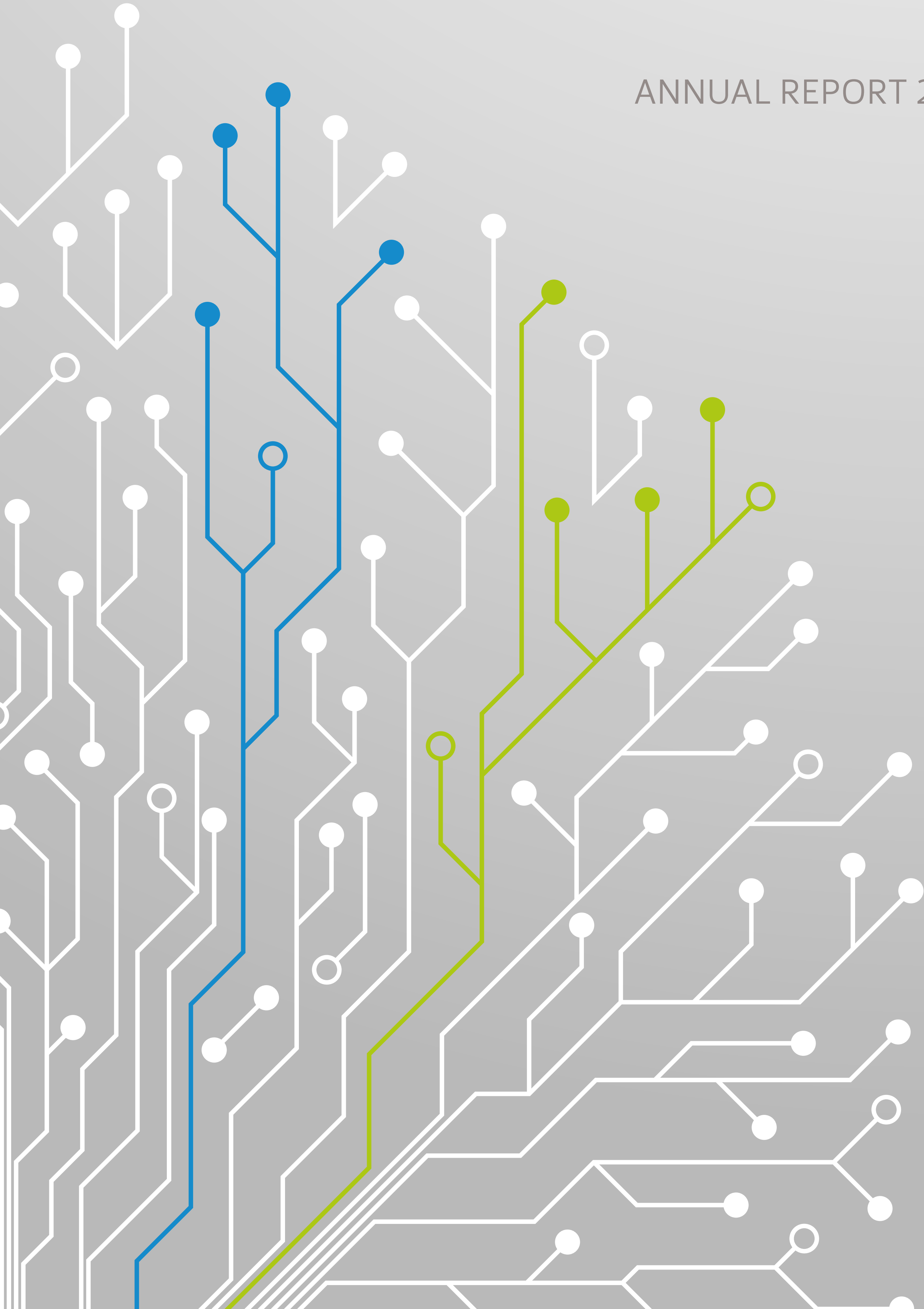
SCHWEIZER
ELECTRONIC

# ANNUAL REPORT 2019



# KEY FIGURES

| Overview of consolidated results | 2019 | 2018 | Change absolute | Change in % |
|---|---|---|---|---|
| | | | | |
| Revenues (EUR million) | 120.7 | 125.3 | -4.6 | -3.7 |
| Order book (EUR million) | 126.7 | 171.2 | -44.5 | -26.0 |
| Incoming orders (EUR million) | 74.9 | 123.8 | -48.9 | -39.5 |
| EBITDA (EUR million) 1) | 0.1 | 9.2 | -9.1 | n/a |
| EBITDA ratio (%) | 0.1 | 7.3 | | |
| EBIT (EUR million) 2) | -6.5 | 1.6 | -8.1 | n/a |
| EBIT ratio (%) | -5.4 | 1.3 | | |
| Annual result (EUR million) | -5.6 | 0.5 | -6.1 | n/a |
| EPS (EUR) | -1.48 | 0.14 | -1.62 | n/a |
| | | | | |
| Total assets (EUR million) | 228.9 | 135.3 | 93.6 | 69.2 |
| Investments (EUR million) | 92.0 | 7.5 | 84.5 | n/a |
| Equity (EUR million) | 55.2 | 63.0 | -7.8 | -12.4 |
| Equity ratio (%) | 24.1 | 46.6 | | |
| Net gearing ratio (%) | 60.7 | -7.2 | | |
| Working capital (EUR million) | -13.3 | 25.4 | -38.7 | n/a |
| Cash flow from operating activities (EUR million) 3) | 5.3 | 6.0 | -0.7 | -11.7 |
| Employees (at year end) 4) | 805 | 814 | -9 | 1.1 |

1) EBITDA: Total operating profit + other operating income ./. Material costs ./. Personnel costs ./. Other operating expenses
2) EBIT: EBITDA ./. Depreciation of tangible and intangible assets
3) In previous years, interest paid was allocated to cash flow from operating activities.
From financial year 2019, interest paid (2019: EUR 761 thousand / 2018: EUR 85 thousand) is shown under cash flow from financing activities.
In order to make a year-on-year comparison easier, this change in recognition was also carried out for the comparative figure.
Cash flow from operating activities is thus shown as EUR 85 thousand higher for the prior year 2018 than shown in the 2018 Annual Report.
4) Including temporary staff

All figures are rounded, which can lead to deviations when these are added up.

# THE YEAR 2019

Our high-tech production site in Jintan (China) is established

For less $CO_2$ on the road: Continental counts on innovative technology from SCHWEIZER

SCHWEIZER receives NADCAP accreditation for electronics

Annual general meeting – Christoph Schweizer is elected as the new Chair of the Supervisory Board

SCHWEIZER celebrates its 170-year anniversary

# CONTENTS

# GROWTH STRATEGY – NEW HORIZONS WITH THE EMBEDDING PLANT IN CHINA

Schweizer has set a clear strategic signal for growth with its decision to build a new high-tech PCB embedding plant in Jintan (China). All the project objectives were achieved in 2019, paving the way for production to start in the first few months of 2020.

## RIGHT TIME FOR THE INVESTMENT

Despite the current uncertainties on the global markets, in particular in the automotive industry, we remain convinced that the timing for this strategic realignment was just right for Schweizer. Three aspects are key here:

## TECHNOLOGICAL ASPECT

In 2019, Schweizer made a breakthrough in p² Pack embedding technology. This innovation was initially focused on applications in the 48-volt category for hybrid mobility. For automotive manufacturers it is a significant factor in reaching the demanding $CO_2$ targets and avoiding paying penalties. Schweizer has secured itself a worldwide patent for this embedding technology. The first customer to use this technology in series production was gained in the first half of 2019. On the whole, Schweizer expects a total market potential of more than EUR 1 billion in the next five years for such applications.

## HYBRIDISATION AND ELECTRIFICATION OF MOBILITY

The discussion around mobility in connection with $CO_2$ emissions gained further significant momentum in the last year. Social and political pressure on automotive manufacturers to offer vehicle models with extensively reduced $CO_2$ emissions increased greatly. OEMs are facing a major challenge in reaching the ambitious $CO_2$ targets by using different drive systems. Schweizer will support them as a competent development partner. We will be able to benefit from these developments with our current and future product portfolio focusing on power embedding solutions.

## PARTNER NETWORK

SCHWEIZER has an excellent partner network in Europe and Asia. These are partners that provide significant support for our major investment in China. Initially, this is WUS Kunshan and Taiwan. WUS manufactures high-quality printed circuit boards (PCBs) and has production sites in China and Taiwan. WUS holds an aggregated share of 29.9 percent in Schweizer Electronic AG. Infineon Technologies AG, which holds a share of just under 10 percent in Schweizer Electronic AG, also actively supports our project in China. For both companies, SCHWEIZER and Infineon, the successful development of the plant in China is essential in establishing the joint chip embedding technology on the global market.

## ACCESSING NEW MARKETS

In the past, SCHWEIZER focused on being a European player. Indeed, 80 to 90 percent of sales were realised in Europe. Asia and the Unites States only played a minor role. With the opening of the high-tech plant in Jintan, SCHWEIZER will be in a position to become more active on the US market and, in particular, on the dynamic Asian markets. In the future, the aim is for global market potentials of the relevant industries to reflect in SCHWEIZER's regional breakdown of sales. This will, for instance, increase the proportion of Group sales in Asia from just under 10 percent today to more than 30 percent. The new production site in China puts SCHWEIZER in a better competitive position for price-sensitive products and enables us to meet our customers' increasing volume requirements for embedding technology.

A further element in realising this strategy was the conclusion of two new sales cooperation agreements: NEUTRONICS for accessing the North American market and NAGASE for entering the Japanese market. Dedicated sales teams are already in place for the Chinese and Taiwanese markets.

## ONE COMPANY – ONE QUALITY – ONE TEAM

Schweizer in Schramberg is a reputed supplier of technologically complex PCBs. Our customers value our highly skilled employees, our consistent focus on quality, our high level of supplier reliability and the ability to think in terms of "more than PCBs". Schweizer looks beyond PCBs and offers customers solutions for complete systems.

We will also establish these values in our plant in China. The basis for this is an excellent team in China that can establish and demonstrate the values, processes and ways of thinking of Schweizer. For this purpose, we have put together a top management team in Jintan that will be in the position of building an excellent bridge between Germany and China and bring the best of both cultures together. A large part of the management team in China has already worked for Schweizer for many years – in particular in the former joint venture, Pentex-Schweizer.

In order to ensure a "One Quality" culture, we have established the same quality systems at both production plants. Furthermore, many factors relevant to quality in production were taken into account right from the start when defining production and handling processes.

Irrespective of whether production takes place in Germany or in China: PCBs and technologies produced by Schweizer meet the high demands of our customers equally.

## INNOVATIVE PRODUCTION CONCEPT PROVIDES COMPETITIVE ADVANTAGES

Schweizer Electronic in China is the first German-Chinese PCB company focusing on the automotive and embedding segments. The plant will be the first location in the world that is fully suited for the production of MOSFET embedding for the automotive industry. This allows our customers to also benefit from the embedding technology on a larger scale.

Both the technological capabilities as well as the production concept are unique and open up significant competitive advantages for Schweizer with respect to quality standards and cost efficiency. A high level of systems integration and automation make it possible for us to act with the lowest inventory levels and fast turnaround times. Furthermore, we are becoming more independent of cost increases with direct employees in China. We are thus setting a new standard for systems and employee efficiency worldwide.

# ONE COMPANY

# ONE QUALITY

# ONE TEAM

# LETTER FROM THE EXECUTIVE BOARD

*Dear Shareholders, Business Partners and Employees,*

For SCHWEIZER, 2019 was a year characterised by highs and lows. Despite the deteriorated underlying economic conditions in 2018, we were able to start 2019 with a full order book amounting to EUR 171 million. The expectations at the beginning of the year of a general economic recovery in the second half of the year proved to be deceptive, however. As a result, we were also not immune to the decline in our largest customer segment, the European automotive industry, and the slump in sales in the mechanical engineering sector, and were forced to reduce our original forecast mid-year. Although sales of EUR 120.7 million, which is equivalent to a decline in sales of 3.7 percent, and an EBITDA of EUR 0.1 million means that we are within our forecast for 2019, we are not satisfied with that.

A particularly challenging situation that had to be overcome last year was the capacity underutilisation of our main plant in Schramberg. The decline in sales of -17.5 percent here could only be compensated for by the positive sales performance of our Asian partners WUS and Meiko with an increase of 53 percent. As a result of the shift in sales in favour of trading business with our partners, however, the gross margin fell from 14.7 percent in the previous year to 10.5 percent.

The extensive cost savings in both material and personnel expenses and the implementation of short-time work at the Schramberg site, which were introduced early and consistently in 2019, have made it possible to reduce costs significantly; nonetheless, these measures will only fully take effect in 2020.

However, a lot was achieved in the past year. Together with our partner, Infineon Technologies AG, it was announced in May that Vitesco (formerly Continental AG) had decided to be the first user of our embedding technology, Smart p² Pack. This once again confirmed our innovation and technology leadership, particularly in the field of electromobility. We also succeeded in significantly expanding our distribution network by concluding two distribution partnerships for the North American and Japanese markets. The successful NADCAP accreditation, which is considered the most prestigious in the world and a prerequisite by major industry representatives to be approved as a supplier in the aviation sector, should also be highlighted. This now allows us to enter this customer segment with a global reach.

We are in particular proud of the successful establishment of our high-tech production site in Jintan (China). Construction work on the production and administration building was completed on schedule in 2019. We also succeeded in installing all the equipment required for the start of production on time, making it possible to produce the first prototype PCBs as early as January 2020. Setting

*Nicolas-Fabian Schweizer*
*CEO*

up the organisation with highly motivated employees was also successful and laid the foundation for the start of successful series production.

Unfortunately, the coronavirus crisis in China, which began at the end of January 2020, resulted in the project coming to a standstill, the duration and extent of which could not be predicted at the time. The protective measures introduced were successful and, thanks to the stringent government measures to contain the spread of the virus, a gradual reopening was achieved as early as March. In the meantime, final construction work has been resumed and the start of series production has been driven forward. We are in particular grateful that none of our employees or their families in China were directly affected by the coronavirus disease.

However, the coronavirus pandemic, which has now spread globally, poses perhaps the greatest challenge in post-war history, not only for our company but also for our society and economy. The health, social and economic consequences cannot be predicted with absolute certainty at this stage. Both the economic development and possible further regulatory restrictions make it extremely difficult to carry out a reliable forecast for 2020. For this reason, we have presented two scenarios in our forecast report that serve as a basis for the necessary measures. All the measures presently required to meet this challenge have been initiated. As the Executive Board, we will continuously evaluate further developments and their potential effects on our business development.

The year 2020 will be a year of great challenges, for both business and society. We will face these challenges head on together with our team with the conviction that we will overcome them and emerge from this crisis with renewed strength.

We thank all our employees for their great dedication, wealth of ideas and loyalty. We would also like to thank you, our shareholders, for your support. We have ambitious plans for 2020. Join us as we continue on our path of long-term, profitable growth.

Yours sincerely,

Nicolas-Fabian Schweizer

Marc Bunz

*Marc Bunz*
*CFO*

# REPORT OF THE SUPERVISORY BOARD

*Dear Shareholders,*

Our work on the Supervisory Board in 2019 focused on monitoring the construction project in China and the establishment of the organisation there. The organisational establishment in Jintan is largely on schedule and there are few deviations from the business plan adopted by the Supervisory Board.

Furthermore, the Supervisory Board dealt with issues relating to the competitiveness of the Schramberg location. The project started in this regard by the Executive Board for the further development of the production technology to be used at Schramberg in the future is being closely coordinated with the Supervisory Board.

At the time of reporting, the current financial year 2020 is characterised by many uncertainties. The COVID-19 pandemic and the associated poor economic prospects present us, the company and society as a whole with major challenges and do not allow us to make forecasts with any degree of certainty.

The employees, the Executive Board and the Supervisory Board will do everything necessary to lead Schweizer Electronic AG through this difficult time largely unscathed.

## COOPERATION BETWEEN THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD

In the year under review, the Supervisory Board continuously advised the Executive Board on the management of the company and reviewed and monitored its management activities. The benchmark for this was the tasks required of it by law, the Articles of Association, the Rules of Procedure and the German Corporate Governance Code.

The Executive Board informed the Supervisory Board both verbally and in writing of the company's current position and of all issues relevant to the company and the Group in a regular and comprehensive manner. Supervisory Board members were sent detailed monthly reports on the business performance between each meeting. In addition, a significant number of individual informational briefings and working meetings took place between the Chair, his deputy, the Personnel and Finance Committee and the Executive Board members.

The Supervisory Board, in particular the Chair and his deputy, provided the Executive Board with intensive support and advice on all strategic issues. A variety of topics were discussed in detail in the meetings as well as in a number of informal discussions.

Decisions or measures by the management requiring the approval of the Supervisory Board due to law, the Articles of Association or the Rules of Procedure were presented in good time, reviewed and relevant resolutions were passed. Where necessary, urgent decisions of the Supervisory Board were taken by circular resolution.

The Supervisory Board always had sufficient opportunity to engage critically with the reports and proposed resolutions presented by the Executive Board. In doing so, the Supervisory Board assured itself of the lawfulness, expediency and regularity of the management of Schweizer Electronic AG.

## MEETINGS AND RESOLUTIONS OF THE SUPERVISORY BOARD

In four regular and three extraordinary meetings of the Supervisory Board in the 2019 financial year, the Supervisory Board dealt with all the issues relevant to the company and made relevant decisions. These included a resolution of the Supervisory Board and the Personnel and Finance Committee passed by means of circular resolution. When necessary, the Supervisory Board also met without the presence of the Executive Board. In the year under review, there were no Supervisory Board members who attended only half or less than half of the meetings of the Supervisory Board and the committees of which they were a member. In some instances, the option to participate via video link was utilised.

The Supervisory Board members present at plenary meetings and meetings of the Personnel and Finance Committee:

| Supervisory Board members | Meetings (including committee meetings) | Plenary meetings | Participation in plenary meetings | Finance and Personnel Committee | Participation (committee) | Participation in % (all meetings) |
|---|---|---|---|---|---|---|
| Christoph Schweizer[1)] | 4 | 3 | 3 | 1 | 1 | 100% |
| Dr Stephan Zizala | 9 | 7 | 7 | 2 | 2 | 100% |
| Michael Kowalski | 9 | 7 | 7 | 2 | 2 | 100% |
| Chris Wu | 7 | 7 | 7 | | | 100% |
| Karin Sonnenmoser[2)] | 5 | 4 | 3 | 1 | 1 | 80% |
| Petra Gaiselmann[3)] | 3 | 3 | 3 | | | 100% |
| Jürgen Kammerer[3)] | 3 | 3 | 3 | | | 100% |
| Carsten Brudlo[4)] | 4 | 4 | 4 | | | 100% |
| Siegbert Maier[4)] | 4 | 4 | 4 | | | 100% |

1)Member of the Supervisory Board and the Personnel and Finance Committee since 28 June 2019
2)Member of the Supervisory Board and the Personnel and Finance Committee until 28 June 2019
3)Member of the Supervisory Board since 28 June 2019
4)Member of the Supervisory Board until 28 June 2019

## FINANCE AND INVESTMENT PLANNING; CORPORATE STRATEGY

In the regular meetings, the Supervisory Board discussed the Executive Board's reports on the general business performance, the performance of the customer groups, the performance of sales and earnings, the financial and risk situation, the performance of the partner network and the existing compliance management system.

Focal points in the year under review were consultations and discussions with management on the effects of the economic downturn for the company. Special attention was paid to SCHWEIZER's most important customer group, namely automotive. Measures that needed to be taken and their achievement were discussed with the management. The Supervisory Board was regularly informed about deviations from previously reported targets with the result that the respective issues were critically examined and discussed.

Another focal point of the Supervisory Board's work was the strategic further development of the SCHWEIZER Group with the establishment of a new production site in Jintan (China). The members of the Supervisory Board were kept fully informed about the development, construction progress and use of the planned funds at all times by means of a reporting system agreed between the Executive Board and the Supervisory Board.

## PERSONNEL AND REMUNERATION

Personnel and remuneration issues were also discussed openly and in detail by the Supervisory Board during the year under review. In particular, this included the resolution passed by the Supervisory Board on the determination of the variable remuneration of the Executive Board and the levels of target achievement for the 2018 financial year. In reporting year 2019, emphasis was placed on the modification of the variable remuneration components (MSTI / LTI) for the Executive Board remuneration developed by the Personnel and Finance Committee and the adoption of the relevant targets for 2019. The details of the Executive Board remuneration can be found in the remuneration report.

Dr Rolf Merte decided to leave Schweizer Electronic AG prematurely for personal reasons. On 6 March 2020, the Supervisory Board and Dr Merte amicably agreed that Dr Merte would leave the Executive Board with effect from 6 March 2020. The Supervisory Board thanks Dr Merte for his past work and accomplishments relating to the company and wishes him all the very best. The segments that Dr Merte was responsible for will be managed by Executive Board members Nicolas-Fabian Schweizer and Marc Bunz from this day forward.

## LEGAL DISPUTES

In terms of content, there have been no changes in the pending matters compared with the previous year. The Supervisory Board therefore continued to deal with the two pending legal disputes and consulted the Executive Board in this regard. One action was filed by the former Executive Board Chair Dr Maren Schweizer in March 2017 in connection with her immediate dismissal and the extraordinary termination of her employment agreement with effect from 1 February 2017. The second action was an action filed against the subsidiary Schweizer Energy Production Singapore Pte. Ltd that Schweizer won in the court of first instance in 2019.

## IN ADDITION TO THE AFOREMENTIONED CORE ISSUES, THE SUPERVISORY BOARD DEALT WITH THE FOLLOWING ITEMS IN PARTICULAR AT ITS MEETINGS:

**April meeting (meeting convened to review the accounts)**

On 10 April 2019, the Supervisory Board members were informed of the discussions between the Personnel and Finance Committee and the Executive Board regarding the achievement of targets. The plenary meeting followed the recommendations of the committee and the variable remuneration components MSTI and LTI for the 2018 financial year were approved. The planned restructuring of the variable remuneration components for the Executive Board were also discussed. The Supervisory Board dealt extensively with the accounting of Schweizer Electronic AG and the consolidated accounting for the 2018 financial year, the audit conducted by the audit firm Ernst & Young GmbH and the proposal for the appropriation of profits by the Executive Board of Schweizer Electronic AG. The statutory auditor participated in the meeting convened to review the accounts. The auditor reported in detail on their audit and the audit focal points. The audit results were discussed with the Supervisory Board and questions were answered satisfactorily. The Supervisory Board approved the audit results. After the final result of its own examination, the Supervisory Board made no objections and approved the accounting and consolidated accounting for the 2018 financial year. The Executive Board's proposal for the appropriation of profits was approved. The members of the Supervisory Board concurred with the audit result of the Personnel and Finance Committee on the non-financial statement and the Supervisory Board's report on its activities in 2018 was adopted.

**June meeting**

On 27 June 2019, the Executive Board reported in detail on the company's financial performance in a depressed market environment. The Executive Board reported on the effectiveness of the cost-cutting measures taken which gave the Supervisory Board a comprehensive overview. A further focal point was the approval of the restructuring of the variable remuneration components of the Executive Board.

In the meeting held on 28 June 2019, elections for the Supervisory Board Chair, his deputy and an additional member of the Personnel and Finance Committee were focused on.

**September meeting**
The focal points of the meeting held on 27 September 2019 were the following topics already reported on: business performance of the company, current status of the cost-savings measures decided on and the establishment of the production site in Jintan (China).

**December meeting**
The Executive Board presented its budget for 2020, 2021 and 2022 at the meeting held on 6 December 2019. The Supervisory Board approved the budget for 2020 and took note of the planned budget for 2021 and 2022. Furthermore, the new Declaration of Compliance was adopted.

### EFFICIENCY REVIEW OF THE SUPERVISORY BOARD'S ACTIVITY
The Supervisory Board reviews the efficiency of its activities every year. Members of the Supervisory Board are requested to give comprehensive feedback on the work of the Supervisory Board and its cooperation with the Executive Board in a questionnaire. The result of the efficiency review was explained and discussed in detail on 27 September 2019. No significant deficits were found.

### SUPERVISORY BOARD COMMITTEES
The Supervisory Board has set up a Personnel and Finance Committee with the goal of improving its efficiency. For a company of our size and orientation, we do not believe that it is either advisable or necessary to set up any further committees. Duties assigned to other committees can be readily dealt with by these bodies, provided they are not required to be dealt with by the Supervisory Board. Furthermore, the Supervisory Board is informed of the outcome of the committee's deliberations.

Supervisory Board members carry out the further education and training required for their tasks under their own responsibility and are supported in this by the company. For example, the newly elected employee representatives on the Supervisory Board in 2019 used the opportunity to inform themselves on the basic and current subject matters of the Supervisory Board’s work by attending a seminar over several days.

### PERSONNEL CHANGES ON THE SUPERVISORY BOARD
At the end of the Annual General Meeting held on 28 June 2019, the term of office of all Supervisory Board members and their substitutes expired, requiring new elections of shareholder representatives to the Supervisory Board. The meeting elected Mr Michael Kowalski, Dr Stephan Zizala and Chris Wu as well as myself as shareholder representatives in addition to Dr Stefan Krauss and Chih Kang Chen as substitutes. After a two-year term of office, Ms Karin Sonnenmoser no longer made herself available to the Supervisory Board as well as the Personnel and Finance Committee. The Supervisory Board again thanks Ms Sonnenmoser for her commitment and wishes her all the very best.

Pursuant to the German One-Third Participation Act (Drittelbeteiligungsgesetz), two members of the Supervisory Board were elected from among the employees. The newly elected employee representative members of the Supervisory Board are Ms Petra Gaiselmann and Mr Jürgen Kammerer. The Supervisory Board also thanks the previous employee representatives, Mr Carsten Brudlo and Mr Siegbert Maier, for their longstanding commitment.

The Supervisory Board meeting following the Annual General Meeting elected me as the Chair of the Supervisory Board and Dr Zizala as the Deputy Chair. In accordance with the Articles of Association, this election also includes the Chair and Deputy Chair of the Personnel and Finance Committee. Mr Michael Kowalski was elected as an additional member of the Personnel and Finance Committee.

## WORK OF THE PERSONNEL AND FINANCE COMMITTEE

At the meeting on 27 March 2019, the members of the committee dealt with the individual and consolidated financial statements as at 31 December 2018. The financial statements, together with a separate non-financial statement, were explained by the Executive Board and reviewed by the members of the committee. The Supervisory Board's report to the Annual General Meeting was also discussed by the body. The meeting held on 27 September 2019 focused on discussion and consultation with the management on the company's business performance, measures that need to be taken and the level of target achievement.

In addition to the meetings, the regular tasks of the committee include conducting annual target and review discussions with the Executive Board. The focus during the financial year was the restructuring of the variable remuneration components and the associated recommendation to the full Supervisory Board.

## CORPORATE GOVERNANCE

The Executive Board and Supervisory Board report on corporate governance in detail in their joint corporate governance report, which is available both in the Annual Report and on the company website.

### Declaration of Compliance 2019

At its meeting on 6 December 2019 in particular, the Supervisory Board dealt with the German Corporate Governance Code (GCGC) and adopted the Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz; AktG). The Declarations of Compliance have been made permanently available on the company website and have also been published in the corporate governance report.

### Examination of possible conflicts of interest

There were no conflicts of interest of Executive Board and Supervisory Board members that should have been disclosed to the Supervisory Board pursuant to Sections 4.3.3 and 5.5.2 of the GCGC. Two members of the Supervisory Board, currently or in the year under review, have business relationships with SCHWEIZER and companies in which they hold a high-ranking position. SCHWEIZER's business transactions with these companies are or were conducted under arms' length conditions. The Supervisory Board Chair in office since 28 June 2019 has a personal relationship with a member of the Executive Board. When passing resolutions, the Supervisory Board ensures that potential conflicts of interest are taken into account. Details of the Supervisory Board's target composition are presented in the corporate governance report.

## ADOPTION OF THE ANNUAL FINANCIAL STATEMENTS AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The audit firm, Ernst & Young GmbH, has audited the annual financial statements and consolidated financial statements prepared by the Executive Board as well as the summarised status report for Schweizer Electronic AG and the Group for 2019. At the proposal of the Supervisory Board, Ernst & Young GmbH was appointed by the Annual General Meeting on 28 June 2019. Prior to the proposal by the Supervisory Board to the Annual General Meeting as auditors, Ernst & Young GmbH had confirmed to the Supervisory Board that there were no circumstances that could impair its independence as an auditor or give rise to doubts as to its independence. Mr Julius Mittelberger signed as auditor for the first time, while Dr Eckart Wetzel has been signing as the auditor responsible for the audit since the 2014 financial year.
The audits of the annual financial statements, consolidated financial statements and the summarised status report did not give rise to any objections. As a result of these audits, unqualified audit opinions were issued on 8 April 2020.

The documents to be audited and the audit reports of the auditor were made available to every Supervisory Board member at the meeting on 9 April 2020 and were sent to every Supervisory Board member in sufficient time to enable them to prepare. The auditor took part in the discussion of the annual financial statements and the consolidated financial statements, during which he reported on the main audit findings and provided additional information on request. No objections were raised after the final result of the reviews by the Supervisory Board. The Supervisory Board agrees with the result of the audit of both financial statements by the auditor, concurs with the Executive Board's assessment of the situation of the Group and of Schweizer Electronic AG and approves the annual financial statements and the consolidated financial statements as at 31 December 2019. The annual financial statements are thus adopted. The Supervisory Board supports the proposal of the Executive Board which envisages no dividend. The non-financial statement required by the CSR Directive Implementation Act was reviewed by the Supervisory Board.

The present Supervisory Board's report to the Annual General Meeting was adopted by the Supervisory Board.

The Supervisory Board sincerely thanks the members of the Executive Board and all employees for their strong personal commitment. The Supervisory Board also thanks the shareholders for the confidence they have shown.

Schramberg, 9 April 2020
The Supervisory Board

*Christoph Schweizer (Chair)*

# THE SHARE

## GENERAL STOCK MARKET PERFORMANCE

The macroeconomic environment remained difficult in 2019 and was characterised by fears of recession, political uncertainties such as the ongoing Brexit tug-of-war, the trade conflict between the USA and China and the government crisis in Italy. Despite all the tension, hope for amicable conflict resolutions prevailed. Buoyed by a predominantly positive underlying sentiment on the equity markets, the DAX 30 German benchmark index closed 2019 up by 25.5 percent. The TecDax technology index closed the trading year up by 22.3 percent and the Schweizer Electronic AG share closed with a gain of 36.5 percent.

