

Schaffner Group
Annual Report
2015/16



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About the cover photo

The market for infrastructure projects will continue to grow with the advancing megatrend of urbanization. Schaffner harmonic filters from the Group's Power Quality product segment, such as the brand new "ecosine evo", are used in facilities like water treatment plants to safeguard the reliable functioning of equipment and systems. Schaffner supplies a wide range of products including output filters, line reactors and passive and active harmonic filters that maximize the reliability and service life of installed equipment, minimize circuit feedback and thus support the stability of power grids.

What is in this report

This report comprises the business review and financial reporting of the Schaffner Group, as well as its corporate governance and compensation reports, for fiscal year 2015/16.

The information on the financial position, results of operations and cash flows of the Schaffner Group was prepared in accordance with the current Swiss Accounting and Reporting Recommendations (Swiss GAAP FER) and complies with Swiss law where it is applicable.

In this publication the Schaffner Group reports to its stakeholder groups on its economic performance and corporate social responsibility. The scope and content of the sustainability reporting is based on the latest report filed by the Schaffner Group in its capacity as an active member of the UN Global Compact.

Accounting standard

The Schaffner Group converted its consolidated financial statements from International Financial Reporting Standards (IFRS) to Swiss GAAP FER with retrospective effect from the beginning of fiscal year 2015/16. In this annual report, all data for fiscal year 2014/15 have therefore been restated to ensure comparability.

External audit

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.

Rounding used in this annual report may result in minor variances between single values and the sums or percentages derived from them.

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 EMI filters, power magnetic components, power quality filters and the related services. 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 a wide range of electronic devices, such as in medical technology. 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. Headquartered in Switzerland, Schaffner serves its global customers through its engineering and manufacturing centers in Europe, Asia and North America. Heavy investment in research and development helps drive the expansion of the Schaffner Group's leading position in its markets.

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 supplies for electronic devices, and 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 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.

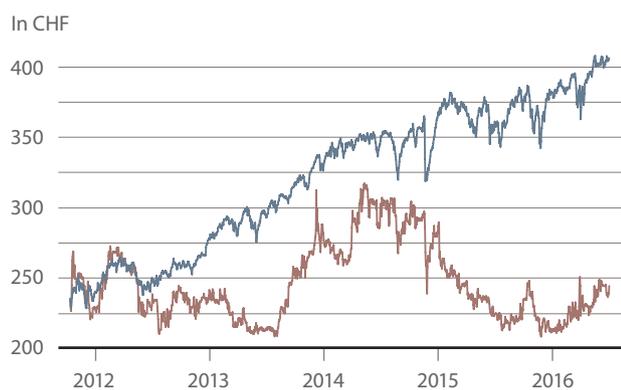
The Automotive division (AM) develops and manufactures components for keyless entry systems as well as solutions for the drive systems of hybrid and electric vehicles. Working closely with leading automobile manufacturers, Schaffner engineers leverage their specialized EMC expertise to support customers in the development of new models.

		2011/12	2012/13	2013/14	2014/15	2015/16
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)		632,990	633,859	633,349	634,117	635,594
Earnings per share (EPS)	in CHF	6.17	9.64	19.94	12.14	0.61
Shareholders' equity per share	in CHF	94.87	91.33	104.80	79.24	73.58
Repayment of excess share premium, per share	in CHF	3.50	4.50	6.50	6.50	0.00 ¹
Free float	in %	99.1	99.2	99.5	99.8	99.9
Share price²						
High for year	in CHF	271	240	315	304	247
Low for year	in CHF	204	203	250	215	203
At end of year	in CHF	235	227	295	218	240
Market capitalization²						
High for year	in CHF million	172	153	200	193	157
Low for year	in CHF million	130	129	159	137	129
At end of year	in CHF million	149	144	188	139	153

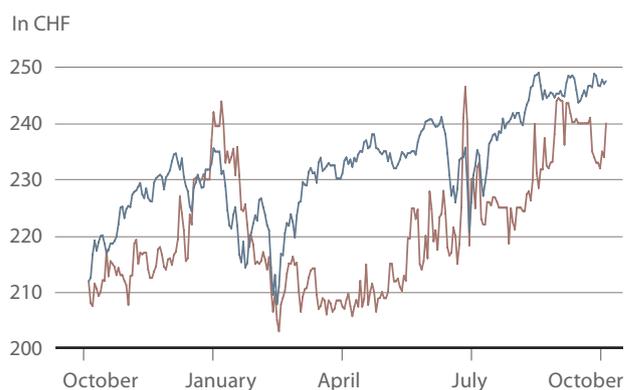
¹ Subject to approval by the Annual General Meeting on 12 January 2017.

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

Share price performance 1 October 2011 to 30 September 2016³



Share price performance 1 October 2015 to 30 September 2016³



³ Source: Thomson Reuters Datastream

- Schaffner registered shares
- SPI EXTRA® (adjusted)

Trading of the Company's securities

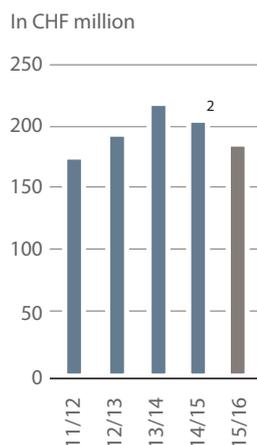
The registered shares of Schaffner Holding AG are traded on the SIX Swiss Exchange under Securities No. 906209.

Ticker symbol

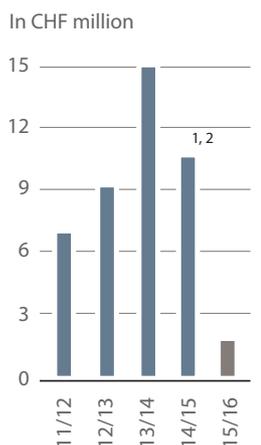
Registered shares: SAHN

In CHF '000	2011/12	2012/13 ¹	2013/14	2014/15 ^{1,2}	2015/16
Net sales	176,942	194,889	214,572	201,782	185,563
Net sales, EMC division	105,784	109,686	109,993	95,346	93,835
Segment profit, EMC division	12,552	13,987	15,850	9,108	8,934
Net sales, Power Magnetics division	46,495	53,924	67,311	63,637	45,373
Segment profit, Power Magnetics division	- 284	2,953	4,302	1,593	- 9,186
Net sales, Automotive division	24,663	31,280	37,268	42,799	46,355
Segment profit, Automotive division	563	- 2,037	2,499	6,256	11,334
Operating profit (EBIT)	7,243	9,205	15,012	10,799	1,570
In % of net sales	4.1	4.7	7.0	5.4	0.8
Net profit for the period	3,909	6,108	12,628	7,700	387
In % of net sales	2.2	3.1	5.9	3.8	0.2
Total assets	140,843	138,727	154,452	131,639	123,339
Shareholders' equity	60,333	58,081	66,646	50,395	46,792
In % of total assets	42.8	41.9	43.2	38.3	37.9
Number of employees (full-time equivalents)	2,569	2,817	3,140	3,143	3,127

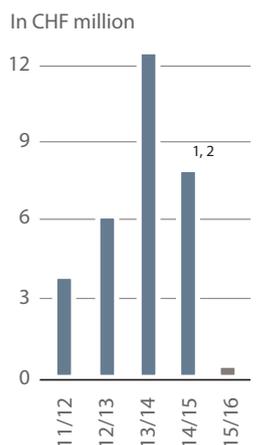
Net sales



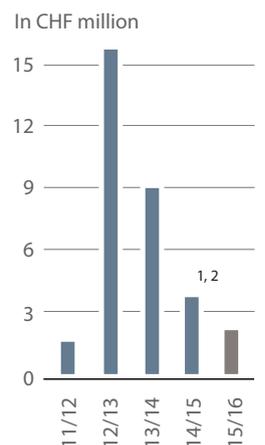
Operating profit (EBIT)



Net profit

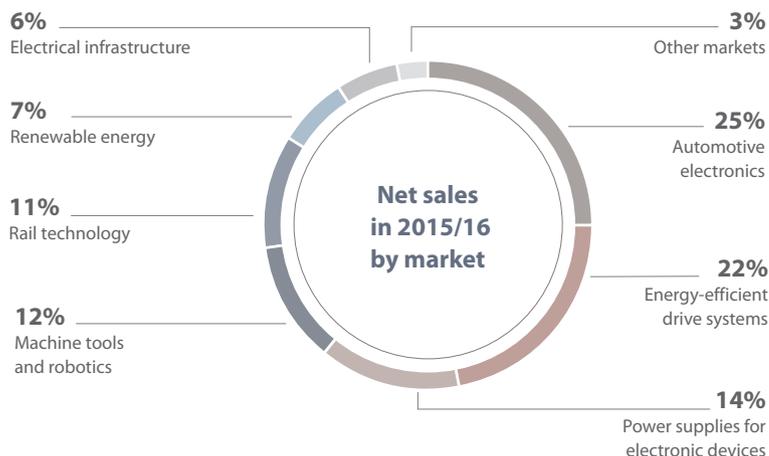
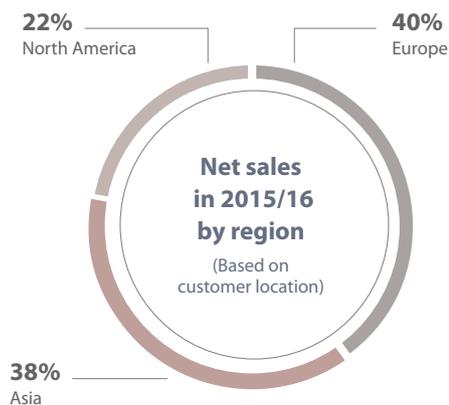


Free cash flow



¹ Restated.

² From 2014/15, results are based on Swiss GAAP FER.



Year of contrasts, characterized by change and consolidation

The market environment in fiscal year 2015/16 confronted the Schaffner Group with big challenges. While the leading market position in the EMC market was further cemented and the Automotive division continued its profitable growth, the Power Magnetics division suffered a reversal. Accordingly, Schaffner accelerated the measures to boost profitability in the Power Magnetics segment through the merging of plants in the USA and the closing of manufacturing in Germany.

New orders rallied in the second half of 2015/16, with a positive book-to-bill ratio for the full fiscal year, indicating that the Group has passed the bottom of the trough.

Market weakness in Power Magnetics weighs on sales and earnings

Sales of the Schaffner Group decreased by 8% in fiscal year 2015/16 to CHF 185.6 million (prior year or PY: CHF 201.8 million). On a local-currency basis the decline was 8.5%. The sales reduction resulted primarily from a slump in demand in important markets of the Power Magnetics division. The EMC division virtually held the prior year's sales figure and the Automotive division again significantly increased its sales compared with one year earlier. Gross margin eased by 2.5 percentage points to 25.6% (PY: 28.1%) as a result of the negative volume effect. The Group's operating profit was CHF 1.6 million (PY: CHF 10.8 million), with an EBIT margin of 0.8% (PY: 5.4%). This included restructuring expenses of CHF 4.6 million in the Power Magnetics division. The Group earned net profit for the period of CHF 0.4 million (PY: CHF 7.7 million), representing earnings per share of CHF 0.61 (PY: CHF 12.14).

Growth in Asia and with the automotive industry

The business environment in the core markets of the Schaffner Group, with the exception of the automotive sector, was challenging in fiscal 2015/16. A top cause was the weak demand in drive systems, for reasons that included the plunge in oil, gas and mining business as a result of the low commodity prices. Rail technology customers also continued to hold back, and in Japan the demand from the photovoltaic industry fell sharply after the expiration of government subsidy programs. Meanwhile, sales to the automotive industry remained very positive and grew further, while the emerging business of power quality filters performed well, expanding by more than one-third. In the geographic sales mix of the Schaffner Group, the share of Asia rose to 38% (PY: 36%). The most prominent country here was China, which at 25% of the Group's total sales is currently Schaffner's largest national market thanks to growing sales with the automobile industry. As in the year before, 22% of sales were generated in North America; the Europe region accounted for 40% (PY: 41%). Overall in fiscal year 2015/16 the Group booked new orders worth CHF 187.4 million (PY: CHF 196.2 million). The book-to-bill ratio was 1.01 (PY: 0.97).



Daniel Hirschi, Chairman of the Board of Directors

Kurt Ledermann, Interim CEO, and CFO

Contrasting trends in the three divisions

The Automotive division continued to do very well in fiscal year 2015/16. As revenue grew further, Automotive's share of Group sales rose from 21% to 25%. The sales contribution of the traditionally largest division, EMC, despite a slight decrease in its absolute sales, expanded to 51% (PY: 47%) of the Group total, while the share of the Power Magnetics division fell significantly to 24% (PY: 32%).

