SGD 100	71.45	71.43	70.92	71.68
Thailand	THB 100	2.91	2.81	2.87	2.80
Taiwan	TWD 100	3.20	3.11	3.21	3.05
USA	USD 100	96.98	97.48	98.73	98.86

2 Intangible assets

In CHF '000	Technology and rights	Software	Intangible assets under construction	Total
Cost at 1 October 2015 as reported	428	9,354	396	10,178
Restatement for development costs			-396	-396
Cost at 1 October 2015 as restated	428	9,354	0	9,782
Additions		242		242
Disposals		-73		-73
Exchange differences		-6		-6
Cost at 30 September 2016	428	9,517		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
Accumulated amortization and impairment at 1 October 2015	-397	-7,698		-8,095
Amortization	-4	-874		-878
Disposals		73		73
Exchange differences	-2	8		6
Accumulated amortization and impairment at 30 September 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
Net book value at 30 September 2016	25	1,026	0	1,051
Net book value at 30 September 2017	17	668	0	685

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 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	2016/17	2015/16
Cost at 1 October	17,326	17,324
Exchange differences	- 130	2
Cost at 30 September	17,196	17,326
Accumulated amortization and impairment at 1 October	- 14,033	- 10,746
Amortization	- 1,334	- 3,333
Exchange differences	132	45
Accumulated amortization and impairment at 30 September	- 15,235	- 14,033
Hypothetical net book value at 30 September	1,961	3,293

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 allocated 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 2015	168	12,992	40,649	3,101	2,449	1,652	61,011
Additions		534	1,598	171	136	2,143	4,582
Disposals		-123	-1,606	-853	-186		-2,768
Reclassifications		559	1,868		4	-2,431	0
Exchange differences	1	6	552	-9	34	60	644
Cost at 30 September 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
Accumulated depreciation and impairment at 1 October 2015		-6,441	-27,122	-2,684	-2,035	0	-38,282
Depreciation		-1,288	-3,028	-242	-172		-4,730
Disposals		123	1,468	849	186		2,626
Impairment		-290					-290
Reclassifications			2		-2		0
Exchange differences		44	-312	9	-33		-292
Accumulated depreciation and impairment at 30 September 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
Net book value at 30 September 2016	169	6,116	14,069	342	380	1,424	22,500
Of which finance lease		2,133	2				2,135
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

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 1,168 thousand (prior year: CHF 902 thousand).

In the prior year, in connection with the merging of the two manufacturing locations of Schaffner Trenco and Schaffner MTC, the net realizable value of the building of Schaffner Trenco was determined and a resulting impairment charge of CHF 290 thousand was recognized in the income statement within “cost of sales”, “marketing and selling expense”, “research and development expense”, and “general and administrative expense”. In fiscal year 2016/17 the building was sold at a corresponding price.

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	30.09.2017	30.09.2016
Minimum lease payments due:		
Within 1 year	3,491	2,563
In more than 1 year and up to 5 years	4,490	3,730
In more than 5 years	0	0
Total minimum payments	7,981	6,293

Finance leases

The carrying amount of assets held under finance leases was CHF 2.1 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 1.7 million (prior year: CHF 1.8 million).

4 Other non-current financial assets

In CHF '000	30.09.2017	30.09.2016
Rental/utility security deposits and guarantees	1,056	1,050
Employer contribution reserve ¹	0	928
Total other non-current financial assets	1,056	1,978

¹ In 2016/17 it was decided to use the employer contribution reserve. As a result, the residual amount of CHF 541 thousand at the balance sheet date was reclassified to other current assets (see note 11, page 73).

5 Inventories

In CHF '000	30.09.2017	30.09.2016
Raw materials	14,340	11,380
Work in process and semi-finished goods	3,411	4,606
Finished goods	19,471	14,854
Total inventories	37,222	30,840

Inventory provisions

In CHF '000	2016/17	2015/16
At 1 October	3,269	3,085
Created	1,315	1,623
Used	-810	-1,243
Unused amounts reversed	-376	-188
Exchange differences	114	-8
At 30 September	3,512	3,269

6 Trade receivables

In CHF '000	30.09.2017	30.09.2016
Trade receivables from non-Group entities, gross	41,866	36,766
Provision for doubtful debts	- 226	- 455
Total trade receivables	41,640	36,310