## SCHWEIZER SHARE

The share price performance of the Schweizer Electronic share only reflected the performance of the TecDax in 2019 to a limited extent. In fact, the share price performance between March up to and including November correlated more closely with the DAX Automobile sector index. News and developments from the automotive sector, our largest customer group, were also reflected in Schweizer Electronic's share price. Starting from a closing price for 2018 of EUR 13.00, the share price had already reached an interim high of EUR 16.30 or an increase of 25 percent on 11 January before falling again by the end of April. This can be viewed with reference to the general news situation in the automotive sector. The share reached its low for the year in mid-August with a share price of EUR 11.40. The overall more positive underlying sentiment on the markets from the fourth quarter was also reflected in the performance of the DAX Automobile sector index and the Schweizer Electronic share. In addition, Schweizer reported positive business performance for the third quarter on 7 November. After a highly positive share price performance from December, the Schweizer Electronic share ended the trading year at EUR 17.40, or up by 34 percent.

## DIVIDEND

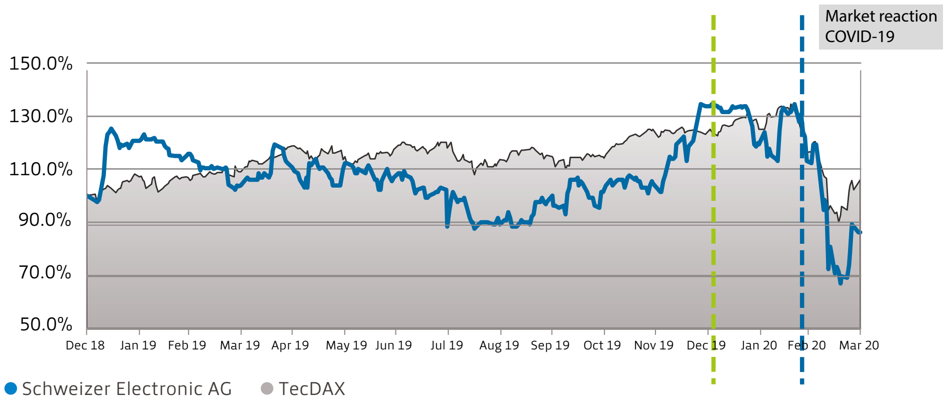
Given the strategic decision taken by the management to build a high-technology plant in China and the investments required for this, the Executive Board and the Supervisory Board propose the suspension of a dividend payment for the 2019 business year. In the medium term, management expects its strategic realignment to result in a disproportionately high increase in the value of the company.

Dividend

| Dividend for financial year | Dividend per share |
|---|---|
| 2015 | EUR 0.65 |
| 2016 | EUR 0.65 |
| 2017 | EUR 0.30 |
| 2018 | EUR 0.00 |
| 2019 | EUR 0.00 * |

* Proposal to the Annual General Meeting.

Share price 1 January 2019 – 31 March 2020



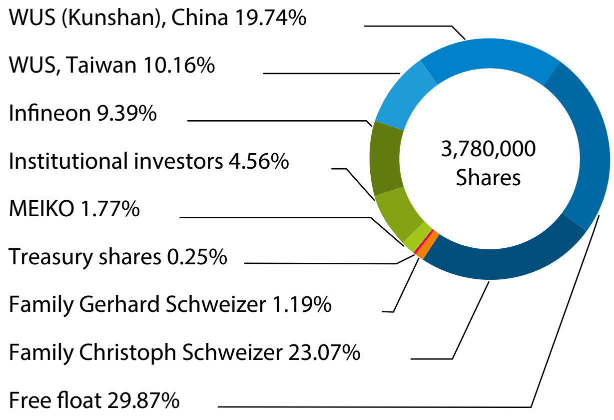
## INVESTOR RELATIONS

Our goal is openness and transparency in continuous dialogue with our shareholders and capital market participants. Our investor relations work focuses on strengthening confidence in our shares in the long term and achieving a fair valuation on the capital market. In 2019, SCHWEIZER again provided all interested capital market participants with comprehensive information through financial reporting, capital market and telephone conferences, road shows and numerous one-on-one meetings. This allowed them at all times to make a reasonable evaluation of the current business situation and assess the company's prospects. The Annual General Meeting is the key forum for our private shareholders. In an effort to establish a sustainable and trusting relationship with all stakeholders, we have published additional company information on our website besides the documents required by law. Extensive numerical data, various presentations and an analyst's assessment are published at: www.schweizer.ag/en/investor-relations.html.

## SHAREHOLDER STRUCTURE

The shareholder structure of Schweizer Electronic AG was as follows at the end of 2019:

Shareholder structure as at 31 December 202019




## SHARE DATA

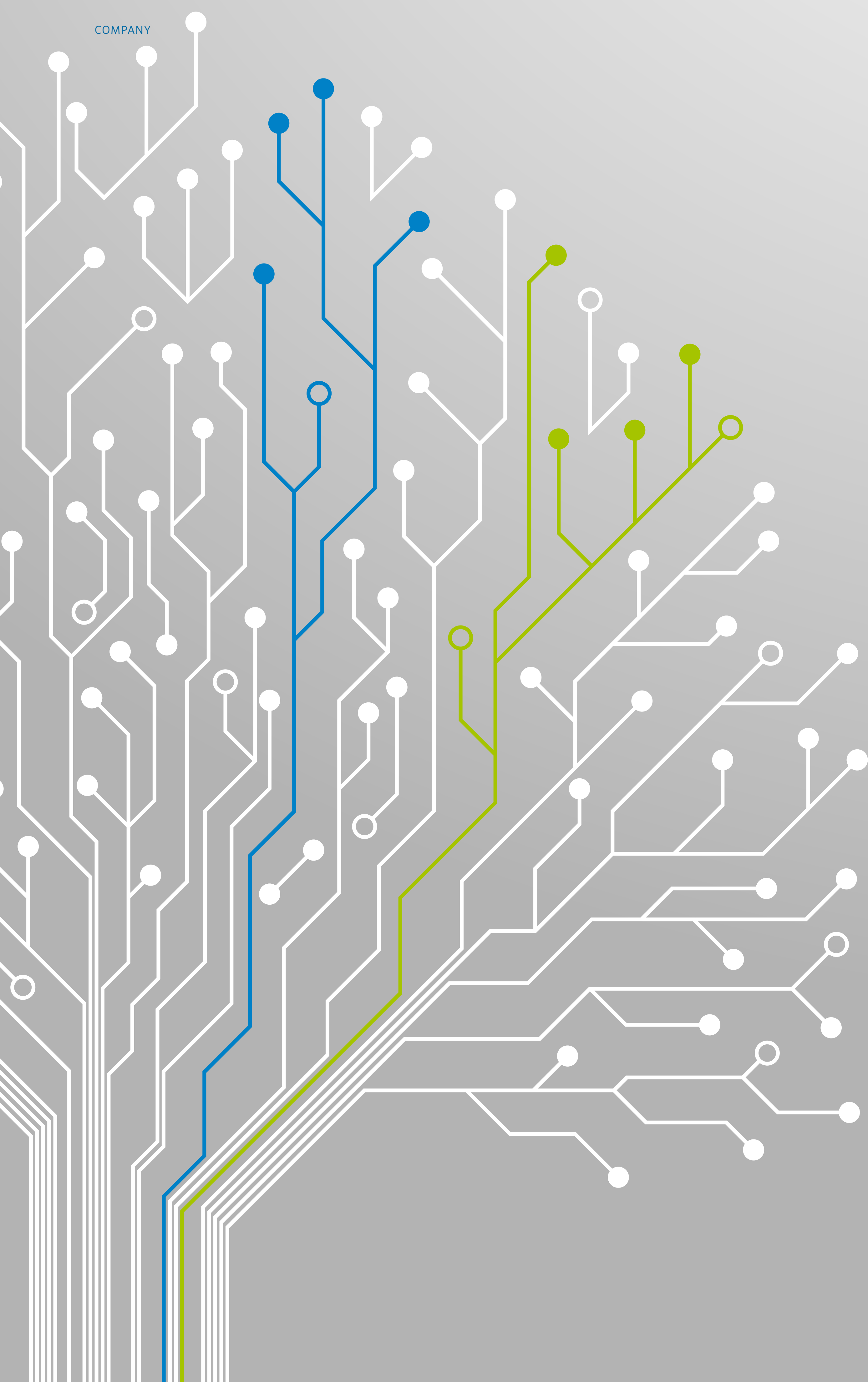
| | 2019 | 2018 |
|---|---|---|
| Year-end closing price | EUR 17.40 | EUR 13.00 |
| Year high | EUR 17.50 | EUR 21.70 |
| Year low | EUR 11.40 | EUR 12.75 |
| No. of shares | 3,780,000 | 3,780,000 |
| Market capitalisation at the end of the financial year | EUR 65.8 million | EUR 49.1 million |
| Dividend per share | EUR 0.00[1] | EUR 0.00 |

[1] Proposal to the Annual General Meeting

## BASIC SHARE DATA

| | |
|---|---|
| ISIN | DE0005156236 |
| WKN | 515623 |
| Symbol | SCE |
| Listed in | Xetra, Frankfurt, Stuttgart, Düsseldorf, Berlin |
| Stock market segment | Regulated market |
| Level of transparency | General standard |

COMPANY



# SUMMARISED STATUS REPORT

# SUMMARISED STATUS REPORT OF THE SCHWEIZER GROUP AND OF SCHWEIZER ELECTRONIC AG AS AT 31 DECEMBER 2019

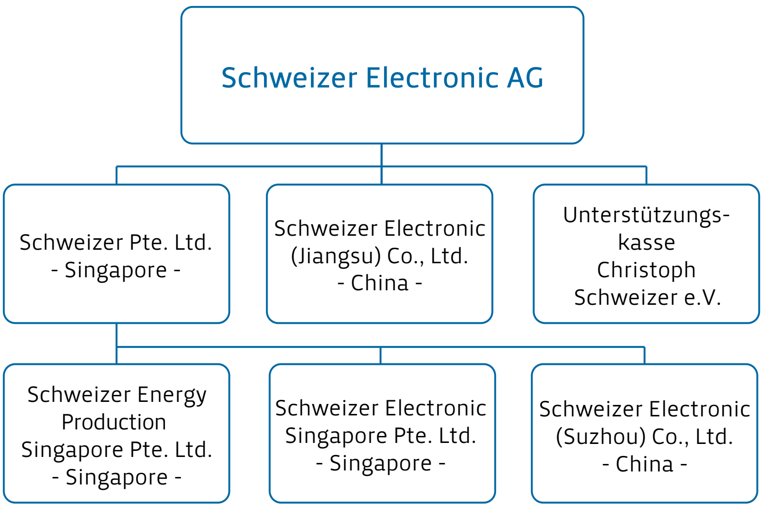
This report combines the Group status report of the Schweizer Group ("Schweizer" or the "company"), comprising Schweizer Electronic AG and its consolidated subsidiaries, with the status report of Schweizer Electronic AG. It should be read in context with the audited consolidated financial statement including the notes thereto, which are presented elsewhere in this report. The audited consolidated financial statement is based on a series of assumptions and on accounting and valuation methods that are presented in detail in the notes to the consolidated financial statement. In addition, passages designated as such should be read in the context of the audited individual financial statements, including the notes. The summarised status report contains forward-looking statements regarding the performance of the business, the financial development and the income of Schweizer. These statements are based on assumptions and forecasts which are themselves based on the presently available information and current assessments. These are fraught with uncertainties and risks. The actual performance of the business may therefore deviate significantly from the expected performance. Schweizer assumes no obligation to update forward-looking statements, beyond that required by statutory provisions.

# BASIC PRINCIPLES OF THE GROUP

## LEGAL AND ORGANISATIONAL STRUCTURE

Schweizer Electronic AG, headquartered in Schramberg, is the parent company of the Group and manages the holdings directly and indirectly owned by it. The business performance of the parent company is closely linked to the performance of the subsidiaries and associated companies.

## GROUP STRUCTURE



## BUSINESS MODEL

Schweizer offers state-of-the-art, cutting-edge technology and consultancy expertise. Schweizer's high-quality PCBs and innovative solutions and services for automotive, industrial and aviation electronics address key challenges in the area of power electronics, embedding technology and system cost reduction. Schweizer aims to distinguish itself with highest-quality products and to promote the development of energy-efficient and environmentally friendly vehicles.

Schweizer, together with its partners WUS Printed Circuit (Kunshan) Co., Ltd., Kunshan, China, Meiko Electronics Co. Ltd., Ayase, Japan, and Elekonta Marek GmbH & Co. KG, Gerlingen, offers cost and production-optimised solutions in its business field for small, medium and large series. Schweizer employed a total of 805 staff worldwide as at the reporting date. In future, the chip embedding market for automotive and industrial applications will be developed together with Infineon Technologies AG, Munich. The jointly developed $p^2$ Pack technology is now about to be launched on the market.

## BUSINESS STRATEGY, GLOBALISATION AND DIVERSIFICATION

The focus of the strategic global orientation is on the growth region of Asia alongside Europe. Schweizer also plans to increasingly take advantage of technologies for energy efficiency and electromobility as well as the steadily growing demand for radar and camera applications for intelligent driver assistance systems, and has adapted part of its portfolio accordingly. This approach will be realised by structuring the company into the Electronic and Systems divisions. While the Electronic division has been established for many years, the Systems division is still undergoing development in cooperation with Infineon.

In addition, Schweizer aims to significantly expand the industry and aviation segments in the portfolio and gain new customers here with our innovative solutions.

With the set-up of a new high-tech production site in Jintan (China), Schweizer has an additional production area of a total of 90,000 square metres for manufacturing power electronics and embedding applications. Following the successful implementation of the construction phase, we started production of prototype PCBs in the first quarter of 2020. At present, we expect to start series production in the second quarter of 2020. The new production capacity will be built up in three production start-up phases, each with a capacity of 1,200 square metres of board space per day. With this, Schweizer aims to further exploit the global market potential for power electronics and chip embedding applications for its customers through innovative, high-quality printed circuit boards and embedding solutions and will, in particular, target the fast-growing Chinese market.

### ELECTRONIC

Together with its partners WUS Printed Circuit (Kunshan) Co., Ltd., Meiko Electronics Co. Ltd. and Elekonta Marek GmbH & Co. KG, Schweizer is a global leader for the supply of rigid PCBs to the automotive industry. Within this partnership, Elekonta focuses on the production of prototypes. Meiko is responsible for mass production at low-cost locations in China and Vietnam, and also has technology plants in Japan. WUS, which has several production sites in China, is the partner for handling the constantly increasing demand for high-frequency (HF) PCBs for the automotive sector. This means that while Schweizer focuses on the research and development of products and on series with technically sophisticated production techniques, WUS is responsible for cost-effective mass production to ensure that high-quality and attractively priced HF PCBs are available to customers in the desired quantity.

### SYSTEMS

The creation and expansion of the future Systems division is the result of increasing customer demand, SCHWEIZER's experience and expertise as well as its new solutions based on embedding technologies (for the integration of active and passive components in PCBs). The prevailing business model, whereby customers purchase the required PCBs and components separately, will be altered in the future by the embedding approach. The integration of components in the PCB requires a new business and process model, in which both the component manufacturer and the PCB manufacturer are closely involved. To enable early implementation of this new approach and complete its range of products and services, SCHWEIZER is therefore working closely with Infineon, customers and technical institutes to ensure that it can offer PCBs and much more besides in the future in the Systems division. First regular sales are expected in 2021/2022 at the earliest.

In view of the fact that the Systems division is still in development, the current business activities of the SCHWEIZER Group are handled entirely by the Electronic division. Therefore, no reportable segments exist with regard to the requirements of IFRS 8. Rather, the SCHWEIZER Group is currently a single-segment company.

# BUSINESS UNITS

## RESEARCH AND DEVELOPMENT

### PROCESS TECHNOLOGY

The commissioning of a new circuit board line has improved important core processes in production. The results exceed expectations; the concept will therefore be continued in a further circuit board line in the 2020 financial year. Furthermore, thanks to particle analysis and a cleanliness concept derived from this, improvements were reached in terms of quantity and quality.

ESD (Electro Static Discharge) measures for implementing p² Pack embedding technologies in production were largely completed. Extensive detailed investigations were required for this purpose as ESD conformity is a new area in printed circuit boards (unlike in the semiconductor segment). The new automation technologies required for handling semiconductors in the PCB line were implemented or are about to be completed.

### SERIES DEVELOPMENT

SCHWEIZER consistently worked on the further development of its innovative technology platforms in series development. In the area of HF printed circuit boards in particular, new material systems and more precise process technologies have made it possible to reduce costs and thus tap new potential. The special quality of the bond surfaces has enabled us to win further customer projects. With the readiness for series production of the Inlay 2.0 technology, it is now possible to produce more complex inlay structures with a simplified process flow, which enables broader market and customer access.

As part of the diversification into the aviation sector, new customers were acquired and supplied with qualification prototypes. Crucial factors were the properties of SCHWEIZER's inlay PCBs and Power Combi Boards in power electronics applications and the NADCAP certification successfully completed at the beginning of the year.

The qualification of the p² Pack technology for automotive series production has progressed further and is nearing completion. At the same time, prototypes were supplied to more customers and transferred to a continuous design-in process.

### INNOVATION

In 2019, the focus of innovative activities was on the field of the Smart p² Pack embedded power electronics. While low-voltage applications for the 48 V automotive wiring system are already in series development, the Innovations division is working on the next generation of high-voltage wiring systems up to 800 volts. To this end, the candidates for novel "wide bandgap" semiconductors were selected and prototype quantities were ordered and installed. Special emphasis was placed on silicon carbide (SiC) and gallium nitride (GaN) components.

For these high-voltage applications, suitable base materials also have to be found that meet the increased requirements for insulation and temperature stability and at the same time are capable of effectively transferring the heat loss to a heat sink.

The use of the µ² Pack technology for next-generation automotive radar applications was developed and tested. This technology was also tested for its suitability for the production of component housings (packages).

These activities were given thematic and financial support through participation in the following publicly funded projects.

### The SiCmodul funded project

The SiCmodul research project is a collaboration between five partners from the automotive industry and two universities, in which a complete, novel 6-phase electric drive unit with an output of up to 180 kW at 800 V battery voltage was developed. The project focused on research into embedding processes for 1200 V silicon carbide semiconductor devices, novel, temperature-conductive high-performance materials, and the development and manufacture of a printed circuit board structure suitable for operating temperatures of up to 200°C. The modules have already been successfully tested.

### The KoRRund project

In addition to extensive material testing, thin substrates with fine pitch conductor structures made of RF base material were developed within the project for the direct assembly of radar ICs. With the assistance of these substrates, different flip chip technologies with corresponding AVTs (assembly and connection techniques) were tested. The focus of the tests was on the radar IC connections with regard to reliability and high-frequency performance. Furthermore, the embedding technology of radar ICs directly into the PCB, based on the patented µ² Pack technology, was developed further. Demonstration units with an integrated radar IC and a flexible antenna were developed in close cooperation with project partners Bosch and KIT. These will be constructed as a compact radar module with compliant antennas as a demonstration unit until the planned end of the project (end of April 2020).

### Smart PVI box project

This project was completed successfully in the past year. The results of the material and process developments have been incorporated into the base material strategy and into the expansion of our design guidelines for the Smart p² Pack technology. The funding granted for this has now been almost fully used.

In 2019, Schweizer's spending on research and development amounted to EUR 3.2 million. In Germany, 32 employees were assigned to this division. As of 31 December 2019, Schweizer employed 162 engineers and technicians.

### PATENTS

The total number of patents granted increased to 51 patents as at 31 December 2019.

## HUMAN RESOURCES

### EMPLOYEES

Schweizer had 805 employees as of 31 December 2019. At the Schramberg site, various measures were taken to address lower capacity utilisation. The option of short-time work was temporarily used, which was discontinued again at the end of September 2019. The number of employees at the Schramberg site decreased due to natural staff turnover, fixed-term employment contracts coming to an end and voluntary socially responsible agreements. The increase in the number of employees in Asia is mainly due to the construction of the new production facility in Jintan (China).

Location and number of employees[1)]

| | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Germany | 688 | 773 |
| Asia | 117 | 41 |

1)Including temporary staff

## MARKETING AND SALES

With a share of around 76 percent of turnover in 2019, the automotive industry remains the most significant customer group for the company. SCHWEIZER has customer relationships with almost all major European Tier 1 suppliers and OEMs. The focus of sales activities is on the constant expansion of the network, especially in the growth markets of Asia and the USA. Examples of this are the establishment of our own sales team in China and two new sales partnerships for the Canadian and US markets as well as the Japanese market.

Automated driving is one of the greatest future challenges facing the automotive industry. Radar and camera solutions are required for the sensor systems involved. SCHWEIZER provides solutions for radar sensors with its 24 and 76-79 Ghz PCBs. FR4 Flex printed circuit boards, which allow for a three-dimensional platform solution, are used in camera systems.

Electromobility, i.e. the field of hybrid and electric vehicles, is expected to increase steadily in the coming years. Thanks to a wide range of power electronics, SCHWEIZER has solutions for many applications for both 48 V and HV drives and the corresponding DC/DC or AC/DC converters at the ready.

SCHWEIZER's strengths lie in the high frequency, high temperature, high current and miniaturisation application areas. These core competencies are needed not just in the automotive sector but also in many industrial and aviation applications.

## PROCUREMENT

Purchasing activities in 2019 focused primarily on setting up the procurement department for the new production plant in Jintan (China) and reducing costs for the site in Schramberg.

## QUALITY MANAGEMENT

In 2019 the initial certification in accordance with the aerospace standard Nadcap 7119 (Electronics) took place. The effectiveness and efficiency of business processes remained the focus of this new certification.
In addition to the confirmation of our IATF 16949:2016, the aerospace management system in accordance with EN 9100:2018 was re-certified. The environmental management system ISO 14001:2015 was also successfully re-certified. During the checks, system conformity was verified for various customer orders for both the automotive and aviation industries. After successful completion of the ISO 50001:2011 monitoring audit, preparations are underway for the re-certification to the revised ISO 50001:2018, which is due in 2020.

## ENVIRONMENTAL AND ENERGY MANAGEMENT

Although the products and thus the processes and workflows required for their manufacture are becoming increasingly complex and multifaceted, SCHWEIZER makes efforts to use technologies and processes that limit the environmental impact through appropriate product and process developments. This is also part of our mission statement. The consistent application of environmental and hazard analyses to protect the environment, our employees and the business partners involved in product manufacture/use is our top priority.

The effectiveness of our systems is regularly reviewed by means of internal audits and was once again confirmed for 2019 by the certification organisation within the framework of ISO 14001 and ISO 50001 certifications.

# ECONOMIC REPORT

## ECONOMY AND SALES MARKETS

Growth in the **global economy** slowed significantly from the fourth quarter and in particular in 2019. This was reflected in a decline in industrial production and the volume of international trade in both advanced economies and emerging markets. Some of this is likely to be a cyclical downturn, as was seen in the semiconductor and automotive industries, for example. Structural causes also played an increasingly important role. The trade disputes between the USA and China led to a cross-national reluctance to make investment decisions in the industrial sector. Concerns about the integrity of international value creation chains and trade-offs between technological change and regulations for climate and environmental protection probably had an impact here. The global trading volume declined noticeably for three quarters in a row. In regional terms, the volume of imports fell mainly in China and in the other emerging Asian countries. For 2019, the increase in global gross domestic product was +3.0 percent (2018: +3.7 percent), of which +1.8 percent (2018: +2.3 percent) was attributable to the advanced economies and +4.4 percent (2018: +5.2 percent) to emerging markets. The decline in emerging markets is partly due to the decline in industrial production in China. The development in China is likely to be due to cyclical factors, a restrictive fiscal and monetary policy and the Chinese government's regulation of the financial markets. Exports to the US market, which were burdened by special tariffs, and the resulting uncertainty also placed a damper on economic development in China.

In the **eurozone**, growth in gross domestic product also slowed and is expected to reach a growth rate of +1.2 percent (2018: +2.1 percent). The subdued economic momentum was due in particular to the weaker development of investments and exports compared to the previous year. Positive growth impulses only came from government and private consumption.

Growth in 2019 also lost momentum in **Germany**. With a growth rate in gross national product of +0.6 percent compared to the previous year, the average value of the past 10 years of steady growth of +1.3 percent is clearly undercut. Growth in 2019 was mainly supported by increased government (+2.5 percent) and private (+1.6 percent) consumption spending. Gross capital expenditure rose by +3.8 percent and was mainly driven by the construction industry and investments in research and development. In contrast, capital expenditure on plant and equipment – mainly investments in machinery and equipment as well as vehicles – developed less vigorously and increased by a mere +0.4 percent. On the output side of gross national product, the construction and service sectors recorded the strongest growth. However, the industrial sector, which represents a good quarter of the overall economy, shrank by -3.6 percent. Declining production in the automotive industry contributed significantly to this decline.

## AUTOMOTIVE INDUSTRY

For our most important customer group – the automotive industry, which accounts for around 76 percent of Schweizer's sales – 2019 was characterised by a significant decline in sales worldwide of -3.7 percent. In the BRIC countries, -6.4 percent fewer cars were sold, while the industrialised countries such as the USA, the EU countries, Japan and South Korea saw a drop of -0.4 percent. Based on preliminary statistics, 64.3 million vehicles were sold in China, the USA and Europe in 2019, which represents a total decline of -4.3 percent in these regions compared to 2018. In the EU, sales rose by +1.4 percent – mainly as a result of a strong fourth quarter – while sales in the USA fell by -1.9 percent and, in Japan/South Korea, by a combined -0.6 percent year-on-year.

China recorded the sharpest decline in the new car market with -6.3 percent. Among the BRIC countries, India and Russia recorded a decline in sales of -12.8 percent and -2.2 percent respectively. Brazil/Argentina recorded a combined decline of -1.3 percent.

Global production by German manufacturers in 2019 shrank by -9 percent to 4.7 million passenger cars compared to the previous year. The 3.5 million units exported were down -13 percent on 2018 sales. The decline in production mainly affected passenger car production in Germany. By contrast, production abroad by German manufacturers remained relatively stable. In the first ten months of 2019, +0.7 percent more vehicles were produced internationally by German manufacturers than in 2018.

The sales performance of electric vehicles varied widely in the major global automotive markets. Regulatory framework conditions and subsidy programmes of varying duration and amount determined demand in the regional markets. According to a study by the Center of Automotive Management, the number of battery-powered electric cars and plug-in hybrids newly registered in 2019 was down on the previous year in the two largest sales markets of China and the USA. In China, the largest electric vehicle market, new registrations of electric vehicles fell for the first time by -4 percent to 1.2 million vehicles. This is a consequence of reduced subsidies for electric cars in China since the middle of the year. Nevertheless, the market share of electric vehicles rose from 4.5 percent to 4.7 percent in the first half of 2019, because total vehicle sales, at -8 percent, fell more sharply than sales of electric vehicles. The Chinese government, on the other hand, decided to suspend the end of subsidies for electric vehicles, which was originally planned for mid-2020. A slump in sales was also recorded in the second largest market, the USA. Compared to the previous year, a decrease of around -10 percent to 324 thousand units was recorded. Germany rose to become the third-largest electromobility market in 2019 and is thus increasingly developing a driving role. According to the projected statistics, the number of new German registrations in 2019 will increase by +61 percent year-on-year to approximately 109 thousand electric vehicles. This increased the previous market share from 2 percent to 3 percent, of which about 60 percent were all-electric vehicles and 40 percent vehicles with a plug-in hybrid drive. Due to the expanded range of plug-in hybrids offered by manufacturers in the German market, more vehicles of this drive type were newly registered in the fourth quarter compared with all-electric vehicles.

## PRINTED CIRCUIT BOARD INDUSTRY

Global production volumes for printed circuit boards in 2019 are expected to be around 1 percent lower than in 2018. The German printed circuit board market will show the weakest development worldwide, with a decline of 6 percent. China, the world's largest producer of printed circuit boards, lost 1.5 percent. Other important markets such as Taiwan with -1.2 percent or South Korea with -4.0 percent also lost ground. Europe excluding Germany, America and most of the Southeast Asian countries even recorded slight increases. The only area in which sales of printed circuit boards increased noticeably was the communications infrastructure, which was dominated by the global rollout of the 5G network. Demand from automotive and industrial customers worldwide barely increased compared to the previous year.

The printed circuit board industry is increasingly dominated by Asia. In 2019 the global market share of PCB production from Asia rose from 92 percent in the previous year to 92.5 percent. With a share of 54 percent, China was by far the most important production location for printed circuit boards. The Southeast Asian regions are in second place with a share of 10.5 percent, putting Taiwan in third place with a share of 10.4 percent compared to the previous year. North America's global production share increased from 4.1 to 4.3 percent year-on-year, while Europe represented only about 3.0 percent of the global PCB market (2018: 3.2 percent).

(Sources: 2019/20 Annual Report of the German Council of Economic Experts, Federal Statistical Office, Economic Outlook for the World Economy published by the Kiel Institute for the World Economy, German Association of the Automotive Industry (VDA), Electromobility Report 2020 published by the CAM-Center of Automotive Management, Infosammlung Automotive [Automotive information package] of Deutsche Bank's Expert Team, statistics published by Data4PCB, N.T. Information Ltd.)

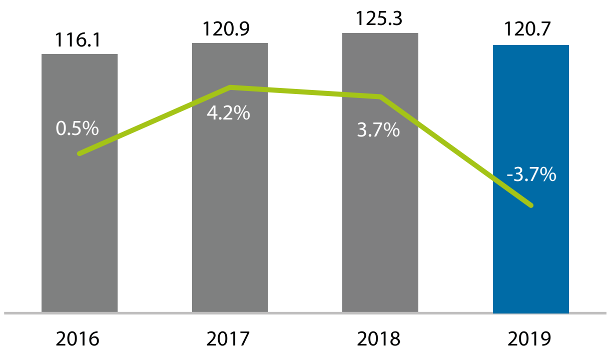
## DEVELOPMENT OF EARNINGS (IFRS)

In the following section, we report on the Group's results of operations in accordance with International Financial Reporting Standards (IFRS).

## SALES DEVELOPMENT AND ORDER BACKLOGS

Group sales amounted to EUR 120.7 million. This is equivalent to a year-on-year decline of -3.7 percent.

Sales revenue / in EUR millions / change compared to previous year




In the first half of the year, the revenue shortfall was just -5.7 percent compared to the same period of the previous year. In the second half of the year, revenue was down -1.6 percent on the same period in 2018. The third quarter in particular, with a growth rate of +3.6 percent compared to the same quarter of the previous year, had a major impact, while the fourth quarter, with a decline of -7.6 percent compared to the previous year, again more than compensated for this increase.