EMC division

Sales in the EMC division, as a result of the low demand from the photovoltaic sector and strong cost pressure in important markets, registered a small decrease of 1.6% to CHF 93.8 million (PY: CHF 95.3 million). The segment profit of CHF 8.9 million (PY: CHF 9.1 million) was also affected by high expenditures for the expansion of the power quality business, particularly development costs for the next generation of ECOsine harmonic filters. The segment profit margin was held steady at 9.5% (PY: 9.6%). With innovative products and through close proximity to customers and markets, Schaffner as the world market leader for EMC solutions took advantage of the market opportunities that presented themselves and further consolidated its strong position in a difficult overall market. A very compelling showing was achieved in the emerging power quality business, with substantial sales growth of 34% from the prior year.

Power Magnetics division

Sales of the Power Magnetics division experienced a pronounced drop in fiscal year 2015/16, declining by 28.7% to CHF 45.4 million (PY: CHF 63.6 million). The sharp volume contraction hurt the division's profitability because of insufficient utilization of the plants in Europe and North America. The segment loss of CHF 9.2 million (PY: profit of CHF 1.6 million) did not include restructuring costs totaling CHF 4.6 million for the merging of the plants in North America into a single location in Wytheville, Virginia, and the reorganization at the facility in Büren, Germany. In Büren, Schaffner is creating the center of excellence for power magnetics solutions (transformers and chokes), which will specialize both in research and development and in engineering of manufacturing processes. Growth in the fiscal year was achieved in China, with solutions for the wind turbine industry. In all other regions the division suffered the effects of a demand decline in drive systems, photovoltaics and rail technology.

Automotive division

The Automotive division continued its growth trajectory in fiscal 2015/16. Sales increased by 8.3% to a new total of CHF 46.4 million (PY: CHF 42.8 million). Segment profit jumped to CHF 11.3 million (PY: CHF 6.3 million), with a segment profit margin of 24.5% (PY: 14.6%). In the year under review the division benefited from the vigor of the global automobile market and enjoyed high demand for antennas for keyless entry systems, which are now a standard feature in more and more vehicle categories. Schaffner is the global number two in the antenna market for keyless entry systems and has built a strong position for itself internationally as a partner to the auto industry.

Adjusted financial results under Swiss GAAP FER

The consolidated financial statements of the Schaffner Group were converted from International Financial Reporting Standards (IFRS) to Swiss GAAP FER (FER) with retrospective effect from 1 October 2015. As part of these accounting and reporting changes, goodwill and intangible assets arising from acquisitions are now offset against equity, and pension obligations have been revalued. At the reporting date of 30 September 2016, total assets showed a decrease to CHF 123.3 million (30 September 2015: CHF 131.6 million). Net working capital rose slightly to CHF 34.1 million (PY: CHF 32.3 million). Free cash flow decreased to CHF 2.4 million from CHF 3.8 million and net debt increased to CHF 16.0 million (PY: CHF 15.1 million). With shareholders' equity of CHF 46.8 million (PY: CHF 50.4 million), the equity ratio of 37.9% (PY: 38.3%) was within the target range. Equity per share amounted to CHF 73.58 at the balance sheet date (PY: CHF 79.24).

Distribution proposal to shareholders

The Board of Directors of Schaffner Holding AG pursues a sustainable dividend policy, guided by a target range of 25% to 35% of net profit. In view of the unsatisfactory financial results in fiscal year 2015/16, the Board will propose to the Annual General Meeting not to pay a dividend. Upon acceptance of the proposal, CHF 31.4 million would remain available for future tax-free repayments of capital.

Changes in management

On 15 July 2016, Schaffner announced that Alexander Hagemann, Chief Executive Officer since 2007, was leaving Schaffner to take on new challenges outside the Group. The responsibilities of the Chief Executive Officer have been assumed on an interim basis by Kurt Ledermann, Chief Financial Officer of the Schaffner Group. The Board of Directors of Schaffner Holding AG will also propose to shareholders at the Annual General Meeting to elect the following two persons to the Board of Directors: Urs Kaufmann, Chief Executive Officer of Huber + Suhner AG, and Philipp Buhofer as a representative of the largest shareholder, the shareholder group Buru Holding AG. In addition, Urs Kaufmann will be proposed for election as the Chairman of the Board. Philipp Buhofer is to succeed Herbert Bächler, who is not standing for re-election. The Board of Directors thanks Herbert Bächler and Alexander Hagemann for their dedicated work on behalf of the Schaffner Group and wishes them all the best for the future.

Outlook

The developments in the Schaffner Group's key markets, the geopolitical environment and the situation in currency markets remain demanding. For the medium term, Schaffner reaffirms its targets announced in 2015 of organic sales growth of more than 5% per year and an EBIT margin of 8%.

Thank you

In fiscal year 2015/16 the employees of the Schaffner Group met the challenges of the market with great commitment; a special thank-you goes to them all. We also sincerely thank our customers, partners and shareholders, many of whom have known and supported the company for a long time.



Daniel Hirschi
Chairman of the Board



Kurt Ledermann
Interim Chief Executive Officer/Chief Financial Officer

Sustainability

2015
16

The success of the Schaffner Group is made possible by a long-term focus on sustainable processes. Schaffner is committed to electrical energy efficiency and reliability – both in innovative customer solutions and in the Group's internal operations. The management of the Schaffner Group looks after employees' satisfaction and well-being through fair terms of employment, safe jobs and the development of every individual's unique potential.

The Schaffner Group is known as an ethical company and is deeply committed to maintaining this valuable reputation. Schaffner's golden rule is to be professional, fair and honest in its relationships with everyone, including employees, shareholders, customers, suppliers, competitors, government agencies and other stakeholders.

The Schaffner Group is a signatory to the relevant international initiatives, such as the UN Global Compact, the Code of Conduct of the Electronic Industry Citizenship Coalition (EICC), and the Conflict Minerals Policy. As well, all employees are bound by an Anti-Corruption Policy introduced in fiscal year 2012/13. Schaffner also promotes the sustainable development of the Group through initiatives of its own like the ROFO principle (Responsibility, Ownership, Focus, On-time corrective action) and by systematically encouraging continuous learning.

UN Global Compact

By signing the United Nations Global Compact, Schaffner has undertaken to implement the Compact's ten principles, which address human rights, labor standards, the environment and anti-corruption. These principles are integral components of all employment agreements.

The manufacturing facilities of the Schaffner Group practice environmental management in accordance with the international ISO 14001 standard; acquired companies are also integrated into this system. Moreover, the Group's production centers in Asia, Hungary and Germany are compliant with OHSAS 18001 (Occupational Health and Safety Assessment Series), a process that has systematically improved workplace health and safety for employees.

EICC Code of Conduct

By adopting the Code of Conduct for the electronics industry developed by the Electronic Industry Citizenship Coalition (EICC), Schaffner has committed to ensuring that working conditions are safe across the entire supply chain, that employees are treated with respect and dignity and that manufacturing operations are environmentally responsible.

Anti-Corruption Policy

An Anti-Corruption Policy has been part of all employment agreements in the Schaffner Group since fiscal 2012/13. The policy is supported through training programs at the Group sites, and policy compliance is monitored.

Conflict Minerals Policy

The Schaffner Group abides by 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. Schaffner works closely with its suppliers to verify the origin of the raw materials used.

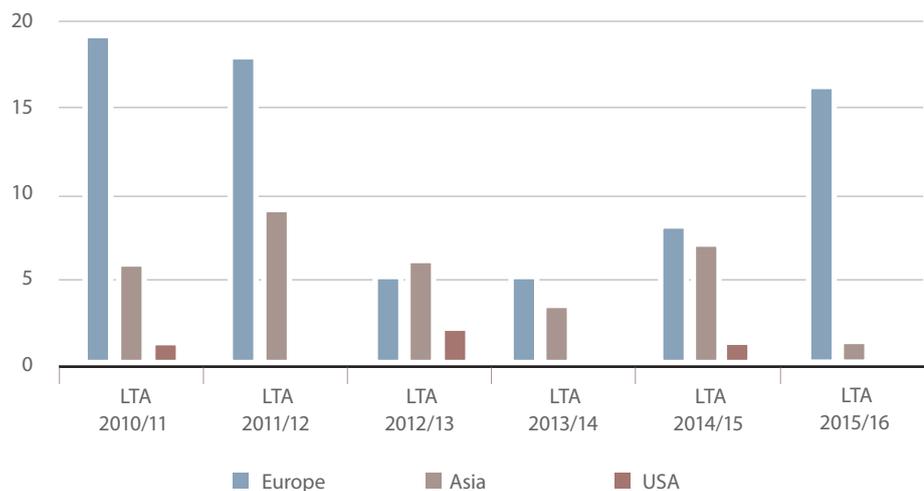
The people of the Schaffner Group

Schaffner is convinced that well-motivated employees are essential to its ability to offer the superior, innovative products and services which satisfy the exacting demands of customers and which justify the Schaffner Group’s claim to leadership. Schaffner’s goal is therefore to be the sector’s preferred employer worldwide. To this end, a host of measures are in place to attract, retain and develop the best people. These include close attention to healthy and safe workplaces and annual job-specific training and development of employees’ personal skills.

Employee health and safety

For years, Schaffner has consistently invested in scaling up the promotion of employees' health and safety, and the Group is proud of its success in this area. Since the introduction of systematic measurements in fiscal year 2008/09, great strides have been made in industrial safety and health. After an increase in work-related lost time accidents (LTA) in fiscal 2014/15, additional measures were launched and have led to an improvement in workplace safety in the Asia and North America regions. Thus, in 2015/16 the Asia region saw the number of accidents fall from seven to just one LTA, and North America once again achieved the goal of a fiscal year with zero lost time accidents. In Europe the measures did not gain traction everywhere, and actions to remedy this are in preparation.

Work-related lost time accidents (LTA), 2010/11 to 2015/16



To further enhance workplace safety, the following additional measures were put in place at the locations affected:

- › Shift supervisors conduct a daily “safety wake-up call” before the start of every shift and after every shift break.
- › If an event occurs that poses an elevated risk to employees' health, production is halted immediately and all employees are called together. They are informed of the circumstances of the incident and the appropriate measures for accident prevention.
- › Additional safety training is conducted in the departments involved. As well, the first designated safety week is planned for February/March 2017.
- › Regular risk assessments are conducted in accordance with the OHSAS 18001 standard.
- › When relocating machinery to a new site, the entire equipment being moved is tested to the local safety standards. Safety rules, protective devices and warning signs are adjusted to the national standard.
- › The safety compliance declarations on all machinery are regularly inspected.
- › The planned introduction of a safety award is intended to raise safety consciousness. The award, which is to be given out regularly at the annual company parties, requires being accident-free for the preceding three years.

Management development

Training and development in the Schaffner Group are organized at the local and divisional levels. At the major sites, where training goals and outcomes are systematically tracked, the goals are achieved by all employees.

Under the umbrella of Schaffner's Strategy 2020, a comprehensive "Develop People" project was initiated and a guideline on this subject area was created for the whole Schaffner Group. The project's implementation is planned for fiscal year 2016/17. A new measurement system is also being deployed to support this initiative.

Schaffner EMV AG and Schaffner Deutschland GmbH are currently jointly providing standard training in leadership for local line supervisors. After the training's completion, the incorporation of feedback on it and qualification of the training, the program will be rolled out worldwide. The introduction of such standard trainings fosters continual improvement in a shared understanding of key topics in the Schaffner Group.

Individual employee training and development

Schaffner seeks to foster the individual potential of each staff member equally across all of the Group's operations. The continuous and systematic development and training of employees is an important success factor for Schaffner.

While job-related training is done mainly at a work-specific level, staff development addresses the entirety of an employee's skills and allows the focused advancement of selected abilities.

In the Schaffner Group, employee development is a top priority at all levels of management. All supervisors have the necessary skills and resources to identify and purposefully develop their team members' individual potential.

Additional measures like the "Develop People" project continually strengthen the development activities. Plans include raising managers' awareness of development themes through specific courses, implementing a shared platform for staff development, and reviewing local progress.

The following measures are already in the introduction stage:

An individual development plan for everyone

- › Employee interviews are no longer tied to salaries or bonuses.
- › Performance assessments no longer focus on the past but on the current situation. In the process, action plans are created with a view to future needs.
- › The approach places employees' strengths front and center.
- › The development measures are divided into steps that take into account current responsibilities, the job requirements as well as individual personality development goals.

Performance management is divided into different areas, such as:

- › Management-by-objectives (MBO)/management incentive plan/variable compensation
- › Performance snapshot
- › Evolution of personal performance over time
- › Measurement of each project team member's performance/value added in project management

The Schaffner Group is striving for advanced, forward-looking approaches in its performance management that consider and incorporate the Schaffner strategy and support the Group's success for the long term.