Provision for doubtful debts

In CHF '000	2016/17	2015/16
At 1 October	455	196
Created	106	384
Used	0	- 39
Unused amounts reversed	- 342	- 84
Exchange differences	7	- 2
At 30 September	226	455

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 2016	36,766	28,490	4,900	1,463	1,194	719
Trade receivables at 30 September 2017	41,866	32,631	4,999	2,328	525	1,383

7 Provisions

In CHF '000	Warranty provisions	Pension provisions	Restructuring provisions	Other provisions	Total
At 1 October 2015	1,826	3,401	31	112	5,370
Created	1,296	405	3,411	990	6,102
Used	-158	-220	-250		-628
Unused amounts reversed	-636	-7	-96	-6	-745
Exchange differences	-48	43	4	-3	-4
At 30 September 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
Non-current provisions	1,204	3,452	0	772	5,428
Current provisions	1,076	170	3,100	321	4,667
Total provisions at 30 September 2016	2,280	3,622	3,100	1,093	10,095
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

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.

In the year under review, the percentage rate used for one of two constituent areas in the calculation of the lump-sum provision for warranties was reduced thanks to the positive trend in the past.

Pension provisions

The pension provisions consist primarily of provisions for defined benefit plans in Germany, Thailand and France. In the fiscal year under review, the death of a pensioner led to a one-time reversal of approximately CHF 0.6 million of pension provisions.

Restructuring provisions

The restructuring provision created in the prior year for costs in connection with the announced production shutdown in Germany was fully utilized or reversed in the year under review.

Other provisions

The item "other provisions" consists largely of a provision of CHF 0.7 million for a court case in France entailing customs risks. As the court found against Schaffner to date, the amount in dispute of CHF 0.7 million in this ongoing legal action was recognized as a provision in the prior year.

8 Borrowings

The average interest rate payable on borrowings in fiscal year 2016/17 was 2.9% (prior year: 2.0%).

The composition of borrowings is shown in the following table:

In CHF '000	Effective interest rate at 30.09.2017	30.09.2017	30.09.2016
Bank loans in Switzerland	LIBOR (min. 0%) + 1.70 %	27,334	27,982
Finance leases	4.51 %	1,724	1,826
Total borrowings		29,058	29,808
Of which:			
Current borrowings		206	268
Non-current borrowings		28,852	29,540

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 one year and nine months. Under the credit agreements, they can be rolled over continuously until at least 30 June 2019.

9 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 224 thousand (prior year: CHF 212 thousand) were pledged as collateral for electricity consumed and for pension liabilities.

10 Staff costs

In CHF '000	2016/17	2015/16
Wages and salaries	50,835	51,361
Share-based payments expense ¹	402	688
Social security costs	9,471	11,190
Temporary employees and other staff costs	5,343	5,969
Total staff costs	66,051	69,208

¹ See note 15, page 79.

Staff costs in the prior year included an expense of CHF 3.1 million in connection with the creation of the restructuring provision for the production shutdown in Germany (see note 7).

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 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 saving 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 541 thousand at the balance sheet date (prior year: CHF 928 thousand). This is used towards current contributions and is therefore capitalized in other non-current assets.

	Nominal amount	Amount subject to usage restriction	Balance	Balance	Net contribution from ECR recognized in staff costs	
In CHF '000	30.09.2017	30.09.2017	30.09.2017	30.09.2016	2016/17	2015/16
Pension plans	541	0	541	928	387	0
Balance	541	0	541	928	387	0

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:

	Plan surplus/ (–deficit)	Economic benefit/ (–obligation) of the Schaffner Group	Exchange differences	Change in economic benefit or obligation, recognized in income statement ¹	Accrued contribu- tions	Pension costs recognized in staff costs		
In CHF '000	30.09.2017	30.09.2017	30.09.2016	2016/17	2016/17	2016/17	2016/17	2015/16
Plans with a surplus	504	0	0	0	1,051	1,051	1,051	1,050
Unfunded plans	0	–2,326	–2,851	102	–627	236	–391	465
Balance	504	–2,326	–2,851	102	–627	1,287	660	1,515

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 is showing 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 2.3 million (prior year: CHF 2.9 million) and related to the pension plans in Germany, France, Thailand, Italy and Japan.