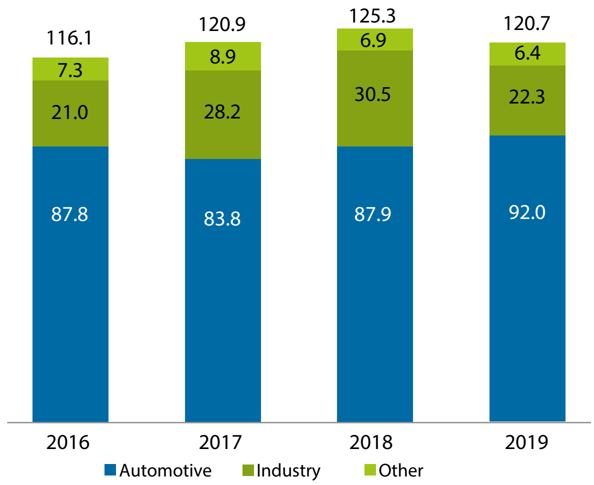
The plant in Schramberg generated sales of EUR 83.1 million, which is equivalent to a decline of -17.5 percent compared to the same period last year. This drop was characterised by the economic downturn since the beginning of the year, which resulted in a corresponding reluctance to place orders from both our automotive and industrial customers in the mechanical and plant engineering sector. In contrast, the +52.9 percent increase in our sales of products via our Asian network counteracted the decline in sales from our own production. A total of EUR 37.7 million in revenue was generated with products manufactured by WUS Kunshan and Meiko Electronics China and Vietnam. Merchandise accounted for 31.2 percent of turnover (2018: 20%).

Despite the aforementioned reluctance of our automotive customers to place orders, sales with this customer segment increased once again. The increase in revenue compared to the previous year amounted to EUR +4.1 million or +4.7 percent, which is mainly due to an expansion of business activities with two key account customers.

We generated sales of EUR 22.3 million with our industrial customers in the financial year. This corresponds to a decline of -26.8 percent compared to the previous year. This customer group, whose areas of application are primarily in detection, sensor technology and system controls, represents 18.5 percent of Group sales.

By contrast, other customers in the fields of communication, consumers and computers decreased by -7.2 percent to EUR 6.4 million (2018: EUR 6.9 million).

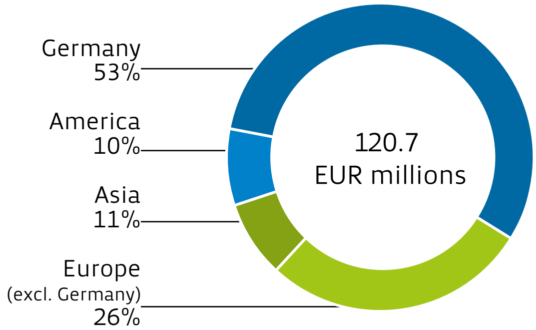
Sales by customer group (in EUR millions)




There were shifts in the sales regions to the benefit of the Asian and US markets. The export share increased from 43.7 percent to 47.1 percent in 2019.

Germany remained the most important sales region by far in 2019. Sales in Germany amounted to EUR 63.8 million (2018: EUR 70.5 million), which represents a share of 52.9 percent of Group sales. In the European markets, sales of EUR 31.2 million (2018: EUR 35.1 million) were achieved. The decline in Germany and Europe was partially offset by the increase in sales in Asia by +EUR 4.1 million to EUR 13.7 million and in America/other countries by +EUR 1.9 million to EUR 12.0 million. As a result, the share of sales from Asia rose to 11.3 percent and from America/other countries to 10.0 percent.

Sales by region (in EUR millions)




| EUR million | 2019 | 2018 |
|---|---|---|
| Germany | 63.8 | 70.5 |
| Europe (excl. Germany) | 31.2 | 35.1 |
| Asia | 13.6 | 9.6 |
| America | 11.7 | 9.9 |
| Other | 0.4 | 0.2 |
| | **120.7** | **125.3** |

At the end of the year under review, orders on hand totalled EUR 126.7 million (2018: EUR 171.2 million). Of this order book, EUR 98.1 million will be delivered in 2020. The slowdown in demand in the automotive and industrial sectors that was already apparent in the fourth quarter of the previous year continued in the first and second half of the year with cancellations and postponements of orders and delivery schedules. While incoming orders of EUR 30.3 million was recorded in the first half of the year, the order volume of EUR 44.6 million in the second half was significantly higher. Incoming orders in the third quarter had a particular impact here with a volume of EUR 30.3 million, which corresponded to the amount achieved in the first half of the year.

## OPERATING MARGIN AND OPERATING RESULT

Gross profit on sales amounted to EUR 12.6 million (2018: EUR 18.6 million). The gross margin fell from 14.8 percent in the previous year to 10.5 percent. The main reasons for the decline were the sharp rise of +53 percent in the share of merchandise produced by our partners in Asia, with a simultaneous decline of -18 percent in in-house production. Owing to the business model, gross margins in the trading business are lower than those for in-house production. In the case of in-house production, profitability was adversely affected in particular by weak capacity utilisation in Schramberg. This was offset by savings from the short-time work implemented at the site between February and July and, above all, from the reduction in personnel capacity.

Expenses for administrative and selling expenses as well as other operating income increased by +EUR 2.2 million to EUR 19.2 million. In the area of sales, costs increased as a result of the establishment of the sales organisations at the China plant and our subsidiaries in Singapore and China. Administrative costs decreased overall as a result of cost savings and short-time work in the administration functions. In contrast, the costs for setting up the plant in China and allocations to litigation risks had a counteracting effect in this functional area, resulting in an overall increase of +2.7 percent in administrative costs. Other operating income decreased by -EUR 1.0 million. With regard to other income, one-off effects in the previous year from the reversal of provisions and damage claims resulted in a decrease of around -EUR 1.2 million, which was offset by income from the sale of assets of EUR 0.5 million; as far as other expenses are concerned, the increase in provisions for legal disputes already existing in 2018 as well as individual valuation allowances resulted in an increase, which could only be partially offset by counteracting cost reductions. Due to the lower gross margin and the increase in total costs, an operating loss (EBIT) of -EUR 6.5 million was recorded, which represents a year-on-year decline of -EUR 8.2 million. Depreciation amounted to EUR 6.6 million. As at the balance sheet date, EBITDA amounted to EUR 0.1 million (2018: EUR 9.2 million).

The application of IFRS 16 resulted in a reduction in operating expenses of -EUR 0.5 million due to lower rental expenses, which improved EBITDA by +EUR 0.5 million.

The current effects on earnings from the application of IFRS 16 include depreciation and amortisation of EUR 0.7 million and interest expenses of EUR 0.1 million.

Excluding the start-up losses incurred in connection with the China project and the restructuring costs at the Schramberg site, EBITDA would have amounted to EUR 5.1 million and the EBITDA ratio to 4.2 percent.

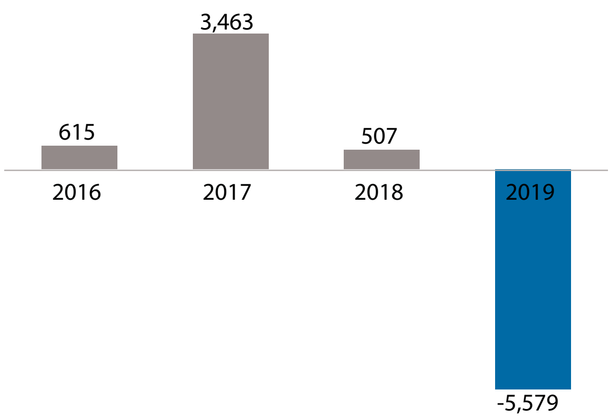
## FINANCIAL RESULT

The financial result amounted to -EUR 1.2 million (2018: -EUR 0.8 million). Interest expenses for current and non-current liabilities amounted to EUR 0.8 thousand.

## INCOME TAXES

Income taxes resulted in tax income of EUR 2.1 million (2018: tax expense of EUR 0.4 million). Deferred taxes were recognised for the start-up losses incurred in connection with the set-up of the production site in China and for the net loss for the year of Schweizer Electronic AG in accordance with the scope for utilising the tax loss carryforwards.

Consolidated result after taxes (in EUR thousands)

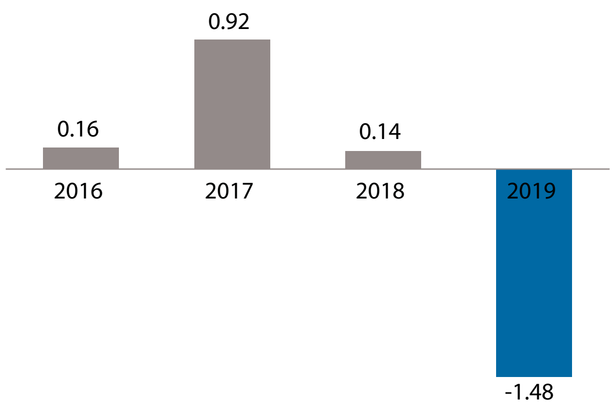



## PROFIT AFTER TAXES AND EARNINGS PER SHARE

Earnings after taxes were thus -EUR 5.6 million (2018: +EUR 0.5 million, adjusted for the project in China: +EUR 2.8 million). Excluding the contribution to earnings made by the new plant in China, adjusted earnings amounted to -EUR 2.6 million. This is a deterioration of -EUR 5.4 million compared to the adjusted result of the previous year.

Earnings per share for the past financial year amounted to -EUR 1.48 per share.

Earnings per share (in EUR)




## DIVIDEND

Schweizer intends to grow dynamically in the global market for power electronics and chip embedding applications in the future. In view of the net loss for the year and the high investment funds required for the further development of the high-technology plant in China, the Executive Board proposes to the Supervisory Board to suspend dividend payments for the 2019 financial year and to invest the freed-up funds in investments for growth in China.

With this strategy, the Executive Board is pursuing the goal of sustainably increasing the value of the company and thus also achieving higher shareholder value.

## DEVELOPMENT OF THE FINANCIAL POSITION (IFRS)

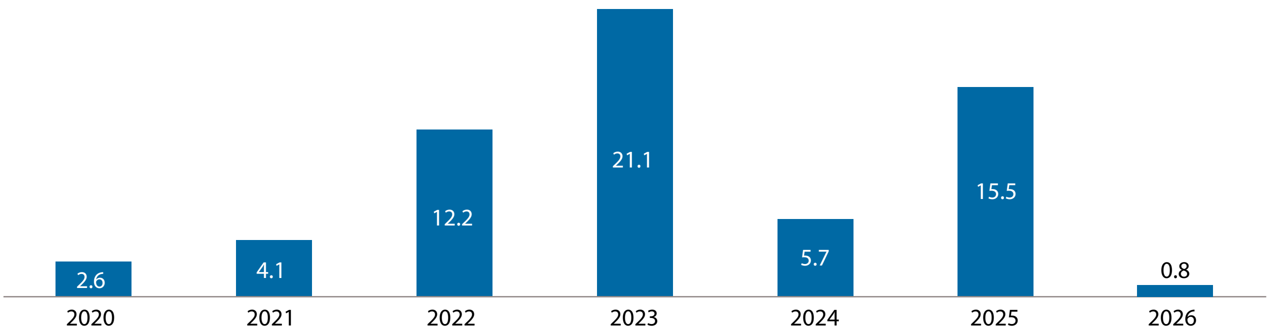
As at the balance sheet date, Schweizer had liabilities to banks in the amount of EUR 67.9 million (2018: EUR 25.4 million).

Long-term financing amounted to EUR 65.3 million, representing an increase of +EUR 47.0 million compared with 2018. A second tranche of EUR 19.0 million in the form of a senior loan was accessed for constructing the plant in China from which a further equity injection of +EUR 14.9 million was made to Schweizer Electronic (Jiangsu) Co. Ltd. during the financial year. The available credit line of EUR 34 million was thus exhausted. The loans have a term of 10 years and a variable EURIBOR interest rate with a margin grid that depends on the current gearing ratio of Schweizer Electronic AG. There are currently no interest rate hedges. Loans amounting to EUR 30.6 million were taken up locally in China.

At the end of 2019, the credit lines amounted to EUR 9.2 million (2018: EUR 8.2 million).

In contrast to the long-term credit lines, all short-term credit lines are unsecured and unlimited in time. No working capital lines are yet available in China. These are not expected to be made available until operations commence. Current financial liabilities amounted to EUR 2.6 million as of the balance sheet date (2018: EUR 7.1 million).

Maturity profile of financial liabilities* (in EUR millions)




* without repayment/utilisation of short-term credit lines

## DEVELOPMENT OF LIQUIDITY

Liquid funds amounted to EUR 34.4 million. This represents an increase of +EUR 4.4 million compared with the previous year.

Operating cash flow decreased by -EUR 0.7 million to EUR 5.3 million (2018: EUR 6.0 million). This resulted in a -EUR 8.6 million reduction in earnings before taxes. The cash flow from investing activities amounted to -EUR 42.0 million in the reporting year (2018: -EUR 4.2 million). Cash investments in tangible and intangible assets increased by +EUR 57.0 million to EUR 63.5 million. The Group received EUR 20.6 million from the receipt of government grants in China. In the year under review, free cash flow amounted to -EUR 36.7 million, in particular as a result of the investment activity.

A major factor in the increase in liquid funds was the raising of the second long-term loan tranche of EUR 19.0 million, which was transferred to the production company in China to establish the production infrastructure. In addition, the subsidiary took advantage of local bank credit lines to raise long-term loans in the amount of EUR 30.6 million. The funds were used for investments in the financial year. In addition, there was no payment for dividends in the financial year (2018: EUR 1.1 million). On the other hand, loan repayments of EUR 8.0 million were made. The Annual General Meeting resolved to suspend the dividend payment in 2019 in favour of investments in the growth project in China. The loan repayments for lease liabilities in the amount of EUR 0.8 million were included in the cash flow from financing activities. The first-time application of IFRS 16 thus had a positive effect of EUR 0.8 million on the cash flow from operating activities.

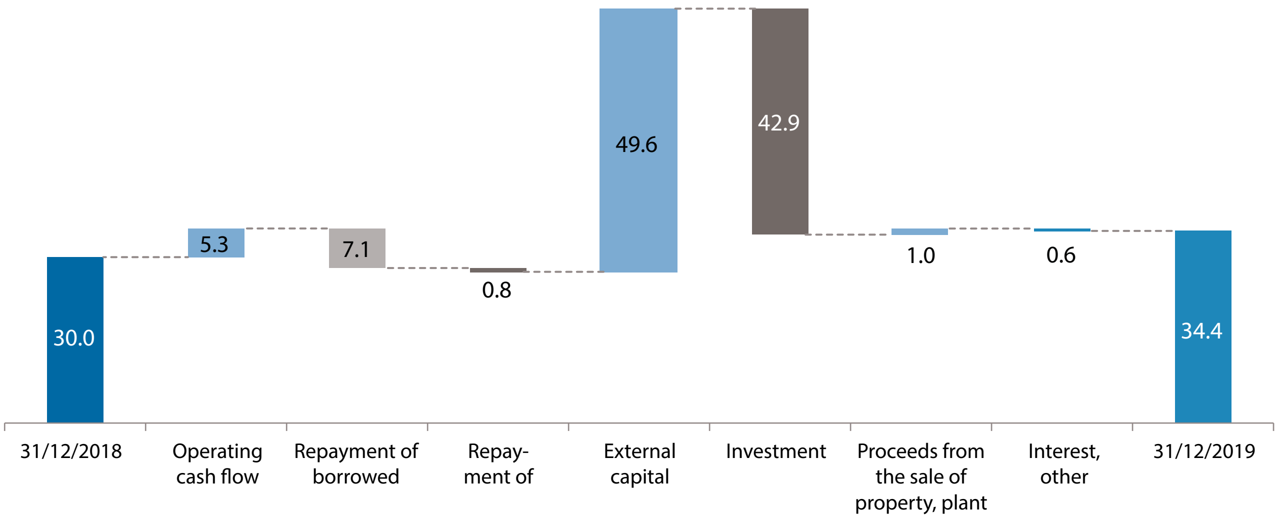
Overall, cash flow from financing activities amounted to EUR 40.9 million.

Cash flow (in EUR millions)

| | 2019 | 2018 |
|---|---|---|
| Cash flow from current business activities | 5.3 | 6.0 |
| Cash flow from investment activities | -42.0 | -4.2 |
| Cash flow from financing activities | 40.9 | 16.7 |

In previous years, interest paid was allocated to cash flow from operating activities. From financial year 2019 onwards, interest paid (2019: EUR 0.8 million; 2018: EUR 0.1 million) is allocated to the cash flow from financing activities. While the interest paid in previous years resulted from various circumstances that suggested an allocation to the cash flow from operating activities, since the 2019 financial year the interest paid has mainly resulted from the interest on loans to finance current investment measures and is therefore now principally allocated to the cash flow from financing activities. In order to make a year-on-year comparison easier, this change in recognition was also carried out for the comparative figures.

Performance of Group liquidity (in EUR millions)




## DEVELOPMENT OF NET ASSETS (IFRS)

Schweizer's total assets amounted to EUR 228.9 million in the reporting year (2018: EUR 135.3 million). Of this amount, 66 percent consisted of non-current assets and 34 percent of current assets. Compared to the previous year, this is a significant shift towards non-current assets, which increased by +EUR 91.3 million to EUR 150.3 million, while non-current assets increased by +EUR 2.3 million to EUR 78.5 million.

The value of property, plant and equipment and intangible assets increased by +EUR 81.9 million to EUR 138.5 million. This increase is in particular due to the investments in China.

The first-time application of IFRS 16 resulted in a right of use in leased assets amounting to EUR 3.8 million under non-current assets as of 1 January 2019. This is offset by liabilities of EUR 3.1 million from the fulfilment of existing lease obligations. EUR 3.1 million resulted from the reclassification of finance leases already in place as at 31 December 2018, while EUR 0.7 million resulted from the capitalisation of rights of use for operating leases. The difference between rights of use and lease liabilities resulted primarily from the capitalisation of a land use right in the amount of EUR 0.7 million for which there was no longer a lease liability due to the advance payment made in 2018. In the current financial year, the rights of use decreased to EUR 3.5 million. The decrease of -EUR 0.7 million from scheduled depreciation and amortisation is offset by additions of +EUR 0.4 million in the financial year. Lease liabilities decreased in the course of the financial year to EUR 2.7 million, mainly from payments of EUR 0.9 million.

Furthermore, lease liabilities amounted to EUR 0.4 million. A major reason for the increase in current assets was the +EUR 4.4 million increase in cash and cash equivalents to EUR 34.4 million.

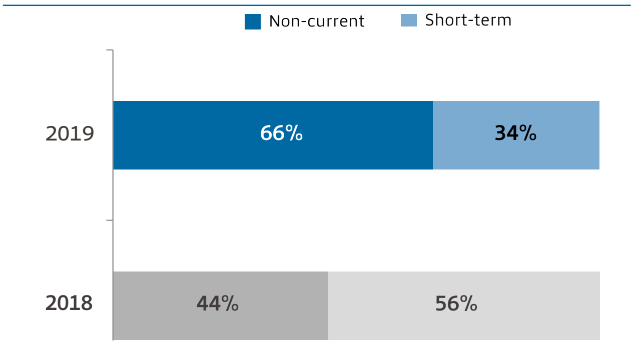
In addition to the free cash flow, key factors were the raising of a second long-term loan tranche of EUR 19.0 million to finance the construction of our new production facility in China and the raising of loans from the local lines of credit for long-term borrowings from commercial banks in China. The funds contributed by Schweizer Electronic AG are currently available to Schweizer Electronic (Jiangsu) Co. Ltd. as equity capital.

The above-mentioned inflow of funds through the raising of a long-term loan also resulted in a change in structures on the liabilities side. As a result, the equity ratio fell from 46.6 percent to 24.1 percent in the year under review. The lower ratio is due to the net loss for the year and the negative other comprehensive income, which was mainly influenced by the increase in pension provisions not affecting income, as well as the balance sheet expansion. Equity decreased to EUR 55.2 million (2018: EUR 63.0 million). Profit reserves/balance sheet profit decreased by -EUR 7.8 million.

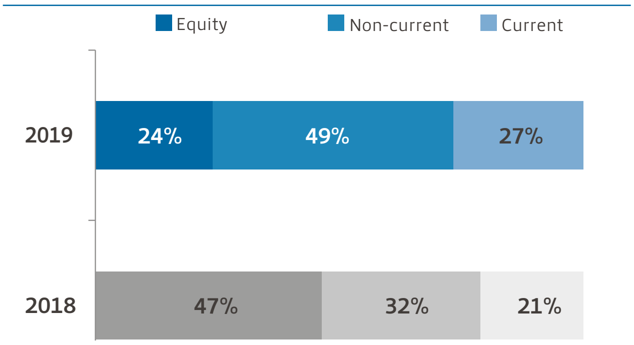
Non-current liabilities rose to EUR 112.7 million (2018: EUR 43.7 million). The increase is mainly due to the long-term loan of +EUR 19 million raised by Schweizer Electronic AG and the utilisation of bank credit facilities of EUR 30.6 million for long-term loans from the principal banks in China. Current liabilities increased to EUR 61.0 million (2018: EUR 28.6 million). This is mainly due to the increase in trade payables by +EUR 36.5 million. The increase in trade payables is mainly related to the construction of the building and the production equipment for the plant in China.

The Group's net debt amounted to 60.7 percent.

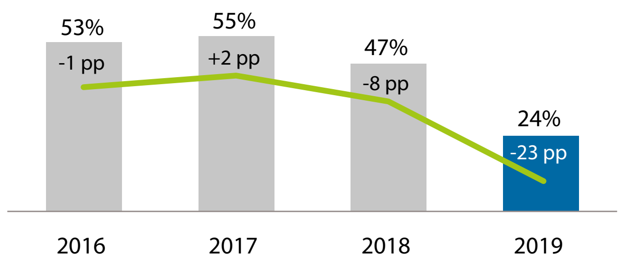
Assets (in percent)



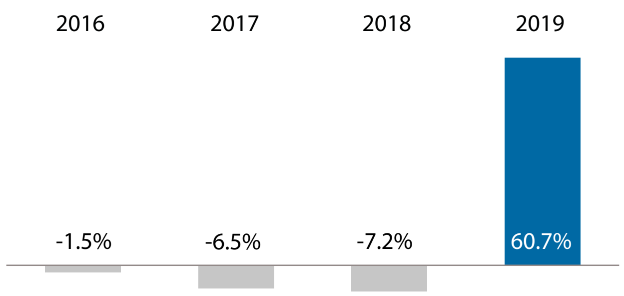

Liabilities (in percent)




Equity ratio percentage / change on prior year




Net debt percentage



## KEY FIGURES FOR CORPORATE MANAGEMENT

The company's financial control parameters relate to four categories:

- Economic efficiency
- Growth and investment
- Capital commitment
- Financing

The achievement of the category targets is measured on the basis of various key figures and compared against the targets set. The following comparison relates to the achievement of targets compared to the April 2019 forecast as presented in the 2018 Annual Report. Depending on the company's situation, it is possible and meaningful to adjust the objectives such that the respective strategy of the entire company can be achieved as effectively as possible.

### 1. ECONOMIC EFFICIENCY

Schweizer assesses economic efficiency using the profitability ratios of EBITDA in EUR and the EBITDA ratio. The EBITDA ratio indicates EBITDA as a percentage of sales. EBITDA in EUR represents a profitability indicator within the income statement that also shows a high correlation to cash flow. For instance, it may be appropriate to tap additional sales potential with merchandise, although the corresponding margin may be below the average margins to date. This can, for example, increase the potential of internal and external financing for the company's investments and development services. The EBITDA ratio, on the other hand, measures the quality of sales in relation to profitability. In order to ensure a balance between volume and qualitative growth, both key figures are of equal importance at Schweizer.

Schweizer set itself the target of an EBITDA ratio of 4 to 6 percent, including the planned project costs for China, for the 2019 financial year. With a forecast growth rate of -5 percent to +5 percent of revenue amounting to EUR 125.3 million in financial year 2018, this was equivalent to a target EBITDA of between EUR 5 and 7 million. In the Schweizer Group's 2019 half-year report, the forecast for both revenue and EBITDA was revised downwards as a result of market developments in the first half of the year. Figures of between EUR 120 and 125 million for revenue and a range of between EUR 0 million and EUR 4 million for EBITDA, representing an EBITDA ratio of between EUR 0 million and 4 percent, were reported as the corridor. The EBITDA actually achieved amounted to +EUR 0.1 million, which represents an EBITDA ratio of +0.1 percent. The target excluding the China project as of April 2019 was an EBITDA ratio of between 7 and 9 percent. A ratio of 3.3 percent was achieved.

### 2. GROWTH AND INVESTMENT

Schweizer measures the "growth and investment" category on the basis of the key figures of growth ratio and investment ratio. The growth ratio shows the percentage change in sales compared to the previous period. After generating sales of EUR 125.3 million in 2018, Schweizer set itself a growth target range of a further -5 to +5 percent in 2019. In mathematical terms, the target turnover was forecast at between EUR 119 million and EUR 132 million. Sales of EUR 120.7 million were in fact generated in the past year, which represents a decline of -3.7 percent. The postponement/cancellation of call-offs by customers in the automotive sector and the reluctance of industrial customers to place orders in the first and second quarters led to lower expected sales of between EUR 120 and 125 million (ad hoc announcement of 30 July 2019). The ratio of cash flow from investing activities (excluding divestments) to EBITDA in EUR represents the investment ratio. Our goal was to achieve an investment ratio of 1,000 percent. With a cash flow from investments (excluding divestments) of EUR 42.9 million and EBITDA achieved of EUR 0.1 million in the financial year, this investment ratio target was clearly exceeded.

### 3. CAPITAL COMMITMENT

An important factor in liquidity management is the optimisation of capital commitment. We measure capital commitment on the basis of working capital. Working capital is the difference between current assets and current liabilities. This is calculated by deducting current liabilities from current assets (excluding liquid funds). There is growing pressure from customers to extend payment terms and to set up consignment warehouses. Longer payment terms combined with a higher sales volume will lead to an increase in receivables and thus in pre-financing requirements. Another important factor is inventory management. As part of working capital management, the aim is to reduce inventories of raw materials, consumables and supplies, semi-finished goods and finished goods. For this purpose, SCHWEIZER applies a continuous, SAP-supported scheduling process from purchasing and production planning to sales. It is ultimately the task of working capital management to optimise supplier liabilities by managing payment targets and setting up consignment warehouses. SCHWEIZER has, however, pursued a strategy of consistently exploiting potential cash discount income in recent years. This is an attractive alternative, especially given the current low-interest rate phase combined with high liquidity holdings, even if it does not minimise working capital. SCHWEIZER has targeted a stable level of working capital for 2019, but this may change in line with volume growth or a reduction in revenue. Working capital in fact amounted to -EUR 13.3 million due to excess current liabilities, which is attributable in particular to the sharp rise in trade payables from investing activities in China. As a result, working capital fell by -EUR 39.1 million compared with the previous year.

## 4. FINANCING

In recent years, SCHWEIZER has concentrated on very stable balance sheet structures, high equity ratios and very low debt. The key figures used to measure the target category of 'financing' are the equity ratio and net gearing ratio. An equity ratio of between 25 and 30 percent was targeted for 2019. At 24 percent, this target was not quite achieved. The net gearing ratio is calculated as interest-bearing liabilities less liquidity holdings in relation to equity. A net gearing ratio of between 100 percent and 140 percent was set as the target for 2019. With a net gearing ratio of 61 percent, the target set for the year was exceeded.

## TARGET ATTAINMENT BY THE SCHWEIZER GROUP

The following table shows the achievement of the target values in financial year 2019. The forecast is from April 2019, as presented in the 2018 Annual Report.

| | **2018 actual** | **2019 target (Forecast April 2019)** | **2019 actual** |
|---|---|---|---|
| Revenues | EUR 125.3 million | - 5 to +5% | EUR 120.7 million / -3.7% |
| EBITDA | EUR 9.2 million | EUR 5 – 7 million | EUR 0.1 million |
| EBITDA excluding China project costs | EUR 10.4 million | EUR 8 – 11 million | EUR 4.0 million |
| EBITDA ratio | 7.3% | 4 – 6% | 0.1% |
| EBITDA ratio excluding China project costs | 8.3% | 7 – 9% | 3.3% |
| Investment ratio | 81.0% | around 1000% | more than 1000% |
| Net gearing ratio | -7.2% | 100 – 140% | 61% |
| Equity ratio | 46.6% | 25 – 30% | 24% |
| Working capital | EUR 25.4 million | Stable | -EUR 13.3 million |

## SCHWEIZER ELECTRONIC AG

### Explanations according to HGB

Schweizer Electronic AG, headquartered in Schramberg, is the parent company of the seven companies of the Schweizer Group. Besides the plant under construction in China, Schramberg is still currently home to the only production facility for printed circuit boards within the Group companies, research and development, central sales and the central administrative functions of the Group. The financial statements of Schweizer Electronic AG were prepared on the basis of the accounting rules of the German Commercial Code (HGB) as amended by the Accounting Directives Implementation Act (BilRUG) and the German Stock Corporation Act (AktG).

### DEVELOPMENT OF EARNINGS

**Income statement according to HGB (condensed version)**

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| Sales revenue | 95,412 | 117,542 |
| Cost of goods and services provided to generate sales | -82,167 | -95,186 |
| **Gross profit** | **13,245** | **22,356** |
| Distribution costs | -4,708 | -4,510 |
| General administration expenses | -12,810 | -13,469 |
| Other operating income | 2,656 | 2,169 |
| Other operating expenses | -1,064 | -1,450 |
| Income from holdings | 9 | 6 |
| Other interest and similar income | 20 | 27 |
| Depreciation from financial assets | 0 | -33 |
| Interest and similar expenditure | -1,134 | -701 |
| Taxes on income and revenue | 1,024 | -1,304 |
| **Earnings after tax/net loss for the year (PY: net profit for the year)** | **-2,761** | **3,093** |
| Profit carried forward | 6,012 | 4,419 |
| Transfer to other profit reserves | 0 | -1,500 |
| **Balance sheet profit** | **3,251** | **6,012** |

Schweizer Electronic AG achieved sales of EUR 95.4 million in the reporting year (2018: EUR 117.5 million), which represents a decrease of 18.8 percent. This drop was characterised by the economic downturn since the beginning of the year, which resulted in a corresponding reluctance to place orders from both our automotive and industrial customers in the mechanical and plant engineering sector.

