

# HIGH FREQUENCY CURRENT TEMPERATURE AND MINIATURISATION

CORPORATE GOVERNANCE REPORT  
AND STATEMENT

## CORPORATE GOVERNANCE REPORT AND STATEMENT

The principles of responsible and good corporate governance determine the activities of the management and control bodies of the Schweizer Group and Schweizer Electronic AG. In this statement, the Management Board reports on corporate governance in accordance with Section 289a(1) in conjunction with Section 315(5) 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 therefore has a dual management system, comprising the Management Board and the Supervisory Board.

The Management Board of Schweizer Electronic AG and the Group subsidiaries leads the company in accordance with the statutory provisions and the rules of the Board and

the Supervisory Board monitors, advises and supports the Management Board in its activities. The rules of both Boards regulate aspects such as this cooperation. With the German Corporate Governance Code, a standard for the transparent control and management of companies was established, which is focussed particularly on the interests of the shareholders. Many of the corporate governance principles in the GCGC have been complied with for quite some time already.

The Declarations of Compliance made by Schweizer Electronic AG have been made available to all interested parties on the company web page [www.schweizer.ag/en/investor-relations/corporate-governance.html](http://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 2016 business year.

### DECLARATION OF CONFORMITY IN ACCORDANCE WITH SECTION 161 AKTG

(As at May 2016)

The Management Board and Supervisory Board of Schweizer Electronic AG (hereinafter also referred to as the “com-

pany”) issue the following Declaration of Compliance in accordance with Section 161 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 AktG in May 2015 and then updated it in March 2016. The following declarations refer for the time period between May 2015 and 11 June 2015 to the recommendations of the German Corporate Governance Code (“Code”) in the edition of 24 June 2014, which was published in the Federal Gazette on 30 September 2014. For the time period after 12 June 2015, the following declarations refer to the recommendations of the Code in the edition of 5 May 2015, which was published in the Federal Gazette on 12 June 2015 (2015 edition).

The Management Board and the Supervisory Board of Schweizer Electronic AG declare that, since the last Declaration of Compliance was issued in May 2015, 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, 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 Supervisory Board considers the requirements of the recommendation to be too vague. In particular, the Supervisory Board does 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 is 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:** 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.

This recommendation is not complied with. 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 remuneration 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, two 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) for business years starting after 31 December 2013, the Management

Board remuneration shall be presented individually in the compensation report using model tables.

This recommendation was and is not complied with, since 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 up to and including business year 2015. The Management Board and Supervisory Board resolved in March 2016 not to propose to this year's annual general meeting the wording of a further opt out resolution in accordance with Section 286(5) HGB. The disclosure of the Management Board remuneration for business years as of 2016 will contain the information recommended in Code No. 4.2.5(3) using the sample tables named there, with the result that the recommendation will be complied with in the future.

**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 No. 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, (version of 2015) recommends that, when stating the specific objectives to be achieved when constituting the board, the Supervisory Board should consider, inter alia, an age limit for members of the Supervisory Board and a control limit for the duration of a term of office on the Supervisory Board. The company has not complied with and does not comply with these recommendations. 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. Neither does the Supervisory Board consider the stipulation of a control limit for the duration of a term of office on the Supervisory Board to be constructive. The Supervisory Board members who would be affected by such a limit are precisely those who have in-depth knowledge of the company and many years of experience, from which the company profits. The decision as to whether a person's term of office should be extended therefore must always be taken on the merits of the individual case.

Code No. 5.4.1(5 to 7) 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 bodies 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. The Management Board and the Supervisory Board resolved in March 2016 to propose to the annual general meeting a new regulation governing Supervisory Board remuneration in Section 13 of the Articles of Association, according to which chairmanship of a Supervisory Board committee should be considered within the framework of remuneration. The new regulation should apply as of 1 January 2017. From this point in time, it is thus intended to comply with the recommendation in Code No. 5.4.6(1), clause 2. 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 notes or the status report up to and including business year 2015, because no additional information that in the opinion of the Management Board and the Supervisory Board is relevant to the capital market is involved. The Management Board and the Supervisory Board decided in March 2016 that the remuneration

of the Supervisory Board members is to be disclosed individually for business years as of 2016, meaning that the recommendation will be complied with in future.

**Code No. 7.1.2:** In Code No. 7.1.2 Clause 4, 1st sub-clause, it is recommended that the consolidated financial statement should be made publicly accessible within 90 days of the end of the business year.