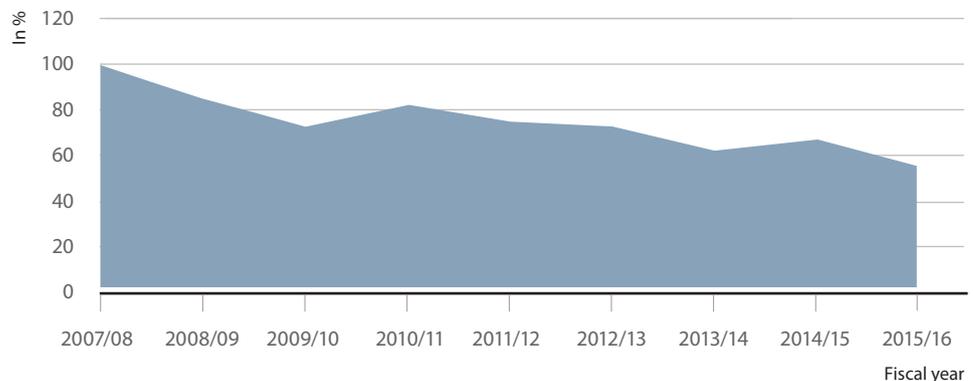
Reduction of the carbon footprint

Schaffner's goal is to cut carbon dioxide emissions significantly and to be a role model for such efforts. To accomplish this, the Group launched a project to study its global potential for emission savings and plan the necessary investment. The findings to date showed that most of the CO₂ emissions are generated by materials transport, manufacturing plants, logistics hubs and the Group's headquarters.

Transportation costs and emissions

With production centers in Asia, Europe and the USA, the Schaffner Group is able to manufacture its products in close proximity to customer delivery locations, thus substantially reducing shipping costs. Increasing use of sea freight has reduced the share of air freight in the Schaffner Group's total overall transportation mix. The associated CO₂ emissions (per unit of weight and distance transported) were substantially lowered. Schaffner is aiming for a significant reduction in CO₂ emissions in the coming years through continuous optimization of processes and a further increase in the share of sea freight. As part of the implementation of the quick response manufacturing project (QRM) designed to heighten the ability to respond rapidly to customer needs, the planning processes were also optimized. In 2015/16 the Group was able to transport more goods by sea freight again and reduce its CO₂ emissions.

CO₂ emissions from international transport, 2007/08 to 2015/16



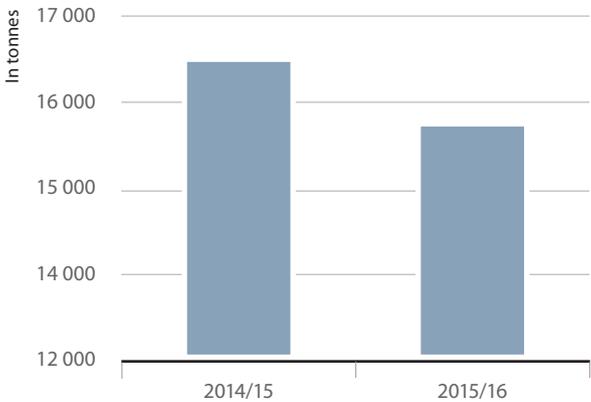
Production

The activities aimed at cutting CO₂ output in the Group's plants are bearing fruit. Awareness of the link between CO₂ emissions and global warming was further raised. Training events highlighted the negative consequences of the greenhouse effect, thus encouraging employees' understanding and engagement in order to help achieve large effects through many small measures. The CO₂ emissions from production plants were successfully stabilized despite a rise in automation. The optimization programs are steadily maintained and energy consumption continues to be monitored in line with the GRI reporting guidelines.

CO₂ emissions of the Schaffner Group

The measurement of CO₂ emissions captures the transportation between the plants and the emissions of the manufacturing and logistics plants as well as the Swiss headquarters. Smaller offices without production or logistics operations are not included, as their emissions are insignificant compared to the represented entities.

Total CO₂ emissions, 2014/15 to 2015/16



Corporate governance

2015 16

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1 Basis of the corporate governance report

This corporate governance report describes the principles for 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 2015/16 is as at 30 September 2016 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 and updated in 2007, 2014 and 2016).

The Schaffner Group's corporate governance principles and regulations are set out in its Articles of Association¹ and in its Management Organization Regulations (in German: 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:

www.unglobalcompact.org/participation/report/cop/create-and-submit/active/231041

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:
www.eicc.info/EICC_CODE.shtml

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 2015/16

2.1 Resolutions of the General Meeting

On 12 January 2016 at the 20th Annual General Meeting (AGM) of Schaffner Holding AG, shareholders re-elected the existing Board members Herbert Bächler, Daniel Hirschi, Gerhard Pegam, Suzanne Thoma and Georg Wechsler for a further term of one year. The shareholders returned Daniel Hirschi as Chairman of the Board of Directors for the term ending at the conclusion of the next AGM. For the same term, shareholders appointed Herbert Bächler, Daniel Hirschi and Suzanne Thoma as members of the Compensation Committee and Wolfgang Salzmann as the independent proxy. As Schaffner had re-tendered the audit firm appointment in 2015, the shareholders elected BDO AG, Solothurn, as the external auditors for fiscal year 2015/16. The shareholders also decided to distribute CHF 6.50 per share entitled to dividends, or about 65% of net profit for the year 2014/15. The AGM resolved to reduce the unissued authorized capital for equity-based compensation (in German: bedingtes Aktienkapital) by CHF 449,150 to a new total of CHF 590,850 and to create, for a period of one year, authorized capital for purposes other than equity-based compensation (genehmigtes Aktienkapital) in the amount of CHF 2,066,805, or 10% of existing issued capital, to support the growth targeted under the Strategy 2020. The compensation report was adopted in a consultative vote and the compensation of the Board of Directors and Executive Committee for fiscal year 2016/17 was approved. The shareholders endorsed

¹ The Articles of Association are published on the Schaffner investor relations website at:
www.schaffner-ir.com/corporate-governance/articles-of-association-management-organization-regulations

both compensation proposals of the Board of Directors by setting a maximum aggregate amount for fiscal year 2016/17 of CHF 600,000 for the Board and of CHF 4,000,000 for the Executive Committee. The minutes of the 20th Annual General Meeting of Schaffner Holding AG can be accessed 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 10 March 2016 the Schaffner Group announced that Eduard Hadorn, Executive Vice President and Head of the Power Magnetics division, would step down from the Executive Committee effective 31 March 2016 and assume the leadership of the strategic project of developing Schaffner's presence in the Indian market. He was not replaced as a member of the Executive Committee.

On 15 July 2016 the Schaffner Group announced that Alexander Hagemann, Chief Executive Officer since 2007, was leaving Schaffner to take on new challenges outside the Group. The CEO responsibilities were assumed on an interim basis by the Group's Chief Financial Officer, Kurt Ledermann. In his role as CFO he is supported by his deputy of many years, Christian Herren. Until the definitive resolution of the succession, the Executive Committee of the Schaffner Group consists of Kurt Ledermann, CEO (interim) and CFO; Ah Bee Goh, Chief Operating Officer; and Guido Schlegelmilch, Executive Vice President and Head of the EMC division.

2.3 Conversion of the consolidated financial statements to Swiss GAAP FER

On 26 August 2016, Schaffner Holding AG announced that it was converting the consolidated financial statements from International Financial Reporting Standards (IFRS) to Swiss GAAP FER with retrospective effect from the beginning of fiscal year 2015/16, i.e., from 1 October 2015. In connection with this conversion, the regulations of the SIX Swiss Exchange also required a change of listing standard. Since Monday, 3 October 2016 the Schaffner shares are therefore listed under the Swiss Reporting Standard. They remain a constituent of the Swiss Performance Index (SPI) and also of the SPI Extra, SPI ex SLI and Swiss All Share indices.

3 Governance-related events in fiscal year 2015/16

3.1 Group structure

3.1.1 Group operating structure

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

The chart below shows the Group's operating structure at 30 September 2016:

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 (the top tier 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 26 in section 5.5, on page 29 in section 5.6 and on page 31 in section 6.

The Executive Committee had the following structure at 30 September 2016:

Executive Committee	
Kurt Ledermann	Interim Chief Executive Officer
Kurt Ledermann , Finance & IT	Chief Financial Officer
Ah Bee Goh , Manufacturing	Chief Operating Officer
Guido Schlegelmilch , EMC division	Executive Vice President

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

3.1.2 Listed companies

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

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

Schaffner Holding AG is a public limited company incorporated in Switzerland and has its registered office in Luterbach. At 30 September 2016 the share capital consisted of 635,940 ordinary registered shares with a total nominal value of CHF 20,668,050.

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

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

3.1.3 Non-listed Group companies

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

3.2 Significant shareholders

At the balance sheet date of 30 September 2016 there were 1,300 shareholders registered with voting rights in the share register of Schaffner Holding AG (prior year: 1,377). Of the issued shares, 100% represented free float (prior year: 99.8%). Schaffner Holding AG held 0.0% of the shares as treasury shares (prior year: 0.2%). At 30 September 2016, shares of unregistered owners amounted to 16.6% of the issued shares (prior year: 21.2%).

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%
Credit Suisse	3%
J. Safra Sarasin Investmentfonds AG	10%
UBS AG	9%

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 2015/16.

20 May 2016	UBS AG: Exceeding 5% of voting rights through the fund RoPAS (CH) Institutional Fund-Equities Switzerland
7 June 2016	Shareholder group Buru Holding AG: Purchase of shares and change in composition of a group

Further information on significant shareholders is provided on page 97 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 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 Aktienkapital) 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 84 of this annual report 2015/16 of the Schaffner Group, in section 15 of the notes to the consolidated financial statements.

4.2.2 Other authorized capital

The Annual General Meeting on 12 January 2016 created unissued authorized capital for purposes other than equity compensation (genehmigtes Aktienkapital); it authorized the Board of Directors to increase the issued share capital at any time until 13 January 2017 by up to a maximum of CHF 2,066,805 by issuing up to 63,594 fully payable registered shares with a nominal

value of CHF 32.50 per share. Issues of less than this maximum are also permitted. The subscription for and purchase of the new shares and any subsequent transfer of the shares are subject to the restrictions under section 6 of the Bylaws. The amount and date of the respective issue, the date when entitlement to dividend commences and the nature of the contributions are determined by the Board of Directors. The Board may also issue shares by firm commitment underwriting or in another manner through one or more banks and by subsequent offer to shareholders or third parties. The Board may allow unexercised pre-emptive rights to lapse. Alternatively, it may place them, or shares for which pre-emptive rights are granted but not exercised, at market prices, or may use them differently in the interest of the Company.

The Board is authorized to restrict or exclude the shareholders' pre-emptive rights and assign these rights to third parties, if the shares are to be used for the purpose of:

1. The acquisition of companies, company assets or equity interests, or the financing of new investment projects or, in the event of a share placement, for the financing (including debt financing) of such transactions;
2. Granting an over-allotment option (greenshoe) to one or several underwriting banks in connection with a share offering; or
3. Providing an ownership interest to strategic/industrial partners.

Further information can be found on page 64 of this annual report 2015/16 of the Schaffner Group.

4.3 Changes in equity in the last three fiscal years

The Annual General Meeting on 14 January 2014 passed a resolution to distribute CHF 4.50 per share (exempt from Swiss anticipatory tax) in the form of a repayment of excess share premium.

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 64 of this annual report 2015/16. The comparative information on changes in equity for the three prior years is found in the consolidated financial statements on page 65 of the annual report 2014/15, on page 65 of the annual report 2013/14 and page 55 of the annual report 2012/13.

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 that are registered in the share register may at any time request a certification of ownership of their shares from the Company. 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.

(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 2016 (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 2016 (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 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 stock or evidence of the establishment of beneficial ownership, and always requires an express declaration that the stock was acquired and is 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 notification 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 2016, 16.6% (prior year: 21.2%) 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 upper management and members of the Board of Directors of the Schaffner Group (the Employee Share Option Plan) is described in detail on page 84 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 2016 the Board of Directors consisted of five, non-executive members. In the three years prior to the reporting period (fiscal years 2012/13, 2013/14 and 2014/15), 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 2015/16 the Board of Directors of Schaffner Holding AG had the following members:

Daniel Hirschi, Chairman, 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.

Herbert Bächler, born 1950

PhD in Technical Sciences and MSc in Electrical Engineering, Federal Institute of Technology, Zurich

In charge of innovation management at ARfinanz Holding AG, Stäfa. From 2002 to 2008 was Chief Technology Officer at Sonova/Phonak AG and from 1981 to 2002 held various management positions in its R&D department.

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, Zurich

From 1 January 2013: CEO of BKW AG, Berne. Previously member of the Group Executive Committee of BKW AG, Berne (formerly BKW FMB Energie AG) in charge of the Networks division. From 2007 to 2009 was head of the international automotive supply business of the WICOR Group, Rapperswil-Jona. Before that, was CEO of Rolic Technologies, Allschwil. Also held management positions at CIBA Spezialitätenchemie AG in Switzerland and abroad.

Georg Wechsler, born 1956

Degree in Business Administration; Swiss Certified Accountant

Since 1994 has been CFO and member of the Group Executive Committee of Model Holding AG, Weinfelden. Previous employers included Zurmont Finanz AG, Zurich; Zellweger Uster AG, Uster; and KPMG Fides, Zurich.

The Secretary of the Board, since June 2008, is Kurt Ledermann, interim CEO and CFO of the Schaffner Group. The Secretary is not a member of the Board.

5.2 External activities and interests**Herbert Bächler**

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

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; Vice Chairman of the Board and Chairman of the Compensation Committee of Komax Holding AG, Dierikon; and member of the Board of the privately held Benninger AG, Uzwil.