The order book as of 31 December 2019 decreased by -27.3 percent to EUR 101.3 million compared to the previous year. The slowdown in demand in the automotive and industrial sectors that was already apparent in the fourth quarter of the previous year continued in the first and second half of the year with cancellations and postponements of orders and delivery schedules. Of this total stock, PCBs worth EUR 77.1 million are scheduled for delivery in 2020.

The gross margin fell by -EUR 9.1 million to EUR 13.2 million, representing 13.9 percent of revenue (2018: 19.0 percent).

Administrative costs decreased by -EUR 0.7 million to EUR 12.8 million (2018: EUR 13.5 million) as a result of cost savings and short-time work in the administration functions. In contrast, allocations to provisions for litigation risks had an opposite effect in this functional area.

The operating result / EBIT in 2019 amounted to -EUR 2.7 million (2018: +EUR 5.1 million). The EBIT ratio was thus at -2.8 percent (2018: 4.3 percent). Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to +EUR 1.6 million (2018: +EUR 9.0 million). This equates to an EBITDA ratio of +1.6 percent (2018: +7.7 percent).

Income taxes were influenced in particular by the capitalisation of deferred taxes on utilisable loss carryforwards and led to a positive tax result of EUR +1.0 million (2018: tax expense of EUR 1.3 million). The net loss for the year thus amounted to EUR 2.8 million (2018: net profit for the year of EUR 3.1 million).

## DEVELOPMENT OF NET ASSETS AND FINANCIAL POSITION

**Balance sheet in accordance with HGB (condensed version)**

| Assets | 31/12/2019 | 31/12/2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| **Fixed assets** | | |
| Intangible assets | 895 | 1,052 |
| Tangible assets | 34,516 | 33,768 |
| Financial assets | 47,023 | 32,090 |
| | **82,434** | **66,910** |
| **Current assets** | | |
| Inventories | 15,261 | 15,814 |
| Receivables and other assets | 19,127 | 23,192 |
| Cash on hand, bank balances | 7,262 | 9,751 |
| | **41,650** | **48,758** |
| Prepayments and accrued income | 156 | 186 |
| Deferred tax assets | 1,241 | 321 |
| **Total assets** | **125,481** | **116,174** |
| | | |
| **Liabilities** | | |
| | | |
| Equity | 55,427 | 58,159 |
| Provisions | 15,490 | 14,997 |
| Liabilities | 54,565 | 43,018 |
| Deferred tax liabilities | 0 | 0 |
| **Total liabilities** | **125,481** | **116,174** |

As at 31 December 2019, the assets of Schweizer Electronic AG increased by +EUR 9.3 million to EUR 125.5 million.

Fixed assets increased by +EUR 15.5 million to EUR 82.4 million compared to the previous year. This increase is mainly due to a further equity contribution amounting to EUR 14.9 million made by Schweizer Electronic AG during the financial year to the subsidiary Schweizer Electronic (Jiangsu) Co., Ltd. (China).

Current assets decreased by -EUR 7.1 million to EUR 41.7 million. In addition to the decline in liquid funds, this was also due to the reduction in receivables and other assets amounting to -EUR 4.1 million.

Equity decreased by -EUR 2.7 million to EUR 55.4 million as of the balance sheet date. This is equivalent to an equity ratio of 44.2 percent (31 December 2018: 50.0 percent). The percentage reduction in the equity ratio is attributable to the increase in liabilities of +EUR 11.5 million to EUR 54.6 million, primarily due to the raising of loans in favour of the second equity contribution at the subsidiary Schweizer Electronic (Jiangsu) Co., Ltd.

Due to the close integration and its weighting within the Group, Schweizer Electronic AG's target attainment is reflected in the Group's target attainment. However, the stable business activity forecast in April 2019 for the next few years could not be achieved for the individual company in the financial year. This was due to the lower production volume at the Schramberg plant of EUR 84.6 million (2018: EUR 103.6 million). The EBITDA of Schweizer Electronic AG amounted to EUR 1.6 million, which is equivalent to an EBITDA ratio of 1.7 percent (2018: 7.7 percent). Net gearing increased to EUR 30.0 million. The main reason for this was the aforementioned equity contribution of EUR 14.9 million at the subsidiary Schweizer Electronic (Jiangsu) Co., Ltd. Due to the investment project in China, the key balance sheet figures for both equity and debt have changed accordingly.

# FORECAST REPORT (HGB)

The expectations of the business development for an optimistic and pessimistic scenario listed in the forecast report of the Schweizer Group also serve as premises for the forecast of the key figures of Schweizer Electronic AG which has a significant influence on the performance of the Group. It is not possible to predict the probability of the respective occurrence of the characteristics of these scenarios. The range of a decline in sales is seen as between -10 percent and -25 percent. This would result in an EBITDA ratio of between +2 percent and -4 percent, depending on the sales performance. This would be accompanied by a significant increase in the gearing ratio and a decline in the equity ratio.

# FORECAST REPORT

In recent weeks, the course of the COVID-19 pandemic and its economic impact have been the key factor determining the future development of the global economy. Uncertainties triggered by the pandemic have relegated the critical factors discussed to date, such as the ongoing trade dispute between the USA and China and the still unresolved effects of Brexit, to the background.

In mid-March, the Federal Ministry for Economic Affairs predicted a recession for Germany. The gross domestic product was expected to shrink by around 5 percent. This forecast is associated with a high degree of uncertainty and is largely dependent on the duration and intensity of the measures adopted by the governments. The measures range from social distancing and curfews to the complete cessation of economic activity by national economies. There is also currently a high degree of uncertainty about the duration of the pandemic and the appropriate measures to be taken to contain it. Estimates vary from a few weeks to a gradual return to normality to scenarios that predict dramatic disruptions lasting into the next year.

Forecasts by economic research institutes also vary widely. The forecasts range from a more optimistic scenario, a relatively rapid return to normality after the virus has been contained in the second half of 2020 (DIW), to a pessimistic scenario in which a recovery does not set in until August and production in the various sectors does not return to pre-coronavirus levels until the beginning of next year (IFW).

Forecasts for the global automotive markets have become gloomier for 2020 than for 2019 and are subject to considerable uncertainty due to the coronavirus pandemic. It seems certain that car sales volumes will again decline significantly compared to the previous year. This is already clearly reflected in the sales figures for the first two months of 2020. By the end of February, vehicle sales had fallen by around 15 percent compared to the previous year. China, the country most severely affected during this period, experienced a drop in sales figures of over 40 percent (NTI report Q1 2020).

The outlook for Schweizer will largely depend on political decisions regarding the duration and intensity of measures to combat the pandemic. We differentiate between a more optimistic and a more pessimistic scenario. These scenarios constitute our internal framework for deriving measures to maintain business operations, satisfy customer requirements and control costs, and in particular to ensure the solvency of the company at all times. Depending on how the pandemic actually develops, any combination of our two scenarios is possible. However, due to the high level of uncertainty, scenarios that are better than the more optimistic scenario or worse than the more pessimistic scenario could also be possible. A longer closure ordered by the authorities in Germany was not considered in any of our scenarios.

### More optimistic scenario

This scenario assumes a significant decline in vehicle sales over the next three months, with a possible drop in sales of up to 80 percent in one month. This was also evident in the case of China, where sales figures for light vehicles in February 2020 were -80.4 percent below the same period in the previous year (LCM Automotive; NTI report). Plant closures of vehicle manufacturers (OEMs) and automotive suppliers is limited to approximately 2 to 3 weeks. The governmental temporary support measures take effect and significantly ease the recession. Our customers resume their sales plans developed before the COVID-19 pandemic by the end of the fourth quarter of 2020. This means that, in this scenario, the sharp declines of the coming months will not be able to be offset. Therefore, the more optimistic scenario anticipates a drop in sales for OEMs and automotive suppliers of between 10 and 20 percent in 2020.

### More pessimistic scenario

This scenario also envisages a significant decline in vehicle sales in the coming months. Compared to the more optimistic scenario, a longer lockdown period (plant closures, lockdowns and curfews, as well as restrictions on mobility) until after Easter is predicted, meaning that the secondary effects will be much more pronounced. For example, a long recession would have a significant negative impact on citizens' purchasing power and greatly reduce their willingness to invest. A larger number of insolvent and distressed companies will no longer be salvageable with the temporary support measures provided by the state. As a result, the overall economic recovery will take much longer than in the more optimistic scenario. Plans made before the coronavirus pandemic are only resumed in 12 to 24 months. The decline in new registrations in 2020 will be at least -20 percent, and probably even higher than -30 percent.

### Revenues

Schweizer will not be able to escape the assumed decline in European vehicle sales. A further positive effect is that Schweizer supplies the automotive electronics product segment. The share of electronic components per vehicle continues to rise, with the result that Schweizer will be proportionately less affected by the decline in new registrations in this area of application. On the other hand, other customer groups, such as mechanical engineering, for which Schweizer supplies key components for sensor systems and control elements, are experiencing severe declines in sales that are comparatively more pronounced than those in the automotive industry.

Production in the new plant in Jintan (China) is expected to start in the second quarter of 2020. This will generate initial revenues, which will be primarily delivered to customers in the computing and consumer sectors. At the time of writing, all employees have resumed their work at the Jintan location. Nevertheless, according to information currently available, the outbreak of the coronavirus in China will delay the start of series production by approximately 2 months, meaning that we will need to adjust our sales expectations accordingly. Expected sales in 2020 will thus be between EUR 4 and 6 million (previously: EUR 5 and 10 million).

For the core business from the production in Schramberg and the strategic partners WUS Kunshan and Meiko Electronics, we are assuming a disproportionately high decline in trading revenues. There will also be a further decline in sales at the Schramberg site, which will lead to increased underutilisation of capacity.

Even in the more optimistic scenario, we expect a decline in Group sales of between 10 and 15 percent compared with the previous year, which corresponds to a range of around EUR 100 to 110 million. This estimate reflects the expected decline in sales by our customers and the positive contribution of our new technology plant in China, which will start series production in the second quarter and will initially supply Chinese customers.

In the more pessimistic scenario, we expect a negative development in sales of between -20 and -25 percent. This would represent a sales range of around EUR 90 to 100 million.

### Earnings trend

Given the considerable uncertainty about the impact of the coronavirus pandemic on our sales figures, the management of Schweizer is currently actively engaged in drawing up and implementing action plans to ensure profitability and liquidity based on the scenarios described above. The most important objectives in this regard – in addition to safeguarding the health of our employees, which is our top priority – are the safe execution of customer orders and the solvency of salaries, suppliers and bank liabilities at all times.

At the Schramberg site, we have already launched an extensive cost reduction programme for personnel, material and equipment costs in 2019. This has already resulted in savings in the mid single-digit million range. These measures will also be continued in 2020. These measures, which contribute to lowering the break-even point, will have a positive effect on the challenges of 2020. In addition to these structural improvements that have already been initiated, we will also take temporary measures in 2020, such as temporarily introducing short-time work and scaling back production in line with demand, to help offset the effects of the coronavirus crisis.

The operating result at the new Jintan site will decrease due to higher start-up losses. The start-up losses are due to the strong increase in the number of staff employed by the company, both directly and indirectly. Our main focus is on building up sales, development, automation and process technology as well as production engineers. This effect is further intensified by the delays caused by the coronavirus, as employees are sometimes unable to work productively for months.

On the whole, we believe that there is a particularly high degree of uncertainty when forecasting earnings for 2020. On the one hand, there is considerable uncertainty about the further economic development of the global economy and the automotive industry. On the other hand, it is difficult to estimate the actual start-up losses in China due to the considerable uncertainties.

In the more optimistic scenario, we assume that the Group will generate EBITDA in a range of -2 to -6 percent (approx. -EUR 2 million to -EUR 6 million). The key factor in this estimate is the negative earnings contribution of between -EUR 6 million and -EUR 7 million from the ramp-up of the Jintan plant.

Considering the more pessimistic scenario, we expect an EBITDA ratio of between -8 and -4 percent (approx. -EUR 4 million to -EUR 8 million). The negative earnings contribution of the new plant in Jintan will be roughly the same as in the more optimistic scenario. Group EBITDA excluding the plant in China would be neutral to slightly negative in this scenario.

### Investments

In 2020, Schweizer will continue the investment programme in China as planned. This approach is based on the fact that Schweizer is established in a technology segment that promises sustainable growth in the medium and long term. We are convinced that alternative drive concepts will become established and that the trend towards partially autonomous driving will increase. At the Jintan site, the first investment phase to build capacity on the same scale as in Schramberg will be completed in 2020. To this end, investments in capacity will be made in various production processes and also in the further development of automation and integration of production in accordance with the business plan. Compared to 2019, the total amount of investments will decrease significantly.

For the Schramberg site, investments will continue to be made in the preparation of the new embedding technology and in measures to increase production efficiency. Due to the current coronavirus pandemic, management is looking at the possibility of postponing investments. Stricter investment approval processes were also introduced.

We expect total investments in the Group to amount to approximately EUR 20 million, with the majority of investments being made in China. Due to the negative forecast for EBITDA, calculating the investment ratio will not be meaningful in this case.

### Liquidity and financing

Securing liquidity is a very high priority for management in the current situation due to the coronavirus pandemic. A task force team has identified a large number of activities for this purpose and is already actively implementing them. There are also plans to make use of the measures promoted within the framework of the COVID-19 stability programme of the Federal Government if necessary.

To finance further investments in China, we will increase debt at Schweizer Electronic Jiangsu Co., Ltd. as planned. The operating cash flow in China will remain negative during the ramp-up phase. The level of liquidity requirements is within our planned figures and the available financing is therefore sufficient. The project financing by the Chinese banks was structured to exclude any possibility of recourse to the parent company in Germany. Liquidity holdings in China will be reduced as planned to cover upcoming investments and operating losses.

For the Schramberg site, we plan to withdraw capital expenditure from the current cash flow or carry out various lease financing transactions. Overall, this will increase the level of our financial liabilities. Due to the expected negative impact of the coronavirus pandemic on the operating cash flow at the Schramberg site, additional measures will be taken to preserve or generate liquidity.

The impact of the current situation on the net debt ratio and the equity ratio is difficult to assess at the time of preparing this report. We expect a significant increase in the gearing ratio and a decline in the equity ratio.

Working capital will probably change in line with sales. The first sales from the plant in China will result in additional working capital requirements. In view of the longer payment terms customary in China compared to Germany, the DSO (days sales outstanding) indicator, i.e. the average length of time customers pay their bills, could increase in the Group. However, we aim to pass on the extended payment terms of customers to suppliers. The extent to which the current COVID-19 situation will temporarily affect the DSO of existing customers remains to be seen. However, a negative impact on working capital cannot be ruled out. Management will monitor the situation on a daily basis and apply methods to counteract risks of bad debts at an early stage.

### Overall statement on future development

The effects of the coronavirus pandemic make it very difficult to carry out reliable projections for the 2020 financial year. In addition to the COVID-19 situation, global trade conflicts and Brexit seem to have come closer to a solution, but there is still a lack of clarity on both issues. They could have both a positive and a negative impact on global economic development.

Last year, the environmental movement Fridays for Future once again provided an important impetus for the consistent and rapid introduction of $CO_2$-reduced drive concepts. Politicians, businesses and consumers have now turned their attention to the issue. Schweizer's technological orientation continues to be on this megatrend with power electronics solutions that support the electrification and hybridisation of mobility.

It is expected that the strategic value of a broad, international supply base for printed circuit boards at our customers will again gain in importance due to the current disruptions in the global supply chain. This confirms the correctness of Schweizer's strategic orientation with strong footholds in Germany and China.

Based on the factors mentioned, we believe that business performance for Schweizer will be negative in 2020. This assumption is based in particular on the very negative impacts that can be expected from the coronavirus crisis. In order to limit the effects, we have decided to depict the forecast of key revenue and earnings figures for 2020 in two scenarios.

Forecast for the SCHWEIZER Group

| | 2019 actual | 2020 forecast More optimistic scenario | 2020 forecast More pessimistic scenario |
|---|---|---|---|
| Sales / Growth ratio | -3.7% | -10% to -15% | -20% to -25% |
| EBITDA ratio | 0.1% | -2% to -6% | -4% to -8% |
| Net gearing ratio | 61% | Significant increase | Significant increase |
| Equity ratio | 24% | Significant decrease | Significant decrease |
| Working capital | -EUR 13.3 million | Corresponding change in revenue | Corresponding change in revenue |

## OPPORTUNITIES AND RISKS REPORT

For SCHWEIZER, as a supplier of technologically advanced and safety-related products, the structured and transparent assessment of opportunities and risks is an essential element of our business activity and our corporate goal of achieving long-term company success. The opportunities to realise growth and the introduction of new technologies must always be weighed against the associated risks. Against this backdrop, our risk strategy is aligned, on the one hand, towards realising opportunities that arise, and on the other, towards actively reducing risks by means of countermeasures and, in particular, avoiding risks that threaten the very existence of the company. To this end, risk management is closely linked with corporate planning and the implementation of our corporate strategy. All Group companies are integrated in SCHWEIZER's risks and opportunities management system.

The structure of our risk policy is based on a number of different, complementary elements within a risk management and control system. As part of an internal reporting process, function-specific issues and related opportunities and risks are reported on to the Supervisory Board and the Executive Board. In this context, the Executive Board and the Supervisory Board receive, inter alia, an annual risk report which is prepared on the basis of quality assurance measures using a risk scoring system. For risk identification and evaluation, other information sources are also used, such as the weekly rolling liquidity plan and the regular management reports. Furthermore, potential material risks and opportunities and the required measures are discussed weekly by the Executive Board and the management staff. Risks are evaluated on the basis of all the information that the management has available. The internal control system with respect to the accounting system (ICS) is another element in this respect.

## INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH RESPECT TO THE FINANCIAL ACCOUNTING PROCESS

In contrast with the risk management system, the focus of the internal control system is on the financial accounting process with the aim of monitoring the correctness and effectiveness of the accounting and financial reporting processes. The aim of the internal control system is to minimise the risk of misstatements in accounting and in external reporting and to ensure a reasonable degree of assurance for the financial statement and that it complies with regulatory requirements. For this to be achieved, company-wide compliance with statutory provisions and internal company rules is essential. Clear ownership of processes is assigned. The internal control system fulfils the requirements for effectiveness and forms part of the accounting process in all significant legal entities and corporate functions. The system monitors the principles and procedures on the basis of preventive and detective controls.

With regard to the financial accounting process, the company attributes the greatest importance to those features of the internal control and risk management system that significantly influence the accounting procedures as well as the overall tenor of the financial statement and consolidated financial statement including the status report.

This includes the following elements in particular:

- Identification of the main risk and control areas relevant to the accounting process;
- Reporting of the results of the accounting process controls at the Executive Board level;
- Preventive control measures in the finance and accounting system as well as in all operational company processes that provide salient information on the composition of the financial statement and consolidated financial statement with the status report, including a division of functions and pre-defined approval processes in relevant areas;
- Measures that ensure correct IT-supported processing of accounting-related facts and data;
- Involvement of external experts for complex accounting issues in the financial accounting process;
- Implementation of a risk management system, which includes measures for identifying and evaluating significant risks as well as measures to limit risks, in order to ensure the correctness of the financial statement.

### EVALUATION OF EFFECTIVENESS

The effectiveness of the internal control system governing the financial accounting process is systematically evaluated. Initially, an annual risk analysis is performed and the defined controls revised, if necessary. At this stage, significant risks with regard to the financial accounting and financial reporting process are identified and updated. The controls defined for the identification of risks are documented in a standardised way across the company. To evaluate the effectiveness of controls, we carry out regular tests on the basis of spot checks. These form the basis for an internal assessment of whether the controls are fit for purpose. The results of this internal assessment are documented and reported in a standardised system. Where weaknesses in the control system are identified, these are rectified taking into account their potential effects. In addition, risks that arise are systematically identified and suitable corrective measures initiated in the course of monthly reports to the Supervisory Board on the financial, earnings and asset situation and process-related key figures.

At the end of the annual cycle, we check and confirm the effectiveness of the internal control system governing the financial accounting process. The Executive Board and the Supervisory Board are kept informed of any significant control weaknesses that are found as well as the effectiveness of the controls put in place. The risk management and internal control system is subject to ongoing revision in line with internal and external requirements. The system is improved in order to continuously monitor the relevant risk areas.

# RISK AND OPPORTUNITY MANAGEMENT SYSTEM

We divide opportunities and risks into four main categories: strategy, finance, operations and compliance.

**Schweizer risk management system**

| Strategy | Finance | Operations | Compliance |
|---|---|---|---|
| Market and competition<br>Technology<br>Customers<br>Investment | Liquidity<br>Exchange rates / interest rates | Procurement<br>Processes (incl. IT)<br>Legal risks | Patents / copyrights<br>Personnel / employees<br>Insurance management |

## OVERALL ASSESSMENT

The Executive Board assesses the corporate opportunity and risk profile for the categories of strategy, finance, operations and compliance once a year. The most important information sources are the Schweizer risk management system and other internal and external analyses and reports. Finally, the Executive Board uses its own assessments to arrive at a final overall evaluation.

The following opportunity and risk assessment was determined based on the information currently available:

| | Risk | Opportunity |
|---|---|---|
| Strategy | Medium | High |
| Finance | High | Medium |
| Operations | Medium | Low |
| Compliance | Medium | Low |

## STRATEGY

**Market and competition (risk: medium – opportunity: high)**

With automotive customers accounting for over 76 percent of sales, Schweizer is heavily dependent on the development of this industry.

In 2019 as a whole, the global market for passenger car sales was significantly weaker than in 2018. The main reason for this was the Chinese market, which was down 6.3 percent on the previous year.

Forecasts for passenger car sales in 2020 are also modest. No growth is forecast for China, and for North America and Europe, a decline of 2 and 3.2 percent respectively compared to 2019.

Should the weak passenger car sales trend continue or be exacerbated by an overall economic downturn, this would have an impact on the sales growth and profitability of Schweizer.

This general risk of lower passenger car sales is countered by the continuing increase in vehicle electrification (more electronics per vehicle) and thus higher demand for printed circuit boards. Schweizer's high quality and technological expertise, as well as its local proximity to many of the world's largest Tier-1s, gives it the opportunity to be successful as a reliable partner in this market.

A further risk is the competitive situation in the automotive segment, which is becoming significantly fiercer in an international context. In particular, Asian PCB companies are forcefully trying to establish themselves in this customer segment, in order to profit from the medium-term growth opportunities and to better diversify their customer portfolios. Schweizer counters this trend with its Asian partner network and its own production facility in Jintan (China), which is currently under construction.

**Technology (risk: medium – opportunity: high)**

The complexity of products and the need to invest in new technologies are constantly increasing. The combination of increasingly aggressive competition and the resulting rising cost pressure leads to many new challenges in product development, quality and cost management and to the need for sustainable growth in terms of production capacity and sales.

With its embedding technologies, SCHWEIZER is evolving from a dedicated printed circuit board manufacturer to a systems provider, thereby increasing its relevance in the value chain. This includes new business risks associated with the extended supply chain, handling, testing and quality requirements. The complexity in the interface to the customer is increasing and, in addition to the classic PCB topics, increasingly includes an understanding of applications, semiconductors and, where applicable, systems. Through innovation and optimisation of the production process, process technology is working to reduce costs and thus remain competitive.

With Continental's decision to use SCHWEIZER's $p^2$ Pack technology with Infineon's MOSFETs in a first high-volume powertrain project, an important milestone in Schweizer power embedding technology was reached in 2019. In the 48 V segment, SCHWEIZER has now received many enquiries from well-known automotive suppliers about its $p^2$ Pack technology and therefore believes that the technology will establish itself as a significant part of the production volume from 2022/2023 onwards. SCHWEIZER is currently working on extending the $p^2$ Pack technology to high-voltage applications (electrification of powertrains) and has already reached further milestones through funded projects and own development work. Interest in the automotive and industrial segment is also very high here. In the area of high-frequency printed circuit boards (HF-PCBs), SCHWEIZER is consistently pursuing its strategy of being a solution provider for radar and sensor applications with its $\mu^2$ Pack technology and is therefore still very well positioned to participate in the major trends in the automotive sector, such as e-mobility and autonomous driving.

**Customers (risk: medium – opportunity: medium)**
A share of sales of more than 76 percent in the automotive sector and a share of 64 percent of total sales with the five largest customers entails significant risks for SCHWEIZER should there be significant changes in their market, profitability or financial situation.

SCHWEIZER has established itself as a reliable technology partner for European automotive suppliers. This opens up good opportunities to profit from the innovative talent of these customers. SCHWEIZER's most important customers are global leaders in their segments. The market entry barriers are generally high for new competitors.

**Investments (expansion investments) (risk: high – opportunity: high)**
SCHWEIZER has embarked on a clear growth strategy. This growth will be made possible in particular with the construction of a new printed circuit board plant in China. The site in China will enable the company to implement key strategies that previously could not or cannot be achieved to a sufficient extent either by the Schramberg site or through the cooperation with Meiko and WUS. The additional production capacity available will enable us to provide customers with printed circuit boards in the volume segment as well. Furthermore, the lower production costs of the new site will also allow the company to develop product segments with higher price sensitivity for customers. Finally, a presence in the Asian-Chinese market is also a significant opportunity to enter the Chinese and Asian sales markets.

The extraordinarily great opportunities offered by such a plant are also countered by significant risks. In addition to the country risk, there are significant risks in new trade barriers between China and other countries, which could make planned exports to the USA or Europe considerably more difficult. Furthermore, the construction of a large plant also means high financial burdens in the first few years, with the result that an economic slump, for example, could significantly delay the achievement of profitable full capacity utilisation of the plant.

## FINANCE

**Liquidity (risk: high – opportunity: medium)**
With the implementation of the major investment in the new plant in China, debt has increased. The higher gearing ratio makes SCHWEIZER more vulnerable to an economic downturn, which was experienced in the automotive and industrial sectors during the financial year.

Sufficient funds in the form of financing are available for the establishment of operations in China, which are based on the anticipated investment requirements of the large-scale project. A large part of the financing was provided in the form of a local non-recourse agreement with Chinese banks. This was additionally secured against non-payment by a local external guarantee.

In terms of operations, liquidity depends on business performance. There is a risk that the fixed costs relevant to liquidity will not be covered by the fluctuating cash inflows at matching maturities. For such a case, SCHWEIZER maintains a liquidity reserve, the use of which is subject to Supervisory Board approval. To mitigate the risk, management has taken measures to significantly reduce overhead costs in the short term.

Thanks to an appropriate investment strategy and a dividends policy based essentially on free cash flow, SCHWEIZER has the option of managing net debt.

Liquid funds can be accessed in the short term. In addition, SCHWEIZER has access to credit facilities in the amount of approximately EUR 9.2 million, which are utilised from time to time.

A weekly liquidity forecast enables potential bottlenecks to be analysed early and counteracted. Despite the project financing for the investment in China, SCHWEIZER has sufficient further financing options, such as factoring, leasing or bond issuance, available to it.

Major risks include the credit risk of major customers. In the event of an unexpected, material deterioration in creditworthiness, large-scale bad debts can arise. Overall, the credit rating of our most important customers has improved steadily over recent years. The aim of differentiating additional customers from non-automotive segments will make credit risk management even more important in the future. Internal and external information sources are evaluated for all customers at regular intervals. These analyses form the basis for internal credit limits. If internal credit limits are exceeded, special approval is usually required from the Executive Board or, by delegation, from the Finance division. If there are indications of a significant deterioration in creditworthiness, various escalation stages such as advance payment and a delivery suspension will be implemented for existing customers, depending on the extent of the problem. In the case of new customers, orders with payment on credit are rejected if their credit rating is insufficient. The Executive Board regularly reviews whether credit insurance policies are necessary for the most important customers.

**Exchange rates / interest rates (risk: medium – opportunity: medium)**

The exchange rates of the most important currencies against the EUR have been subject to significant fluctuations in recent years. It cannot be ruled out that, as a result of economic developments and sovereign debt crises in the economies of the eurozone, the EUR will weaken against the major world currencies, especially the USD, in the long term. At the end of 2019, the USD had appreciated by +1.5 percent compared to the beginning of the year. At the end of September 2019, appreciation peaked at +4.2 percent. As the most important commodities markets are quoted on a USD basis, this appreciation trend would result in an increase in the purchase prices of commodity-related materials such as copper foils or laminates if no hedging measures were taken. This could also lead to a corresponding increase in the purchase prices of printed circuit boards from the production facilities of our Asian cooperation partners on a EUR basis, some of which also purchase commodities on a USD basis. SCHWEIZER counteracts these risks using adjusted sales prices within the framework of offer costing. Derivative financial instruments may be used to hedge risks arising from fluctuating commodity prices, in particular for gold and copper, in line with the assessment of price trends in the commodities market. The use of such financial instruments is subject to strict guidelines. As of the balance sheet date, there were no hedging transactions for commodities prices due to the assessment of market developments during the year.

The volatility and fluctuation margins of the gold price on the global market can lead to significant increases but also to reductions in the use of materials in a financial year. In 2019, the procurement volume for the use of gold salts in the production process amounted to EUR 3.6 million at an average price of EUR 27.81 per gram. A fluctuation margin of 10 percent in relation to this price would result in an increase or decrease of EUR 358 thousand in the price of the raw material for the same procurement volume, with a direct effect on the income statement. This holds true for the assumption that the gold price would be purchased at the corresponding market price, which would be higher or lower on average.

On the other hand, there is the possibility that PCB importers from the USD currency area will lose competitiveness in Europe, which would benefit Europe as a production location.

The hedging instruments used by SCHWEIZER take into account existing foreign currency balances and foreign currency receivables and payables as well as expected payment flows in foreign currencies and interest.

In order to reduce currency risks and to secure the calculation basis for customer orders, natural hedging is carried out wherever possible, or derivative financial instruments may be used depending on the assessment of developments on the currency market. Currency risks are monitored and managed centrally. There were no cross-year hedging contracts as of the balance sheet date.

Although SCHWEIZER has a higher level of debt due to the financing of the major project in China, the risks from an increase in the general interest rate level are classified as low. On the one hand, a significant increase in the German and Chinese interest rate level is not expected in the short term; on the other hand, SCHWEIZER is constantly reviewing the use of interest rate hedging instruments.

A further decline in the interest rate level would have a further negative impact on the result due to the required discount factor-related transfers from pension provisions. As a result of the expectation of the long-term development of the interest rate curve, no interest rate hedging transactions were carried out in the financial year.

