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CORPORATE GOVERNANCE REPORT AND STATEMENT

The principles of responsible and good corporate governance determine the activities of the management and control bodies of Schweizer Electronic AG. In this statement, the Management Board reports on corporate governance in accordance with Section 289a(1) of the HGB. At the same time, the Management Board and Supervisory Board report on the corporate governance of the company in accordance with item 3.10 of the German Corporate Governance Code.

Schweizer Electronic AG is a listed company in accordance with German law and is subject to the statutory provisions for management and monitoring of listed companies. The administration of the company is carried out by the Management Board and the Supervisory Board.

The Management Board leads the company in accordance with the statutory provisions and the rules of the Board.

The Supervisory Board monitors, advises and supports the Management Board in its activities. The rules of both Boards regulate aspects such as this cooperation. Since the introduction of the German Corporate Governance Code in 2002, the company is required to comply with nationally and internationally recognised standards for responsible corporate governance.

The Declarations of Compliance made by the Management Board and the Supervisory Board have been made available



to all interested parties on the company web page www.schweizer.ag/en/investor-relations/corporate-governance.html.

The Management Board and the Supervisory Board addressed the recommendations and suggestions of the German Corporate Governance Code once again in the 2014 business year. The changes to the Code on 24 June 2014 have been inspected and will be taken into account in the next Declaration of Compliance in May 2015. If there are changes, the Declaration of Compliance will also be updated during the year. Schweizer Electronic AG has always been committed to the principles of responsible leadership and controlling, and thus complies with the recommendations of the German Corporate Governance Code governmental commission with a few minor exceptions.

The Declaration of Compliance that was issued by the Management Board and the Supervisory Board in May 2014 in accordance with Section 161 of the German Stock Corporation Act deviates from the recommendations of the German Corporate Governance Code governmental commission that were published in the Federal Gazette on 10 June 2013 with regard to the following items. This involves a statement of clarification that Schweizer Electronic AG has not created a consolidated financial statement, which is why there are no statements on the provisions that are not to be applied in this regard.

DECLARATION OF COMPLIANCE ACCORDING TO CLAUSE 161 OF THE AKTG

(status May 2014)

The Management Board and Supervisory Board of Schweizer Electronic AG (hereinafter also referred to as the “company”) issue the following Declaration of Compliance in accordance with Section 161 of the AktG with reference to the recommendations of the “German Corporate Governance Code governmental commission” and will ensure that it is published on the company’s website. The Management Board and the Supervisory Board of Schweizer Electronic AG issued the last Declaration of Compliance in accordance with Section 161 of the AktG in May 2013 and then updated it in November 2013. The following notes refer for the time period between May 2013 and 9 June 2013 to the recommendations of the German Corporate Governance Code (“Code”) in the edition of 15 May 2012, which was published in the Federal Gazette on 15 June 2012. For the time period after 10 June 2013, the following notes refer to the recommendations of the Code in the edition of 13 May 2013, which was published in the Federal Gazette on 10 June 2013 (2013 edition).

On this basis, the Management Board and the Supervisory Board of Schweizer Electronic AG note that since the last Declaration of Compliance was issued in May 2013 and the update in November 2013, the recommendations of the Code were and will be complied with, with the following exceptions:

Code No. 4.2.2: Code No. 4.2.2(2), clause 3, (2013 version) recommends that, when determining the total remuneration of the individual members of the Management Board, the Supervisory Board should consider the relationship of the Management Board remuneration to the remuneration of senior management staff and the workforce overall and its development over time.

The Supervisory Board did not fully comply with this recommendation when concluding new employment contracts with the Management Board in October 2013. When concluding the employment contracts the Supervisory Board did take steps, in accordance with the provisions of the German Stock Corporation Act (AktG), to ensure that the total remuneration awarded to Management Board members does not exceed the customary remuneration without special reason. To the extent that the Code in the new version of 13 May 2013 does specify in accordance with the German Stock Corporation Act (AktG) that the vertical appropriateness of the Management Board remuneration should be considered and to the extent that it further defines the relevant groups and the time scale for the comparison, we wish to make it clear that no claim to comply with the Code in this respect is made.

The new recommendation in the Code resulted in a controversial debate in legal literature on the clarity of the individual requirements. As a result, the Supervisory Board did not have sufficiently specific information on how the senior management staff should be distinguished from junior management and which sections of the workforce are relevant and which irrelevant in this respect. It was also unclear what time frame and perspective should be considered in terms of “development over time”. The Supervisory Board is therefore of the view that the measures already implemented for determining the remuneration of the Management Board are sufficient to ensure appropriate remuneration for members of the Management Board.