Gerhard Pegam

Gerhard Pegam is a member of the Board, of the Audit Committee and Strategy Committee of OC Oerlikon Corporation AG and a member of the Supervisory Board of Süss Microtech AG, Germany.

Suzanne Thoma

Suzanne Thoma is a member of the Board of UPM-Kymmene Oy, Helsinki, and 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) OAEC.

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

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

5.4 Board elections and terms

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

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

5.5 Internal organization

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

5.5.1 Division of responsibilities within the Board

Daniel Hirschi has been the Chairman of the Board of Directors since the 2010 Annual General Meeting. He also chairs the Compensation Committee. The chairman of the Nomination Committee is Herbert Bächler. 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 role 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 setting the annual performance targets for this compensation
- › Submission of proposals to the Board for identifying the list of potential recipients of performance-related compensation and 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 allocation of shares (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 2016	Since
Daniel Hirschi , committee chairman	2010
Herbert Bächler	2012
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 concerning the company and Group financial statements and presents them 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 2016	Since
Georg Wechsler , committee chairman	2012
Daniel Hirschi	2010
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 Chief Executive Officer and 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 2016	Since
Herbert Bächler , committee chairman	2012
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. The Chief Executive Officer and Chief Financial Officer usually attend the meetings. 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 case of urgency, 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 (e.g., 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 twelve times. The following overview shows the individual Board members’ attendance at Board and Board committee meetings:

Number of meetings	BD	RAC	CC	NC
Daniel Hirschi	12	4	3	3
Herbert Bächler	12	–	3	3
Gerhard Pegam	10	4	–	–
Suzanne Thoma	11	–	3	3
Georg Wechsler	11	4	–	–

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 Management Organization 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 appointed after the approval of the maximum aggregate amount, for a fiscal year for which the General Meeting has already approved the individual compensation amounts or the maximum aggregate amount, 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 of the acceptance by Executive Committee members of 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 or their pledging as collateral or 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 (i.e., 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 and for ensuring the development and implementation of risk control principles, rules and limits. 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 the findings to the Board. 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, over and above 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 (in German: 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 contracts 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 five members. On 31 March 2016 the Executive Vice President / Head of the Power Magnetics division stepped down from the Executive Committee, and on 15 July 2016 the CEO left the Schaffner Group. The CEO function is being performed on an interim basis 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 and 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 to the Code of Conduct, 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 and tax 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 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, the Group's highest-ranking operational management body, supports the Chief Executive Officer in fulfilling his responsibility for managing the Group's activities. It consists of the executives named in the list 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 implementation of 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 (i.e., 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 2015/16 the Executive Committee of the Schaffner Group had the following members:

Alexander Hagemann¹, CEO, born 1962

Degree in Mechanical Engineering, RWTH Aachen University

With the Schaffner Group from 1 March 2007 to 15 July 2016 as CEO. Previously held a number of management positions at the Schott Group, including Executive VP, Optics for Devices. Earlier, worked in management roles in production and logistics at BMW.

Kurt Ledermann², CFO, born 1968

MSEE Degree in Electrical Engineering, Federal Institute of Technology, Zurich; Master of Arts HSG, University of St. Gallen

Joined the Schaffner Group as CFO on 1 June 2008. Since 15 July 2016 is also interim CEO. Previous roles included Executive VP, 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

Joined the Schaffner Group on 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.

¹ To 15 July 2016.

² Interim CEO from 15 July 2016, and CFO.

Eduard Hadorn³, Executive VP, born 1956

Degree in Business Administration

With the Schaffner Group since 2003; VP, Business Development Asia from 1 March 2007. Managing Director, Schaffner EMC Ltd., Shanghai. Executive VP and Head of Power Magnetics division from 1 October 2011 to 31 March 2016. Previously was General Manager, Technology division at Diethelm & Co., and Head of Marketing & Sales at Beringer Hydraulik.

Guido Schlegelmilch, Executive VP, born 1964

Degree in Business Engineering and PhD, Darmstadt University of Technology

Joined the Schaffner Group on 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**Alexander Hagemann**

Member of the Board of Directors of WICOR Holding AG, Rapperswil-Jona, and member of the Board of the Swiss-Asian Chamber of Commerce.

Kurt Ledermann

Vice Chairman of the Board of Anlagestiftung Winterthur AWi, Zurich, and member of the Finance Committee of the city of Solothurn.

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, nor hold any permanent management or consultancy 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 restriction 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.

³ To 31 March 2016.

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 42 to 58 of this annual report.

8 Shareholder participation rights

8.1 Voting rights restrictions and proxy voting

At 30 September 2016 there were 1,300 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 General Meeting. Re-election for consecutive terms is permitted. Natural persons, legal entities and partnerships are all eligible for election. If the Company does not have an independent proxy, the Board of Directors appoints one for the next General Meeting.

8.2 Quorums under the Articles of Association

Except as otherwise required by law or the Articles of Association, the General Meeting passes its resolutions and decides its elections by an absolute majority of the votes cast, excluding abstentions and blank and invalid votes. If an election is not completed in the first round and there is more than one candidate, a second round of voting is held, which is decided by a relative majority. In the event of an equality of votes, the meeting chairman 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, time 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 – binding on the Company – to call an Extraordinary General Meeting. Such a request must be in writing and state the business to be discussed and the proposed resolutions.

8.4 Placing business on the General Meeting agenda

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

8.5 Registration in the share register

In accordance with article 6 para. 1 of the Articles of Association, Schaffner Holding AG maintains a share register. The Company may outsource the operation of the share register to a company specializing in such services (a registrar). At present the share register is operated by ShareComm Services AG, based in Glattbrugg, Switzerland. The manager of the share register is Schaffner's Chief Financial Officer. In this matter 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 Share Registration 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 22 of this corporate governance report in section 4.6.

Shares for which the requirements (as set out in the Share Registration Regulation or in any amendments thereto) for registration as a voting shareholder are not or are 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 voting 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 to the Chairman of the Board for approval, or, if absent, to the Vice Chairman.

The Board may, after hearing the affected party, void (delete) the party's registration in the share register as a voting shareholder, retroactively to the date of registration, if the registration was the result of false information supplied by the purchaser, and instead register the affected party as a non-voting shareholder. Registrations can also be deleted (or reclassified as non-voting) when a registered shareholder refuses, despite prior warning, to provide the requested information or fails to provide requested documentation (of beneficial ownership, etc.). The authority to decide on deleting or reclassifying the registration of a voting shareholder or voting 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. From 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 2015/16, BDO AG invoiced the Schaffner Group a total of CHF 228 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, Ernst & Young AG: CHF 313 thousand).

10.3 Additional fees

In addition, BDO AG invoiced the Schaffner Group CHF 7 thousand (prior year, Ernst & Young AG: CHF 277 thousand) for other services, which had the following composition:

In CHF '000	2015/16	2014/15 ¹
Tax consulting	2	30
M&A consulting	0	235
Miscellaneous	5	12

¹ Ernst & Young AG, Berne.

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 of Directors in a 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 complies with Swiss GAAP FER.

As a company listed on the SIX Swiss Exchange, Schaffner also publishes information (so-called "ad-hoc" disclosures) relevant to the share price, 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 the Company'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 via the following link:

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

Annual and half-year-reports, corporate governance reports and compensation reports are available for at least five years on the 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 activities 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

A key source of current, in-depth information on the Group, its products and contact details are these web pages:

www.schaffner.com

www.schaffner-ir.com

Investor relations contact

Kurt Ledermann, Interim CEO, and CFO

kurt.ledermann@schaffner.com

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Financial calendar

12 January 2017	21 st Annual General Meeting
11 May 2017	Publication of half-year report 2016/17
7 December 2017	Publication of annual report 2016/17
11 January 2018	22 nd Annual General Meeting

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

Compensation report

2015 16

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1 Introduction

This compensation report describes the compensation principles and the governance framework for the remuneration of the Board of Directors of Schaffner Holding AG and the Schaffner Group's Executive Committee. It provides detailed information on the compensation plans in place and the compensation paid or to be paid for the fiscal year under review to the members of the Board of Directors and Executive Committee.

The Annual General Meeting of Schaffner Holding AG on 12 January 2016 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 2014/15. 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 held separately 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 year 2016/17.

All three proposed resolutions were accepted by shareholders at the AGM with more than 98% approval. The Board of Directors thanks the shareholders for this clear yes-vote and takes the high level of approval as an expression of trust in its work. 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.

The legislation and regulations governing the compensation practices of the Schaffner Group are set out in the following sources:

- › Swiss Code of Obligations, sections 620 to 762
- › Ordinance Against Excessive Compensation at Listed Companies (OAEC), and section 95 para. 3 of the Swiss constitution
- › Directive on Information Relating to Corporate Governance (the Corporate Governance Directive, or DCG), issued by the SIX Swiss Exchange
- › Swiss Code of Best Practice for Corporate Governance, issued by Economiesuisse
- › Articles of Association of Schaffner Holding AG
- › Management Organization Regulations of Schaffner Holding AG (German name: Organisationsreglement)

The complete Articles of Association concerning the compensation principles (article 24), the voting on compensation by the Annual General Meeting (article 25) and the available additional amount for compensation of the Executive Committee where a previously approved aggregate maximum amount is not sufficient (article 26), as well as the rules regarding the principles of performance-related compensation (article 28) and the granting of shares (article 29), loans, other credit and pension benefits (article 30) can be found under the Corporate Governance tab on the website of Schaffner Holding AG at:

www.schaffner-ir.com

The Management Organization Regulations of Schaffner Holding AG are available in the Corporate Governance section of the Company's website at:
www.schaffner-ir.com

3 Guiding principles

The compensation of the Board of Directors and Executive Committee is linked to the generation of sustainable earnings for shareholders and creates incentives conducive to the Schaffner Group's lasting financial success. 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. The most important principles underlying the remuneration system are thus:

- › 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

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 (October 1 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	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 allocation of shares (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 2016	Since
Daniel Hirschi , committee chairman	2010
Herbert Bächler	2012
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 and the Chief Financial Officer, as well as the Head of Corporate Human Resources, who is not a member of the Executive Committee. However, the CEO, CFO and 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:

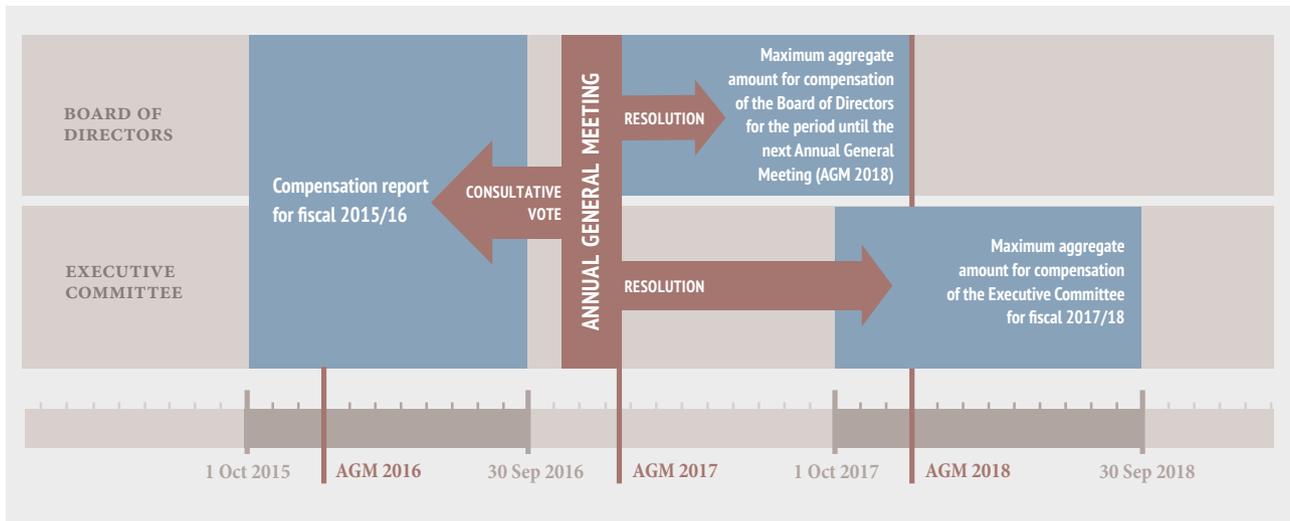
- › The target amount of performance-based compensation is contractually agreed (note: the target amount is the amount payable on exact achievement of the performance targets). This target amount can equal up to 50% of the fixed compensation.
- › The performance-related compensation can decrease to 0%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

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 Aktienkapital) or from other authorized capital (genehmigtes Aktienkapital) 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 contracts	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, operating EBITA ¹ 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, operating EBITA ¹ of the Group and 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 OAEC (additional to the maximum aggregate amount) is available for Executive Committee members who are appointed after the approval of the current maximum aggregate amount. The value of the amount is governed by article 26 of the Company’s Articles of Association as follows: The additional amount for a new 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 employed under permanent contracts, all with a notice period of one year. There is no contractual advance compensation and no severance pay for Executive Committee members.

