

# CORPORATE GOVERNANCE STATEMENT AND CORPORATE GOVERNANCE REPORT



# CORPORATE GOVERNANCE REPORT AND CORPORATE GOVERNANCE 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 Executive Board reports on corporate governance in accordance with Section 289f in conjunction with Section 315d of the HGB. At the same time, the Executive 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 Executive Board and the Supervisory Board.

The Executive Board of Schweizer Electronic AG and the management of the Group subsidiaries lead the company in accordance with the statutory provisions, the articles of association and the rules of the Board.

The Supervisory Board monitors, advises and supports the Executive 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 focused 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.

## Compliance

Compliance with legal regulations, internal company guidelines and ethical principles is indispensable and a matter of course for SCHWEIZER.

The Executive Board fosters a corporate culture in which reliability, honesty, credibility and integrity are the cornerstones of actions.

In the context of the established risk management system, the Executive Board not only ensures that existing legal regulations and company guidelines and principles are complied with, but also provides for an environment in which any risks are identified at an early stage and measures are taken, thereby guaranteeing lawful conduct and minimi-

sing risks. Directives on competition law, insider regulations, fair competition, foreign trade legislation, export controls and the avoidance of corruption are made available to employees and form part of the corporate processes. Besides the general conditions of purchase, the existing supplier guidelines and evaluations, as well as the Conflict Minerals Policy, form the basis for a responsible supply chain. The company has established a whistleblower system in order to investigate violations fairly and appropriately. SCHWEIZER employees as well as external parties can report violations using this system. The whistleblower system ensures that absolute confidentiality is maintained when processing the information provided.

Periodic evaluations of specific compliance risks are carried out using checklists; the necessary measures are taken and verified by certification companies.

Information on the implementation of the CSR Directive Implementation Act is available in the Non-Financial Statement as a separate chapter in the 2018 Annual Report and is available on the website at: <https://www.schweizer.ag/en/about-us/corporate-social-responsibility.html>.

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/de/investorrelations/corporate-governance.html](http://www.schweizer.ag/de/investorrelations/corporate-governance.html).

The Executive Board and the Supervisory Board addressed the recommendations and suggestions of the German Corporate Governance Code once again in the 2018 financial year.

## DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SECTION 161 AKTG

(Version: December 2018)

The Executive 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 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 Executive Board



and the Supervisory Board of Schweizer Electronic AG issued the last Declaration of Compliance in accordance with Section 161 AktG in December 2017. The following notes refer to the recommendations of the German Corporate Governance Code ("Code") in the edition of 7 February 2017, which was published in the Federal Gazette on 24 April 2017 and corrected on 19 May 2017.

The Executive Board and the Supervisory Board of Schweizer Electronic AG declare that, since the last Declaration of Compliance was issued in December 2017, 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 Executive Board, the Supervisory Board should consider the relationship of the Executive 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 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 Executive Board members does not exceed the customary remuneration without special reason. However, to the extent the Code specifies this review of vertical appropriateness of the remuneration awarded to the Executive Board required pursuant to the German Stock Corporation Act, and defines the comparative groups decisive for the comparison as well as the time period of the comparison, a deviation in this regard is declared. 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 Executive Board are sufficient to ensure appropriate remuneration for members of the Executive 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. The company has not complied with and does not comply with this recommendation. The current and future remuneration rules in the Executive 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 Executive Board and Supervisory Board believe 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 Executive 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 Executive Board do not contain such a regulation. The Executive 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/her remaining entitlement under the Executive 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).

In the event of premature termination of their Executive Board activities as a result of a change of control, the members of the Executive Board have a contractual entitlement to payment of a settlement and severance payment limited to three years' compensation, so that the recommendation in Code No. 4.2.3 (5) is generally complied with. However, for calculating the decisive annual remuneration, the overall remuneration of the past financial year and also any expected overall remuneration for the current financial year is not used, as provided for in the Code. In fact, the calculation is based on the average of the overall remuneration of the last three financial years prior to exit. The Executive Board and Supervisory Board are of the view that measuring the severance payment cap based on the average of several years of compensation is more meaningful and more appropriate than using the overall remuneration of only the last and any current financial year. Against this background, a partial deviation from Code No. 4.2.3 (5) in conjunction with Code No. 4.2.3 (4), clause 3, is declared.

**Code No. 5.1.2:** Code No. 5.1.2 (2), clause 3, recommends that an age limit is set for members of the Executive Board. The company has not complied with and does not comply with this recommendation. The Executive Board and the Supervisory Board do not consider it advisable to make a standard specification of an age limit for members of the Executive 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 und 5.3.3:** The Supervisory Board has neither an audit committee as recommended in Code No. 5.3.2 nor 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, clause 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, alt. 1 and clause 2 recommend 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 (6 to 8) 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 consi-

dered advisable.

**Code No. 5.4.6:** 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 financial year. The Executive 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.