### OPERATING RISKS

**Procurement (risk: medium – opportunity: high)**

SCHWEIZER's multiple-source strategy was also pursued in 2019. On the equipment and material side, additional suppliers were qualified in order to further reduce dependence. The trend towards Asian suppliers has continued. North American and European manufacturers and suppliers are fiercely fighting against Asian competition for the remaining, shrinking European market shares. Given the constantly reduced sales potential, there is a risk that they will leave the market voluntarily or through insolvency.

The "Brexit risk" with the departure of the United Kingdom from the European Union still exists. SCHWEIZER considered the potential consequences from this at an early stage. After the analysis of our own supplier portfolio, qualifications were started and partly completed. In order to ensure the supply of the relevant items, a temporary adjustment was made to the company's own inventories and an increase in the inventories of the affected suppliers on the European mainland was implemented.

For a limited period of time in 2020, SCHWEIZER anticipates risks due to the coronavirus outbreak delays in the Asian supply chain, which affect both the delivery of materials and merchandise from our Asian partners, can have a negative impact on the development of sales and earnings.

The long-term partnership with Meiko and WUS has a positive effect. Due to the close cooperation, SCHWEIZER is and was able to mutually supply materials and would be able to compensate for regional supply bottlenecks. The establishment of the company's own production facility in Jintan (China) and the close alignment at the strategic and operational level will result in further synergies that will have a positive impact on costs and reduce the procurement risk for the entire Group.

For 2020, the outbreak of the COVID-19 pandemic poses a significant risk that the supply chain for printed circuit boards, which is heavily dependent on China, will be negatively affected. This could result in supply bottlenecks for materials or temporary price increases due to shortages of goods. SCHWEIZER is in constant contact with its suppliers in order to implement countermeasures such as inventory increases in good time.

**Processes (risk: medium – opportunity: medium)**

The internal production planning and administration processes are substantially supported by IT systems at SCHWEIZER. Disruptions or loss of production resulting from the non-availability of IT structures would significantly limit the company's ability to operate. For this reason, Schweizer has taken a variety of measures to reduce these risks, such as precautions in the event of a sudden loss of data or the robust and fail-safe design of business-critical systems. Further risks arise in the field of cyber security from cyber crime and unintended information outflow. In order to ensure the availability, integrity and confidentiality of our data and that of our customers, we follow recognised standards such as the ISO2700x family of standards.

Schweizer sees opportunities above all in Industry 4.0 concepts and in the area of machine learning, in order to further automate the software and production landscape and to open up new efficiency potential.

Dangerous substances, such as chemicals, are used in the Schweizer production processes. Any environmental damage could lead to significant financial consequences and production outages.

**Legal risks (risk: medium – opportunity: low)**
The increasing complexity of products paired with the ever greater speed of innovation increases the risk that recourse risks due to product problems (functionality, quality and delivery reliability) will occur. Furthermore, the danger of infringing industrial property rights also increases, which could entail legal disputes. Increased business activity on the international market (procurement and sales) brings with it an increasing risk of exposure to foreign jurisdictions.

In March 2017, a lawsuit was filed against one of our foreign subsidiaries. The action has since been dismissed by the competent court. The plaintiff has lodged an appeal against the court's ruling. In addition, two lawsuits were filed by former chairs of the Executive Board against Schweizer Electronic AG in connection with the extraordinary termination of their employment contracts. The success of the lawsuits would have a material impact on the net assets, financial position and results of operations of the company concerned if the payments decided by the courts were higher than the provision made for this.

## COMPLIANCE RISKS

**Patents / copyrights (risk: medium – opportunity: low)**
The number of patents and property rights in the area of electronics and PCBs is constantly increasing. An unintentional infringement of property rights in a series product gives rise to the risk that products will no longer be permitted to be manufactured or that high payments will have to be made to the owner of the property right. In order to mitigate this risk, the internal Stage Gate process for new product development therefore includes an examination of a potential infringement of industrial property rights. Nonetheless, a conflict cannot always be ruled out because interpreting patents is often quite difficult.

Schweizer has invested heavily in protecting its intellectual property in recent years. As a result, the likelihood of discovering or preventing infringements of industrial property rights in this regard is increased.

**Personnel / employees (risk: medium – opportunity: medium)**
Qualified employees are an essential building block for Schweizer's success. Business development could be negatively affected by the loss of qualified employees. In addition, competition for highly qualified employees, specialists and talents remains high.

We counter the loss of knowledge with timely succession planning and qualification. The company actively promotes further training measures.

Appropriate competition clauses and confidentiality agreements are used to prevent existing know-how from being passed on to competitors.

With the establishment of its own production facility in Jintan (China), the opportunity for Schweizer to recruit highly qualified employees with appropriate industry experience and management expertise will increase. The company's many years of experience and contacts with China support both the process of recruiting and the identification of employees with Schweizer.

**Insurance management (risk: medium – opportunity: low)**
In addition to the internal organisational measures to avoid risks or counteract those that have occurred as quickly as possible, Schweizer has a comprehensive insurance management system. As part of this, the company takes out

insurance policies for material risks, where possible and reasonable. One point of focus of the insurance management system is the coverage of risks that, due to unforeseen events, could negatively impact on the production and business processes. This can, for example, be natural disasters or fires.

A second point of focus is the insurance of third-party damages caused by a lack of product quality or damages to third parties caused by the company, such as environmental damage.

Against the background of a general increase in cyber crime, Schweizer has also dealt extensively with this topic and taken out appropriate cyber insurance.

As a further point, the insurance management includes the construction of the new plant in Jintan (China). Here, a comprehensive insurance concept was drawn up from setting up the construction site, through completion, to the dispatch of the first circuit boards.

As not all potential risks can be insured against or cannot reasonably be insured against, a residual risk does remain for Schweizer, which is covered through internal compliance management and defined management processes, such as for example IT data security using firewalls and recovery processes. Consequential risks caused by the COVID-19 pandemic are also not insurable. In the short term, this represents a significant risk with regard to the ability to deliver and the associated recourse claims of customers.

## OVERALL ASSESSMENT

Schweizer continues to focus its technology on the megatrends e-mobility and autonomous driving. Both trends have gained considerably in importance again in the past year. The construction of the new plant in China, which has already been completed, will enable Schweizer to open up new markets as well as new customer groups for its solutions. The unique combination of a German-Chinese printed circuit board manufacturer in conjunction with the innovation portfolio of embedding technologies has further strengthened the strategic starting position. The acquisition of our first key customer for embedding technology in the year under review has put us in a much stronger position for further success with this product portfolio.

A prerequisite for high growth in the future is major investments in production capacity and personnel. This has a negative impact on the company's balance sheet structures, which currently makes Schweizer more vulnerable to economic downturns due to higher debt and increased fixed costs. The complexity of processes is increasing. The sharp rise in business activity in China and around the world makes greater demands on Group-wide coordination and control mechanisms, for example to ensure compliance rules are applied uniformly around the globe. This also applies to the risk of cyber crime.

The continuing uncertainties in the global economy (including US trade policy, continuing uncertainties due to Brexit) and an increase in political hotspots could have a negative impact on the development of Schweizer. In the short term, the current uncertainty will be significantly increased by the coronavirus outbreak, and delays in the Asian supply chain may, for a limited period of time, have a negative impact on sales and earnings. Schweizer is confident that through the established opportunity and risk management system within the company, it will also be possible in the future to detect opportunities and risks at an early stage and thus that the risk situation as it currently stands can be successfully countered and that potential opportunities can be utilised.

# Disclosures relevant to acquisitions

## (IN ACCORDANCE WITH SECTIONS 289A (1) AND 315A (1) OF THE GERMAN COMMERCIAL CODE (HGB))

### COMPOSITION OF THE SUBSCRIBED CAPITAL

The company's share capital of EUR 9,664,053.86 is divided into 3,780,000 registered shares (no-par-value shares). The same rights and obligations are associated with all company shares and arise from statutory provisions and the Articles of Association.

## RESTRICTIONS RELATING TO VOTING RIGHTS OR THE TRANSFER OF SHARES

The Executive Board is not aware of any restrictions relating to voting rights or the transfer of shares.

## DIRECT OR INDIRECT SHAREHOLDINGS IN THE COMPANY'S CAPITAL THAT EXCEED TEN PERCENT OF THE VOTING RIGHTS

Mr Christoph Schweizer, resident in Schramberg, Mr LK Wu, resident in Kunshan, China, to whom the voting rights of WUS International Company Limited based in Tsuen Wan, New Territories, Hong Kong are attributable and WUS Printed Circuit Co, Ltd. based in Kaohsiung, Taiwan, to which the voting rights of WUS Group Holding Co., Ltd. based in Tortola, British Virgin Islands are attributable, each hold more than ten percent of the subscribed capital.

## SHARES CONFERRING SPECIAL CONTROL RIGHTS

There are no shares conferring special control rights.

## TYPE OF VOTING RIGHT CONTROLS IN THE CASE OF PROFIT-SHARING PROGRAMMES

There are no profit-sharing programmes or comparable arrangements whereby employees have participating interests in the capital without being able to directly exercise their control rights.

## STATUTORY PROVISIONS AND PROVISIONS GOVERNING THE NOMINATION AND WITHDRAWAL OF EXECUTIVE BOARD MEMBERS AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The regulations governing the nomination and withdrawal of Executive Board members, as set out in Sections 84 and 85 of the German Stock Corporation Act (Aktiengesetz; AktG) and in Section 5 (2) of the company's Articles of Association, are as follows: The Supervisory Board determines the number and appointment of Executive Board members as well as their withdrawal. The Supervisory Board is also responsible for appointing a member of the Executive Board as CEO. Deputy board members may be appointed.

The prerequisites for an amendment to the Articles of Association are regulated in Sections 179 to 181 AktG and in Section 17 (2) of the Articles of Association. The power to make amendments and additions to the Articles of Association which only affect the wording has been assigned to the Supervisory Board by the Annual General Meeting (cf. Section 12 of the Articles of Association).

## POWERS OF THE EXECUTIVE BOARD TO ISSUE AND BUY BACK SHARES

### Authorised capital

The Executive Board is authorised, with the consent of the Supervisory Board, to increase the share capital of the company up to 30 June 2021 by up to a total of EUR 4,832,026.93 by issuing new, registered ordinary or preferred shares (no-par-value shares), once or several times, for contributions in cash and/or in kind (authorised capital). The authorisation encompasses the power to issue further preferred shares (with or without voting rights) in the case of the multiple issue of preferred shares, which have priority over or are equal to the preferred shares issued earlier, when distributing the profits or assets of the company. The new shares must, in principle, be offered to the shareholders to purchase. The Executive Board is however authorised, subject to the approval of the Supervisory Board, to exclude the shareholders' subscription right under the conditions of the resolution of the Annual General Meeting of 1 July 2016.

The Executive Board may only avail of the aforementioned authorisation to exclude the subscription right to such an extent overall that the pro-rata amount of the shares issued subject to the exclusion of the subscription right does not exceed 20 percent of the share capital (20 percent limit), neither on the date the resolution is passed on this authorisation nor at the time of its utilisation. Insofar as use is made, during the term of the authorised capital until its use, of other authorisations to issue or to sell company shares or to issue rights that allow the purchase of company shares or make it obligatory, while the subscription right is excluded, this must be credited against the aforementioned 20 percent limit.

### Convertible bonds, inter alia, conditional capital

The Executive Board is authorised, subject to the consent of the Supervisory Board, until 30 June 2021, to issue bearer or registered convertible bonds, warrant bonds, participation rights, participation bonds or combinations of these instruments (together referred to as "bonds") with or without a restriction on maturity in a total nominal amount of up to EUR 35,000,000.00 and to grant the bearers and/or creditors of convertible or warrant bonds conversion or option rights to new, registered no-par-value shares of the company with a pro-rata amount of the share capital of up to EUR 4,832,026.93 overall. The issue can also be made against contributions in kind. The shareholders generally have a subscription right. However, the Executive Board is authorised, with the consent of the Supervisory Board, to exclude the subscription right under certain conditions.

Any issue of bonds for which the subscription right is excluded may only take place subject to the aforementioned authorisation, if the calculated share of the share capital attributable to the sum of new shares to be issued on the basis of such a bond does not exceed 20 percent of the share capital, neither on the effective date nor, if this value is less, at the time the authorisation is exercised. Shares that are issued or sold or that will be issued during the term of this authorisation on the basis of another authorisation, for which the subscription right is excluded are credited against this limit.

The share capital of the company is conditionally increased by up to EUR 4,832,026.93 through the issue of up to 1,890,000 new, registered no-par-value shares (conditional capital). The conditional capital increase is only implemented insofar as the bearers and/or creditors of conversion or option rights or those parties subject to a conversion obligation arising from bonds, which the company or a Group company issued on the basis of the authorisation resolution of the annual general meeting of 1 July 2016 through to 30 June 2021, utilise their conversion or option rights or those bearers/creditors of issued bonds subject to a conversion obligation fulfil their obligation to convert or if the company exercises an option to grant, in whole or in part, no-par-value shares in the company instead of the payment of the due monetary amount and insofar as no own shares or other forms of fulfilment are used to service these rights. New shares are issued at the conversion or option price to be determined in the bond/option conditions, in accordance with the aforementioned authorisation resolution. The new shares participate in profits from the start of the business year in which they come into being through the exercise of conversion or option rights, through the fulfilment of conversion obligations or through the exercise of put options. The Executive Board is authorised, with the consent of the Supervisory Board, to define the further details of the implementation of the conditional capital increase.

### Authorisation to acquire own shares and their use

The company is authorised, up to 30 June 2021, to acquire treasury shares up to a total of 10 percent of the share capital of EUR 9,664,053.86 existing at the time the resolution was adopted or – if this value is less – the share capital existing at the time the authorisation is exercised. At no time may more than 10 percent of the relevant share capital of the company be attributable to the shares acquired on the basis of this authorisation together with other shares of the company which the company had already acquired or still owns or which are assigned to it in accordance with Sections 71 et seq. AktG. The authorisation may not be used by the company for the purposes of trading in own shares; otherwise the determination of the purpose of the acquisition is left to the discretion of the Executive Board. The Executive Board may choose to acquire shares via the stock market, via a public purchase offer aimed at all shareholders of the company or via a public invitation to the shareholders to submit offers to sell.

Further information can be found in the publicly available invitation to the Annual General Meeting 2016 at *www.schweizer.ag/en/investor-relations/shareholders-meeting.html*.

### Essential agreements for the event of a change in control

The conditions for the event of a change in control are variously set out in individual credit agreements. Agreements with an overall volume of EUR 4.5 million provide an extraordinary right of termination, if one or more people, who act jointly in the meaning of Section 2 (5) of the 'Wertpapiererwerbs- und Übernahmegesetz' (German Securities and Takeover Act; WpÜG), at any time in the future purchase or hold directly or indirectly more than 50 percent of the voting rights.

### Compensation agreements concluded by the company

In the event of premature termination of an Executive Board member's contract of employment as a result of a change of control, Executive Board members are entitled to a compensation and severance payment limited to three years' compensation. The calculation of the relevant annual remuneration is based on the average of the total remuneration for the last three financial years prior to their exit.

## CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH SECTION 289F IN CONJUNCTION WITH SECTION 315D HGB AND CORPORATE GOVERNANCE

The corporate governance statement and information about the act concerning equal participation of women and men in leadership positions in the private and public sectors are part of the corporate governance report and can be found on the website at:
*www.schweizer.ag/en/investor-relations/corporate-governance.html*.

## NON-FINANCIAL GROUP STATEMENT

The non-financial Group statement is a separate chapter in the Annual Report and is available on the website at: *www.schweizer.ag/en/about-us/corporate-social-responsibility.html*.

## REMUNERATION REPORT

### Executive Board remuneration system

The remuneration of the Executive Board comprises a fixed and a variable remuneration element. The latter is divided into a component geared towards the achievement of defined targets for the respective financial year (Medium & Short Term Incentive; "MSTI") as well as a component with a long-term incentive effect and a proportion of risk (Long Term Incentive; "LTI"). If one hundred percent of the target is achieved, the variable compensation component MSTI will amount to 30 percent (2018: 55 percent) of the gross fixed annual salary and the variable compensation component LTI to 40 percent (2018: 15 percent) of the gross fixed annual salary. In the year under review, both variable compensation components were changed in terms of their weighting, the targets (KPIs) and the LTI and also with regard to the system compared to previous years. The changes implemented related exclusively to the variable compensation components. The respective changes are reflected in the previous year's figures in terms of percentages, naming of the target parameters and the type of grant for the long-term variable compensation component.

### Components of the remuneration system

The fixed income component of the Executive Board's remuneration is not tied to the achievement of defined targets and is paid monthly. In addition, ancillary payments such as the provision of a company car and insurance premium allowances are granted.

The variable income component, which relates to the targets for a financial year (MSTI), is geared towards the attainment of the target parameters EBITDA and free cash flow (2018: EVA, working capital, EBITDA). This remuneration component is paid following adoption of the annual financial statement by the Supervisory Board. The amount is determined by the level of target attainment and is capped at a maximum amount of 60 percent (2018: 110 percent) of the gross annual fixed remuneration (cap).

The second variable compensation component (long-term incentive or LTI) is a compensation component with a long-term incentive effect and risk element, which is rolled over in annual tranches each with a 4-year term (performance period). The amount of the long-term incentive is determined by the performance of the share price, the achievement of the return on capital employed (ROCE) target and a corporate factor determined by the Supervisory Board. The target amount is converted into virtual shares and paid out at the end of the respective performance period, i.e. after four years. The 2019 LTI tranche therefore runs until the end of 2022. In order to compensate for the disadvantages arising from the conversion of the previous contractual arrangements, a transitional arrangement (LTI-Ü) was agreed for the years 2019, 2020 and 2021. For these three years, the performance period of the LTI-Ü is one year, for each of which an intermediate ROCE target has been defined and agreed in the first 4-year tranche. Until financial year 2018, the LTI was granted in the form of a "share matching" plan with a 4-year lock-up period. The criteria for measuring performance until the 2018 financial year were the market capitalisation and rating of the company.

The amount of the LTI tranche is determined by the level of goal attainment and is capped at a maximum amount of 80 percent (2018: 30 percent) of the gross fixed remuneration.

Executive Board members receive retirement benefits in the form of old age, disability and survivors' benefits.

The members of the Schweizer Electronic AG Executive Board are covered by directors' and officers' liability insurance ("D&O") with an excess of at least 10 percent of the loss amount, up to a maximum of one and a half times their fixed annual remuneration, in accordance with the German Stock Corporation Act (AktG).

### Remuneration for the 2019 financial year

The remuneration of the entire Executive Board, including pension benefits, amounted to EUR 1.437 million in financial year 2019 (2018: EUR 1.103 million) (fixed) and EUR 730 thousand (2018: EUR 369 thousand) (variable).

The Executive Board remuneration for financial year 2019 is disclosed in accordance with the applicable reporting principles (DRS 17) and the recommendations of the German Corporate Governance Code in the version of 7 February 2017.

### Remuneration of members of the Executive Board for financial year 2019 according to DRS 17

The total remuneration of the Executive Board according to Section 285 Clause 1 No. 9a and Section 314 (1) No. 6a HGB (without pension costs) is distributed to the individual Executive Board members as follows:

| In EUR thousands | Financial year | Performance-unrelated remuneration | | Performance-related remuneration | | Total remuneration |
|---|---|---|---|---|---|---|
| | | Fixed remuneration | Other remunerations | Remuneration with short and medium-term incentive effect (MSTI) | Remuneration with long-term incentive effect (LTI) | |
| Dr Rolf Merte | **2019** | **360** | **23** | **86** | **144** | **613** |
| | 2018[1] | 83 | 4 | 46[2] | 12[2] | 146 |
| Nicolas-Fabian Schweizer | **2019** | **280** | **29** | **139** | **114** | **563** |
| | 2018 | 280 | 29 | 123 | 34 | 465 |
| Marc Bunz | **2019** | **270** | **19** | **134** | **111** | **535** |
| | 2018 | 270 | 19 | 118 | 36 | 443 |
| **Total** | **2019** | **910** | **71** | **360** | **370** | **1,711** |
| | 2018 | 633 | 52 | 287 | 82 | 1,054 |

All figures are rounded, which can lead to minor deviations when these are added up.

[1] Appointed since 8 October 2018.
[2] Due to the late commencement during the year, a flat-rate MSTI and LTI 2018 were allocated pro rata temporis on the basis of 100-percent target achievement.

### Pensions of Executive Board members for financial year 2019

Executive Board members Mr Nicolas-Fabian Schweizer and Mr Marc Bunz receive retirement benefits (old-age benefits, disability benefits and survivors' benefits) in accordance with a pension commitment. The pension commitment refers to a pension that starts being paid out at 65 years of age and amounts to 67 or 48 percent of the base salary. These benefits are outsourced to external retirement funds in the form of reinsurance-funded pension plans and are based on the company contributions contractually promised to the Executive Board members and paid to the pension fund. On leaving the company, the entitlement is reduced to the entitlement earned on leaving the company. The contributions to the provident funds are adjusted accordingly on retirement.

The system of pension commitments for Executive Board members was modified in 2018. Newly appointed and future Executive Board members receive a defined contribution plan within the meaning of the German Occupational Pensions Act. Contractually agreed contributions are paid to reinsured provident funds in the amount of a percentage of the base salary. The provident funds take out reinsurance policies for this purpose. The amounts of the pension entitlement at the beginning of the retirement pension correspond to the contractually agreed benefit amounts of the reinsurance policies. In the event of early retirement, the entitlement at the beginning of the retirement pension is reduced to the entitlement reached from the contributions paid to the provident fund up to then. The amount of the entitlement reached depends on the value of the reinsurance coverage at the time of retirement.

In the case of Dr Rolf Merte, this is a defined contribution plan with a retirement pension commencing at the age of 67 years. Contributions to provident funds amount to 20 percent of the base salary.

The following table lists the allocations paid by the company for 2019 to the pension fund and the annual pension entitlements already earned by the Executive Board members.

### Pensions of the Executive Board members

| In EUR thousands | **Financial year** | **Annual pension entitlement earned as at 31 December** | **Allocations paid to pension funds** |
|---|---|---|---|
| Dr Rolf Merte | **2019** | **2**[2] | **72** |
| | 2018[1] | 0[2] | 18 |
| Nicolas-Fabian Schweizer | **2019** | **57** | **189** |
| | 2018 | 50 | 205 |
| Marc Bunz | **2019** | **66** | **195** |
| | 2018 | 60 | 195 |
| **Total** | **2019** | **125** | **456** |
| Total | 2018 | 110 | 418 |

All figures are rounded, which can lead to minor deviations when these are added up.

[1] The table shows the pro-rata expense for the period since 8 October 2018
[2] Defined contribution plan

### Remuneration of members of the Executive Board for financial year 2019 according to GCGC

The following disclosure of the compensation granted and received for financial year 2019 takes into account the recommendations of the German Corporate Governance Code as amended on 7 February 2017. The sample tables recommended by the code are used to present the information. The benefit expense corresponds to the allocation to the pension funds.

Deviating from the presentation in accordance with DRS 17, the following table in accordance with GCGC shows the benefits granted for financial years 2018 and 2019, including fringe benefits and variable remuneration components if 100 percent of targets are achieved, as well as the minimum and maximum remuneration attainable in financial year 2019.

| **Benefits granted** | **Dr Rolf Merte** | | | | **Nicolas-Fabian Schweizer** | | | | **Marc Bunz** | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Chair of the Executive Board** | | | | **Deputy Chair of the Executive Board** | | | | **Chief Financial Officer** | | | |
| In EUR thousands | **2018** | **2019** | **2019 (Min)** | **2019 (Max)** | **2018** | **2019** | **2019 (Min)** | **2019 (Max)** | **2018** | **2019** | **2019 (Min)** | **2019 (Max)** |
| Fixed remuneration | 83 | 360 | 360 | 360 | 280 | 280 | 280 | 280 | 270 | 270 | 270 | 270 |
| Ancillary benefits | 4 | 23 | 23 | 23 | 29 | 29 | 29 | 29 | 19 | 19 | 19 | 19 |
| **Total** | **88** | **383** | **383** | **383** | **309** | **309** | **309** | **309** | **289** | **289** | **289** | **289** |
| One-year variable remuneration[1)] | 46 | 108 | 0 | 216 | 154 | 84 | 0 | 168 | 149 | 81 | 0 | 162 |
| Multi-year variable remuneration | | | | | | | | | | | | |
| LTI plan [2)] | 12 | 144 | 0 | 288 | 42 | 112 | 0 | 224 | 41 | 108 | 0 | 216 |
| **Total** | **58** | **252** | **0** | **504** | **196** | **196** | **0** | **392** | **189** | **189** | **0** | **378** |
| Benefit expense | 18 | 72 | 72 | 72 | 205 | 189 | 189 | 189 | 195 | 195 | 195 | 195 |
| **Total remuneration** | **164** | **707** | **455** | **959** | **710** | **694** | **498** | **890** | **672** | **673** | **484** | **862** |

All figures are rounded, which can lead to minor deviations when these are added up.

1) Values refer to the Medium & Short Term Incentive ("MSTI") remuneration component.
Due to Dr Merte's late start during the year in 2018, a flat-rate MSTI 2018 was allocated to him pro rata temporis on the basis of 100-percent target achievement.
2) Due to the late entry of Dr Merte during the year in 2018, he was allocated a pro rata lump sum for LTI 2018 on the basis of 100-percent target achievement.

The following table shows the total remuneration received by the individual members of the Executive Board for financial years 2018 and 2019 in accordance with the GCGC, broken down into their respective components:

| Inflow | Dr Rolf Merte | | Nicolas-Fabian Schweizer | | Marc Bunz | |
|---|---|---|---|---|---|---|
| | Chair of the Executive Board | | Deputy Chair of the Executive Board | | Chief Financial Officer | |
| In EUR thousands | **2018** | **2019** | **2018** | **2019** | **2018** | **2019** |
| Fixed remuneration | 83 | 360 | 280 | 280 | 270 | 270 |
| Ancillary benefits | 4 | 23 | 29 | 29 | 19 | 19 |
| **Total** | **88** | **383** | **309** | **309** | **289** | **289** |
| One-year variable remuneration[1)] | 46[1)] | 86 | 101 | 139 | 97 | 134 |
| (of which for previous years) | | | 2 | 72 | 2 | 70 |
| Multi-year variable remuneration[2)] | | | | | | |
| LTI plan | 12[2)] | 144 | 34 | 114 | 36 | 111 |
| (of which for previous years) | | | 14 | 2 | 16 | 3 |
| **Total** | **58** | **230** | **134** | **254** | **133** | **246** |
| Benefit expense | 18 | 72 | 205 | 189 | 195 | 195 |
| **Total remuneration** | **164** | **685** | **648** | **752** | **616** | **730** |

All figures are rounded, which can lead to minor deviations when these are added up.

1) Values refer to the Medium & Short Term Incentive ("MSTI") remuneration component.
Due to Dr Merte's late start during the year in 2018, a flat-rate MSTI 2018 was allocated to him pro rata temporis on the basis of 100-percent target achievement.
2) Due to the late entry of Dr Merte during the year in 2018, he was allocated a pro rata lump sum for LTI 2018 on the basis of 100-percent target achievement.

### Benefits in the event of the premature termination of duties

In the event of a change of control, the acting members of the Executive Board have a special right of termination. If the service contract ends within three months of the change of control as a result of the permissible exercise of the special termination right, the Executive Board member is entitled to compensation payments in the amount of 100 percent of the average annual remuneration (consisting of the sum of the gross annual fixed salary, MSTI and LTI) earned over the last three financial years prior to retirement for the remaining term of the service contract. The compensation payments amount to a maximum of the value of two annual salaries. In addition, Executive Board members receive a severance payment of one year's compensation. Overall, compensation and severance payments are limited to a maximum of three years' remuneration.

### Supervisory Board remuneration system

The remuneration of the Supervisory Board is regulated in Section 13 of the Articles of Association. In addition to the reimbursement of expenses, each member receives a fixed remuneration component of EUR 15 thousand per financial year as well as a variable remuneration of EUR 300 for each EUR 0.01 by which the dividend declared at the Annual General Meeting exceeds a dividend of EUR 0.40

per share with full dividend entitlement distributed to the shareholders. The variable remuneration is limited to a maximum amount of EUR 15 thousand. The Chair receives twice and the Deputy Chair one and a half times this remuneration. Members of Supervisory Board committees also receive a fixed annual remuneration of EUR 15 thousand. The Chair of a committee is paid double and the Deputy Chair one and a half times this amount. The total remuneration of the Supervisory Board in 2019 amounted to EUR 180 thousand (2018: EUR 180 thousand), of which EUR 180 thousand (2018: EUR 180 thousand) was fixed and EUR 0 (2018: EUR 0) variable.

### Remuneration of the Supervisory Board (excluding VAT) for financial year 2019

| In EUR thousands | Fixed remuneration | Remuneration for committee work | Variable remuneration [1] | Total |
|---|---|---|---|---|
| **Christoph Schweizer[2]** | **15** | **15** | **-** | **30** |
| **Dr Stephan Zizala** | **23** | **23** | **-** | **45** |
| (2018) | 23 | 23 | - | 45 |
| **Michael Kowalski[3]** | **23** | **23** | **-** | **45** |
| (2018) | 30 | 30 | - | 60 |
| **Chris Wu** | **15** | **-** | **-** | **15** |
| (2018) | 15 | - | - | 15 |
| **Petra Gaiselmann[4]** | **8** | **-** | **-** | **8** |
| **Jürgen Kammerer[4]** | **8** | **-** | **-** | **8** |
| **Karin Sonnenmoser[5]** | **8** | **8** | **-** | **15** |
| (2018) | 15 | 15 | - | 30 |
| **Carsten Brudlo[6]** | **8** | **-** | **-** | **8** |
| (2018) | 15 | - | - | 15 |
| **Siegbert Maier[6]** | **8** | **-** | **-** | **8** |
| (2018) | 15 | - | - | 15 |
| **Total for 2019** | **113** | **68** | **-** | **180** |
| (Total for 2018) | 113 | 68 | - | 180 |

All figures are rounded, which can lead to minor deviations when these are added up.