Code No. 4.2.3: According to the new Code recommendation introduced in 2013 in No. 4.2.3(2), clause 6 the Management Board compensation shall be capped, both overall and for variable compensation components. The employment contracts signed with the incumbent

members of the Management Board of Schweizer Electronic AG already provide for the required variable caps regarding fixed compensation and one part of the variable compensation components. Only with regard to individual variable compensation components and the “overall compensation” have the employment contracts not so far contained any caps. The recommendation in No. 4.2.3(2), clause 6 of the Code (2013 edition) has not therefore been complied with since 10 June 2013.

When the employment contracts were renewed in October 2013, appropriate caps for all variable compensation components and the “overall compensation” were agreed. This means that since 1 November 2013 and in the future, the new Code recommendation in No. 4.2.3(2), clause 6 (2013 edition) has been and will be fully complied with. The Supervisory Board and the Management Board therefore complied with the new Code recommendation as soon as it came into force.

Code No. 4.2.3(2), clause 8, also recommends, with respect to the variable remuneration components, that any retroactive change to performance targets or comparison parameters should be excluded.

The company has not complied with this recommendation since 01 November 2013 and will not comply with this recommendation in the future. The current and future remuneration rules in the Management Board employment contracts provide, in the event of extraordinary developments within the company (e.g. change in legal form, share buyback, capital measures, acquisition and/or sale of the company and plant, disclosure of hidden reserves) that have a significant impact on the achievability of the targets subject to variable remuneration, for the Supervisory Board to unilaterally revise the contract terms and conditions and other variable remunerations parameters. The Management Board and Supervisory Board believes it is advisable and necessary to take reasonable steps to counter the impact of such extraordinary developments.

The company has not complied with and does not comply with the recommendation set forth in Section 4.2.3(4), clause 1, of the Code, which stipulates that when concluding

contracts with members of the Management Board, care should be taken to ensure that payments including fringe benefits made to a member as a result of premature termination of management duties do not exceed the value of two years' compensation (severance payment cap), and compensate no more than the remaining term of the contract. The employment contracts signed with members of the Schweizer Electronic AG Management Board do not contain such a regulation. The Management Board and the Supervisory Board do not consider it advisable to incorporate such a clause, since even in this case the board member could refuse to step down from the Board and insist on payment of his remaining entitlement under the Management Board employment contract. We also believe that the Supervisory Board would have regard to the company's interests in its negotiations with members who retire from the Board early and would not award any excessive severance payment. This means that the recommendation in Code No. 4.2.3(4), clause 3 (calculation of the severance payment cap) is not complied with.

Code No. 4.2.3, clause 5, recommends that payments promised in the event of premature termination of management duties due to a change of control should not exceed 150% of the severance payment cap amounting to two years' compensation (i.e. total of three years' compensation). The company has not complied with and does not comply with this recommendation. In the event of premature loss of a position on the Management Board due to a change of control, three members of the Schweizer Electronic AG Management Board are entitled to a severance payment and a compensation payment as a result of their employment contract that is not limited to three years' compensation. Incorporating such a restriction would limit Schweizer Electronic AG and its Supervisory Board in the selection of suitable candidates for a position on the board, since on occasion an undertaking may be sought for payment in the event of premature termination of management duties due to a change of control greater than that recommended in Code No. 4.2.3, clause 5. Therefore, a degree of discretion is needed to enter into such undertakings for the event of a change in control. For this reason, the Supervisory Board reserves the right to enter into undertakings for the event of a change in control in the employment contracts

of members of the Management Board that do not comply with the recommended limit in Code No. 4.2.3, clause 5.

Code No. 4.2.5: According to the new Code recommendation introduced in 2013 in No. 4.2.5(3) (2013 edition) for financial years starting after 31 December 2013, the Management Board remuneration shall be presented individually in the compensation report using model tables. This recommendation will not be complied with in the future, at the annual general meeting of Schweizer Electronic AG on 1 July 2011 it was decided not to publish the individualised remunerations of the individual members of the Management Board.

Code No. 5.1.2: Code No. 5.1.2(2), clause 3, recommends that an age limit is set for members of the Management Board. The company has not complied with and does not comply with this recommendation. The Management Board and the Supervisory Board do not consider it advisable to make a standard specification of an age limit for members of the Management Board. Competence, technical expertise and experience are far more relevant criteria, which should be evaluated regardless of age.