**Code No. 7.1.2:** In Code No. 7.1.2, clause 3, 1st sub-clause, it is recommended that the consolidated financial statements and Group management report should be made publicly accessible within 90 days of the end of the financial year. The company has not complied with and does not comply with this recommendation. Compliance with a term of 90 days is not possible due to the time required to prepare consolidated financial statements and a Group management report. The consolidated financial statements and Group management report were and are, however, published by the statutory deadline.

Schramberg, December 2018  
Schweizer Electronic AG

The Executive Board                      The 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 financial year. The Chair 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) and the remaining four by the annual general meeting. All the members of the Supervisory Board have been elected until the annual general meeting in 2019.

The Supervisory Board appoints the members of the Executive Board. It monitors and advises the Executive Board in the leadership of the company. The key decisions made by the Executive Board require the approval of the Supervisory Board. The Supervisory Board meets at least four times a year and meets without the Executive Board if required.

The Chair and Deputy Chair of the Supervisory Board are chosen from among the members of the Supervisory Board.

There is also a Personnel and Finance Committee consisting of three members of the Supervisory Board, the Supervisory Board Chair and two other shareholder representatives. The committee chair subsequently informs the Supervisory Board plenum of the consultations and resolutions of the committee. The Supervisory Board adopts the financial statements, approves the consolidated financial

statements and appoints the auditor. Further details can be found in the Supervisory Board Report.

Information on the members of the Supervisory Board regarding the existing Personnel and Finance Committee and the activities and mandates carried out by the members can be found in the notes to the annual financial statements and at <http://www.schweizer.ag/en/about-us/supervisory-board.html>.

The Remuneration Report provides information on the essential features of the Supervisory Board remuneration system.

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

#### Executive Board

As a governing body of the Group, the Executive Board is committed to serving the company's interests and increasing its value in a sustainable manner. The Executive Board develops the strategic direction of the company, consults on and agrees same with the Supervisory Board and ensures its implementation. The Executive Board ensures appropriate risk management and controlling in the company. The Executive Board leads the company under its own responsibility. Since the appointment of Dr Rolf Merte on 8 October 2018, the body again consists of three members. Further information regarding the areas of responsibility and resumes of the Executive Board members can be found on the company's website at [www.schweizer.ag/en/about-us/executive-board.html](http://www.schweizer.ag/en/about-us/executive-board.html).

The Executive Board informs the Supervisory Board regularly, promptly and comprehensively with regard to all relevant issues regarding strategy, planning, business development, risk situation, risk management and compliance.

The Remuneration Report provides information on the essential features of the Executive Board remuneration system.

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

#### Targets for the proportion of women on the Supervisory Board, Executive Board and at management level

The "Act on the Equal Participation of Women and Men in Managerial Positions in the Private and Public Sectors" stipulates a minimum quota of 30% for women and men (known as the gender quota) on the Supervisory Boards of listed companies subject to parity codetermination. For companies such as Schweizer Electronic AG that 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 Executive Board and at the two highest management levels. The company has to observe a "no deterioration" rule.

For the period from 1 July 2017, for the proportion of women on the Supervisory Board, the **Supervisory Board** set a target that at least one seat on the Supervisory Board should be filled by a woman. At the time the new target was determined, there were no women on the Supervisory Board. The Supervisory Board has set a target of zero for the proportion of women on the **Executive Board** for the period from 1 July 2017. At the time the new target was determined, there were no women on the Executive Board.

For the period from 1 July 2017, the Executive Board has set a target that, for the proportion of women at the key management level below the Executive Board, at least one position should be filled by a woman. The legally stipulated second management level below the Executive Board is not defined as such at SCHWEIZER. For this reason, the target relates to the **key management level**. At the time the new targets were stipulated, the main management level below the Executive Board comprised employees who reported directly to the Executive Board and comprised a total of nine persons. When defining the new target figure, there were no women at this management level.

This new target should be reached by 30 June 2022.

### Targets for the composition and competence profile of the Supervisory Board

On 19 June 2017, taking into account the recommendations of the German Corporate Governance Code, the Supervisory Board decided on the targets for its composition, including a competence profile for the entire body. According to the decision, the composition of the Supervisory Board of Schweizer Electronic AG should be such that qualified control of and advice to the Executive Board is ensured by the Supervisory Board.

The candidates proposed for election to the Supervisory Board should be in a position, based on their knowledge, skills and experiences, to carry out the tasks of a Supervisory Board member in an international company and to preserve the company's public reputation. In this respect, the personality, loyalty, commitment and professionalism of the person proposed for election should be taken into account in particular.

The aim is to have on the Supervisory Board as a whole all the knowledge and experience that are regarded as significant given the activities and business fields of SCHWEIZER. Among other things, this includes knowledge and experience in the areas of general business management, corporate strategy and management, technology, production and sales, finance (including accounting), human resources and law (including compliance and supervisory law). Should new appointments need to be made, care must be taken to determine which of the desired knowledge and skills should be strengthened.