12 Finance income and expense

Finance income

In CHF '000	2016/17	2015/16
Interest income	45	51
Foreign exchange gains	2,615	1,649
Total finance income	2,660	1,700

Finance expense

In CHF '000	2016/17	2015/16
Interest cost	- 1,064	- 766
Foreign exchange losses	- 1,818	- 1,984
Other finance expense	- 339	- 347
Total finance expense	- 3,221	- 3,097

13 Income tax

In CHF '000	2016/17	2015/16
Current tax in respect of the current year	- 2,270	- 2,158
Adjustments in respect of prior periods, net	308	- 180
Current tax	- 1,962	- 2,338
Current tax	- 1,962	- 2,338
Deferred tax	- 206	2,552
Income tax	- 2,168	214

Deferred tax liabilities of CHF 2.1 million (prior year: CHF 1.8 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 2017 there were tax loss carryforwards of CHF 28.5 million (prior year: CHF 23.5 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 28.8% (prior year: 26.9%).

These loss carryforwards expire on the following schedule:

In CHF '000	2016/17	2015/16
Expiry in 1 year	1,120	3,552
Expiry in 2 years	200	1,667
Expiry in 3 years	108	200
Expiry in 4 years	0	0
Expiry in 5 years	0	141
Expiry in more than 5 years	27,081	17,891
Total unused tax loss carryforwards	28,509	23,451
Potential positive tax effect	8,210	6,308

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

In CHF '000	2016/17	2015/16
Profit before tax reported in the income statement	10,915	- 30
Nominal tax rate	23 %	23 %
Expected income tax at nominal tax rate	- 2,510	7
Effect of non-recognition of tax loss carryforwards	- 2,224	- 1,936
Effect of tax rates/tax bases other than nominal tax rate/tax bases	2,019	2,656
Effect of expenses not deductible for tax purposes	3	- 102
Effect of non-taxable income	0	5
Utilization of previously unrecognized tax losses or gains	314	9
Adjustments in respect of prior periods	308	- 180
Non-refundable withholding taxes	- 148	- 191
Change in recognition of tax loss carryforwards	8	7
Effect of changes in tax rates or of new taxes	- 2	- 8
Other	64	- 53
Income tax (-expense)/benefit reported in the income statement	- 2,168	214

In the tax reconciliation, the nominal tax rate under the so-called home-based approach was employed, i.e., the tax rate of 23% that applies to the Group's principal activities in Switzerland.

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

In CHF '000	2016/17	2015/16
Intangible assets	4,292	4,687
Property, plant and equipment	- 923	- 878
Other non-current assets	- 64	0
Inventories	2,136	2,126
Trade receivables	3	96
Provisions	533	653
Trade and other payables	1,452	1,073
Tax loss carryforwards	3,043	2,883
Net deferred tax assets	10,472	10,640
Of which:		
Reported in the balance sheet as deferred tax liabilities	- 365	- 251
Reported in the balance sheet as deferred tax assets	10,837	10,889

14 Operating segments

The Schaffner Group consists of three reportable segments: Electromagnetic Compatibility, Power Magnetism 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, or EMC) and safeguard their reliable operation in power grids. As well, the 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 Magnetism (PM)

The Power Magnetism 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 operating segments.

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

The restructuring expenses of the Power Magnetism division reported for the prior year consisted primarily of the costs in connection with the closing of the manufacturing operation in Germany and the merging of the production plants in North America.

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

Restated 2015/16	EMC	PM	AM	Corporate	Group
In CHF '000					
Net sales	93,835	45,373	46,355		185,563
Segment profit/(–loss)	8,731	– 9,186	11,334	– 4,888	5,991
Restructuring-related expenses		– 4,624			– 4,624
Operating profit/(–loss) (EBIT)	8,731	– 13,810	11,334	– 4,888	1,367
Finance income					1,700
Finance expense					– 3,097
Profit/(–loss) before tax (EBT)					– 30
Income tax					214
Net profit for the period					184

Information by region

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

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

2015/16	Europe	Asia	North America	Group
In CHF '000				
Net external sales	74,514	70,789	40,259	185,563

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).

Several years ago the Board of Directors decided to replace the Employee Share Option Plan for upper management employees and the Board of Directors (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

Since 1 October 1998, 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.