7 Compensation of the Board for fiscal year 2015/16

This section of the compensation report and the section following provide information on the compensation paid by Schaffner Holding AG or its subsidiaries for fiscal year 2015/16 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 market 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 2016 Annual General Meeting a maximum aggregate amount of CHF 600 thousand was approved for the compensation of the Board of Directors for the period until the next Annual General Meeting.

Board compensation for 2015/16

The compensation of the Board of Directors decreased slightly in the year under review. The cash fees remained unchanged; the overall total reduction of CHF 8 thousand in the Board’s compensation resulted from a somewhat reduced valuation of the awarded shares.

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

Board compensation for 2014/15

in CHF '000	Cash fees	Variable cash compensation	Restricted shares	Pension costs	Other compensation	Total
Daniel Hirschi, Chairman	117		63			180
Herbert Bächler	52		31			83
Gerhard Pegam	50		31			81
Suzanne Thoma	50		31			81
Georg Wechsler	52		31			83
Total	321	0	188	0	0	509

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

Restricted share awards

	2015/16		2014/15	
	Number of shares	Value in CHF '000' ¹	Number of shares	Value in CHF '000' ¹
Daniel Hirschi, Chairman	291	60	216	63
Herbert Bächler	145	30	108	31
Gerhard Pegam	145	30	108	31
Suzanne Thoma	145	30	108	31
Georg Wechsler	145	30	108	31
Total	871	180	648	188

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.

7.2 Board committee fees

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 21 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 committee fee is paid only once per person, even if the recipient sits on several committees.

8 Compensation of the Executive Committee for fiscal year 2015/16

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 that it is earned, relying on the information available at the balance sheet date.
- › The expense for restricted share awards consists of the market 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”.
- › 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 2016/17

At the 2015 Annual General Meeting, a maximum aggregate amount of CHF 4,000 thousand was approved for the compensation of the Executive Committee for fiscal year 2016/17.

Executive Committee compensation for 2015/16

The compensation of the Executive Committee in the year under review fell by 17% compared to the prior year. This was related both to personnel changes within the Executive Committee (the resignation of Eduard Hadorn as Executive Vice President effective 31 March 2016 and the departure of Alexander Hagemann as CEO on 15 July 2016) and to the fact that the members of the Executive Committee did not receive variable cash compensation for fiscal year 2015/16.

The increase in other compensation for Alexander Hagemann was related to the payment of compensation in connection with the termination of the employment relationship.

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, CEO	495	0	95	131	84	805
	61%	0%	13%	16%	10%	100%
Total for the other members of the Executive Committee ¹	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%

¹ Eduard Hadorn was a member of the Executive Committee until 31 March 2016.

Executive Committee compensation for 2014/15

in CHF '000	Base salary	Variable cash compensation	Restricted share awards	Pension costs	Other compensation	Total compensation
Alexander Hagemann (to 15 July 2016)	500	77	100	138	9	824
	61%	9%	12%	17%	1%	100%
Total for the other members of the Executive Committee	1,165	202	139	242	105	1,853
	63%	11%	7%	13%	6%	100%
Total	1,665	279	239	380	115	2,677
	62%	11%	9%	14%	4%	100%

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

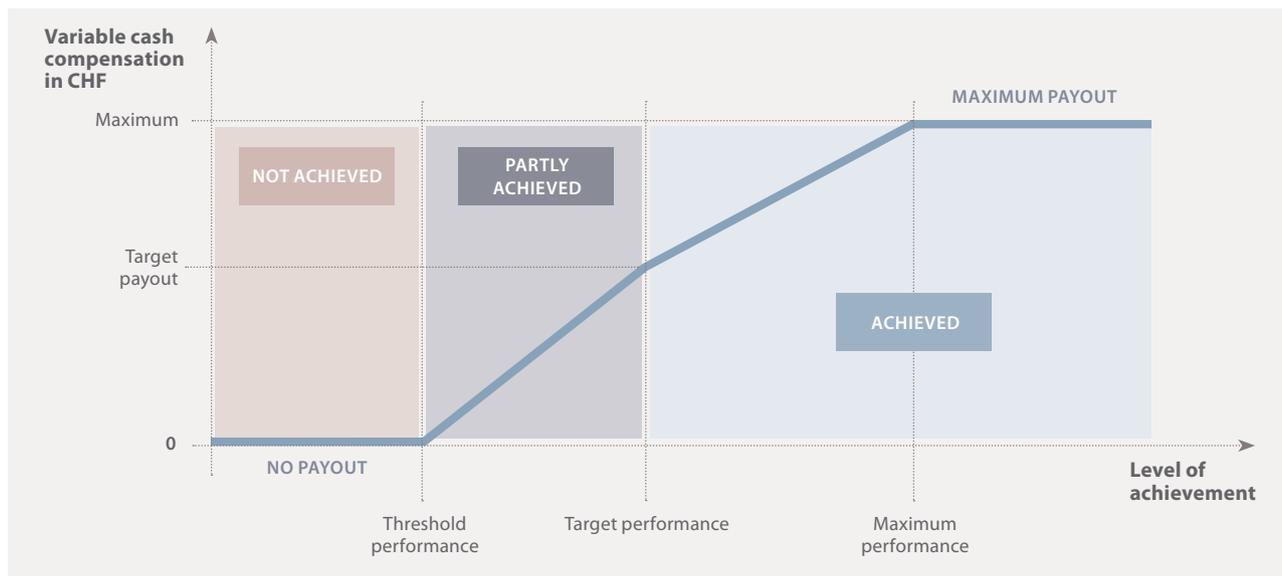
Restricted share awards

	2015/16		2014/15	
	Number of shares	Value in CHF '000' ¹	Number of shares	Value in CHF '000' ¹
Alexander Hagemann (to 15 July 2016)	463	95	344	100
Kurt Ledermann, CEO (interim) /CFO	203	42	151	44
Ah Bee Goh, COO	148	30	110	32
Eduard Hadorn (to 31 March 2016)	148	30	110	32
Guido Schlegelmilch, EVP, EMC division	148	30	110	32
Total	1,110	227	825	239

¹ The award of the shares is not tied to any specific conditions. Therefore there is no vesting period and the compensation is recognized at the grant date, in staff costs. Its fair value is measured at the quoted market price.

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 2015/16, 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 Chief Executive Officer

Performance measure	Target	Target share of total variable cash compensation	Target achievement	Variable cash compensation
Growth in net sales	6.2%	15.0%	N/A	
Operating EBITA margin	6.5%	15.0%	N/A	
Strategy execution ¹	Qualitative	20.0%	N/A	
Net profit (management dividend)	CHF 12 million	50.0%	N/A	
Total		100%	0%	CHF 0

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

Performance measure	Target	Target share of total variable cash compensation	Target achievement	Variable cash compensation
Growth in net sales	6.2%	8.0%	N/A	
Operating EBITA margin	6.5%	8.0%	N/A	
Segment sales growth	3.5–9%	4.0%	N/A	
Segment operating EBITA margin	5–14%	9.0%	N/A	
Strategy execution ¹	Qualitative	20.0%	N/A	
Net profit (management dividend)	CHF 12 million	50.0%	N/A	
Total		100%	0%	CHF 0

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 2015/16 was payable to Alexander Hagemann (CEO until 15 July 2016). His total compensation for fiscal 2015/16, consisting of the fixed annual base salary and of pension and insurance benefits and perquisites, amounted to CHF 805 thousand (prior year: CHF 824 thousand).

9 Former members of management

In the year under review, no compensation was paid to persons who ceased to be a member of the Board of Directors or Executive Committee before the year under review. Likewise, 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 one 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

Number of shares	Freely transferable	Awarded 04.01.2014, blocked until 03.01.2017	Awarded 05.01.2015, blocked until 04.01.2018	Awarded 04.01.2016, blocked until 03.01.2019	Total
At 30 September 2016					
Daniel Hirschi, Chairman	327	271	216	291	1,105
Herbert Bächler	604	136	108	145	993
Gerhard Pegam	0	136	108	145	389
Suzanne Thoma	109	136	108	145	498
Georg Wechsler	304	136	108	145	693
Total	1,344	815	648	871	3,678

11.2 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 2016 there were no longer any non-vested options and all outstanding options were thus exercisable.

Share options

At 30 September 2016	Grant date	Expiry date	Exercise price in CHF	Total
	13.01.2010	13.01.2017	157.00	1,000
	30.11.2010	29.11.2017	240.50	660
	21.11.2011	21.11.2018	235.00	1,000
Daniel Hirschi, Chairman				2,660
	30.11.2009	30.11.2016	159.90	500
	30.11.2010	29.11.2017	240.50	320
	21.11.2011	21.11.2018	235.00	500
Herbert Bächler				1,320
Total				3,980

11.3 Management transactions

Since 1 July 2005, Schaffner Holding AG reports to the SIX Swiss Exchange the transactions in Schaffner shares and options concluded by members of the Board of Directors 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 2015/16

Transaction date		Number of shares	CHF '000
04.01.2016	Purchase (RSP) ¹	871	180
Total		871	180

¹ Purchase of shares under the Restricted Share Plan (RSP).

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

12 Shares and options held by the Executive Committee

12.1 Registered shares

At 30 September 2016	Freely transferable	Awarded 04.01.2014, blocked until 03.01.2017	Awarded 05.01.2015, blocked until 04.01.2018	Awarded 04.01.2016, blocked until 03.01.2019	Total
In number of shares					
Kurt Ledermann, CEO (interim)/CFO	1,389	191	151	203	1,934
Ah Bee Goh, COO	551	139	110	148	948
Guido Schlegelmilch, EVP, EMC division	186	139	110	148	583
Total	2,126	469	371	499	3,465

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 2016 there were no longer any non-vested options, and all outstanding options were thus exercisable.

Share options

At 30 September 2016	Grant date	Expiry date	Exercise price in CHF	Total number of share options
	30.11.2009	30.11.2016	159.90	750
	30.11.2010	29.11.2017	240.50	520
	21.11.2011	21.11.2018	235.00	700
Kurt Ledermann, CEO (interim)/CFO				1,970
	30.11.2010	29.11.2017	240.50	400
	21.11.2011	21.11.2018	235.00	125
Ah Bee Goh, COO				525
	30.11.2010	29.11.2017	240.50	200
	21.11.2011	21.11.2018	235.00	500
Guido Schlegelmilch, EVP, EMC division				700
Total				6,750

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 2015/16

Transaction date		Number of shares	CHF '000
18.12.2015	Sale	-116	-27
30.12.2015	Sale	-100	-24
04.01.2016	Purchase (RSP) ¹	1,110	227
05.03.2016	Sale (exersale) ²	-75	-4
Total		819	172

¹ Purchase of shares under the Restricted Share Plan (RSP).

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

13 Equity overhang and dilution

At 30 September 2016 there were a total of 10,848 outstanding share options and blocked shares (prior year: 15,804). The equity overhang – the ratio of this total to the total number of shares outstanding – amounted to 1.7% (prior year: 2.5%).

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 2015/16 the number of shares granted was 1,981 (prior year: 1,473) and the Group's equity burn rate was 0.3% (prior year: 0.2%).

