

## Compliance declaration pursuant to § 161 Stock Corporation Act

(Aktiengesetz)

(Status: December 2019)

The Executive Board and Supervisory Board of Schweizer Electronic AG (hereinafter "Company") make the following compliance declaration pursuant to § 161 Stock Corporation Act with respect to the recommendations of the "Government Commission for the German Corporate Governance Code" and will ensure that this is published on the Company's homepage. The Executive Board and Supervisory Board of Schweizer Electronic AG made the last compliance declaration pursuant to § 161 Stock Corporation Act in December 2018. The following declaration refers to the recommendations of the German Corporate Governance Code ("Code") in its version 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 Supervisory Board of Schweizer Electronic AG declare that the recommendations of the Code have been complied with since the last compliance declaration was submitted in December 2018, except for the following points:

**Code No. 4.2.2:** No. 4.2.2 para. 2 sentence 3 of the Code recommends that the Supervisory Board shall consider the ratio of Management Board remuneration to the remuneration paid to the senior management and entire staff, including its development over time when determining the total remuneration for the Management Board members.

The Supervisory Board has not fully complied with this recommendation. When concluding the director's service contracts, the Supervisory Board, in compliance with the requirements of the Stock Corporation Act, did ensure that the total emoluments granted to Executive Board members do not exceed the usual remuneration without special reasons. However, the Company deviates to the extent that the Code specifies this review of vertical appropriateness of the Management Board remuneration, which is required under the Stock Corporation Act as well, and sets out in detail relevant comparison groups and the timescale for the comparison.

The Supervisory Board considers that the requirements of the recommendation are too vague. In particular, the Supervisory Board lacks specific indications of how to separate upper management from lower management and relevant staff from irrelevant staff. It is also unclear which timescale and which perspective are to be considered in the "development over time". The Supervisory Board thus maintains that the previously recognised measures used to determine Executive Board remuneration are sufficient to guarantee adequate total remuneration of Executive Board members.

**Code No. 4.2.3:**

No. 4.2.3 para. 2 sentence 8 of the Code recommends that subsequent amendments to the performance targets or comparison parameters shall be excluded with regard to variable remuneration components.

This recommendation has not been complied with. The remuneration provisions which are applicable at present and in the future stipulate that in the event of exceptional developments carried out by the Company (such as e.g. reorganisation measures, repurchase of shares, acquisition and/or sale of companies and operations, realisation of hidden reserves) that have a significant impact on the achievability of the target figures of the intended variable remuneration, the Supervisory Board is entitled to unilaterally adjust the terms of the contract and other variable remuneration parameters. The Executive Board and Supervisory Board consider that such a provision makes sense and is required to reasonably neutralise the consequences of such exceptional developments.

The recommendation in 4.2.3 para. 4 sentence 1 when concluding director's service contracts to ensure that payments made to an Executive Board member on premature termination of the contract, including fringe benefits, do not exceed the value of two years' remuneration (severance pay cap) and compensate no more than the remaining term of the contract, has not been complied with. The director's service contracts of the Executive Board members of Schweizer Electronic AG do not contain such a provision. The Executive Board and Supervisory Board consider that such a provision does not make sense as even in this case an Executive Board member could refuse to give his consent to the termination of activity on the Executive Board and could insist on payment of his remaining claims under the director's service contract. We are also convinced that the Supervisory Board will sufficiently bear the Company's interests in mind when

negotiating with an Executive Board member who is prematurely leaving the Company and will not grant an unreasonable severance payment. Thus, the recommendation in 4.2.3 para. 4 sentence 3 (severance pay cap) is not complied with.

No. 4.2.3 para. 5 of the Code recommends that benefit commitments made in connection with the early termination of a Management Board member's activity due to a change of control (Change of Control) shall not exceed 150% of the severance cap valued at two years' remuneration (i.e. a total of three years' remuneration). This recommendation has not been complied with.

The Executive Board members under the director's service contract are entitled, in the event of early termination of their activity due to a change of control, to a severance payment which is limited to three years' remuneration, so the recommendation in No. 4.2.3 para. 5 is basically complied with. However, the annual remuneration will not be calculated – as stipulated in the Code – on the basis of the total remuneration for the past financial year and if appropriate also on the basis of the expected total remuneration for the current financial year. Instead, the calculation will be based on the average total remuneration of the last three financial years before the director left the Company. The Executive Board and Supervisory Board consider that calculating the severance cap on the basis of the average of several years of annual remuneration is more meaningful and appropriate than on the basis of the total remuneration of only the past financial year and possibly the current financial year. In the light of this, as a precautionary measure we declare a deviation from No. 4.2.3 para. 5 of the Code in conjunction with No. 4.2.3 para. 4 sentence 3 of the Code.