	30.09.2017		30.09.2016	
	Number of share options outstanding	Average exercise price in CHF	Number of share options outstanding	Average exercise price in CHF
At 1 October	16,675	224	20,170	215
Granted in the year	0		0	
Exercised in the year	- 12,415	221	- 2,338	159
Expired/canceled in the year	- 200	160	- 1,157	202
At 30 September	4,060	236	16,675	224
Of which:				
Vested	4,060	236	16,675	224
Covered by treasury shares	1,004		293	
Covered by authorized unissued share capital	3,056		16,382	
Uncovered	0		0	

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

Expiry date	30.09.2017		30.09.2016	
	Number of share options outstanding	Exercise price in CHF	Number of share options outstanding	Exercise price in CHF
30.11.2016	0	159.90	1,925	159.90
13.01.2017	0	157.00	1,000	157.00
29.11.2017	795	240.50	6,200	240.50
21.11.2018	3,265	235.00	7,550	235.00
Total	4,060		16,675	

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, 2,722 shares (prior year: 3,358 shares) with a fair value of CHF 207 per share (prior year: CHF 205) were granted. The expense of CHF 564 thousand (prior year: CHF 688 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.

	2016/17	2015/16
Basic earnings per share		
Net profit for the period in CHF '000	8,747	184
Weighted average number of shares outstanding entitled to dividend	635,282	635,594
Basic earnings per share in CHF	13.77	0.29

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.

	2016/17	2015/16
Diluted earnings per share		
Net profit for the period in CHF '000	8,747	184
Relevant share options outstanding, in number of shares	619	822
Weighted average number of shares outstanding used in calculation of diluted earnings per share	635,901	636,416
Diluted earnings per share in CHF	13.76	0.29

17 Treasury shares

	Number of shares	Average share price in CHF	At average price in CHF '000
At 1 October 2015	1,022	293	299
+ Purchase ¹	3,053		687
– Sale ¹	– 124		– 29
– Shares utilized for option-based incentive plans ²	– 300		– 48
– Shares utilized for restricted shares plans ²	– 3,358		– 688
Valuation differences ³			– 154
At 30 September 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 shares plans ²	– 2,722		– 564
Valuation differences ³			– 136
At 30 September 2017	1,004	298	299

¹ At share prices quoted at the transaction date.

² At the exercise price.

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 36.

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 6 December 2017 for publication and will be presented to shareholders for adoption at the Annual General Meeting on 11 January 2018.

20 Events after the balance sheet date

After the balance sheet date, a legal action which had been filed by the bankruptcy estate of Sputnik Engineering AG, a company in liquidation, was settled without acknowledging a legal obligation, fault or liability. Subject to the agreement of the creditors, this will lead to an expense of CHF 150 thousand for Schaffner.

The bankruptcy estate of Sputnik Engineering AG (in liquidation) had filed an action in January 2016 with the Berne Commercial Court in connection with alleged product defects. In the suit, it had asserted a claim for CHF 2.9 million, which Schaffner has always disputed.

21 Companies of the Schaffner Group

The following companies' results were consolidated in the accounts of the Schaffner Group at 30 September 2017:

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 %

In fiscal year 2016/17, Schaffner PM Services GmbH was founded.



To the General Meeting of
Schaffner Holding AG, Luterbach

Solothurn, 6 December 2017

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 2017, 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 56 to 82) give a true and fair view of the consolidated financial position of the Group as at 30 September 2017 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

A segment loss of approximately CHF 7 million is reported for the PM segment for the fiscal year 2016/17. For this reason, the production facilities assigned to this segment were tested for any impairment.

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

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

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

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

Valuation of deferred tax assets

Deferred tax assets of CHF 10.8 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, 6 December 2017

BDO Ltd

Beat Rüfenacht

Auditor in Charge

Licensed Audit Expert

Christoph Tschumi

Licensed Audit Expert

Balance sheet

In CHF '000	Note	30.09.2017	30.09.2016
Cash and cash equivalents, and current assets with a quoted market price	2.1	60	269
Other current receivables	2.2	1,196	2,082
Prepaid expenses and deferred income		160	74
Current assets		1,416	2,425
Investments in subsidiaries	2.3	85,251	85,251
Non-current assets		85,251	85,251
TOTAL ASSETS		86,667	87,676
Current interest-bearing liabilities	2.4	4,879	8,540
Other current payables	2.5	2,202	367
Accrued expenses	2.6	697	314
Current liabilities		7,778	9,221
Non-current provisions	2.7	7	20
Non-current liabilities		7	20
Total liabilities		7,785	9,241
Share capital	1.1	20,668	20,668
Legally required capital reserves			
Share premium	2.8	31,338	31,338
Legally required retained earnings			
General legally required retained earnings		4,134	4,134
Discretionary retained earnings			
Earnings brought forward		22,362	21,166
Net profit for the year		679	1,196
Treasury shares	5.1	-299	-67
Shareholders' equity		78,882	78,435
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		86,667	87,676