This recommendation was not complied with. Compliance with a term of 90 days was not possible due to the time requirement associated with preparing a consolidated financial statement for the first time. The consolidated financial statement was however published by the statutory deadline.

Schramberg, May 2016  
Schweizer Electronic AG  
Management Board          Supervisory Board

## THE STRUCTURE OF THE COMPANY MANAGEMENT AND MONITORING IS AS FOLLOWS:

### Shareholders and annual general meeting

Shareholders in Schweizer Electronic AG 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 the goal of SCHWEIZER 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

Under the Articles of Association the Supervisory Board of Schweizer Electronic AG is made up of six members, of whom 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). Five 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 2017.

Based on item 5.4.1 of the German Corporate Governance Code and taking into account the company-specific situation, the size of the company and the proportion of international business activities in relation to its composition, the Supervisory Board defined 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 composition of the Supervisory Board complied with this target with the exception of point 4. Candidates are selected on the basis of an expertise/competence matrix which integrates the target composition of the Supervisory Board and is taken into account in future nominations to the annual general meeting.

Information on the members of the Supervisory Board, specifically regarding their working methods and the activities and mandates performed by the members, can be found in the report from the Supervisory Board and in the notes to the annual financial statement.

The Chairman of the Supervisory Board is chosen from among the members of the Supervisory Board.

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 personnel and finance committee consisting of three members of the Supervisory Board. The committee chairperson subsequently informs the Supervisory Board plenum of the results. The Supervisory Board adopts the financial statement, approves the consolidated financial statement and appoints 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. The body comprised three members until 1 February 2017 and since then has had two 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.

### **Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector Act**

The "Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector Act", which came into force on 1 May 2015, stipulates a minimum quota of 30 percent for women and men (so-called gender quota) on the supervisory boards of companies that are publicly listed and subject to parity codetermination. For companies such as Schweizer Electronic AG, which are publicly listed or subject to codetermination (including under the One-Third Employee Representation Act [Drittelbeteiligungsgesetz]), an obligation has been introduced whereby they themselves must set targets for the proportion of women on the Supervisory Board and Management Board and at the two highest management levels. The company has to observe a "no deterioration" rule.

Schweizer Electronic AG has adopted targets whereby one seat on the Supervisory Board, one seat on the Management Board and one position at the main management level below the Management Board must be occupied by

a woman. At the time these targets were stipulated the main management level below the Management Board comprised employees who reported directly to the Management Board. A second management level below the Management Board is not defined as such at Schweizer Electronic AG. The stipulated targets should be achieved by 30 June 2017.

### **Accounting and financial statement audit**

Since the 2016 business year, a consolidated financial statement is prepared in accordance with IFRS guidelines. The annual financial statement of Schweizer Electronic AG is prepared in accordance with HGB guidelines. The consolidated financial statement and the annual financial statement are produced by the Management Board, checked by the auditor and approved and adopted by the Supervisory Board. The consolidated financial statement and the annual financial statement are 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 – 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 meetings at which the consolidated financial statement and the annual financial statement are approved and adopted.

### **Transparency**

SCHWEIZER attaches particular importance to ensuring consistent, comprehensive and timely information. The business situation and the results are reported in the annual report, at the Analyst Conference, in the quarterly reports and in the half-yearly financial report.

Information is also communicated via press releases and ad hoc disclosures. All reports and disclosures are available at [www.schweizer.ag/en/investor-relations.html](http://www.schweizer.ag/en/investor-relations.html). Queries are dealt with by the Investor Relations and Communications department.

### Shareholding

The members of the Management Board together held 417,882 shares as at 31 December 2016. This contains 193,342 shares held by Mr Nicolas-Fabian Schweizer, and 213,225 shares held by Dr Maren Schweizer who withdrew from the Board on 1 February 2017.

The members of the Supervisory Board together held 482,050 shares. These include 481,800 shares held by Mr Christoph Schweizer.

### Acquisition and sale of company shares

In accordance with Article 19 of Regulation (EU) No. 596/2014 on market abuse, members of the Management Board and the Supervisory Board are statutorily obliged to disclose the acquisition or sale of shares of Schweizer Electronic AG or related derivatives or other associated financial instruments, where the value of the transactions made by the affected member or related persons reaches a total volume of EUR 5,000 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](http://www.schweizer.ag/en/investor-relations/corporate-governance/directors-dealings.html).

Schramberg, 25 April 2017

Management Board

Nicolas-Fabian Schweizer  
Deputy Chairman  
of the Management Board

Supervisory Board

Michael Kowalski  
Chairman  
of the Supervisory Board



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