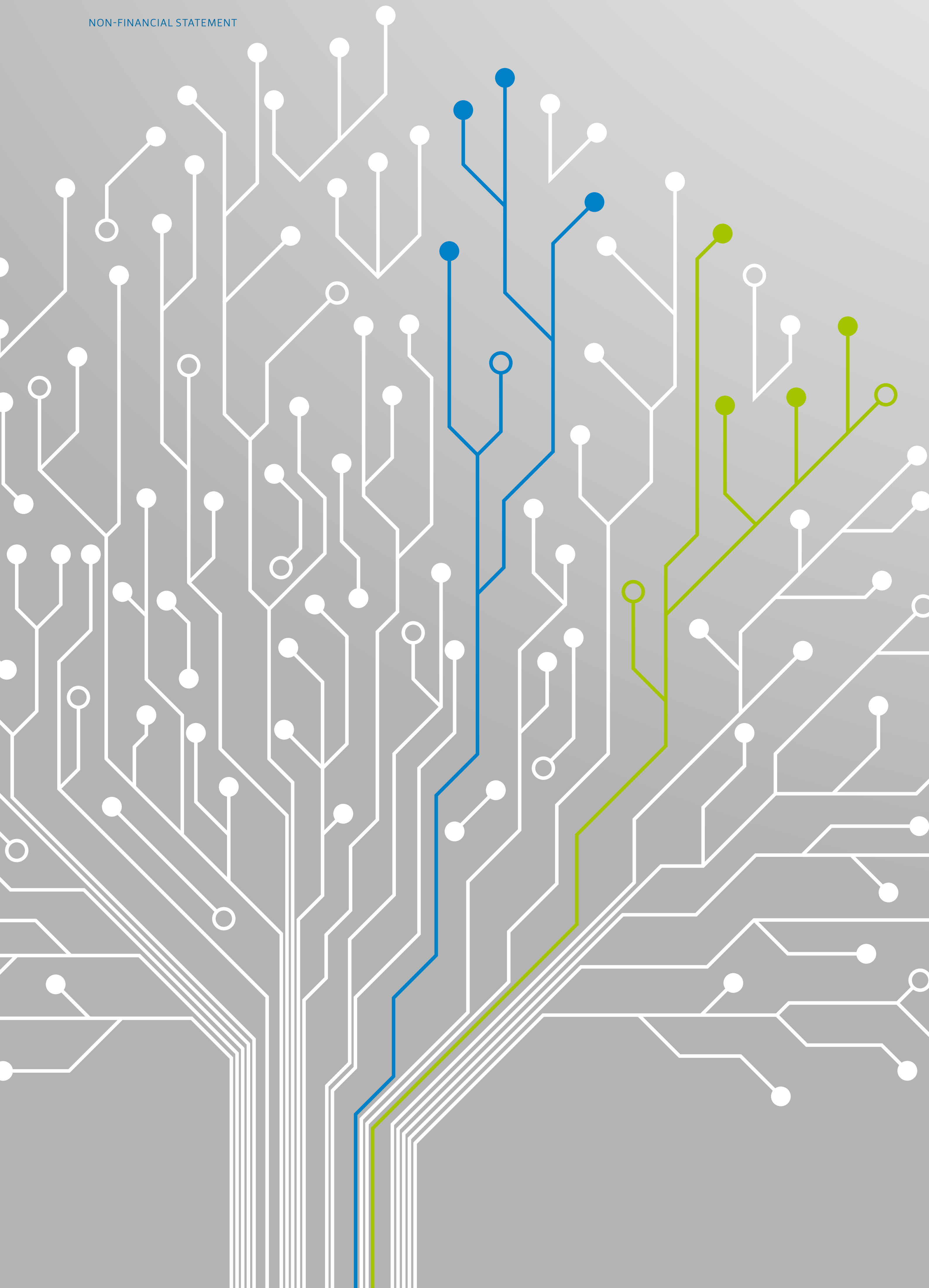
[1]Based on the dividend proposal of EUR 0 (2018: EUR 0)
[2] Member of the Supervisory Board and the Personnel and Finance Committee since 28 June 2019
[3] Member of the Supervisory Board and the Personnel and Finance Committee until 28 June 2019
Since 28 June 2019 member of the Supervisory Board and the Personnel and Finance Committee
[4] Member of the Supervisory Board since 28 June 2019
[5] Member of the Supervisory Board and the Personnel and Finance Committee until 28 June 2019
[6] Member of the Supervisory Board until 28 June 2019

Schramberg, 7 April 2020

Schweizer Electronic AG

The Executive Board

(N. F. Schweizer) (M. Bunz)



# NON-FINANCIAL STATEMENT

# THE NON-FINANCIAL STATEMENT

## 1. INTRODUCTION

As a family business in operation for more than 170 years, the principle of responsible and sustainable management has been the backbone of the company throughout its long history and spurred on the transformation processes that have taken place during this time.

With this non-financial statement, we comply with our obligation (§ 289 b, par. 1 HGB and § 315 b HGB) to disclose the "non-financial information" specified in the CSR Guidelines Implementation Act. This publication was prepared on the basis of the standards of the Global Reporting Initiative (GRI) and the key figures identified as significant for Schweizer.

The sustainability figures refer to Schweizer's only production site, Schweizer Electronic AG, in Schramberg. The second production site, Schweizer Electronic (Jiangsu) Co., Ltd., in Jintan (China), is still under construction.

### SUSTAINABILITY

Sustainability is a broad field that can encompass a range of aspects. We set out our commitment to sustainable action and the resulting fields of activity in our Schweizer Management Manual (first edition 1996), which aims to turn the complexity surrounding the issue into something we can concretely address and to consistently integrate sustainability into our activities. This manual is updated and expanded on an ongoing basis to meet the latest requirements. The last update was carried out in February 2020.

### MATERIAL ASPECTS AND STAKEHOLDERS

The management manual defines sustainable development in terms of quality, environment, energy and occupational safety in combination with other corporate goals as issues for the company's management team to address, and sets out goals, measures, schedules and specifications for its implementation. The business processes and topics described in the manual – along with our organisational structure – result in the following relevant stakeholders and stakeholder groups for Schweizer:

- Employees
- Customers
- Investors
- Suppliers
- Public authorities

There has been no additional analysis of stakeholders or areas of materiality beyond this, as the Management Manual is comprehensive in this respect.

The following section of the non-financial statement focuses on environmental, employee and social issues, as well as measures for respecting human rights and combating corruption and bribery.

All information required for an understanding of the business processes, business results, the corporation's present situation and the effects of its activities on the aforementioned aspects is already part of the summarised status report and is therefore not referred to again in this section of the annual report. This information can be understood via the GRI Index starting on page 75.

## 2. MISSION STATEMENT

Our mission statement explains the reasoning behind our strategy and actions. It conveys the values and guiding themes that are the pillars of our success.

### VISION

We are a global "best-in-class" technology company. Our products conserve resources to safeguard the future of our children. We are a leading manufacturer of high-quality printed circuit boards (PCBs) and recognised producer of energy-saving, environmentally-friendly products and services.

### MISSION

Our mission is to ensure the success of our customers – and thus also that of our company! The goals of our customers, their faith in us and our pleasure in constantly pushing the boundaries of what is possible – these are the key drivers behind our success. We are able to achieve this based on our long-term experience, state-of-the-art technology, production methods and processes, and excellent knowledge of our target markets. We focus on attractive and promising business opportunities. Our activities as a family business with a longstanding tradition are geared towards long-term, sustainable success. Our employees form the basis for this success.

### VALUES

The following values are important to us and guide our behaviour: quality, speed, creativity and openness. These values represent the foundation for our past, present and future.

### AWARENESS OF QUALITY AND THE ENVIRONMENT

We are committed to reducing energy consumption, increasing energy efficiency, continuously improving our services and contributing to environmental protection. Our aim is to reduce environmental pollution, such as by recycling, and to thereby contribute to protecting our environment. Binding obligations arising from our activities are essential foundations for our actions as is compliance with relevant laws and regulations. We are therefore working openly with authorities and the public on environmental protection issues.

We stand for highest quality levels and operate with utmost care in all facets of our business. In addition, we have set ourselves a goal of zero-defects tolerance and continuously work on improving this even more. For this reason, we reduce rejects and are able to offer our customers the highest possible quality at the same time. This philosophy and approach ensure that we remain fit for the future and place us in the best possible position for any upcoming challenges.

The following guiding principles that determine our actions and are based on our values arise from our mission statement: We are customer-oriented, creative, globally coordinated, versatile, competent, cooperative, friendly, inviting, competitive and consciously responsible.

We have developed the Competency Framework for our employees. It sets out the guidelines for cooperation and management and is intended to help employees and managers orient themselves in their day-to-day work.

## 3. ENVIRONMENTAL ISSUES

Preventative quality assurance and environmental protection, supplemented with the careful use of energy, not only reduce product costs but also reduce pressure on the ecology. Our resolve to ensure continuous improvement as a significant building block of our approach contributes to this.

Careful planning and the integration of process and supply equipment in the company's operations prevents the environment from being harmed as a result of unforeseen incidents.

### CERTIFICATION AUDITS UM ISO 14001 / EM ISO 50001

In the previous financial year, our environmental and energy management systems were again subject to the regular review. Both systems passed the audits successfully. The relevant certificates therefore continue to be valid.

### ENVIRONMENTAL ISSUES – CORE TOPICS AND INDICATORS

Concerning the environmental issues, the following material core topics and performance indicators can be identified for Schweizer Electronic AG's line of business:

- Energy consumption
- $CO_2$ footprint
- Water consumption
- Waste
- Use of resources (raw materials)

At Schweizer, our employees are committed to environmental protection. This is particularly evident in energy management, the high level of readiness to sort waste, and the careful use of water. When measuring the relevant sustainability indicators, Schweizer always refers to the production hour in each case in order to cope with the increasing complexity of printed circuit boards.

## ENERGY CONSUMPTION AND MEASURES TO REDUCE ENERGY CONSUMPTION

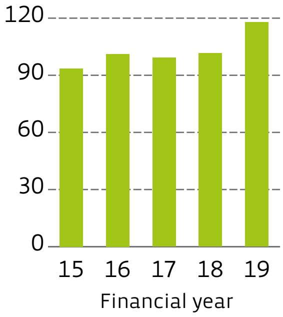
Energy efficiency is a key market driver of our PCB business. Our PCBs help our customers in the automotive sector to increase the fuel efficiency of their vehicles and reduce $CO_2$ emissions. It is therefore logical that energy management plays a significant role at SCHWEIZER, given the products and services we offer. For such an energy-intensive company as SCHWEIZER, energy efficiency is important not only in terms of conserving resources but also with regard to cost management.

The specific energy consumption is very much dependent on the company's production capacity utilisation. For this reason, the lower production capacity utilisation at the Schramberg site had a negative effect on energy efficiency in 2019. Due to the high power base load required by the buildings and production facilities, fewer production hours result in an increase in the specific power consumption per production hour.

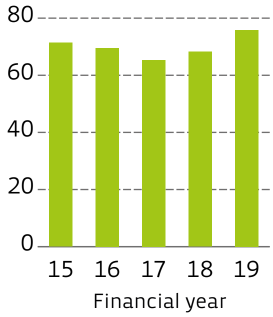
In contrast to the significant key figures on the specific energy consumption per production hour (kW/h) shown here, the absolute energy power consumption was reduced by approx. 8.5 percent or 3.1 million kilowatt hours (kWh) in 2019. In order to save more on energy costs, the process heating facility commissioned in 2018 was further developed. The use of the combined heat and power plant, which has been in operation since 2016, enabled us to generate 18.7 percent (2018: 15.8 percent) of our own electricity in the past financial year.

The key figures identified at SCHWEIZER for reporting purposes are the specific total energy consumption, the specific electrical energy consumption per production hour (kWh/h), and the compressed air consumption per standard cubic metre in relation to production hour ($Nm^3/h$). The increase in the specific figures in the past financial year is due to fluctuations in the production capacity utilisation.

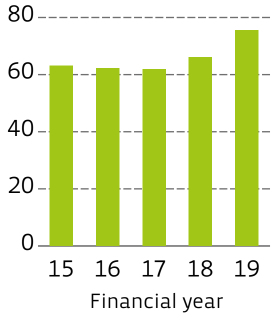
Specific total energy consumption (kWh/h)




Specific electrical energy consumption (kWh/h)




Compressed air consumption p standard cubic meter ($Nm^3$.




| **Financial year** | **Specific total energy consumption (kWh/h)** |
|---|---|
| 2019 | 117.88 |
| 2018 | 101.60 |
| 2017 | 99.17 |
| 2016 | 101.24 |
| 2015 | 93.48 |

| **Financial year** | **Specific electrical energy consumption (kWh/h)** |
|---|---|
| 2019 | 75.89 |
| 2018 | 68.26 |
| 2017 | 65.37 |
| 2016 | 69.51 |
| 2015 | 71.37 |

| **Financial year** | **Compressed air consumption per standard cubic meter ($Nm^3/h$)** |
|---|---|
| 2019 | 75.57 |
| 2018 | 66.08 |
| 2017 | 61.97 |
| 2016 | 62.22 |
| 2015 | 63.09 |

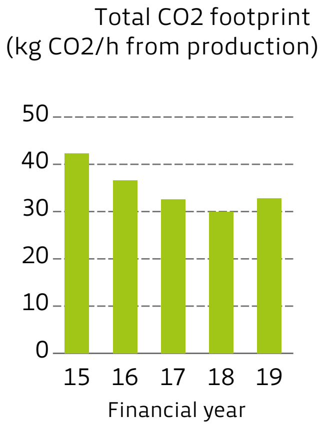
## $CO_2$ FOOTPRINT AND MEASURES FOR REDUCING $CO_2$ EMISSIONS

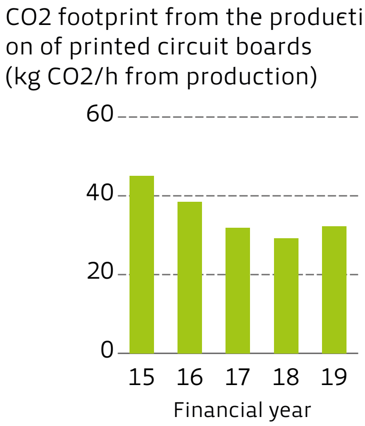
The overall $CO_2$ footprint is calculated from the production $CO_2$ footprint and the transport $CO_2$ footprint. For production, the data from the supply plants for the Schramberg site are used. For transport, $CO_2$ consumption data from the Federal Environment Agency (UBA), which is recorded per tonne of goods and kilometres driven with the respective means of transport, is used. The $CO_2$ production footprint includes all indirect $CO_2$ emissions from electricity consumption and direct $CO_2$ emissions from gas combustion. The transport $CO_2$ footprint comprises the $CO_2$ emissions generated by transporting the finished printed circuit boards to customers.

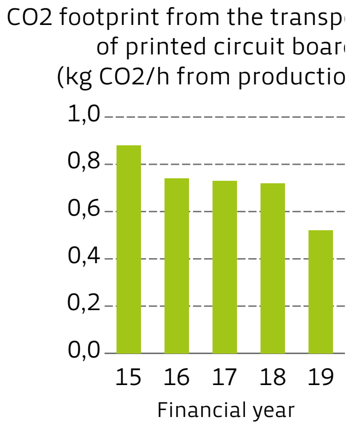
As part of the ongoing energy-saving measures and the increasing production capacity utilisation up to and including 2018, the $CO_2$ footprint for production per production hour has steadily dropped. This trend could not continue in 2019 due to the lower capacity utilisation and the disproportionate effect on the $CO_2$ footprint per production hour. Since 2016, the company's combined heat and power plant (CHP) has been included in production $CO_2$ footprint calculations. Due to the use of the company's own CHP and the decrease in the purchase of external electricity, the company's $CO_2$ emissions for electricity reduced by approximately 1,200 tonnes in comparison to the previous year.

All figures shown for the $CO_2$ footprint refer to production and transport from the Schramberg plant. SCHWEIZER turnover, which is directly delivered from WUS or MEIKO to our customers, amounts to approx. 30 percent (2018: 20 percent) of total sales, but is not included due to a lack of underlying data.

The $CO_2$ footprint for transport could only be recorded as of the 2017 financial year. The 2017 value has been used as a starting point for 2016 and earlier. The $CO_2$ footprint transport has been calculated in proportion to the delivery quantity in square metres. Overall, the transport $CO_2$ footprint accounts for only about one to three percent of the total $CO_2$ footprint. The positive development of the key figure in the past year is, in particular, due to less airfreight.




| Financial year | Total $CO_2$ footprint (kg $CO_2$/h from production) |
|---|---:|
| 2019 | 32.85 |
| 2018 | 29.93 |
| 2017 | 32.64 |
| 2016 | 36.61 |
| 2015 | 42.36 |

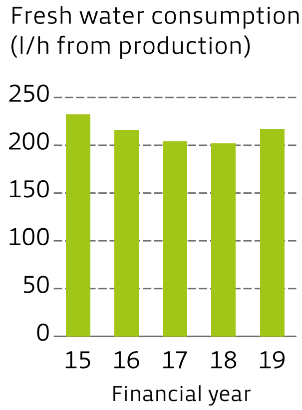
| Financial year | $CO_2$ footprint from the production of printed circuit boards (kg $CO_2$/h from production) |
|---|---:|
| 2019 | 32.33 |
| 2018 | 29.21 |
| 2017 | 31.91 |
| 2016 | 38.50 |
| 2015 | 45.03 |

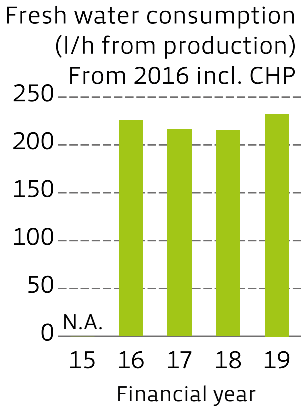
| Financial year | $CO_2$ footprint from the transport of printed circuit boards (kg $CO_2$/h from production) |
|---|---:|
| 2019 | 0.52 |
| 2018 | 0.72 |
| 2017 | 0.73 |
| 2016 | 0.74 |
| 2015 | 0.88 |

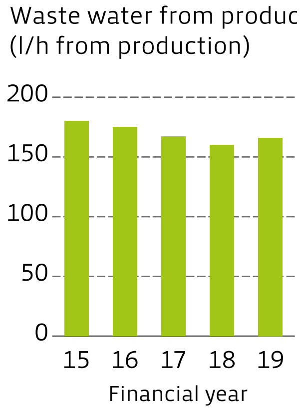
## WATER

The production of a printed circuit board contains many water-intensive processes, meaning the consumption of fresh water and the generation of production-related effluents are important indicators for assessing Schweizer Electronic AG's impact on the environment. Therefore, one of our most important tasks in the field of environmental protection is to continuously optimise fresh water consumption and effluents produced during production. For example, a measure introduced to pipe excess water from air conditioning systems back into the stormwater drain inlet enables us to save almost four percent of the fresh water purchased from the city every year. Environmentally friendly aspects are always taken into consideration when planning and purchasing new plants. The lower production capacity utilisation also had a negative effect on the fresh water consumption key figures (l/h from production) in line with the specific energy consumption. The reason for this was due to the basic consumption of fresh water which was not related to the production capacity utilisation.

We have identified fresh water consumption (from 2016 including consumption by the CHP unit) and effluents from production as relevant key figures for reporting, in each case per hour of production. Fresh water consumption consists of the fresh water supplied by the city, stormwater and recirculated water.




| Financial year | Fresh water consumption (l/h from production) |
|---|---:|
| 2019 | 217 |
| 2018 | 202 |
| 2017 | 204 |
| 2016 | 216 |
| 2015 | 232 |

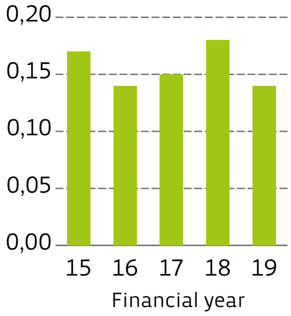
| Financial year | Fresh water consumption (l/h from production) From 2016 incl. CHP |
|---|---:|
| 2019 | 232 |
| 2018 | 215 |
| 2017 | 216 |
| 2016 | 226 |
| 2015 | N.A. |

| Financial year | Waste water from production (l/h from production) |
|---|---:|
| 2019 | 166 |
| 2018 | 160 |
| 2017 | 167 |
| 2016 | 175 |
| 2015 | 180 |

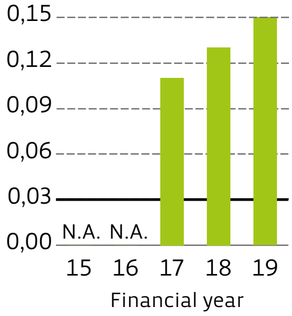
## AMOUNT OF COPPER, NICKEL AND TIN IN WASTE WATER

For this report, copper and nickel are the two metals which are especially relevant when identifying metals in water. Both have a permissible limit value of 0.5 mg/l of waste water. For the sake of completeness, we also show the tin content. The limit value here is much higher at 2 mg/l of waste water.

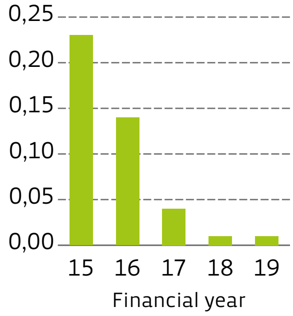
Copper content of waste water (mg Cu/l of waste water)




Nickel content of waste water (mg Ni/l of waste water), as of 2017 only




Tin content of waste water (mg Sn/l of waste water)




| Financial year | Copper content of waste water (mg Cu/l of waste water) |
|---|---:|
| 2019 | 0.14 |
| 2018 | 0.18 |
| 2017 | 0.15 |
| 2016 | 0.14 |
| 2015 | 0.17 |

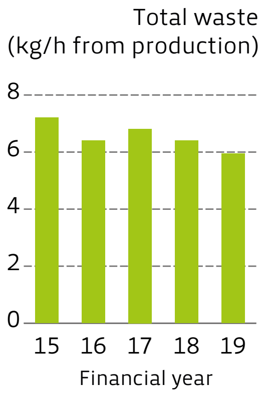
| Financial year | Nickel content of waste water (mg Ni/l of waste water), as of 2017 only |
|---|---:|
| 2019 | 0.15 |
| 2018 | 0.13 |
| 2017 | 0.11 |
| 2016 | N.A. |
| 2015 | N.A. |

| Financial year | Tin content of waste water (mg Sn/l of waste water) |
|---|---:|
| 2019 | 0.01 |
| 2018 | 0.01 |
| 2017 | 0.04 |
| 2016 | 0.14 |
| 2015 | 0.23 |

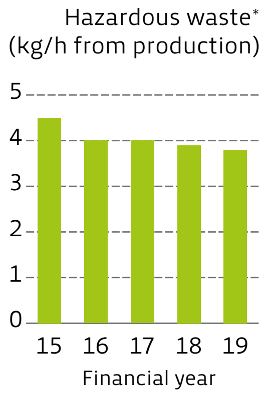
## WASTE

Since the ISO 14001 environmental management system was introduced, waste and clean waste separation in particular have been prioritised. We pay attention to sorting waste consistently and disposing of it correctly. Our aim is to maintain or further improve this high level of waste separation on an ongoing basis.

As a result of this waste separation, it has been possible to return more than 80 percent of the total waste to external recycling (material recycling). The materials recovered can be added back to the material cycle and, as secondary raw materials, also contribute to preserving primary raw material resources.

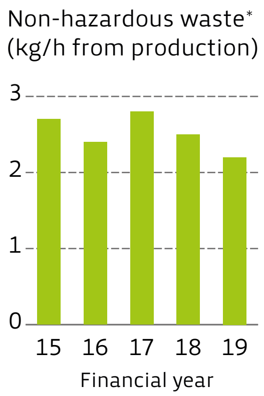



| Financial year | Total waste (kg/h from production) |
|---|---|
| 2019 | 5.95 |
| 2018 | 6.40 |
| 2017 | 6.81 |
| 2016 | 6.40 |
| 2015 | 7.21 |

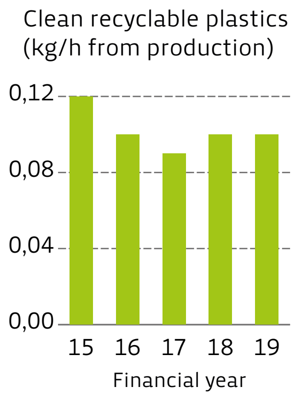



| Financial year | Hazardous waste* (kg/h from production) |
|---|---|
| 2019 | 3.8 |
| 2018 | 3.9 |
| 2017 | 4.0 |
| 2016 | 4.0 |
| 2015 | 4.5 |

*according to EU-wide regulatory categorisation




| Financial year | Non-hazardous waste* (kg/h from production) |
|---|---|
| 2019 | 2.2 |
| 2018 | 2.5 |
| 2017 | 2.8 |
| 2016 | 2.4 |
| 2015 | 2.7 |




| Financial year | Clean recyclable plastics (kg/h from production) |
|---|---|
| 2019 | 0.10 |
| 2018 | 0.10 |
| 2017 | 0.09 |
| 2016 | 0.10 |
| 2015 | 0.12 |

*according to EU-wide regulatory categorisation

## RESOURCES

The supply of resources is a rather uncertain factor in the long term: while global demand is increasing, the rising scarcity of resources is leading to restrictions in availability and price hikes. Our mission obliges us to use resources sparingly. Furthermore, the economic factor is relevant for us both in terms of availability to ensure production and cost optimisation in procurement.

We are constantly striving to optimise and redefine our processes technologically to reduce the consumption of raw materials.

For the purposes of this report, we primarily define resources as the materials used in production, from base material laminates, a synthetic resin-impregnated fibre mat, a wide range of metals for the production of conductor paths and the refinement of surfaces, to the chemicals used in wet processes.

The procurement of raw materials / auxiliary materials is carried out according to firmly defined processes.

We generally expect our suppliers to use a QM system based on DIN EN ISO 9000ff and pursue further development towards IATF 16949, as well as have an environmental management system according to ISO 14001 and an energy management system according to ISO 50001/EMAS.

## CONFLICT MATERIALS

As a company with a long history and a recognised manufacturer of energy and environmentally friendly products and services, Schweizer Electronic AG takes its corporate social responsibility very seriously. This is why we try to avoid procuring the conflict materials tin, tantalum, tungsten and gold (also known as 3TG) from conflict regions.

Conflict materials are mined and sold under appalling conditions with the aim of supporting and financing armed conflict in the Democratic Republic of Congo and its neighbouring countries. In July 2010, the US government passed the Dodd-Frank Wall Street Reform and Consumer Protection Act to control and prevent the mining and trading of conflict materials. Section 1502 of the Dodd-Frank Act states that US listed companies must assess whether conflict materials are required for the manufacture or operation of their products.

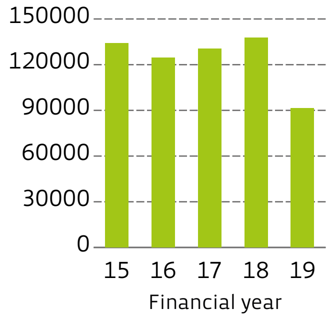
Companies like Schweizer Electronic AG, which supplies to US listed companies, must also inform its customers when conflict materials are present in their products or supply chain.

As Schweizer shares the opinion of its customers, we do our best not to purchase raw materials from the Democratic Republic of Congo. This is why we work closely with our suppliers. We expect our suppliers to source their minerals from conflict-free smelters and check their own supply chain for conflict materials. To obtain all the due diligence information we need for our customers, we ask our suppliers to complete the Conflict Mineral Report Template (CMRT).

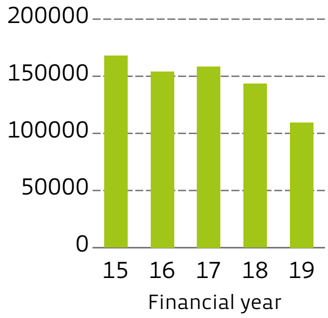
In line with the lower production quantities, the consumption of materials used at the Schramberg plant declined in 2019.

## MATERIALS USED BY WEIGHT

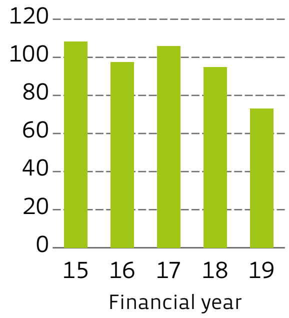
Gold (g)




Copper* (kg)




Aluminium (t)



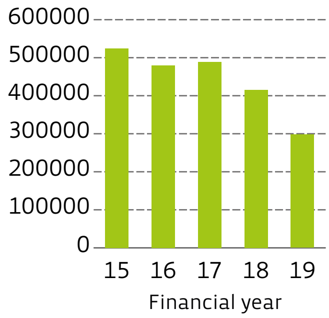

| Financial year | Gold (g) |
|---|---:|
| 2019 | 91,362 |
| 2018 | 137,812 |
| 2017 | 130,446 |
| 2016 | 124,518 |
| 2015 | 134,183 |

| Financial year | Copper* (kg) |
|---|---:|
| 2019 | 109,627 |
| 2018 | 143,421 |
| 2017 | 158,461 |
| 2016 | 154,233 |
| 2015 | 168,003 |

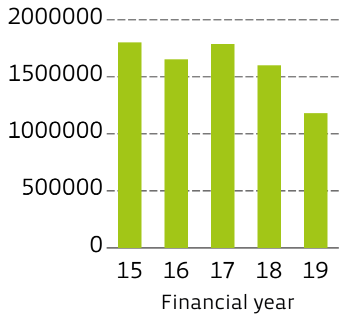
| Financial year | Aluminium (t) |
|---|---:|
| 2019 | 73.2 |
| 2018 | 95.0 |
| 2017 | 106.0 |
| 2016 | 97.6 |
| 2015 | 108.4 |

*the quantities for copper refer to copper anodes; other copper products (foil or laminates or chemicals) are in the laminates and are not listed separately.

Laminate ($m^2$)




Chemicals (l)




| Financial year | Laminate ($m^2$) |
|---|---:|
| 2019 | 298,000 |
| 2018 | 415,000 |
| 2017 | 489,000 |
| 2016 | 480,000 |
| 2015 | 524,000 |

| Financial year | Chemicals (l) |
|---|---:|
| 2019 | 1,178,495 |
| 2018 | 1,599,155 |
| 2017 | 1,787,080 |
| 2016 | 1,651,399 |
| 2015 | 1,801,122 |

## 4. EMPLOYEE ISSUES

At Schweizer, the primary focus is on people. Our employees are one of our largest and most important reference groups. This is why employee satisfaction, health and safety, training and further education are essential.

We are committed to our code of ethics and comply with all relevant legal provisions on avoiding discrimination. All employees benefit from equal opportunities and treatment, irrespective of origin, skin colour, gender, creed, sexual orientation, political opinion, country of origin, social origin or anything else.

As of the end of the year, Schweizer Electronic AG employed 688 individuals in Germany. The annual average fluctuation rate was 6.43 percent. More than 32 percent of our employees have been with us for more than 25 years. In Asia, we employed 117 people as of the end of the year.