The Supervisory Board decided on the following objectives to be achieved when constituting the board:

- 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);
- not more than two seats on the Supervisory Board for persons who undertake an advisory function or executive body function for customers, suppliers, lenders or other business partners of Schweizer Electro-

nic AG; this will limit potential conflicts of interest on the Supervisory Board;

- 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);
- a minimum of one seat on the Supervisory Board to be occupied by a woman.

### Diversity

As an international company, diversity and intercultural collaboration are essential factors of our business success. Diversity is firmly anchored in our corporate strategy. The term "diversity" incorporates diversity regarding cultural origin, religion, ethnic background, age, gender and sexual orientation as well as differences regarding professional background, experience and ways of thinking. The objective of our diversity concept is to gain the most suitable candidates from a professional and personal point of view for a mandate as Executive Board and Supervisory Board members of the company as well as for all leadership positions and thereby strive for a diverse composition.

The diversity concept pursued with respect to the composition of the executive bodies of Schweizer Electronic AG provides that the Supervisory Board observe diversity as a whole in the composition of the **Executive Board** in addition to the professional competence, experience and leadership quality of the candidates and, in doing so, aim for an appropriate proportion of women. Executive Board members should have many years of professional experience in industries relevant to the company. When evaluating potential candidates for appointment to vacant Executive Board positions, qualified women are included in the selection process and considered appropriately.

Adequate diversity is also observed with respect to the composition of the Supervisory Board. In accordance

with the defined target for the proportion of women on the **Supervisory Board**, at least one seat on the Supervisory Board should be occupied by a woman. When selecting members of the Supervisory Board, criteria such as professional and social competence, international experience and suitability in terms of character are primary considerations.

In addition, when considering the composition of the Executive Board and Supervisory Board, a balanced age structure is observed without a fixed age limit being set.

#### Implementation of the targets for composition, including the competence profile, and diversity concept

The targets pursued in the composition including the competence profile and the criteria of the diversity concept pursued are taken into account at an early stage in the selection process of potential candidates for appointment to the Executive Board, nomination for election as a member of the Supervisory Board and for all management positions.

In its current composition, the Supervisory Board meets all the aforementioned targets regarding composition and fulfilment of the competence profile. The Supervisory Board as a whole has all the required technical and personal qualifications and is familiar with the business fields of SCHWEIZER. A considerable number of Supervisory Board members hold international positions or have many years of international experience. The diversity of the Supervisory Board is appropriate. The target of having one female Supervisory Board member by 30 June 2022 has been met since 7 July 2017 with the election of Ms Karin Sonnenmoser to the Supervisory Board and Finance Committee.

In addition, the Supervisory Board has an appropriate number of independent members. In the assessment of the Supervisory Board, it should have at least three independent Supervisory Board members, of whom at least one shareholder member is independent. In the assessment of the Supervisory Board, it currently has two independent shareholder representatives, Mr Michael Kowalski and Ms Karin Sonnenmoser.

In the selection process for suitable candidates for the new appointment to the Executive Board, the Supervisory

Board paid attention to diversity in addition to professional competence, experience and leadership quality. Qualified women were included in the selection process and given appropriate consideration. The current composition of the Executive Board reflects the target composition resolved by the Supervisory Board.

#### Targets for and implementation of the percentage of women:

	Starting point	Target by 30 June 2022	As at 31.12.2018
Supervisory Board	No women	One woman	One woman
Executive Board	No women	No women	No women
Key management level <sup>1)</sup>	No women	One woman	One woman

<sup>1)</sup> Management level below the Executive Board, which reports directly to it.

#### Accounting and financial statement audit

Since the 2015 financial year, consolidated financial statements have been prepared in accordance with IFRS guidelines. The annual financial statements of Schweizer Electronic AG are prepared in accordance with HGB guidelines. The consolidated financial statements and the annual financial statements are produced by the Executive Board, checked by the auditor and approved and adopted by the Supervisory Board. The consolidated financial statements and the annual financial statements are published within four months of the end of the financial year.

It has been agreed with the auditor, Ernst & Young GmbH – a Stuttgart-based audit firm – that the Chair 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 statements audit – reporting immediately to the Chair of the Supervisory Board. In addition, the Chair shall be informed if the auditor identifies facts that result in inaccuracy with respect to the Declaration of Compliance submitted by the Executive 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 statements and the annual financial statements 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 handled by the Investor Relations or Communications departments.

### Acquisition and sale of company shares

In accordance with Article 19 of Regulation (EU) No. 596/2014 on market abuse, members of the Executive 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 financial year were duly disclosed and can be viewed on the company's website 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, 10 April 2019

The Executive Board

The Supervisory Board

Dr Rolf Merte  
Chair of the Executive Board

Michael Kowalski  
Chair of the  
Supervisory Board

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