Income statement

(year ended 30 September)

In CHF '000	Note	2016/17	2015/16
Operating income	3.1	6,375	6,337
Net sales of services		6,375	6,337
Staff costs		-2,980	-2,874
Other operating expenses	3.2	-2,011	-2,227
Operating profit before interest and tax (EBIT)		1,384	1,236
Finance income	3.3	36	99
Finance expense	3.4	-641	-7
Profit before tax (EBT)		779	1,328
Direct tax		-100	-132
Net profit for the year		679	1,196

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 for the first time prepared in accordance with the principles of the newly applicable Swiss Accounting Law (Title 32 of the Swiss Code of Obligations). Those key accounting principles 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) 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	30.09.2017	30.09.2016
Bank deposits	60	269
Total	60	269

2.2 Other current receivables

In CHF '000	30.09.2017	30.09.2016
Other receivables from non-Group entities	32	36
Other receivables from subsidiaries	1,164	2,046
Total	1,196	2,082

2.3 Investments in subsidiaries

Directly held

In CHF '000, except %	Details	30.09.2017	30.09.2016
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	30.09.2017	30.09.2016
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 Trencó LLC	Share capital		USD 3,758
Cleveland, OH, USA	Equity/voting interest		100%
Magnetics Technologies LLC	Share capital		USD 466
Cleveland, OH, USA	Equity/voting interest		100%
Transformer Real Estate LLC	Share capital		USD 42
Cleveland, OH, USA	Equity/voting interest		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	
Büren, Germany	Equity/voting interest	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	30.09.2017	30.09.2016
Interest-bearing liabilities to subsidiaries	4,879	8,540
Total	4,879	8,540
Of which:		
Current interest-bearing liabilities	4,879	8,540
Non-current interest-bearing liabilities	0	0

2.5 Other current payables

In CHF '000	30.09.2017	30.09.2016
Other liabilities to non-Group entities	321	338
Other liabilities to social security plans	27	29
Other liabilities to subsidiaries	1,854	0
Total	2,202	367

2.6 Accrued expenses

In CHF '000	30.09.2017	30.09.2016
Accrued tax	0	24
Accrued social security expenses	68	88
Accrued performance-related compensation	191	30
Other accrued expenses	438	172
Total	697	314

2.7 Non-current provisions

In CHF '000	30.09.2017	30.09.2016
Provisions for length-of-service awards	7	20
Total	7	20

2.8 Share premium

In CHF '000	30.09.2017	30.09.2016
Share premium	31,338	31,338
Total	31,338	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	2016/17	2015/16
Income from management fees	3,367	3,447
Income from licensing	3,008	2,890
Total	6,375	6,337

3.2 Other operating expenses

In CHF '000	2016/17	2015/16
General and administrative expense	- 956	- 848
Consulting expenses	- 612	- 748
Miscellaneous operating expenses	- 443	- 631
Total	- 2,011	- 2,227

3.3 Finance income

In CHF '000	2016/17	2015/16
Interest income from non-Group entities	2	0
Interest income from subsidiaries	26	10
Other finance income	8	1
Exchange differences	0	88
Total	36	99

3.4 Finance expense

In CHF '000	2016/17	2015/16
Interest expense with non-Group entities	0	- 1
Interest expense with subsidiaries	- 55	- 6
Exchange differences	- 586	0
Total	- 641	- 7