### OCCUPATIONAL HEALTH AND SAFETY

A works agreement was drawn up in the 2017 financial year to be able to determine and evaluate the individual workloads of employees even more effectively than before and to develop measures to improve health protection and ensure humane working environments. This includes conducting risk assessments, recording physical and mental stress, and regulating the assessment of working conditions and measures to be taken in the working environment.

Based on a survey of employees regarding physical and psychological stresses, individual workplace inspections are carried out, prioritised according to the areas that indicate the most hazards according to the employee survey.

Improvements in the structure of the work environment, such as by reducing physical stresses from manual handling of loads or reducing sound pollution at the workplace, were achieved at individual workplaces thanks to the measures proposed by the analytical team which were worked on together with employees and their managers. Effectiveness monitoring and regular iterations of employee surveys assist in securing effective occupational health and safety by means of a continuous improvement process.

### COMPANY INTEGRATION MANAGEMENT

In 2018, jointly with the works council, we concluded a works agreement on company integration management. The objectives of this agreement are overcoming incapacity to work, avoiding future incapacity to work and retention of the workplace.

Securing and promoting employment is the higher-level objective of the development of measures in company integration management. These include measures relating to occupational health and safety, healthy structuring of the workplace, health promotion as well as measures for on-site rehabilitation and vocational further education and training. These measure are carried out in close collaboration with the company doctor.

### COMPANY HEALTH MANAGEMENT

In autumn 2019, Schweizer introduced its company health management in collaboration with health insurance schemes and external advice. The aim of the implemented company health management is to adapt and develop company structures and processes in the company to ensure that the work, organisation and conduct at the workplace can be structured in a healthy manner. The purpose of the company health management is to improve employees' health in the long term, strengthen human resources and reduce health risks. In addition, the aim is to increase motivation through good working conditions, raise work satisfaction and improve the working environment. For the company, this means fewer sick days, higher productivity and performance as well as improvements in the quality of products and services.

## FLEXIBLE TRANSITION INTO RETIREMENT

Furthermore, an internal working group and the works council devised an in-house solution for partial retirement. This solution facilitates a smooth and flexible transition into retirement for the benefit of our employees. The relevant works agreement entered into effect in 2018. Another six employees (2018: six employees) made use of the opportunity of partial retirement in 2019. The duration of partial retirement is between a minimum of two to a maximum of six years. Further agreements with employees have been concluded for the upcoming year.

## TRAINING

Schweizer employs an average of 25 trainees and dual students who are trained for the company's own requirements. An apprenticeship with us is regarded as the basis for a secure professional future. We believe it is important to employ specialists who have already familiarised themselves with our company during training.

The training programme at Schweizer Electronic AG covers both commercial and industrial professions. The company trains everybody from industrial clerks to industrial mechanics and mechatronics engineers to surface coaters. Depending on requirements, we also employ electronics technicians, IT specialists and dual students in the fields of business administration, industry and business informatics.

Schweizer Electronic AG stands for high-quality training. In addition to technical training in the departments and training workshops, our trainees and dual students are responsible for various projects such as events, company videos and trade fair exhibits. These independent projects promote motivation and independence in their everyday professional life. In addition, workshops, educational trips, team and communication training, training in driving safety and events are provided for the purpose of mutual exchange and to strengthen the community.

In 2019, the learning platform eCademy was integrated into the MLS (Mobile Learning in Smart Factories) digital learning platform in our training system and acts as an additional learning medium for our trainees. This learning platform assists trainees in working on subjects from the vocational school classes, to repeat and supplement them, to close individual learning gaps and to thus prepare for their examinations in the best possible way.

## TRAINEE PROGRAMME

As part of the construction of a new plant in China, we started a trainee programme in 2018. Over a period of approximately one year, we trained employees at the Schramberg site. They then moved to our plant in China.

## FURTHER EDUCATION AND TRAINING

Schweizer offers both external and internal training measures as required. In addition to regular safety briefings, the internal training programme at Schweizer includes a range of courses on innovative technologies and work processes, including quality and energy management, PC training and seminars on labour and tax law. In addition to imparting knowledge, further education programmes are often primarily aimed at raising awareness, which is why we regard repeat participation as a good refresher in many cases.

## PERFORMANCE REVIEWS AND BRIEFINGS ON OCCUPATIONAL SAFETY, ENVIRONMENTAL PROTECTION AND ENERGY MANAGEMENT

Employees' appraisals have been carried out using a new performance assessment system since 2018. The new system is an assessment instrument that is transparent and easy to understand for all employees. The performance appraised determines the annual performance bonus that is paid as a variable remuneration component in addition to the basic salary and is entrenched in an annual appraisal meeting.

In 2019, a works agreement on the assessment of line managers was concluded. Using this assessment, Schweizer makes it possible for employees to give targeted feedback to their line manager.

Recurring briefings on occupational safety, environmental protection and energy management are also held annually. For newly hired staff, briefings take place on the first working day. The aim of the briefings is to provide employees with knowledge of occupational safety, environmental protection and energy management before starting work for the first time and to motivate them to act accordingly by regularly repeating this training.

The relevant indicators with regard to employment, occupational safety and health protection include the total number of employees hired, staff turnover, accidents at work and the resulting days of absence.

**Number of occupational and commuting accidents and resulting absences**

| Financial year | Number of accidents at work and on the way to work* | resulting days of absence |
|---|---|---|
| 2019 | 7 | 243 |
| 2018 | 22 | 286 |
| 2017 | 12 | 110 |
| 2016 | 16 | 189 |
| 2015 | 13 | 105 |

*These are accidents at work and on the way to and from work, which are subject to reporting requirements.

An analysis of the relatively high number of days of absence in 2019 revealed that the cause was primarily from accidents on the way to work and not from accidents at work. In 2018, more than half of the accidents that occurred on the way to work either off the company's premises or on the company's premises did not relate to tools or equipment.

**Number of employees and average staff turnover rate*)**

| Financial year | Number of employees on 31 December | Average fluctuation rate |
|---|---|---|
| 2019 | 688 | 6.43% |
| 2018 | 773 | 3.20% |
| 2017 | 783 | 3.96% |
| 2016 | 774 | 3.20% |
| 2015 | 761 | 3.04% |

*) Schramberg site

**Total number of newly hired employees*)**

| Financial year | Total | male | female |
|---|---|---|---|
| 2019 | 17 | 11 | 6 |
| 2018 | 65 | 31 | 34 |
| 2017 | 76 | 45 | 31 |
| 2016 | 77 | 35 | 42 |
| 2015 | 75 | 47 | 28 |

*) Schramberg site

At the Schramberg site, 227 women and 461 men were employed as of 31 December 2019. Of these, 17 women and one man worked part-time. In total, SCHWEIZER employed 254 women and 551 men as of 31 December 2019.

## 5. SOCIAL ISSUES

### CORPORATE SOCIAL RESPONSIBILITY

For more than 170 years, we have been closely committed to the Schramberg site and an important employer in the region. It is our concern to not only create and secure jobs, but to promote social, cultural and sporting activities in the city and surrounding region, and to ensure that the location is attractive and worth living in for present and future generations of employees and their families.

Schweizer Electronic AG is also involved in promoting sports at a local level. For years the company has been the main sponsor of the Tria Schramberg e.V. triathlon association and organises local sporting events together with the association. SCHWEIZER's employees also participate in these events. Furthermore our employees are encouraged and supported in participating in other sporting events in the region. For instance, in 2019, SCHWEIZER employees teamed up for regional races and one employee represented the company in the Tower Run in Rottweil with great success.

We have supported Forum Kunst in Rottweil since 2018 by providing financial support as part of a "benefactor" agreement. Forum Kunst was established in 1970 as an art association with the aim of promoting engagement with contemporary art. Since its establishment, care has been taken to establish a forum (not only) for regional artists but also to bring national and international artists to the region and to promote exchange in this way. At the same time, this increases the region's attractiveness as a place to live for employees and their families.

In addition, a variety of aid organisations and associations in the region were given donations and products from workshops for people with disabilities in years past. The local voluntary fire brigade was given funding for its anniversary in the last year. SCHWEIZER was, in this way, able to express its appreciation for the important contribution that the voluntary fire brigade makes to the region.

## 6. RESPECT FOR HUMAN RIGHTS AND THE FIGHT AGAINST CORRUPTION AND BRIBERY

Respect for human rights is a central component of our corporate management and is set out in detail in our Code of Ethics, our CSR policy and our Conflict Minerals Policy, which is communicated to every employee and supplier. For verification purposes, we expect our suppliers to return the completed Conflict Mineral Report Template (CMRT) to us.

We likewise attach great importance to the fight against corruption. We reject all forms of corruption. We therefore expect our employees and authorised representatives to report all suspected cases of corruption to the Executive Board. We have set out all details for the prevention of corruption in an extra guideline and made it available to our employees.

### WHISTLEBLOWER SYSTEM AT SCHWEIZER

As we have a keen interest in ensuring that violations against laws, regulations and internal rules are reported in order to detect unlawful conduct in the company and to be able to clarify same, we, at SCHWEIZER introduced a whistleblower system in 2018 and concluded a works agreement in this regard. Reports from employees, former colleagues, customers and third parties at an early stage can assist in developing a preventive strategy in order to avert tangible and intangible losses as well as legal consequences and reputational damage to the company and its employees.

The whistleblower system opens up a confidential communication channel in which employees and other persons have the opportunity to report legal violations or violations of internal guidelines in connection with the company electronically to a central administrator. Special care is taken to ensure that participants' personality rights, informal right of self-determination and data privacy are preserved.

# 7. GRI CONTENT INDEX

The non-financial statement contains standard disclosures from the GRI Sustainability Reporting Guidelines.

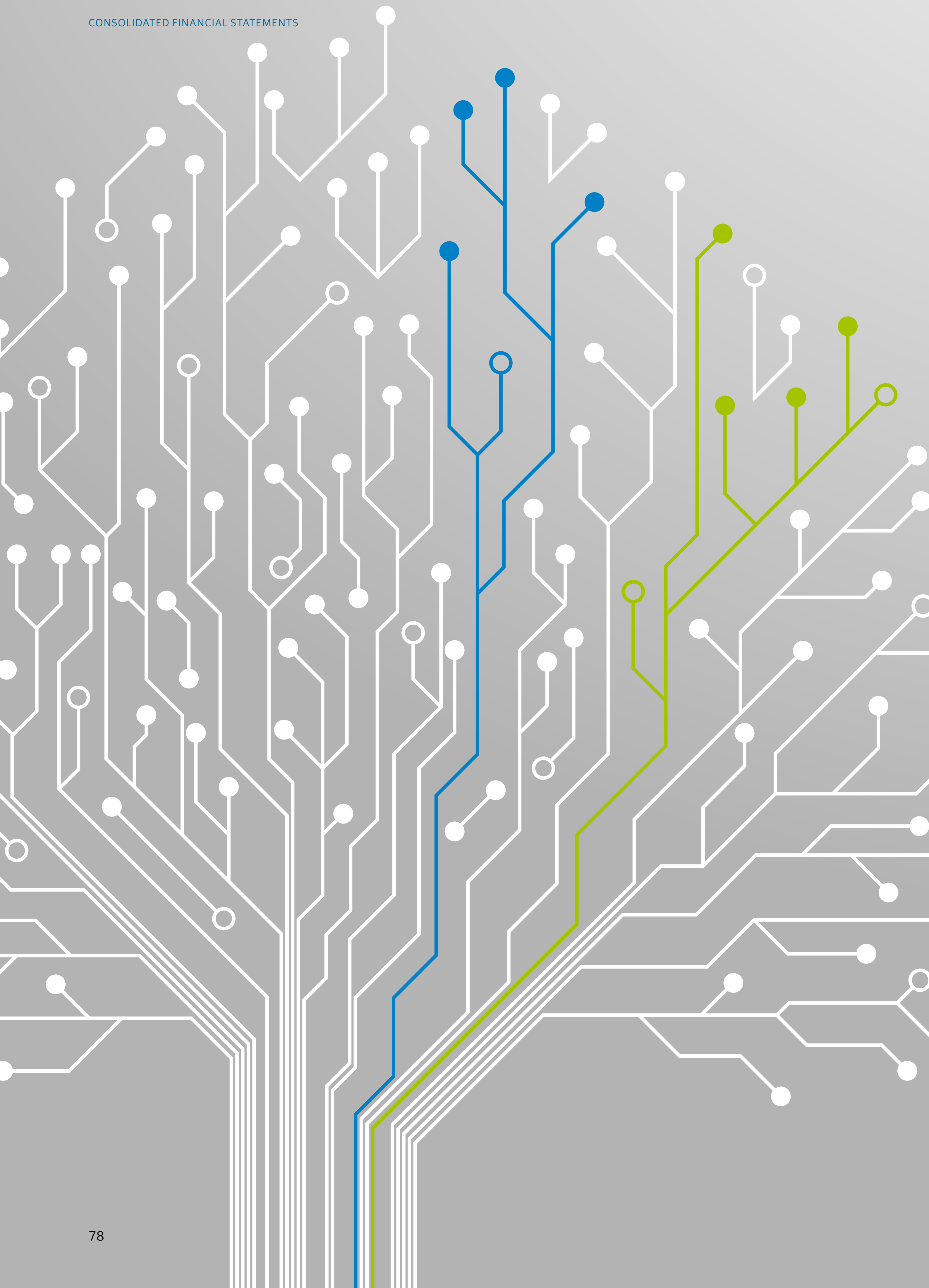
## GENERAL STANDARD DISCLOSURES

| General standard disclosures | Brief description for the respective disclosure | Reference to the position in the non-financial statement or in the Annual Report | Explanation of omission or alternative presentation |
|---|---|---|---|
| **Organisational profile** | | | |
| 102-1 | Name of organisation | Non-financial statement 2019 p. 62 | |
| 102-2 | Brands, products and services | Annual Report 2019 p. 22ff | |
| 102-3 | Company headquarters | Annual Report 2019 p. 22 | |
| 102-4 | Overview of sites | Annual Report 2019 p. 22 | |
| 102-5 | Ownership and legal form | Annual Report 2019 p. 22, 86 | |
| G102-6 | Markets | Annual Report 2019 p. 27ff. | |
| 102-7 | Size of company | Annual Report 2019 p. 2 | |
| 102-10 | Significant changes within the organisation and its supply chains | None | |
| 102-11 | Precautionary principle or precautionary approach | Non-financial statement 2019 p. 69ff | |
| **Strategy** | | | |
| 102-14 | Statement by the highest decision-making body | Non-financial statement mission statement, p. 62ff. | |
| 102-15 | Significant effects, risks and opportunities | Annual Report 2019, p. 43ff. | |
| **Ethics and integrity** | | | |
| 102-16 | Values, principles, standards and code of conduct | Non-financial statement mission statement, p. 62ff. | |
| 102-17 | Procedures regarding advice and concerns relating to ethics | Non-financial statement, p. 74 | |
| **Governance** | | | |
| 102-18 | Governance structure | Annual Report 2019 p. 12, 126ff., 138ff. | |
| **Reporting process** | | | |
| 102-45 | Companies in the consolidated financial statements | Annual Report 2019 p. 22, 88 | |
| 102-50 | Reporting period | Financial year 2019<br>1 January – 31 December 2019 | |
| 102-51 | Date of last report | 17 April 2019 | |
| 102-52 | Reporting cycle | Annual | |
| 102-55 | GRI Index | Non-financial statement 2019 p. 75ff. | |
| 102-56 | Internal assurance | This sustainability report was not audited externally. The quality of the data was reviewed by the Supervisory Board. | |

## SPECIFIC STANDARD DISCLOSURES

| Specific standard disclosures | Brief description for the respective disclosure | Reference to the position in the non-financial statement or in the Annual Report | Explanation of omission or alternative presentation |
|---|---|---|---|
| **Economic** | | | |
| Economic performance | | | |
| 201-1 | Direct generated and distributed economic value | Annual Report 2019 p. 29ff., 79ff. | |
| **Environmental** | | | |
| Materials | | | |
| 301-1 | Materials used by weight or volume | Non-financial statement 2019 p. 67 | This is a quantitative list of the most important production materials. Due to its complexity, it is currently not possible to break it down into renewable and non-renewable materials. Packing materials are not included. |
| Energy | | | |
| 302-3 | Energy intensity | Non-financial statement 2019 p. 64 | The total energy consumption includes electricity and gas. The hour of production serves as the organisation-specific parameter for measuring the intensity. The information at SCHWEIZER is indicated as specific energy consumption. |
| Water | | | |
| 303-1 | Total water consumption by source | Non-financial statement 2019 p. 66 | The information is not shown per production hour but in absolute values. |
| Emissions | | | |
| 301-1 and 305-2 | Direct GHG emissions (scope 1) Indirect energy-related GHG emissions (scope 2) | Non-financial statement 2019 p. 65 | The diagram contains the total $CO_2$ footprint, which includes both direct $CO_2$ emissions (gas combustion) and indirect $CO_2$ emissions from electricity purchased from utility companies. An additional distinction is made between the $CO_2$ footprint resulting from production, which also consists of direct emissions, and the $CO_2$ footprint caused by transporting our goods (direct emissions only). Gas, petrol and electricity consumption were used to determine $CO_2$. No oil was used. Since the consumption values of the utility companies (electricity) are not supplied until the autumn of the following year, the value is determined using the previous year's figures as an estimate. Information is shown per production hour. |
| 305-4 | Intensity of GHG emissions | Non-financial statement 2019 p. 65 | |
| 305-3 | Reduction of GHG emissions | Non-financial statement 2019 p. 65 | SCHWEIZER provides information in $CO_2$ footprint (per production hour). |

| Specific standard disclosures | Brief description for the respective disclosure | Reference to the position in the non-financial statement or in the Annual Report | Explanation of omission or alternative presentation |
|---|---|---|---|
| Effluents and waste | | | |
| 306-1 | Volume of waste water discharge by quality and place of discharge | Non-financial statement 2019 p. 66 | The information is not shown in absolute figures but in volume per production hour. The quality of the effluents is indicated in mass per volume based on selected residual metal impurities. |
| 306-2 | Waste by type and disposal method | Non-financial statement 2019 p. 66 | The figure includes the total amount of waste and the breakdown into hazardous and non-hazardous waste and clean recyclable plastics per hour of production. |
| **Social** | | | |
| Employment | | | |
| 401-1 | Total number of newly hired employees and staff turnover | Non-financial statement 2019 p. 71ff. | The number of employees and the total number of newly hired employees are stated in absolute figures. The fluctuation rate is expressed as a percentage and is not separated by gender. The number of new employees and the fluctuation rate refer exclusively to the Schramberg site. The number of employees includes all employees, 14 of whom were working in the offices in Asia as of 31 December 2017. |
| Occupational health and safety | | | |
| 403-2 | Occupational accidents, lost days, fatalities | Non-financial statement 2019 p. 71ff. | A list is provided of accidents subject to reporting requirements at the Schramberg site and the resulting days of absence. There were no fatalities. |
| Training and education | | | |
| 404-2 | Competence management and training programmes | Non-financial statement 2019 p. 72 | There are no transitional aid programmes for people leaving the profession. |
| 404-3 | Regular employee performance reviews | Non-financial statement 2019 p. 72 | It is not possible to list employees by gender or employee category. |
| Diversity and equal opportunities | | | |
| 405-1 | Diversity in controlling bodies and employees | Corporate governance statement 2019 p. 138ff. | |
| Anti-corruption | | | |
| 205-3 | Communication and training on anti-corruption guidelines and procedures | Non-financial statement 2019 p. 74 | Employees and suppliers are kept up to date. Information on this is permanently accessible. |



# CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED INCOME STATEMENT

| | | 2019 | 2018 |
|---|---|---|---|
| | Disclo-sure | In EUR thou-sands | In EUR thou-sands |
| | | | |
| Sales revenue | 3.1 | 120,739 | 125,349 |
| Cost of sales \| Cost of goods and services provided to generate sales | | -108,099 | -106,774 |
| **Gross profit** | | **12,640** | **18,575** |
| | | | |
| Other operating income | 3.2 | 3,679 | 4,491 |
| Distribution costs | | -5,543 | -4,754 |
| Administration expenses | | -15,792 | -15,384 |
| Other operating expenses | 3.3 | -1,505 | -1,298 |
| **Operating result** | | **-6,521** | **1,630** |
| | | | |
| Financial income | 3.4 | 73 | 30 |
| Financial expenses | 3.5 | -1,265 | -802 |
| **Earnings before taxes on income and revenue** | | **-7,713** | **858** |
| | | | |
| Taxes on income and revenue | 3.8 | 2,134 | -351 |
| | | | |
| **Consolidated result** | | **-5,579** | **507** |
| Of which attributable to: | | | |
| Shareholders of the parent company | | -5,565 | 512 |
| Non-controlling interests | | -15 | -5 |
| | | | |
| Earnings per share | 3.9 | | |
| Undiluted (= diluted) shareholding | | 3,769,912 | 3,766,993 |
| Undiluted, based on the profit attributable to holders of ordinary shares of the parent company | | -1.48 | 0.14 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | **2019** | **2018** |
|---|---|---|---|
| | Note no. | **In EUR thousands** | **In EUR thousands** |
| **Consolidated result** | | **-5,579** | **507** |
| | | | |
| **Other comprehensive income** | | | |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods (after taxes):** | | **-446** | **19** |
| Currency translation of foreign operations | 4.10 | -446 | 19 |
| **Other comprehensive income not to be reclassified to profit or loss in subsequent periods (after taxes):** | | **-1,743** | **-76** |
| Gains/(losses) on the revaluation of defined benefit pension plans | 4.14 | -2,790 | 16 |
| and similar obligations | 4.16 | 100 | -79 |
| Tax on profits | 3.8 | 754 | 4 |
| Gains (losses) on assets measured at fair value recognised directly in equity | 4.1 | 193 | -17 |
| **Other earnings after tax** | | **-2,188** | **-57** |
| | | | |
| **Overall result after taxes** | | **-7,768** | **450** |
| | | | |
| Of which attributable to: | | | |
| Shareholders of the parent company | | -7,780 | 454 |
| Non-controlling interests | | 12 | -4 |

# CONSOLIDATED BALANCE SHEET

| | Disclosure | 31/12/2019 In EUR thousands | 31/12/2018 In EUR thousands |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | **150,346** | **59,073** |
| Tangible assets | 4.1 | 138,468 | 56,556 |
| Intangible assets | 4.1 | 1,447 | 1,793 |
| Other participating interests | 4.2 | 636 | 444 |
| Other financial assets | 4.5 | 5 | 5 |
| Other assets | 4.5 | 5,316 | 0 |
| Deferred tax assets | 3.8 | 1,000 | 275 |
| Right of use pursuant to IFRS 16 | 4.3 | 3,475 | 0 |
| | | | |
| **Current assets** | | **78,504** | **76,196** |
| Inventories | 4.6 | 9,737 | 10,106 |
| Trade receivables | 4.7 | 20,962 | 22,270 |
| Contract assets | 4.8 | 9,168 | 8,734 |
| Tax receivables | 3.8 | 890 | 2,044 |
| Other financial assets | 4.5 | 186 | 822 |
| Other assets | 4.5 | 3,207 | 1,719 |
| Cash and cash equivalents | 4.9 | 34,353 | 29,990 |
| Assets classified as held for sale | 4.4 | 0 | 511 |
| **Total assets** | | **228,850** | **135,269** |
| | | | |
| **Liabilities** | | | |
| **Equity** | 4.10 | **55,202** | **62,978** |
| Subscribed capital | | 9,664 | 9,664 |
| Own shares | | -24 | -29 |
| Capital reserves | | 21,795 | 21,837 |
| Profit reserves/balance sheet profit | | 23,693 | 31,444 |
| Equity attributable to shareholders of the parent company | | 55,128 | 62,916 |
| Non-controlling interests | | 73 | 62 |
| | | | |
| **Non-current liabilities** | | **112,672** | **43,679** |
| Financial liabilities | 4.12 | 65,295 | 18,281 |
| Other financial liabilities | 4.13 | 2,023 | 2,222 |
| Provision for defined benefit pension plans | 4.14 | 22,573 | 20,149 |
| Trade payables | 4.15 | 104 | 3 |
| Liabilities from government grants | 4.18 | 20,615 | 0 |
| Other provisions | 4.16 | 1,944 | 843 |
| Deferred tax liabilities | 3.8 | 117 | 2,181 |
| | | | |
| **Current liabilities** | | **60,976** | **28,612** |
| Financial liabilities | 4.12 | 2,563 | 7,147 |
| Other financial liabilities | 4.13 | 751 | 167 |
| Provision for defined benefit pension plans | 4.14 | 948 | 925 |
| Trade payables | 4.15 | 46,246 | 9,786 |
| Other liabilities | 4.15 | 3,771 | 3,574 |
| Liabilities from taxes | 3.8 | 42 | 0 |
| Other provisions | 4.16 | 6,655 | 7,013 |
| | | | |
| Total liabilities | | 173,648 | 72,291 |
| **Total assets** | | **228,850** | **135,269** |

# CONSOLIDATED CASH FLOW STATEMENT

| | Disclo-sure | 2019 In EUR thousands | 2018 In EUR thousands | |
|---|---|---|---|---|
| **Operating activities** | | | | |
| **Earnings before tax** | | **-7,713** | **858** | |
| Adjustments to reconcile earnings before taxes to net cash flows: | | | | |
| Financial income | 3.4 | -73 | -30 | 1) |
| Financial expenses | 3.5 | 1,265 | 802 | 2) |
| Amortisation and impairment of tangible and intangible assets | 4.1 | 6,611 | 7,533 | |
| Other non-cash income/expenses | | -6 | -1,311 | 3) |
| Gains (-)/losses (+) from the disposal of property, plant and equipment and other non-current assets | 4.4 | -422 | 12 | |
| Changes in the provision for defined benefit pension plans (without changes recognised directly in equity) | 4,14 | -243 | -285 | |
| Change in other provisions | 4.16 | 743 | 679 | |
| Change in trade receivables and other assets | 4.7 / 4.5 | -5,295 | -4,836 | |
| Change in inventories | 4.6 | 369 | 726 | |
| Change in trade and other payables | 4.15 | 8,690 | 3,547 | |
| Interest received | 3.4 | 33 | 24 | |
| Dividends received | 3.4 | 9 | 6 | |
| Paid / refunded taxes on income and revenue | 3.8 | 1,320 | -1,706 | |
| **Cash flow from operating activities** | | **5,288** | **6,019** | 4) |
| | | | | |
| **Investment activities** | | | | |
| Proceeds from the sale of tangible assets | 4.4 | 965 | 1,107 | |
| Payments to acquire tangible assets and intangible assets | 4.1 | -63,543 | -6,530 | |
| Payments received from government grants | 4.18 | 20,615 | 0 | |
| Proceeds from disposals of investments | | 0 | 1,210 | |
| **Cash flow from investing activities** | | **-41,963** | **-4,213** | |
| | | | | |
| **Financing activities** | | | | |
| Incoming payments from the take-up of loans | 4.12 | 49,577 | 19,459 | |
| Payments for the repayment of loans | 4.12 | -7,147 | -1,242 | |
| Payments for the repayment of lease liabilities | 4.3 | -814 | -269 | |
| Interest paid | 4.17 | -761 | -85 | 4) |
| Dividend payments | 4.10 | 0 | -1,130 | |
| **Cash flow from financing activities** | | **40,854** | **16,733** | 4) |
| | | | | |
| Net change in cash and cash equivalents | | 4,179 | 18,539 | |
| Changes in cash and cash equivalents owing to exchange rates | | 185 | 158 | |
| | | | | |
| **Cash and cash equivalents as at 1 January** | | **29,990** | **11,293** | |
| **Cash and cash equivalents as at 31 December** | | **34,353** | **29,990** | |

1) From 2019, interest income and dividend income are combined under the item financial income. The separate prior-year figures have been adjusted to reflect the current structure.
2) From 2019, interest expenses are presented under the item financial expenses. The separate prior-year figures have been adjusted to reflect the current structure.
3) Non-cash items such as "Translation differences", "Share-based payment expense" or "Changes in fair value of financial assets and liabilities" that were still presented separately in the previous year. Tax receivables" are combined in the item "Other non-cash income/expenses" from 2019. The separate prior-year figures have been adjusted to reflect the current structure.
4) In previous years, interest paid was allocated to cash flow from operating activities. From financial year 2019, interest paid (2019: EUR 761 thousand; 2018: EUR 85 thousand) is shown under cash flow from financing activities. While the interest paid in previous years resulted from various circumstances that suggested an allocation to the cash flow from operating activities, since the 2019 financial year the interest paid has mainly resulted from the interest on loans to finance current investment measures and is therefore now principally allocated to the cash flow from financing activities. In order to make a year-on-year comparison easier, this change in recognition was also carried out for the comparative figures. The cash flow from operating activities (from financing activities) for the previous year 2018 is thus reported EUR 85 thousand higher (lower) than in the 2018 Annual Report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| In EUR thousands | Notes no. 4.10 | Subscribed capital | Own shares | Capital reserves | Profit reserves/balance sheet profit |
|---|---|---|---|---|---|
| **As of 1 January 2018** | | **9,664** | **-40** | **21,904** | **30,678** |
| Adjustments in accordance with IFRS 15 | | | | | 1,359 |
| **As of 1 January 2018 - adjusted -** | | **9,664** | **-40** | **21,904** | **32,037** |
| Consolidated result | | | | | 512 |
| Other comprehensive income | | | | | -61 |
| **Overall result** | | | | | **454** |
| Change in minority interests | | | | | |
| Change in own shares | | | 11 | | 83 |
| Long-term incentives | | | | -67 | |
| Dividend payout | | | | | -1,130 |
| Allocation to reserves | | | | | |
| Other changes | | | | | |
| | | | | | |
| **As of 31 December 2018** | | **9,664** | **-29** | **21,837** | **31,444** |
| | | | | | |
| **As of 1 January 2019** | | **9,664** | **-29** | **21,837** | **31,444** |
| Adjustments in accordance with IFRS 16 | | | | | 10 |
| **As of 1 January 2019 - adjusted -** | | **9,664** | **-29** | **21,837** | **31,454** |
| Consolidated result | | | | | -5,565 |
| Other comprehensive income | | | | | -2,215 |
| **Overall result** | | | | | **-7,780** |
| Change in minority interests | | | | | |
| Change in own shares | | | 5 | | |
| Long-term incentives | | | | -42 | 24 |
| Dividend payout | | | | | |
| Allocation to reserves | | | | | |
| Other changes | | | | | -5 |
| | | | | | |
| **As of 31 December 2019** | | **9,664** | **-24** | **21,795** | **23,693** |

| Included in profit reserves/balance sheet profit: | | | | | | |
|---|---|---|---|---|---|---|
| Actuarial losses, pension commitment | Change in the value of financial assets available for sale | Currency translation difference | Consolidated result (attributable to shareholders of SEAG) | Equity attributable to shareholders of the parent company | Minority interests | Equity |
| **-3,670** | **425** | **1,518** | **-12,040** | **62,206** | **136** | **62,342** |
| | | | | 1,359 | | 1,359 |
| **-3,670** | **425** | **1,518** | **-12,040** | **63,565** | **136** | **63,701** |
| | | | 512 | 512 | -5 | 507 |
| -13 | -63 | 18 | | -58 | 1 | -57 |
| **-13** | **-66** | **18** | **512** | **454** | **-4** | **450** |
| | | | | | -71 | -71 |
| | | | | 94 | | 97 |
| | | | | -67 | | -67 |
| | | | -1,130 | -1,130 | | -1,130 |
| | | | -1,500 | | | |
| | | | | | | |
| | | | | | | |
| **-3,683** | **362** | **1,536** | **-14,159** | **62,916** | **62** | **62,978** |
| | | | | | | |
| **-3,683** | **362** | **1,536** | **-14,159** | **62,916** | **62** | **62,978** |
| | | | | 10 | | 10 |
| **-3,683** | **362** | **1,536** | **-14,159** | **62,926** | **62** | **62,988** |
| | | | -5,565 | -5,565 | -15 | -5,580 |
| -1,935 | 192 | -473 | | -2,215 | 27 | -2,188 |
| **-1,935** | **192** | **-473** | **-5,565** | **-7,780** | **12** | **-7,768** |
| | | | | | | |
| | | | | 5 | | 5 |
| | | | | -18 | | -18 |
| | | | | | | |
| | | | | | | |
| | | 9 | | -5 | | -5 |
| | | | | | | |
| **-5,618** | **554** | **1,072** | **-19,724** | **55,128** | **74** | **55,202** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

## 1. PRINCIPLES UNDERLYING THE CONSOLIDATED FINANCIAL STATEMENT

The SCHWEIZER Group, comprising Schweizer Electronic AG and its subsidiaries, is a global technology company active in the manufacture of high-quality PCBs and the provision of innovative solutions for automotive, industrial and aviation electronics. Based on its recognised technology and consultancy expertise, SCHWEIZER supplies products and solutions that address key challenges in power electronics, embedding technology and cost reduction and that stand out thanks to their energy efficiency and consideration for the environment.