To the General Meeting of
Schaffner Holding AG, Luterbach

Solothurn, 6 December 2016

Report of the Statutory Auditor on the Compensation Report

We have audited the compensation report dated 6 December 2016 of Schaffner Holding AG for the year ended 30 September 2016. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (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 in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the compensation report of Schaffner Holding AG for the year ended 30 September 2016 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

2015 16

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Consolidated balance sheet

In CHF '000	Note	30.09.2016	30.09.2015
Intangible assets	2	1,650	2,084
Property, plant and equipment	3	22,500	22,728
Other non-current financial assets	4	1,978	1,960
Deferred tax assets	13	10,889	8,448
Total non-current assets		37,017	35,221
Prepaid expenses and deferred income		1,344	924
Inventories	5	30,840	32,030
Other current financial assets		2,037	3,742
Other receivables		2,021	2,309
Trade receivables	6	36,310	34,734
Cash and cash equivalents		13,770	22,679
Total current assets		86,322	96,418
Total assets		123,339	131,639
Exchange differences		-17,751	-17,938
Retained earnings		2,068	1,681
Treasury shares		-67	-299
Share premium		41,874	46,283
Share capital		20,668	20,668
Total shareholders' equity		46,792	50,395
Deferred tax liabilities	13	251	359
Non-current provisions	7	5,428	4,545
Non-current borrowings	8	29,540	37,528
Total non-current liabilities		35,219	42,432
Accrued expenses		8,989	9,080
Current provisions	7	4,668	825
Other payables		4,231	3,033
Trade payables		23,172	25,600
Current borrowings	8	268	274
Total current liabilities		41,328	38,812
Total liabilities		76,547	81,244
Total liabilities and shareholders' equity		123,339	131,639

Since the beginning of fiscal year 2015/16 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. 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	2015/16	2014/15
Net sales of goods and services	14	185,563	201,782
Cost of sales		- 138,149	- 145,106
Gross profit		47,414	56,676
Other operating income			543
Marketing and selling expense		- 18,121	- 18,217
Research and development expense		- 16,481	- 15,704
General and administrative expense		- 11,241	- 12,499
Operating profit (EBIT)		1,570	10,799
Finance income	12	1,700	4,260
Finance expense	12	- 3,097	- 5,216
Profit before tax (EBT)		173	9,843
Income tax	13	214	- 2,143
Net profit for the period		387	7,700
Earnings per share in CHF	16		
Basic		0.61	12.14
Diluted		0.61	12.08

Since the beginning of fiscal year 2015/16 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. 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	2015/16	2014/15
Net profit for the period		387	7,700
Depreciation and impairment of property, plant and equipment	3	5,020	4,844
Amortization and impairment of intangible assets	2	878	967
Loss on disposal of property, plant and equipment and intangible assets		143	81
Change in provisions	7	4,725	-1,980
Change in deferred tax	13	-2,584	458
Change in trade receivables		-2,187	2,181
Change in inventories		1,012	-2,506
Change in other receivables, prepaid expenses and deferred income		-190	282
Change in trade payables		-2,477	-1,743
Change in other current payables and accrued expenses		1,064	-1,805
Expense for share-based payments to staff		688	788
Exchange differences on intra-Group items		897	-522
Other non-cash expenses		44	226
Cash flow from operating activities		7,421	8,971
Purchase of property, plant and equipment	3	-4,582	-4,749
Disposal of property, plant and equipment		0	335
Purchase of intangible assets	2	-445	-761
Change in current financial assets		1,765	-551
Change in loan receivables and non-current financial assets		-7	-6
Cash flow from investing activities		-3,269	-5,732
Purchase of treasury shares	17	-687	-868
Sale of treasury shares	17	29	71
Exercise of employee share options and purchase of restricted shares by staff	17	-74	535
Repayment of excess share premium		-4,133	-4,127
Proceeds from borrowings		1,124	2,854
Repayment of borrowings		-9,007	0
Amortization in connection with finance leases		-182	-172
Cash flow from financing activities		-12,931	-1,707
Effect of exchange rates on cash and cash equivalents		-129	-410
Change in cash and cash equivalents		-8,908	1,122
Cash and cash equivalents at 1 October		22,679	21,557
Cash and cash equivalents at 30 September		13,770	22,679
Free cash flow¹		2,394	3,796
Included in cash flow from operating activities:			
Interest paid		-739	-872
Interest received		46	148
Income tax paid		-1,807	-1,402

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

Since the beginning of fiscal year 2015/16 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. 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	Hedging reserve	Total shareholders' equity
At 1 October 2014 under IFRS	20,668	50,543	- 14,170	10,686	- 959	- 122	66,646
Restatement to Swiss GAAP FER				- 16,705			- 16,705
At 1 Oct. 2014 under Swiss GAAP FER	20,668	50,543	- 14,170	- 6,019	- 959	- 122	49,941
Net profit for the period				7,700			7,700
Exchange differences			- 3,768				- 3,768
Movement in cash flow hedges						122	122
Treasury share transactions		- 187		- 734	660		- 261
Repayment of excess share premium ¹		- 4,127					- 4,127
Share option plans and restricted share plans		54		734			788
At 30 September 2015	20,668	46,283	- 17,938	1,681	- 299		50,395
Net profit for the period				387			387
Exchange differences			187				187
Treasury share transactions		- 154		- 688	232		- 610
Repayment of excess share premium ²		- 4,133					- 4,133
Share option plans and restricted share plans		- 122		688			566
At 30 September 2016	20,668	41,874	- 17,751	2,068	- 67		46,792

¹ CHF 6.50 per share.

² CHF 6.50 per share.

Since the beginning of fiscal year 2015/16 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. 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 attract 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 on page 84).

In addition, the Company has other unissued authorized capital (in German: genehmigtes Aktienkapital), for purposes other than equity compensation, which gives the Board of Directors the authority to increase the issued share capital at any time until 13 January 2017 by issuing up to a maximum of 63,594 shares (with a total nominal value of CHF 2,067 thousand). Issues of less than this maximum are also permitted.

The Group's legally required retained earnings and share premium totaled CHF 35.5 million at the balance sheet date (prior year: CHF 39.6 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 2016, 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 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

The Schaffner Board of Directors decided to switch the Group’s accounting from IFRS to Swiss GAAP FER with effect from 1 October 2015. Swiss GAAP FER is a recognized, understandable and comprehensive accounting standard, and the publication of high-quality, transparent financial reports thus remains assured as before. The resulting measurement changes and a reconciliation of shareholders’ equity and of net profit for the period are set out below. The corresponding restatement of prior-year data was made retrospectively from 1 October 2014.

The accounting principles applied in the preparation and presentation of the 2015/16 consolidated financial statements under Swiss GAAP FER differ from the IFRS-based, previously published 2014/15 consolidated accounts in the following points:

- › Goodwill from acquisitions is offset directly against equity at the acquisition date, in accordance with the option available under FER 30, Consolidated Financial Statements. Under IFRS, goodwill was capitalized and was not amortized, but tested annually for impairment. Separable intangible assets (customer relationships and technologies) were capitalized under IFRS and amortized over their estimated useful life. Under Swiss GAAP FER, on acquisition, any intangible assets not previously recognized in the balance sheet of the acquired entity are not separated and recognized in the balance sheet but remain part of goodwill.
- › Under FER 16, Pension Obligations, the actual economic impacts (an economic obligation or economic benefit) of a plan surplus or deficit on the Group are determined on the basis of the financial statements of the company pension fund in Switzerland, which are prepared in accordance with FER 26, Accounting of Pension Plans. For the foreign pension funds too, an annual assessment is made as to whether an economic obligation or benefit exists, using methods recognized in the respective country. Employer contribution reserves (prepaid employer contributions for future periods) and comparable items are recognized as assets in accordance with Swiss GAAP FER 16. Under IFRS, defined benefit plans were calculated using the projected unit credit method and recognized in the balance sheet in accordance with IAS 19.
- › The above measurement and recognition adjustments have impacts on deferred tax in the balance sheet and income statement.
- › The format and presentation of the balance sheet, income statement, statement of changes in equity and cash flow statement were adjusted to meet the requirements of Swiss GAAP FER.

For comparability the prior-year data has been restated to match the presentation of the period under review. The following tables present the numerical effects of the transition from IFRS to Swiss GAAP FER on equity and net profit for the period:

	30.09.2015	01.10.2014
Equity under IFRS	59,443	66,646
Offset of goodwill arising from acquisitions	- 11,420	- 11,298
Offset of identified customer relationships, technologies and brand names arising from purchase price allocations	- 8,601	- 10,486
Adjustment in pension obligations	6,196	- 1,808
Recognition of employer contribution reserve	928	928
Deferred tax assets/(-liabilities), net	3,848	5,958
Equity under Swiss GAAP FER	50,395	49,941

	2014/15
Net profit for the period under IFRS	6,311
Amortization of acquired intangible assets	1,918
Adjustment in pension plans	74
Change in deferred tax liabilities	- 603
Net profit for the period under Swiss GAAP FER	7,700

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, Luterbach, 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 3 to 8 years.

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.

Research and development costs

Internal development costs for new products are not capitalized, as they cannot be determined reliably. However, if a future economic benefit can be demonstrated, external development costs for new products are capitalized, as they can be reliably determined. 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 its cost can be reliably estimated. Additional conditions for this capitalization are the technical feasibility of the asset and the intention, ability and available resources to complete its development.

Intangible assets recognized for software development costs are amortized on a straight-line basis over their estimated useful life. The capitalized costs are tested for impairment annually for as long as the software is not yet in use, or when there are objective indications of impairment.

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 – 5 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, bankers' acceptances, 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.

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 income 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 and as to future tax planning strategies.

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.

Cash flow hedges

Cash flow hedges are used to hedge exposure to variability in cash flows resulting from interest rate risks of a financial instrument. The change in value since the last measurement is recognized in equity.

At the inception of a hedge relationship, the Group formally designates and documents the relationship, including documenting the risk management objective and strategy. The documentation also includes the identification of the hedge instrument, the hedged item or transaction, the nature of the risk being hedged and how the effectiveness of the hedge is to be assessed.

If the hedging instrument expires or is sold or cancelled or its designation as a hedge is revoked, amounts previously recognized in equity remain recognized there until the forecast transaction occurs. Amounts recognized in equity are transferred to the income statement in the period in which the transaction occurs or in which it is no longer expected that the transaction will occur.

Share-based payments

The Company has a share option plan, which was replaced in 2012/13 with a restricted share plan. The expenses of the final year in the vesting period of the share option plan were recognized in the prior financial year (2014/15).

The fair value of granted share options was calculated using the Enhanced American Model (a sophisticated binomial model) at the grant date. Their fair value is expensed over the relevant vesting periods and also recorded as an increase in equity.

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.

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	
		30.09.2016 in CHF	30.09.2015 in CHF	2015/16 in CHF	2014/15 in CHF
China	CNY 100	14.61	15.33	15.12	15.36
EU	EUR 100	108.78	109.04	109.28	109.36
UK	GBP 100	126.31	147.87	139.88	147.49
Hungary	HUF 100	0.35	0.35	0.35	0.35
Japan	JPY 100	0.96	0.81	0.89	0.80
Sweden	SEK 100	11.31	11.59	11.69	11.69
Singapore	SGD 100	71.43	68.44	71.68	70.77
Thailand	THB 100	2.81	2.68	2.80	2.85
Taiwan	TWD 100	3.11	2.96	3.05	3.05
USA	USD 100	97.48	97.47	98.86	95.63

2 Intangible assets

In CHF '000	Technology and rights	Software	Intangible assets under construction	Total
Cost at 1 October 2014	468	9,083		9,551
Additions		365	396	761
Reclassifications		-26		-26
Exchange differences	-40	-68		-108
Cost at 30 September 2015	428	9,354	396	10,178
Additions		242	203	445
Disposals		-73		-73
Exchange differences		-6		-6
Cost at 30 September 2016	428	9,517	599	10,544
Accumulated amortization and impairment at 1 October 2014	-422	-6,801		-7,223
Amortization	-13	-953		-966
Reclassifications		4		4
Exchange differences	38	52		90
Accumulated amortization and impairment at 30 September 2015	-397	-7,698		-8,094
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
Net book value at 30 September 2015	31	1,656	396	2,084
Net book value at 30 September 2016	25	1,026	599	1,650

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	2015/16	2014/15
Cost at 1 October	17,324	17,006
Exchange differences	2	318
Cost at 30 September	17,326	17,324
Accumulated amortization and impairment at 1 October	- 10,746	- 7,144
Amortization	- 3,333	- 3,399
Exchange differences	45	- 203
Accumulated amortization and impairment at 30 September	- 14,033	- 10,746
Hypothetical net book value at 30 September	3,293	6,578

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 allocable 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 other than the measures already decided and announced.

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

As the goodwill is already offset against equity at the acquisition date, an impairment of goodwill would not lead to a charge to income but merely to a disclosure in the notes.

3 Property, plant and equipment

In CHF '000	Undeveloped land	Land and buildings	Plant and machinery	IT hardware	Other tangible assets	Assets under construction	Total
Cost at 1 October 2014	188	13,354	41,541	3,319	2,701	1,012	62,115
Additions		405	3,072	146	162	964	4,749
Disposals		-78	-1,464	-383	-134		-2,059
Reclassifications		73	173	127	-103	-244	26
Exchange differences	-20	-762	-2,673	-108	-176	-80	-3,819
Cost at 30 September 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	
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
Accumulated depreciation and impairment at 1 October 2014		-5,618	-26,715	-2,864	-2,124		-37,321
Depreciation		-1,147	-3,097	-269	-228		-4,741
Disposals		78	1,061	384	121		1,644
Impairment		-102					-102
Reclassifications		1	-18	-28	40		-5
Exchange differences		347	1,647	93	156		2,243
Accumulated depreciation and impairment at 30 September 2015		-6,441	-27,122	-2,684	-2,035		-38,283
Depreciation		-1,288	-3,028	-242	-172		-4,730
Disposals		123	1,468	849	186		2,626
Impairment		-290					-290
Reclassifications			2		-2		
Exchange differences		44	-312	9	-33		-292
Accumulated depreciation and impairment at 30 September 2016		-7,852	-28,993	-2,068	-2,055		-40,968
Net book value at 30 September 2015	168	6,551	13,526	417	414	1,652	22,728
Of which finance leases		2,221	15				2,236
Net book value at 30 September 2016	169	6,116	14,068	342	381	1,424	22,500
Of which finance leases		2,133	2				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 902 thousand (prior year: CHF 142 thousand).

In connection with the merging of the two manufacturing locations of Schaffner Trencu and Schaffner MTC, the net realizable value of the building of Schaffner Trencu was determined at the balance sheet date, at CHF 819 thousand. 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”.

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	30.09.2016	30.09.2015
Minimum lease payments due:		
Within 1 year	2,563	3,464
In more than 1 year and up to 5 years	3,730	3,352
In more than 5 years	0	0
Total minimum payments	6,293	6,816

Finance leases

The carrying amount of assets held under finance leases was CHF 2.1 million (prior year: CHF 2.2 million) and related primarily to the leased logistics center in Wittelsheim, France. The associated obligations under finance leases were CHF 1.8 million (prior year: CHF 2.0 million).