Code Nos. 5.3.1,

5.3.2 and 5.3.3: The Supervisory Board does not have an audit committee as recommended in Code No. 5.3.2 nor does the Supervisory Board have a nomination committee as recommended in Code No. 5.3.3. The Supervisory Board does not believe it is either advisable or necessary to set up the above committees for a company the size of Schweizer Electronic AG with only six members sitting on the Supervisory Board. The tasks designated for the audit committee and nomination committee as well as the other tasks of the Supervisory Board can easily be dealt with in plenary sessions, provided they are not delegated to the existing personnel and finance committee.

The personnel and finance committee is the only committee of the Supervisory Board. Given the size of the company and the size of the Supervisory Board of Schweizer Electronic AG, the Supervisory Board believes it is neither advisable nor necessary to set up additional committees. With the composition of the personnel and

finance committee, the Supervisory Board has adequately satisfied the recommendation in Code No. 5.3.1(1) (formation of professionally qualified committees depending on the specific nature of the enterprise and the number of its members). However, as an extreme precautionary measure, it is clear that no claim to comply with the Code recommendation is made.

Code No. 5.4.1: Code No. 5.4.1(2), clause 1, recommends that, when stating the specific objectives to be achieved when constituting the board, the Supervisory Board should consider an age limit for members of the Supervisory Board. The company has not complied with and does not comply with this recommendation. The Supervisory Board does not consider it advisable to make a standard specification of an age limit for members of the Supervisory Board. Competence, technical expertise and experience are far more relevant criteria, which should be evaluated regardless of age. The Supervisory Board therefore did not define such an age limit when it stated the specific objectives to be achieved when constituting the board.

Code No. 5.4.1(4 to 6) recommends that when proposing candidates to the annual general meeting the Supervisory Board should disclose the personal and professional relationships of each candidate to the company, the organs of the company and to any shareholder holding a material interest in the company. The company has not complied with and does not comply with this recommendation, because the Supervisory Board believes the requirements of the Code on the duty to report are not clearly defined or delineated. In this context such notification is not considered advisable.

Code No. 5.4.6: Code No. 5.4.6(1), clause 2 recommends that chairmanship of Supervisory Board committees should be considered in the compensation of the members of the Supervisory Board. The company has not complied with and does not comply with this recommendation, because the Management Board and the Supervisory Board believe that the additional remuneration provided for in Section 13(4) of the Articles of Association adequately rewards members of the Supervisory Board for sitting on committees, as well as the duties undertaken by

the committee chairperson.

According to the Code recommendation in No. 5.4.6(2), clause 2, if one of the Supervisory Board members is promised performance-related compensation, it should be oriented toward sustainable growth of the enterprise. The company has not complied with and does not comply with this recommendation, because the performance-related compensation promised to Supervisory Board members is linked to the dividend distributed for the respective business year. The Management Board and the Supervisory Board believe that linking performance-related remuneration to the dividend adequately reflects the responsibility of the Supervisory Board for sustainable business development and that the existing compensation arrangement provides the members of the Supervisory Board with sufficient incentive to orient the exercise of their duties towards the long-term, successful development of the company.

An individualised disclosure as recommended in Code No. 5.4.6(3), clause 1, of the remuneration of the members of the Supervisory Board regulated in the company's Articles of Association is not made in the appendix or the status report, because no additional information is involved that in the opinion of the Management Board and the Supervisory Board is relevant to the capital market.

Schramberg, May 2014

Schweizer Electronic AG

Management Board	Supervisory Board
Dr Marc Schweizer Chairman of the Management Board	Christoph Schweizer Chairman of the Supervisory Board

THE STRUCTURE OF THE COMPANY MANAGEMENT AND MONITORING OF SCHWEIZER ELECTRONIC AG IS AS FOLLOWS:

Shareholders and annual general meeting

Our shareholders exercise their rights at the annual general meeting of the company, which takes place in the first eight months of the business year. The Chairman of the Supervisory Board presides over the annual general meeting. The annual general meeting decides on all the tasks assigned to it by the law.

It is our goal to make it as easy as possible for shareholders to participate in the annual general meeting, which is why all documents necessary for participation are published online in advance. A proxy is named for the shareholders for the annual general meeting; this proxy can exercise their voting rights according to their instructions.

Supervisory Board

The Supervisory Board of Schweizer Electronic AG is made up of six members, of which two are chosen by the company employees in accordance with the provisions of the law with respect to the German One-Third Employee Representation Act (Drittelbeteiligungsgesetz). Three members of the Supervisory Board were chosen up until the annual general meeting in 2019 and one member was chosen up until the annual general meeting in 2016. The Chairman of the Supervisory Board is chosen from among the members of the Supervisory Board.