**Code No. 5.1.2:**

No. 5.1.2 para. 2 sentence 3 of the Code recommends that an age limit is specified for the members of the Management Board. This recommendation has not been complied with. The Executive Board and Supervisory Board maintain that it does generally not make sense to specify an age limit for members of the Executive Board. Instead, what is important is competence, expertise and experience which do not depend on age.

**Code No. 5.3.1,  
5.3.2 and 5.3.3:**

The Company has neither the Audit Committee recommended in 5.3.2, nor the Nomination Committee recommended in 5.3.3. The Supervisory Board does not think it makes sense or is necessary to set

up such committees at a company the size of Schweizer Electronic AG with a Supervisory Board of only six members. The tasks assigned to the Audit Committee and the Nomination Committee and the other tasks dealt with by the Supervisory Board can be easily dealt with by the Supervisory Board as a whole, provided they have not been passed on to the existing personnel and financial committee of the Supervisory Board.

The only committee which exists is the personnel and financial committee of the Supervisory Board. Owing to the size of the Company and the size of the Supervisory Board of Schweizer Electronic AG, the Supervisory Board considers that it does not make sense and it is not necessary to set up any other committees.

By setting up the personnel and financial committee, the Supervisory Board has therefore satisfied the recommendation in No. 5.3.1 sentence 1 of the Code (the forming of committees of members with relevant specialist expertise depending on the specific circumstances of the Company and the number of its members). As an utmost precaution, we declare a deviation from this recommendation of the Code.

**Code No. 5.4.1:**

No. 5.4.1 para. 2 sentences 1 and 2 of the Code recommend that the Supervisory Board shall determine concrete objectives regarding its composition including an age limit for members of the Supervisory Board and a regular limit to Supervisory Board members' term of office. These recommendations have not been complied with. The Supervisory Board considers that it does not make sense to generally determine an age limit for members of the Supervisory Board. Instead, what is important is competence, expertise and experience which do not depend on age. The Supervisory Board has therefore not specified an age limit when determining specific objectives regarding its composition. The Supervisory Board does not consider it expedient to set a limit for the length of time served on the Supervisory Board. Those Supervisory Board members affected by such a limit have in-depth knowledge of the Company and long-standing experience from which the Company profits. Another term of office should therefore always be decided on a case-by-case basis.

No. 5.4.1 paras. 6 to 8 of the Code recommend that in its election proposals the Supervisory Board shall disclose to the General Meeting the personal and business relationships of every candidate with the company, the governing bodies of the company and any shareholders with a material interest in the company. This recommendation

has not been complied with as the Supervisory Board considers that requirements of the Code with regard to the reporting duty are vague and not clearly defined. In the light of this, such reporting does not make sense.

**Code No. 5.4.6:**

No. 5.4.6 para. 2 sentence 2 of the Code recommends that any performance-related remuneration granted to Supervisory Board members shall be linked to sustainable growth of the company. This recommendation has not been complied with as the performance-related remuneration granted to Supervisory Board members is linked to the dividends paid out for the respective financial year. The Executive Board and Supervisory Board consider that by linking performance-related remuneration to dividends the Supervisory Board is acting with the appropriate responsibility required to sustain growth at the Company and under the existing remuneration provision there is adequate incentive for Supervisory Board members when exercising their office to focus on the long-term and successful development of the Company.

**Code No. 7.1.2:**

No. 7.1.2 sentence 3 of the Code recommends that the consolidated financial statements and group management report are made publicly accessible within 90 days from the end of the financial year.

This recommendation has not been complied with. Compliance with the 90 day period is not possible owing to the time involved in preparing the consolidated financial statement and group management report. However, the consolidated financial statement and group management report have been disclosed within the statutory period.

Schramberg, December 2019

Schweizer Electronic AG

Executive Board

Supervisory Board



Dr Rolf Merte

Chair of the Executive Board



Christoph Schweizer

Chair of the Supervisory Board