4 Other non-current assets

In CHF '000	30.09.2016	30.09.2015
Rental/utility security deposits and guarantees	1,050	1,032
Employer contribution reserve	928	928
Total other non-current financial assets	1,978	1,960

5 Inventories

In CHF '000	30.09.2016	30.09.2015
Raw materials	11,380	12,489
Work in process and semi-finished goods	4,606	3,945
Finished goods	14,854	15,596
Total inventories	30,840	32,030

Inventory provisions

In CHF '000	2015/16	2014/15
At 1 October	3,085	3,276
Created	1,623	595
Used	-1,243	-536
Unused amounts reversed	-188	-42
Exchange differences	-8	-208
At 30 September	3,269	3,085

6 Trade receivables

In CHF '000	30.09.2016	30.09.2015
Trade receivables, gross	36,766	34,930
Provision for doubtful debts	-455	-196
Total trade receivables	36,310	34,734

Provision for doubtful debts

In CHF '000	2015/16	2014/15
At 1 October	196	150
Created	384	287
Used	-39	-64
Unused amounts reversed	-84	-170
Exchange differences	-2	-7
At 30 September	455	196

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 2015	34,734	27,857	5,212	891	240	534
Trade receivables at 30 September 2016	36,310	28,034	4,900	1,463	1,194	719

7 Provisions

In CHF '000	Warranty provisions	Pension provisions	Restructuring provisions	Other provisions	Total
At 1 October 2014	3,045	3,557	348	835	7,785
Created	939	209	31	99	1,278
Used	-883	-170	-273	-44	-1,370
Unused amounts reversed	-1,174		-75	-776	-2,025
Unwinding of discount				11	11
Exchange differences	-101	-196		-13	-310
At 30 September 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
Non-current provisions	1,266	3,231		48	4,545
Current provisions	560	170	31	64	825
Total provisions at 30 September 2015	1,826	3,401	31	112	5,370
Non-current provisions	1,204	3,452	0	772	5,428
Current provisions	1,076	170	3,100	321	4,668
Total provisions at 30 September 2016	2,280	3,622	3,100	1,093	10,095

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 fiscal year under review, provisions totaling CHF 0.6 million were created for, among others, two significant warranty claims. At the same time, 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.

Restructuring provisions

At the balance sheet date there was a restructuring provision for costs in connection with the announced production shutdown in Germany.

Other provisions

A court case entailing customs risks is pending in France. Schaffner disclosed this case in the prior year as a contingent liability, as the next higher appellate court was expected to come to a favorable decision. However, the court found against Schaffner and the amount in dispute of CHF 0.7 million has therefore been recognized as a provision for this ongoing legal action.

8 Borrowings

The average interest rate payable on borrowings in fiscal year 2015/16 was 2.0% (prior year: 1.9%).

The composition of borrowings is shown in the following table:

In CHF '000	Effective interest rate at 30.09.2016	30.09.2016	30.09.2015
Bank loans in Switzerland	LIBOR (min. 0%) + 1.70%	27,982	35,783
Finance leases	4.51%	1,826	2,019
Total borrowings		29,808	37,802
Of which:			
Current borrowings		268	274
Non-current borrowings		29,540	37,528

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

9 Trade and other payables

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 if the financial consequences of a past event can be estimated reliably and the estimate can be confirmed by independent expert opinion.

The bankruptcy estate of Sputnik Engineering AG, a company in liquidation, filed an action against Schaffner EMV AG with the Berne Commercial Court in connection with alleged product defects. In the suit, the estate of Sputnik Engineering AG asserts a claim for CHF 2.9 million. Management expects the suit to be successfully defended in its entirety and has therefore chosen not to raise a provision for this matter.

Assets of CHF 212 thousand (prior year: CHF 207 thousand) were pledged as collateral for electricity consumed and for pension liabilities.

10 Staff costs

In CHF '000	2015/16	2014/15
Wages and salaries	51,361	49,234
Share-based payments expense ¹	688	788
Social security costs	11,190	10,167
Temporary employees and other staff costs	5,969	6,367
Total staff costs	69,208	66,556

¹ See note 15, page 84.

Staff costs 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 provision 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 Schaffner Group's Swiss pension fund 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 928 thousand at the balance sheet date. This reserve is recognized as an asset in other non-current assets.

In CHF '000	Nominal amount	Amount subject to usage restriction	Balance	Balance	Net expense or income from ECR in staff costs	
	30.09.2016	30.09.2016	30.09.2016	30.09.2015	2015/16	2014/15
Pension plans	928	0	928	928	0	0
Balance	928	0	928	928	0	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:

In CHF '000	Plan surplus/ (-deficit)	Economic benefit/ (-obligation) of the Schaffner Group		Exchange differences	Change ¹ recognized in income statement	Accrued contributions	Pension costs recognized in staff costs	
	30.09.2016	30.09.2016	30.09.2015	2015/16	2015/16	2015/16	2015/16	2014/15
Plans with a surplus	0	0	0	0	0	1,050	1,050	1,079
Unfunded plans	0	-2,851	-2,606	40	205	260	465	99
Balance	0	-2,851	-2,606	40	205	1,310	1,515	1,178

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 not showing a surplus under FER 16, as the revaluation reserve has not yet reached its target amount.

The economic obligation recognized in the balance sheet for unfunded pension plans was 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	2015/16	2014/15
Interest income	51	147
Foreign exchange gains	1,649	4,113
Total finance income	1,700	4,260

Finance expense

In CHF '000	2015/16	2014/15
Interest cost	-766	-843
Foreign exchange losses	-1,984	-4,024
Other finance expense	-347	-349
Total finance expense	-3,097	-5,216

13 Income tax

In CHF '000	2015/16	2014/15
Current tax in respect of the current year	-2,158	-1,395
Adjustments in respect of prior periods, net	-180	-295
Current tax	-2,338	-1,690
Current tax	-2,338	-1,690
Deferred tax	2,552	-453
Income tax	214	-2,143

Deferred tax liabilities of CHF 1.8 million (prior year: deferred tax liabilities of CHF 1.7 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 2016 there were tax loss carryforwards of CHF 23.5 million (prior year: CHF 12.0 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 26.9% (prior year: 25.0%).

These loss carryforwards expire on the following schedule:

In CHF '000	2015/16	2014/15
Expiry in 1 year	3,552	101
Expiry in 2 years	1,667	4,095
Expiry in 3 years	200	3,710
Expiry in 4 years	0	1,506
Expiry in 5 years	141	202
Expiry in more than 5 years	17,891	2,394
Total unused tax loss carryforwards	23,451	12,008
Potential positive tax effect	6,308	3,002

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

In CHF '000	2015/16	2014/15
Profit before tax reported in the income statement	173	9,843
Nominal tax rate	23%	23%
Expected income tax at nominal tax rate	-40	-2,264
Effect of non-recognition of tax loss carryforwards	-1,936	-512
Effect of tax rates/tax bases other than nominal tax rate/tax bases	2,656	654
Effect of expenses not deductible for tax purposes	-55	-104
Effect of non-taxable income	5	120
Utilization of previously unrecognized tax losses or gains	9	78
Adjustments in respect of prior periods	-180	-295
Non-refundable withholding taxes	-191	-124
Change in recognition of tax loss carryforwards	7	305
Effect of changes in tax rates or of new taxes	-8	-3
Other	-53	2
Income tax benefit/(-expense) reported in the income statement	214	-2,143

The Group's applicable nominal tax rate for 2015/16 was 23.0% (prior year: 20.5%). The nominal tax rate is generally calculated as the weighted average of the products from multiplying each Group company's earnings before tax by the respective local statutory tax rate.

However, a special situation existed in the year under review in that some Group companies registered high losses while others generated relatively high profits. This mix, coupled with correspondingly divergent tax rates and an overall Group net profit of near zero, would yield a less than meaningful, four-digit negative percentage as the nominal tax rate. As an alternative, the so-called home-based approach was therefore employed, under which the nominal tax rate used is the one that applies to the Group's principal activities in Switzerland. For comparability, the prior year has also been presented on this basis.

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

In CHF '000	2015/16	2014/15
Intangible assets	4,687	5,140
Property, plant and equipment	-878	-967
Other non-current assets	0	16
Inventories	2,126	1,570
Trade receivables	96	2
Provisions	653	620
Trade and other payables	1,073	767
Tax loss carryforwards	2,883	941
Net deferred tax assets	10,641	8,089
Of which:		
Reported in the balance sheet as deferred tax liabilities	-251	-359
Reported in the balance sheet as deferred tax assets	10,889	8,448

14 Operating segments

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

Electromagnetic Compatibility (EMC)

The EMC division develops and manufactures standard and custom components that protect power electronic systems from line interference (thus ensuring electromagnetic compatibility, 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 Magnetics (PM)

The Power Magnetics division develops and manufactures components that ensure the reliability of power electronic systems, as well as 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 optimum adjustment to electricity grids. Schaffner components are also integrated in 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. Schaffner engineers work closely with leading automobile manufacturers and leverage their specialized EMC know-how 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. This definition was introduced for the 2015/16 financial year and the values for the prior year are not affected by it, as there were no restructuring costs in that year.

The reported restructuring expenses of the Power Magnetics division 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.

2015/16	EMC	PM	AM	Corporate	Group
In CHF '000					
Net sales	93,835	45,373	46,355		185,563
Segment profit/(-loss)	8,934	-9,186	11,334	-4,888	6,194
Restructuring expenses		-4,624			-4,624
Operating profit (EBIT)					1,570
Finance income					1,700
Finance expense					-3,097
Profit before tax (EBT)					173
Income tax					214
Net profit for the period					387

2014/15	EMC	PM	AM	Corporate	Group
In CHF '000					
Net sales	95,346	63,637	42,799		201,782
Segment profit	9,108	1,593	6,256	-6,158	10,799
Operating profit (EBIT)					10,799
Finance income					4,260
Finance expense					-5,216
Profit before tax (EBT)					9,843
Income tax					-2,143
Net profit for the period					7,700

Information by region

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

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

2014/15	Europe	Asia	North America	Group
In CHF '000				
Net external sales	83,591	72,210	45,981	201,782

Information by customer

No single customer represented 10% or more of net sales.

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 awards of such options were based on the Schaffner Holding AG Employee Share Option Plan 1998 (ESOP) before and after changes to the plan on 13 November 2006. The share capital allocated to satisfy the obligations under the ESOP comprised both (i) authorized unissued share capital of CHF 591 thousand, consisting of 18,180 registered shares of Schaffner Holding AG with a nominal value of CHF 32.50 per share, and (ii) treasury shares.

- › Employee Share Option Plan (ESOP) options issued before the plan amendment of 13 November 2006: Share options granted under the pre-amendment ESOP ordinarily vested in five annual installments of 20%, beginning one year after the grant date. Five years after the grant date, all granted options were thus ordinarily vested. The options were granted over three years in equal annual tranches. This resulted in a different vesting period for each tranche. Unexercised options expire ten years after the grant date.
- › ESOP options issued after the plan amendment of 13 November 2006: Share options granted under the post-amendment ESOP ordinarily vested in four annual installments of 25%, beginning one year after the grant date. Four years after the grant date, all granted options are thus ordinarily vested. Unexercised options expire seven years after the grant date.

	30.09.2016		30.09.2015	
	Number of share options outstanding	Average exercise price in CHF	Number of share options outstanding	Average exercise price in CHF
At 1 October	20,170	215	23,788	214
Granted in the year	0		0	
Exercised in the year	-2,338	159	-2,440	219
Expired/canceled in the year	-1,157	202	-1,178	191
At 30 September	16,675	224	20,170	215
Of which:				
Vested	16,675	224	18,110	212
Covered by treasury shares	293		1,022	
Covered by authorized unissued share capital	16,382		19,148	
Uncovered	0		0	

Share options were granted for the last time on 21 November 2011. No further share options have been granted since then.

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

Expiry date	30.09.2016		30.09.2015	
	Number of share options outstanding	Exercise price in CHF	Number of share options outstanding	Exercise price in CHF
11.11.2015	0	180.00	790	180.00
14.11.2015	0	153.50	1,200	153.50
30.11.2016	1,925	159.90	3,000	159.90
13.01.2017	1,000	157.00	1,000	157.00
29.11.2017	6,200	240.50	6,380	240.50
21.11.2018	7,550	235.00	7,800	235.00
Total	16,675		20,170	

In the year under review no expense for share option plans (prior year: CHF 32 thousand) 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, 3,358 shares (prior year: 2,531 shares) with a fair value of CHF 205 per share (prior year: CHF 290) were granted. The expense of CHF 688 thousand (prior year: CHF 734 thousand) was recognized in the year under review.

Restricted Share Plan – MTC

At 1 September 2011, key personnel of the acquired division of MTC Transformers, Inc. were granted 570 restricted shares. These shares carried full voting and dividend rights; however, they would have reverted to Schaffner if the grantees had not remained employed with the company for four years.