In evaluating the company-specific situation, the size of the company and the proportion of international business activities with regard to its constitution, the Supervisory Board set the following objectives:

1. A minimum of one seat on the Supervisory Board for persons that particularly embody the criterion of internationality (for example, through foreign nationality, relevant experience abroad or relevant experience in international business);

2. no more than two seats on the Supervisory Board for persons that have an advisory or organisational role with regard to customers, suppliers, creditors or other business partners of Schweizer Electronic AG; this is intended to limit potential conflicts of interest within the Supervisory Board;
3. a minimum of three seats on the Supervisory Board for independent members of the Supervisory Board in terms of Code No. 5.4.2, i.e. a minimum of one seat on the Supervisory Board for independent shareholder representatives and a minimum of two seats on the Supervisory Board for independent employee representatives (the Supervisory Board estimates that employee representatives will in principle be independent members of the Supervisory Board);
4. a minimum of one seat on the Supervisory Board to be occupied by a woman.

The current composition of the Supervisory Board complies with these objectives. Further information on the members of the Supervisory Board, specifically regarding their working methods and the activities and mandates taken on by the members, can be found in the Report from the Supervisory Board and appended to the financial statement.

The Supervisory Board appoints the members of the Management Board. It monitors and advises the Management Board in the leadership of the company. The key decisions made by the Management Board require the approval of the Supervisory Board. The Supervisory Board meets at least four times a year and meets without the Management Board if required. There is also a finance committee consisting of three members of the Supervisory Board. The Supervisory Board determines the financial statement and commissions the auditor.

The status report shall report on the essential features of the Supervisory Board remuneration system.

D&O insurance with an excess has been concluded for the Supervisory Board.

Management Board

The Management Board leads the company under its own responsibility and consists of four members. The Management Board informs the Supervisory Board regularly, promptly and comprehensively with regard to all relevant issues regarding business development, planning, finance and the business situation. The status report describes the essential features of the Management Board remuneration system. D&O insurance with an excess has been concluded for the Management Board.

Accounting and financial statement audit

The financial statement is made in accordance with HGB guidelines. It is produced by the Management Board, checked by the auditor and determined by the Supervisory Board. The financial statement is published within four months of the end of the business year.

It has been agreed with the auditor, Ernst & Young GmbH – a Stuttgart-based audit firm with a branch office in Villingen-Schwenningen – that the Chairman of the Supervisory Board shall immediately be informed of key issues that surface during the audit. The auditor reports on all issues and occurrences that are of essential importance to the tasks of the Supervisory Board that are revealed by the financial statement audit – reporting immediately to the Chairman of the Supervisory Board. In addition, the Chairman shall be informed if the auditor identifies facts that result in inaccuracy with respect to the Declaration of Compliance submitted by the Management Board and the Supervisory Board in accordance with Section 161 AktG. The auditor participates personally in the Supervisory Board meeting at which the financial statement is decided.

Transparency

A uniform, comprehensive and prompt information policy is of particular importance to Schweizer Electronic AG. The business situation and the results are reported in the annual report, at the Analyst Conference, in the interim reports and in the half-yearly financial report.

Information is also communicated via press releases or ad hoc messages where this is a statutory requirement. All messages and disclosures can be found online under “Investor Relations”.

Schweizer Electronic AG has created the stipulated list of insiders and the persons in question have been informed of the statutory obligations and sanctions.

Share holdings as at 31/12/2014

The members of the Management Board together held 600,663 shares. This contains 204,473 shares held by Dr Maren Schweizer, 189,985 shares held by Mr Nicolas-Fabian Schweizer and 197,751 shares held by Mr Bernd Schweizer. Mr Bernd Schweizer is also part of the community of heirs of Gerhard Schweizer which holds 576,520 shares.

The members of the Supervisory Board together held 658,000 shares. This contains 481,800 shares held by Mr Christoph Schweizer and 176,200 shares held by Ms Kristina Schweizer. Ms Kristina Schweizer is also part of the community of heirs of Gerhard Schweizer which holds 576,520 shares.

Acquisition and Sale of Company Shares

In accordance with Section 15a of the WpHG, the members of the Management Board, employees with managerial functions and members of the Supervisory Board or persons closely associated with them are legally obliged to disclose the acquisition and sale of shares in Schweizer Electronic AG where the value of the business conducted by the member and persons associated with him amounts to EUR 5,000 or more within one calendar year. The dealings reported to Schweizer Electronic AG during the last business year were duly disclosed and can be viewed on the company's web page at www.schweizer.ag/en/investor-relations/corporate-governance/directors-dealings.html.



Schramberg, 23 March 2015

Management Board

Dr Maren Schweizer
Chairperson of the
Management Board

Supervisory Board

Michael Kowalski
Chairman of the
Supervisory Board

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