4 Notes on compensation

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

	Number of shares held	30.09.2017			Number of shares held	30.09.2016		
		Number of share options held				Number of share options held		
		Vested	Non-vested	Total		Vested	Non-vested	Total
Board of Directors								
Urs Kaufmann, Chairman, from January 2017	0	0	0	0				
Daniel Hirschi, Chairman until January 2017, member thereafter	1,365	0	0	0	1,105	2,660	0	2,660
Philipp Buhofer, member from January 2017 ¹	129,047	0	0	0				
Herbert Bächler, member until January 2017					993	1,320	0	1,320
Gerhard Pegam	384	0	0	0	389	0	0	0
Suzanne Thoma	629	0	0	0	498	0	0	0
Georg Wechsler	824	0	0	0	693	0	0	0
Total holdings of the Board of Directors	132,249	0	0	0	3,678	3,980	0	3,980
Executive Committee								
Marc Aeschlimann, CEO, from 1 Sep 2017	218	0	0	0				
Kurt Ledermann, CEO (interim) and CFO to 31 August 2017, CFO thereafter	2,250	700	0	700	1,934	1,970	0	1,970
Ah Bee Goh, COO	782	200	0	200	948	525	0	525
Guido Schlegelmilch, Executive VP, EMC division	717	500	0	500	583	700	0	700
Total holdings of the Executive Committee	3,967	1,400	0	1,400	3,465	3,195	0	3,195

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

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

4.2 Equity securities awarded

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

	2016/17		2015/16	
	Number of shares	In CHF '000	Number of shares	In CHF '000
Awarded to the Board of Directors	784	162	871	180
Awarded to the Executive Committee	584	121	1,110	227
Awarded to other employees	1,354	280	1,377	281
Total	2,722	563	3,358	688

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 2015	1,022	293	299
+ Purchase ¹	3,053		687
– Sale ¹	– 124		– 29
– Shares utilized for option-based incentive plans ²	– 300		– 48
– Shares utilized for restricted share plans ¹	– 3,358		– 688
Valuation differences ³			– 154
At 30 September 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 ¹	– 2,722		– 564
Valuation differences ³			– 136
At 30 September 2017	1,004	298	299

¹ At share prices quoted at the transaction date.

² At the exercise price.

³ At the year-end closing share price or the 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:

	30.09.2017		30.09.2016	
	Number of shares	Equity interest	Number of shares	Equity interest
Shareholder group BURU Holding AG	129,047	20.29 %	127,744	20.09 %
J. Safra Sarasin Investmentfonds AG	62,271	9.79 %	62,271	9.79 %
UBS Fund Management (Switzerland) AG	43,101	6.78 %	57,033	8.97 %
Mirabaud - Equities Swiss Small and Mid	29,002	4.56 %		
Credit Suisse Funds AG	19,112	3.01 %	19,112	3.01 %
Fortezza Finanz Aktienwerk (Teil 1 FCP)	19,200	3.02 %		
Jörg Wolle	19,100	3.00 %		
Shareholders with interests of less than 3 %	314,103	49.39 %	369,487	58.10 %
Free float	634,936	99.84 %	635,647	99.95 %
Treasury shares	1,004	0.16 %	293	0.05 %
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	30.09.2017	30.09.2016
Guarantee obligations	49,500	49,500
Of which utilized in subsidiaries in respect of credit obligations	21,606	18,735

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 freely disposable reserves.

5.4 Residual amount of lease obligations

In CHF '000	30.09.2017	30.09.2016
Due in:		
Up to 1 year	26	15
More than 1 and up to 5 years	87	1
More than 5 years	0	0
Total	113	16

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 6 December 2017 for publication and will be presented to shareholders for adoption at the Annual General Meeting on 11 January 2018.

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	30.09.2017	30.09.2016 ¹
Earnings brought forward	22,362	21,166
Net profit for the year	679	1,196
Retained earnings available for distribution	23,041	22,362
Transfer to legally required reserves ²	0	0
Earnings carried forward	23,041	22,362

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	30.09.2017	30.09.2016 ¹
Distributable share premium reserve brought forward	0	0
Transfer from share premium account to distributable share premium reserve	4,127	0
Distribution of CHF 6.50 (prior year: CHF 0.00) per share entitled to dividends, exempt from Swiss anticipatory tax	-4,127	0
Distributable share premium reserve carried forward	0	0
 Total number of shares outstanding	 635,940	 635,940
Number of treasury shares	-1,004	-293
Number of shares entitled to dividends ²	634,936	635,647

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, 6 December 2017

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 2017 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 2017 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 2017 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 2017, 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, 6 December 2017

BDO Ltd

Beat Rüfenacht

Auditor in Charge

Licensed Audit Expert

Christoph Tschumi

Licensed Audit Expert



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Important note on forward-looking statements

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

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