The fair value of these restricted shares of CHF 258 per share was charged to the income statement over the vesting period of four years. In the year under review, no further expense for this was recognized (prior year: expense of CHF 22 thousand).

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.

	2015/16	2014/15
Basic earnings per share		
Net profit for the period in CHF '000	387	7,700
Weighted average number of shares outstanding entitled to dividend	635,594	634,117
Basic earnings per share in CHF	0.61	12.14

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.

	2015/16	2014/15
Diluted earnings per share		
Net profit for the period in CHF '000	387	7,700
Relevant share options outstanding, in number of shares	822	3,236
Weighted average number of shares outstanding used in calculation of diluted earnings per share	636,416	637,353
Diluted earnings per share in CHF	0.61	12.08

17 Treasury shares

	Number of shares	Average share price in CHF	At average price in CHF '000
At 1 October 2014	3,243	296	959
+ Purchase ¹	3,000		868
– Sale ¹	– 250		– 71
– Shares utilized for option-based incentive plans ²	– 2,440		– 535
– Shares utilized for restricted shares plans ²	– 2,531		– 734
Valuation differences ³			– 188
At 30 September 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

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.

Disclosures on the amounts of compensation of the Board of Directors and Executive Committee are provided in the compensation report from page 42.

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 2 December 2016 for publication and will be presented to shareholders for adoption at the Annual General Meeting on 12 January 2017.

20 Events after the balance sheet date

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

21 Companies of the Schaffner Group

The following companies' results were consolidated in the accounts of the Schaffner Group at 30 September 2016:

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 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 Trencó LLC	Cleveland, OH, USA	USD 3,758	100 %
Magnetics Technologies LLC	Cleveland, OH, USA	USD 466	100 %
Transformer Real Estate LLC	Cleveland, OH, USA	USD 42	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 2015/16, Schaffner India Pvt. Ltd. was established.

To the General Meeting of
Schaffner Holding AG, Luterbach

Solothurn, 6 December 2016

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the consolidated financial statements of Schaffner Holding AG, which comprise the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes (pages 61 to 87) for the year ended 30 September 2016.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of these consolidated financial statements in accordance with Swiss GAAP FER and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 30 September 2016 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

Other Matter

The consolidated financial statements of Schaffner Holding AG for the year ended 30 September 2015 have been audited by another auditor, which expressed an unmodified opinion on those consolidated financial statements on 7 December 2015.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence. In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

BDO Ltd

Christoph Tschumi
Licensed Audit Expert

Beat Rüfenacht
Auditor in Charge
Licensed Audit Expert

Balance sheet

In CHF '000	Note	30.09.2016	30.09.2015
Cash and cash equivalents, and current assets with a quoted market price	2.1	269	330
Other current receivables	2.2	2,082	4,174
Prepaid expenses and deferred income		74	16
Current assets		2,425	4,520
Investments in subsidiaries	2.3	85,251	85,251
Non-current assets		85,251	85,251
TOTAL ASSETS		87,676	89,771
Current interest-bearing liabilities	2.4	8,540	0
Other current payables	2.5	367	7,977
Accrued expenses	2.6	314	636
Current liabilities		9,221	8,613
Non-current provisions	2.7	20	18
Non-current liabilities		20	18
Total liabilities		9,241	8,631
Share capital	1.1	20,668	20,668
Legally required capital reserves			
– Share premium	2.8	31,338	35,471
Legally required retained earnings			
– General legally required retained earnings		4,134	4,134
Discretionary retained earnings			
– Earnings brought forward		21,166	20,297
– Net profit for the year		1,196	869
Treasury shares	5.1	–67	–299
Shareholders' equity		78,435	81,140
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		87,676	89,771

Income statement

(year ended 30 September)

In CHF '000	Note	2015/16	2014/15
Operating income	3.1	6,337	7,373
Net sales of services		6,337	7,373
Staff costs		–2,874	–3,014
Other operating expenses	3.2	–2,227	–3,485
Operating profit before interest and tax (EBIT)		1,236	874
Finance income	3.3	99	126
Finance expense	3.4	–7	–6
Profit before tax (EBT)		1,328	994
Direct tax		–132	–125
Net profit for the year		1,196	869

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 Lutembach 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 provisions of the newly applicable Swiss Accounting Law (Title 32 of the Swiss Code of Obligations). Those significant accounting principles not prescribed by law are set out below.

Statement of the prior-year data

The results for the prior year were prepared in accordance with the transition provisions of the new Accounting Law to achieve continuity in the presentation and format of the data. Any valuation differences resulting from the application of the new accounting legislation were recognized in the fiscal year under review.

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, not to prepare a management report and to omit a cash flow statement and notes 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 their 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	30.09.2016	30.09.2015
Bank deposits	269	330
Total	269	330

2.2 Other current receivables

In CHF '000	30.09.2016	30.09.2015
Other receivables from non-Group entities	36	206
Other receivables from subsidiaries	2,046	3,968
Total	2,082	4,174

2.3 Investments in subsidiaries

Directly held

Currency units in '000	Details	30.09.2016	30.09.2015
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

Currency units in '000	Details	30.09.2016	30.09.2015
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 260
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 Trenco LLC	Share capital	USD 3,758	USD 3,758
Cleveland, OH, USA	Equity/voting interest	100%	100%
Magnetics Technologies LLC	Share capital	USD 466	USD 466
Cleveland, OH, USA	Equity/voting interest	100%	100%
Transformer Real Estate LLC	Share capital	USD 42	USD 42
Cleveland, OH, USA	Equity/voting interest	100%	100%
Schaffner EMC Ltd.	Share capital	CNY 52,815	CNY 52,815
Shanghai, China	Equity/voting interest	100%	100%
Schaffner EMC K.K.	Share capital	JPY 10,000	JPY 10,000
Tokyo, Japan	Equity/voting interest	100%	100%
Schaffner EMC Pte. Ltd.	Share capital	SGD 1,200	SGD 1,200
Singapore	Equity/voting interest	100%	100%
Schaffner EMC Co. Ltd.	Share capital	THB 140,000	THB 140,000
Lamphun, Thailand	Equity/voting interest	100%	100%
Schaffner EMV Ltd.	Share capital	TWD 5,000	TWD 5,000
Taipei City, Taiwan	Equity/voting interest	100%	100%
Schaffner Deutschland GmbH	Share capital	EUR 380	EUR 380
Büren, Germany	Equity/voting interest	100%	100%
Schaffner India Pvt. Ltd.	Share capital	INR 1,000	
Bangalore, India	Equity/voting interest	100%	

2.4 Interest-bearing liabilities

In CHF '000	30.09.2016	30.09.2015
Interest-bearing liabilities to subsidiaries	8,540	0
Total	8,540	0
Of which:		
Current interest-bearing liabilities	8,540	0
Non-current interest-bearing liabilities	0	0

2.5 Other current payables

In CHF '000	30.09.2016	30.09.2015
Other liabilities to non-Group entities	338	500
Other liabilities to social security plans	29	36
Other liabilities to subsidiaries	0	7,441
Total	367	7,977

2.6 Accrued expenses

In CHF '000	30.09.2016	30.09.2015
Accrued tax	24	195
Accrued social security expenses	88	144
Accrued performance-related compensation	30	179
Other accrued expenses	172	118
Total	314	636

2.7 Non-current provisions

In CHF '000	30.09.2016	30.09.2015
Provisions for length-of-service awards	20	18
Total	20	18

2.8 Share premium

In CHF '000	30.09.2016	30.09.2015
Share premium	31,338	35,471
Total	31,338	35,471

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 (1) bis of the Act on Anticipatory Tax.

3 Notes to the income statement

3.1 Operating income

In CHF '000	2015/16	2014/15
Income from licensing	3,447	4,124
Income from management fees	2,890	3,249
Total	6,337	7,373

3.2 Other operating expenses

In CHF '000	2015/16	2014/15
General and administrative expense	-848	-1,048
Consulting expenses	-748	-1,662
Miscellaneous operating expenses	-631	-775
Total	-2,227	-3,485

3.3 Finance income

In CHF '000	2015/16	2014/15
Interest income from non-Group entities	0	1
Interest income from subsidiaries	10	6
Other finance income	1	57
Exchange differences	88	62
Total	99	126

3.4 Finance expense

In CHF '000	2015/16	2014/15
Interest expense with non-Group entities	-1	0
Interest expense with subsidiaries	-6	0
Exchange differences	0	-6
Total	-7	-6

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	30.09.2016			Number of shares held	30.09.2015		
		Number of share options held				Number of share options held		
		Vested	Non-vested	Total		Vested	Non-vested	Total
Board of Directors								
Daniel Hirschi, Chairman	1,105	2,660	0	2,660	814	2,410	250	2,660
Herbert Bächler	993	1,320	0	1,320	848	1,195	125	1,320
Gerhard Pegam	389	0	0	0	244	0	0	0
Suzanne Thoma	498	0	0	0	353	0	0	0
Georg Wechsler	693	0	0	0	548	0	0	0
Total holdings of the Board of Directors	3,678	3,980	0	3,980	2,807	3,605	375	3,980
Executive Committee								
Alexander Hagemann (to 15 July 2016)					1,503	2,230	350	2,580
Kurt Ledermann, interim Chief Executive Officer	1,934	1,970	0	1,970	1,731	1,795	175	1,970
Ah Bee Goh, Chief Operating Officer	948	525	0	525	800	400	125	525
Eduard Hadorn (to 31 March 2016)					898	775	125	900
Guido Schlegelmilch, Executive Vice President, EMC division	583	700	0	700	435	650	125	775
Total holdings of the Executive Committee	3,465	3,195	0	3,195	5,367	5,850	900	6,750

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 fiscal year:

	2015/16		2014/15	
	Number of shares	In CHF '000	Number of shares	In CHF '000
Awarded to the Board of Directors	871	180	648	188
Awarded to the Executive Committee	1,110	227	825	239
Awarded to other employees	1,377	281	1,058	307
Total	3,358	688	2,531	734

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 2014	3,243	296	959
+ Purchase ¹	3,000		868
- Sale ¹	-250		-71
- Shares utilized for option-based incentive plans ²	-2,440		-535
- Shares utilized for restricted share plans ¹	-2,531		-734
Valuation differences ³			-188
At 30 September 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

¹ At share prices quoted at the transaction date.

² At the exercise price.

³ At the year-end closing share price or average exercise price of the options, whichever was less.

5.2 Significant shareholders

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

	30.09.2016		30.09.2015	
	Number of shares	Equity interest	Number of shares	Equity interest
Shareholder group Buru Holding AG	127,744	20.09%	65,801	10.35%
UBS Fund Management (Switzerland) AG	57,033	8.97%	57,617	9.06%
J. Safra Sarasin Investmentfonds AG	62,271	9.79%	62,271	9.79%
Credit Suisse Funds AG	19,112	3.01%	19,112	3.01%
Shareholders with interests of less than 3%	369,487	58.10%	430,117	67.63%
Free float	635,647	99.95%	634,918	99.84%
Treasury shares	293	0.05%	1,022	0.16%
Total shares outstanding	635,940	100.00%	635,940	100.00%

5.3 Total amount of security pledged for liabilities of third parties

In CHF '000	30.09.2016	30.09.2015
Guarantee obligations	49,500	49,500
Of which utilized in subsidiaries in respect of credit obligations	18,735	26,515

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	30.09.2016	30.09.2015
Up to 1 year	15	41
More than 1 and up to 5 years	1	33
More than 5 years	0	0
Total	16	74

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 2 December 2016 for publication and will be presented to shareholders for adoption at the Annual General Meeting on 12 January 2017.

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

In CHF '000	30.09.2016	30.09.2015 ¹
Earnings brought forward	21,166	20,297
Net profit for the year	1,196	869
Retained earnings available for distribution	22,362	21,166
Transfer to legally required reserves ²	0	0
Earnings carried forward	22,362	21,166

¹ Amounts approved by 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 amounts to 20% of share capital.

In CHF '000	30.09.2016	30.09.2015 ¹
Distributable share premium reserve brought forward	0	0
Transfer from share premium account to distributable share premium reserve	0	4,133
Distribution of CHF 0.00 (prior year: CHF 6.50) per share entitled to dividends, exempt from Swiss anticipatory tax	0	-4,133
Distributable share premium reserve carried forward	0	0
Total number of shares outstanding	635,940	635,940
Number of treasury shares	-293	-1,022
Number of shares entitled to dividends ²	635,647	634,918

¹ Amounts approved by 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 2016

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the financial statements of Schaffner Holding AG, which comprise the balance sheet, income statement and notes (pages 90 to 98) for the year ended 30 September 2016.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of these financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 30 September 2016 comply with Swiss law and the company's articles of incorporation.

Other Matter

The financial statements of Schaffner Holding AG for the year ended 30 September 2015 were audited by another auditor, which expressed an unmodified opinion on those financial statements on 7 December 2015.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors. We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation.

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

BDO Ltd

Christoph Tschumi
Licensed Audit Expert

Beat Rüfenacht
Auditor in Charge
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