The parent company of the SCHWEIZER Group is Schweizer Electronic AG (hereafter referred to as the company or SCHWEIZER). Schweizer Electronic AG's registered office is located at Einsteinstrasse 10, 78713 Schramberg, Germany. The company is entered in the commercial register at the District Court of Stuttgart under commercial register number HRB 480540. Schweizer Electronic AG has been listed on the stock exchange since 5 July 1989. The shares (ISIN DE0005156236) are listed in Frankfurt am Main and Stuttgart (regulated market).

The consolidated financial statement of the SCHWEIZER Group for the financial year ending 31 December 2019 was prepared and approved by the Executive Board on 7 April 2020.

The consolidated financial statements have been prepared in accordance with Section 315e of the German Commercial Code (HGB), International Financial Reporting Standards (IFRS) and the related interpretations of the International Accounting Standards Board (IASB), as adopted by the European Parliament and Council Regulation No. 1606/2002 on the application of international accounting standards in the European Union. In addition, the supplementary provisions of Section 315e HGB were observed.

The consolidated financial statements are prepared in the reporting currency (EUR), which is the functional currency of Schweizer Electronic AG. Unless otherwise specified, all values are rounded up or down to the nearest EUR thousand in accordance with commercial rounding practices, which can lead to minor deviations when these are added up.

The consolidated financial statement was prepared essentially applying the historical cost principle, except for derivative financial instruments, and certain debt and equity instruments which have been measured at fair value. The income statement was produced according to the cost-of-sales method. Various items of the consolidated balance sheet and the consolidated income statement were summarised in the interests of a clearer representation and explained accordingly in the notes. The consolidated cash flow statement was prepared in accordance with the indirect method for cash flow from operating activities and in accordance with the direct method for cash flow from investment and financing activity.

### ACCOUNTING PRINCIPLES APPLIED FOR THE FIRST TIME

The application of the following pronouncements of the International Accounting Standards Board (IASB) is mandatory for financial year 2019:

| **Standards / Interpretations** | | **Consequences for the consolidated financial statement** |
|---|---|---|
| IFRS 16 | Leases | The details of the effects from IAS 16 are explained at the end of this overview. |
| IFRS 9 | Amendments to IFRS 9: Prepayment regulations with negative compensation | None |
| IFRIC 23 | Interpretation: Uncertainty regarding the treatment of income tax | None |
| IAS 28 | Amendments to IAS 28: Long-term investments in associates and joint ventures | None |

| **Standards / Interpretations** | | **Consequences for the consolidated financial statement** |
|---|---|---|
| IAS 19 | Amendments to IAS 19: Plan adjustments, plan reductions or plan settlements | None |
| Various Standards | Annual improvements to the International Financial Reporting Standards, cycle 2015 to 2017 | Insignificant |

### IFRS 16 – LEASES

IFRS 16 was published in January 2016 and replaces IAS 17 – Leases and all interpretations relating to lease accounting. IFRS 16 is effective for financial years beginning on or after 1 January 2019. The Group applied IFRS 16 for the first time in financial year 2019.

The SCHWEIZER Group has adopted the modified retrospective approach and recognised the cumulative changeover effects in retained earnings. The prior-year period has not been restated to reflect the chosen changeover method. In the transition, the practical workaround was utilised and contracts that were not classified as leases in accordance with IAS 17 "Leases" in conjunction with IFRIC 4 "Determination of whether an agreement contains a lease" were not reviewed again according to the definition of a lease pursuant to IFRS 16. The SCHWEIZER Group also opted not to perform an impairment test in accordance with IAS 36 at the time of transition, but instead relied on the assessment made immediately prior to the date of first-time application as to whether its leases were onerous contracts in accordance with IAS 37 and, if necessary, adjusted the value of the right of use by the provision for onerous leases previously recognised in the balance sheet.

The main changeover effects result from the recognition of leases of motor vehicles and rental space previously classified as operating leases. As a result of the application of the new standard, rights of use in leased assets totaling EUR 3.767 million and lease liabilities of EUR 3.099 million were recognised as of 1 January 2019. An amount fo EUR 653 thousand of the rights of use result from the capitalisation of operating leases. The difference between rights of use and lease liabilities results primarily from the right of use for a land use right with a carrying amount of EUR 739 thousand, for which there was no longer a lease liability due to the prepayment in 2018. The carrying amount for leases previously classified as operating leases was recognised at the date of initial application as if the standard had been applied since the date the leased asset was made available. The lease payments were discounted using the marginal borrowing rate at the time of initial application.

**Accounting principles that have been published but not yet applied**

The IASB pronouncements listed below have already been published but their application is not yet mandatory and their applicability, in some cases, still requires adoption into EU law ("endorsement"). The SCHWEIZER Group will not voluntarily apply this prematurely.

| **Standards / Interpretations** | | **Mandatory application**[1] | **Adoption into EU law** | **Anticipated consequences for the consolidated financial statement** |
|---|---|---|---|---|
| IFRS 17 | Insurance contracts | 1 January 2021 | No | None |
| Framework concept | Amendments to the references to the framework in IFRS | 1 January 2020 | Yes | None |
| IFRS 3 | Amendments to IFRS 3 Definition of a business operation | 1 January 2020 | No | None |
| IAS 1 and 8 | Amendments to IAS 1 and IAS 8 – Definition of material | 1 January 2020 | Yes | None |
| IFRS 9, IAS 39 and IFRS 7 | Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform | 1 January 2020 | Yes | Insignificant |

[1] Where adoption into EU law is still outstanding, the key criterion is the time it is enforced by the IASB.

# 2. SUMMARY OF MATERIAL ACCOUNTING PRINCIPLES

## SCOPE OF CONSOLIDATION

The scope of consolidation includes all companies that are controlled by Schweizer Electronic AG. Control is said to exist when Schweizer Electronic AG has a power of disposition over the associated company, is exposed to risk due to, or is entitled to fluctuating returns from, its engagement in the associated company, and is also able to use its power of disposition over the associated company to influence these returns.

The consolidated financial statement is based on the financial statements of Schweizer Electronic AG and its subsidiaries. All financial statements are prepared as at the 31 December 2019 reporting date. The annual financial statements of the individual companies included in the consolidated financial statement have been prepared in accordance with uniform accounting and valuation methods.

Intra-Group profits and losses, sales, expenses and income and all receivables and liabilities between the consolidated companies are eliminated. Deferred taxes are recognised on consolidation measures that affect profit and loss insofar as these are tax-effective processes.

In addition to Schweizer Electronic AG as the parent company, the consolidated Group is comprised as follows:

| | 31 December 2018 | Initially included in financial year 2019 | Eliminated in financial year 2019 | 31 December 2019 |
|---|---|---|---|---|
| **Number of fully consolidated companies** | | | | |
| National | 1 | 0 | 0 | 1 |
| International | 5 | 0 | 0 | 5 |
| **Total** | **6** | **0** | **0** | **6** |

In the 2019 financial year there were no changes in the scope of consolidation of the Schweizer Group.

A complete overview of the participating interests of Schweizer Electronic AG is provided in the list of shareholdings in Section 7.6.

## CURRENCY TRANSLATION

The functional currency of the foreign subsidiaries is the respective national currency. For the preparation of the consolidated financial statement, the assets and liabilities of foreign subsidiaries whose functional currency is not EUR are translated at the exchange rate valid on the balance sheet date. Translation of items in income statements is done using the year's average exchange rate. The resultant currency translation differences are recognised directly in equity.

For the translation of important currencies within the Group, the following exchange rates against the EUR were used as a basis:

| Exchange rates | Year-end rate | | Average rate | |
|---|---|---|---|---|
| **EUR** | **31/12/2019** | **31/12/2018** | **2019** | **2018** |
| USD USA | 1.1234 | 1.1450 | 1.1196 | 1.1810 |
| CNY China | 7.8205 | 7.8751 | 7.7339 | 7.8088 |
| SGD Singapore | 1.5111 | 1.5591 | 1.5272 | 1.5926 |

## ACCOUNTING AND VALUATION PRINCIPLES

### INTANGIBLE ASSETS

The acquired intangible assets are principally recognised at cost and depreciated on a straight-line, scheduled basis over their useful life. When depreciating software, a useful life of three to eight years is used as the basis. There are no intangible assets with an indefinite useful life.

### TANGIBLE ASSETS

Tangible assets are measured at acquisition or production costs, less scheduled depreciation and any impairments. The production costs of internally generated assets also include reasonable shares of required materials and production overheads in addition to the direct individual costs.

Costs of repairs and maintenance are generally recognised as expenses. Costs for implementing larger maintenance works are recognised in the carrying amount of the tangible asset, insofar as the recognition criteria are fulfilled.

Land and plants under construction are not subject to scheduled depreciation. The following useful lives serve as a basis for planned depreciation for the other assets of the tangible fixed assets:

- Buildings: 10 to 50 years
- Technical equipment and machines: 5 to 20 years
- Other plant, factory and office equipment: 3 to 20 years

Scheduled depreciation takes place in accordance with the linear method.

### LEASING

At the inception of the lease, Schweizer assesses whether the lease constitutes a lease in accordance with IFRS 16. This is the case if the agreement entitles the holder to control the use of an identified asset for a specified period in return for a fee. If these conditions are met, the Schweizer Group capitalises a right of use for the leased asset and shows the commitment to lease payment as a liability.
The Schweizer Group records rights of use at the date of provision (i.e. at the time when the underlying leased asset is ready for use). Rights of use are measured at cost less any accumulated depreciation and any accumulated impairment losses and are adjusted for any revaluation of lease liabilities. The cost of rights of use comprises the recognised lease obligations, the initial direct costs incurred and the lease payments made at or before the date on which the asset is made available for use, less any incentives received.

Rights of use are amortised on a straight-line basis over the shorter of the lease term and the expected useful life of the leases. If ownership of the leased asset is transferred to the Group at the end of the lease term, or if the costs include the exercise of a purchase option, depreciation is calculated on the basis of the expected useful life of the leased asset. This is particularly the case for former finance leases.

On the date of provision, the Group recognises the lease liability at the present value of the lease payments to be made over the term of the lease. Lease payments comprise fixed payments (including de facto fixed payments) less any lease incentives received, variable lease payments linked to an index or (interest) rate, and amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option if it is reasonably certain that the Group will actually exercise it and penalties for termination of the lease if the term of the lease takes into account that the Group will exercise the termination option. Variable lease payments that are not linked to an index or (interest) rate are expensed in the period in which the event or condition giving rise to the payment occurs (unless they are caused by the production of inventories).

In calculating the present value of the lease payments, the Group uses its incremental borrowing rate at the inception date of the lease as the interest rate underlying the lease cannot be readily determined. After the provision date, the amount of the lease liability is increased to reflect the increase in interest expense and decreased to reflect the lease payments made. In addition, the carrying amount of lease liabilities is reassessed if there are changes to the lease, changes to the term of the lease, changes to lease payments (for example, changes to future lease payments resulting from a change in the index or interest rate used to determine those payments) or a change in the assessment of a call option for the underlying asset.

The Group's lease liabilities are included in other financial liabilities.

The Schweizer Group avails itself of the relief provided for leased assets of low value and short-term leases with a term of less than one year. With respect to motor vehicles, the Schweizer Group makes use of the option to eliminate the separation of non-lease and lease components and accounts for the corresponding lease components and related non-lease components as one lease component.

Schweizer determines the term of the lease on the basis of the non-terminable basic term of the lease and including the periods resulting from an option to extend the lease if it is sufficiently certain that the company will exercise this option, or the periods resulting from an option to terminate the lease if it is sufficiently certain that the company will not exercise this option. This means that discretion is exercised when considering all relevant factors.

After the provision date, Schweizer reassesses the lease term if a significant event or change in circumstances occurs that is within its control and affects whether or not it will exercise its option to renew or terminate the lease (e.g. planned restructuring of the location or its size).

The interest rate on which the lease is based is generally not readily determinable, with the result that the marginal borrowing rate is regularly used to value the lease liabilities. The incremental borrowing rate is the interest rate that the Group would have to pay to borrow, with comparable certainty, the funds it would need to finance an asset with a value comparable to its right of use in a similar economic environment for a similar term. The Schweizer Group calculates the incremental borrowing rate using observable input factors (e.g. market interest rates), where available.

## IMPAIRMENT OF NON-CURRENT ASSETS

For non-current assets, including intangible and tangible assets, a review is performed yearly as to whether there are indications of an impairment of the assets. If such indications are found to exist, an impairment test is performed. In this process, the recoverable amount of the affected asset is determined and then compared to its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. An asset is deemed to be impaired, if and insofar as the carrying amount exceeds the recoverable amount of the asset. In this case, the impairment loss is immediately recognised through profit or loss.

If an impairment recognised in previous years no longer exists or no longer exists to the same extent due to changes to the underlying estimates, the impairment loss is reversed through profit or loss. The reversal of the impairment loss is limited here to the carrying amount that would have resulted had the impairment not been recognised.

## FINANCIAL INSTRUMENTS

The following accounting policies are applied to financial instruments since the 2018 financial year.

Financial instruments are recognised on the transaction date of the market-standard purchase or sale; this means on delivery of an asset. On initial recognition, financial instruments are recorded at their fair value. Transaction costs directly attributable to the acquisition or issue are included unless the financial instrument is measured at fair value through profit or loss. Subsequent measurement is based on the respective classification of the financial instruments.

IFRS 9 contains three categories for the classification and measurement of financial assets: measured at amortised cost, measured at fair value in other comprehensive income and recognised in profit or loss. Classification is based on the Schweizer business model for managing financial assets (business model condition) and the contractual cash flows (cash flow condition).

**Financial assets – measured at fair value through equity in other comprehensive income**

This category includes the other investments of the Schweizer Group. These investments represent strategic investments intended to be held for the long term and are not held for trading purposes. They are measured at fair value and changes in fair value are recognised in other comprehensive income.

In some cases, cost represents an appropriate estimate of fair value, for example when insufficient information is available to measure fair value. In addition, acquisition costs would also be an appropriate estimate of fair value if there were a wider range for the possible measurement and the acquisition costs corresponded to the best estimate within this range.

In the event of a disposal of the investments, the other result is not reclassified to the income statement.

**Financial liabilities – measured at amortised cost**

This category includes trade receivables, cash and cash equivalents, and other financial assets. They are measured at amortised cost, taking into account any impairment losses. For trade receivables and contract assets, the simplified impairment approach is applied, with the result that a risk provision is recognised in the amount of the expected defaults over the entire term, taking into account customer-specific probabilities of default. The general impairment approach is applied to the other financial assets in this category. A risk provision for expected loan defaults is then determined in two steps. For financial instruments whose credit risk has not increased significantly since initial recognition, a risk provision for loan losses must be recognised in the amount of the loan defaults expected to occur within the next twelve months. If the credit risk has increased significantly since first-time recognition, a risk provision is created in the amount of the loan defaults expected over the remaining term. Gains or losses on these financial assets are recognised in profit or loss if they are impaired, modified or derecognised.

**Financial liabilities**

Financial liabilities are measured at amortised cost using the effective interest method.

***Derivative financial instruments***

The Schweizer Group uses derivative financial instruments on a case-by-case basis to counter currency risks and commodity price risks. The derivative financial instruments of the Schweizer Group are allocated to the measurement category "at fair value through profit or loss". Changes in fair value are recognised in the income statement. There are no hedge accounting relationships in the Schweizer Group. The Schweizer Group reserves the option under IFRS 9 to continue to apply the hedge criteria of IAS 39 in future cases.

## DETERMINING FAIR VALUES

The fair value is determined on the basis of input factors in three defined categories. The following valuation hierarchy is applied:

- Level 1: Use of listed (not corrected) prices for identical assets or liabilities in active markets accessible on the valuation date.
- Level 2: Fair value calculated using valuation methods based on observable input factors for similar assets and liabilities in active markets or for identical assets and liabilities in inactive markets.
- Level 3: Assets and liabilities measured using valuation methods based on developed, non-observable input factors, because insufficient observable market data is available to determine the fair value.

## INVENTORIES

Inventories are recognised at the lower of acquisition or production costs and the net realisable value. The average cost method is applied for the valuation of raw materials and supplies and goods purchased for resale. The production costs of unfinished and finished products are determined through the individual assignment of their individual production costs. Along with the directly attributable costs, the production costs also include appropriate shares of the attributable overheads, which also contain depreciation.

## CONTRACT ASSETS

The contract assets are based on the period-related revenue recognition of customer-specific products that have no alternative use and for which an enforceable payment claim exists in the amount of the costs already incurred plus an appropriate profit margin. Contract assets are reclassified as trade receivables as soon as there is an unconditional right to receive the consideration. This point in time corresponds to the invoicing date to the customer.

For the impairment of contract assets, the simplified approach is applied, with the result that a risk provision is recognised for expected losses over the entire term of the contract.

### CASH AND CASH EQUIVALENTS

Cash, sight deposits and all financial resources with an original term of up to three months are disclosed as cash and cash equivalents. They are recognised at par value.

### PROVISION FOR DEFINED BENEFIT PENSION PLANS

The provision for defined benefit pension plans is calculated on the basis of actuarial advice according to the projected unit credit method, taking into account future salary and pension adjustments. The service costs and net interest expense on net debt from defined benefit plans are recognised in income. Revaluations of recognised net debt from defined benefit plans are included in other comprehensive income.

### DEFERRED TAXES

Deferred taxes are determined for temporary differences between the tax valuations of the assets and liabilities and the carrying amounts in the consolidated balance sheet, arising from consolidation measures that impact on profit and loss – insofar as these are tax-effective processes – and for existing tax loss carryforwards. The valuation is performed taking into consideration the relevant national tax rates of the taxable entities, which are valid at the time of realisation and already in force at the balance sheet date or which will be applicable in all probability.

Deferred tax assets are only recognised to the extent that it is probable that a future taxable profit will be available. Deferred tax assets and liabilities are netted, if these relate to the same tax creditor and period.

### OTHER PROVISIONS

Other provisions take into account all recognisable risks and uncertain obligations towards third parties whose settlement is expected to lead to an outflow of funds which can be reliably estimated. They are recognised at their most likely amount and discounted if the discount amount is material. Rights of recourse are presented separately under other assets.

Obligations arising from partial retirement arrangements are classified as other long-term employee benefits in accordance with IAS 19 and accrued. The provisions are calculated on the basis of an actuarial report using the projected unit credit method applying the FIFO method (first in, first out), in which the portion earned from all top-ups is distributed in such a way that the top-ups to be paid out first are also fully financed first. The accumulation period for all top-ups ends uniformly at the end of the work phase. The present value is determined as the settlement amount for the fully financed benefits. For the group of employees who have a legal claim to the conclusion of a partial retirement contract, potential provisions were created assuming the probable utilisation of partial retirement by the employees. The fair value of the plan assets from the insolvency protection of the partial retirement obligations is deducted from the present value of the benefit obligations, so that the net liability is recognised in the provisions.

### LIABILITIES

Liabilities are reported at the par value or higher repayment amount. Non-current liabilities are discounted if the discount amount is material.

### SALES REVENUE

As from financial year 2018, the following accounting policies have been applied for revenue recognition in accordance with IFRS 15.

At Schweizer, revenues are recognised when the respective performance obligation is fulfilled, i.e. when the power to dispose of the promised goods is transferred to the customer. The transfer of the power of disposition takes place either on a time or period basis.

The transaction price represents the consideration that Schweizer is expected to receive in exchange for the transfer of the promised goods or services to a customer. Revenue is recognised in the amount of the agreed price for the respective goods. In some cases, customers are granted bonuses, cash discounts, credit notes or rebates that represent variable consideration. These are recorded as a reduction in sales based on experience or sales revenue. In line with revenues, the costs of goods and products sold are recognised through profit or loss in the same period.

As warranty agreements exist in connection with the sold goods only with respect to the hedging of contractually agreed product specifications, these do not constitute a performance obligation. These will continue to be accounted for in accordance with IAS 37.

For SCHWEIZER, the period between the transfer of control of the goods promised and payment is no more than one year, meaning that SCHWEIZER applies the practical remedy in accordance with IFRS 15.63 and does not adjust the consideration by a financing component.

The payment terms for service obligations under contracts with customers are usually between 30 and 90 days after invoicing. In most cases, the invoice is issued at the time of performance.

### GRANTS FROM PUBLIC AUTHORITIES

Government grants are recognised if there is adequate certainty that the grants will be forthcoming and the company meets the relevant conditions. Expense-related grants are recognised as a liability in the balance sheet upon receipt and are subsequently recognised as income over the period necessary to match them with the related expenses they are intended to compensate. The grants are reported under other operating income. Grants related to an asset are recognised as a liability in the balance sheet and, unless they are repayable, are recognised as income over the estimated useful life of the related asset.

### RECOGNITION OF OTHER INCOME AND EXPENSES

Other income is recognised at fair value at the time the legal claim came into being. Operating expenses are recognised in profit or loss at the time the service is used or at the time they are caused. Interest income and interest expenses are recorded for the relevant period and other financial income is recognised at the time the legal claim came into being.

### SHARE-BASED REMUNERATION

The cash-settled share-based payment (LTI plan) is measured at fair value in accordance with IFRS 2. Vested entitlements under the LTI plan in the form of virtual shares are measured at each reporting date and on the settlement date on the basis of the relevant stock market prices. At measurement dates prior to payment of the remuneration entitlements, the measurement is also carried out using the Black/Scholes model and, if necessary, on the basis of assumptions regarding future levels of target achievement. The calculated value is recognised under personnel expenses in the income statement on a time-proportionate basis in accordance with the consideration provided during the vesting period. Provisions are created to the same extent. Fluctuations in value due to changes in the share price occurring after the grant date are reported under personnel expenses.

### ASSUMPTIONS AND ESTIMATES

The preparation of the consolidated financial statement requires that management make various estimates and assumptions that affect the valuation of reported income, expenses, assets, liabilities and corresponding information, and the disclosure of contingent liabilities. All estimates and assumptions are made to the best of management's knowledge and beliefs in order to present a true and fair view of the net assets, financial position and results of operations. The assumptions and estimates are reviewed on an ongoing basis. Nonetheless, future events can deviate from the estimates made and have a significant influence on the net assets, financial position and results of operations. In the following areas, the assumptions and estimates made are of particular importance:

- *Recognition and measurement of deferred tax assets*
  The recognition of deferred tax assets from temporary differences and tax loss carryforwards, which are not offset by deferred tax liabilities from temporary differences, requires a significant estimate by management with respect to the planned taxable income (see also "Deferred taxes" and section 3.8).

- *Determination of the useful life of the fixed asset*
  The estimate of the useful life of depreciable fixed assets is based on past experience (see also "Tangible assets" and "Intangible assets", as well as Section 4.1).

- *Measurement of the provision for defined benefit pension plans*
  Costs related to defined benefit plans and the present value of pension obligations are calculated based on actuarial calculations. An actuarial valuation is based on various assumptions which may differ from actual developments in the future. These include determi-

nation of the discount rate, future salary increases, mortality rates and future pension increases. Given the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date (see "Provision for defined benefit pension plans" and Section 4.14).

- *Measurement of the provision for litigation risks*
  The recognition of provisions for risks arising from legal disputes requires a significant estimate by management. The risk is assessed and evaluated on the basis of the current status of the respective proceedings, the probability of success and legal assessments. This estimate is based on various assumptions that may differ from actual developments in the future. These include the dynamics in the course of legal proceedings as well as the indeterminability of a future settlement or court judgement (see Section 6.1 "Legal disputes").

- *Revenue recognition*
  Through the application of IFRS 15, revenues from the sale of our products are mainly recognised on a period basis, as the criteria of IFRS 15 for period-related realisation – products without an alternative use option and the existence of a legal claim to payment for the service already rendered – are met in the majority of cases.

  Revenue is calculated for a specific period using the input method. The cost of sales is initially determined by reference to the cost of materials for work in progress and finished goods.

  In a second step, a check is then carried out to determine the order backlog based on the order date in the frozen zone. The frozen zone is the period during which a customer can no longer make any changes to the order or contract and is obliged to accept the products.

  In a further step, the percentage of completion of the work in progress is also considered, i.e. the percentage of completion of the materials. The sales price at which the materials are sold is then examined, which ultimately results in revenue in accordance with IFRS 15 or leads to contract assets. The cost of sales attributable to these revenues are deducted from inventories and included in the cost of sales (see "Sales" and Section 3.1).

**SEGMENT INFORMATION**

The Schweizer Group comprises exclusively the Electronic segment. In this segment, the Schweizer Group develops, produces and distributes high-quality printed circuit boards for the automotive, solar, aviation and general industries. Partnerships exist with Elekonta Marek GmbH & Co. KG, Gerlingen, Germany; Meiko Electronics Co. Ltd., Ayase, Japan; and WUS Printed Circuit (Kunshan) Co., Ltd., Kunshan, China.

We refer to Section 3.1 for information on the sales revenues by geographical region and on our main customers.

# 3. NOTES TO THE CONSOLIDATED INCOME STATEMENT

## 3.1 REVENUE

Revenue from contracts with customers are broken down as follows:

| 2019 revenues in EUR million | Metallised circuits | Non-metallised circuits | Multilayer / HDI | Other | Total |
|---|---|---|---|---|---|
| EU (excl. Germany) | 2.8 | 0.8 | 27.6 | 0.0 | 31.2 |
| Germany | 8.3 | 1.8 | 52.4 | 1.3 | 63.8 |
| America | 1.9 | 0.3 | 9.5 | 0.0 | 11.7 |
| Asia | 1.0 | 1.9 | 10.2 | 0.6 | 13.6 |
| Other countries | 0.4 | 0.0 | 0.0 | 0.0 | 0.4 |
| | **14.4** | **4.8** | **99.7** | **1.9** | **120.7** |

| 2018 revenues in EUR million | Metallised circuits | Non-metallised circuits | Multilayer / HDI | Other | Total |
|---|---|---|---|---|---|
| EU (excl. Germany) | 4.6 | 1.0 | 29.5 | 0.0 | 35.1 |
| Germany | 10.0 | 3.1 | 56.6 | 0.8 | 70.5 |
| America | 2.5 | 0.4 | 7.0 | 0.0 | 9.9 |
| Asia | 1.8 | 2.9 | 4.4 | 0.5 | 9.6 |
| Other countries | 0.2 | 0.0 | 0.0 | 0.0 | 0.2 |
| | **19.1** | **7.4** | **97.4** | **1.4** | **125.3** |

The above information on sales revenues is broken down by customer supply region.

The following table provides information on the balances of receivables and contract assets from our contracts with customers:

**CONTRACT BALANCES**

| In EUR thousands | 31/12/2019 | 31/12/2018 |
|---|---|---|
| Trade receivables | 20,962 | 22,270 |
| Contract assets | 9,168 | 8,734 |

In 2019, sales revenues from three customers accounted for approximately 52 percent of total revenue (2018: 45 percent). Sales revenue with these customers amounted to EUR 39 million (2018: EUR 30 million), EUR 12 million (2018: EUR 14 million), EUR 12 million (2018: EUR 9 million). The total amount of the transaction price allocated to the unfulfilled period and date-related performance obligations at 31 December 2019 amounted to EUR 2.119 million (2018: EUR 1.697 million). These performance obligations were met in January and February 2020.

## 3.2 OTHER OPERATING INCOME

Other operating income is comprised as follows:

| | 2019 | 2018 |
|---|---|---|
| | **EUR thousands** | **EUR thousands** |
| Waste revenues | 1,122 | 1,472 |
| Currency gains | 1,040 | 1,021 |
| Gains from non-current assets held for sale | 450 | 0 |
| Income from the reversal of provisions | 105 | 355 |
| Income from claims for damages | 69 | 372 |
| Income from the reversal of short and medium-term remuneration components from previous years | 0 | 657 |
| Income from subsidies | 365 | 186 |
| Other income | 528 | 428 |
| **Total** | **3,679** | **4,491** |

## 3.3 OTHER OPERATING EXPENSES

Other operating expenses are composed as follows:

| | 2019 | 2018 |
|---|---|---|
| | **EUR thousands** | **EUR thousands** |
| Currency losses | 855 | 1,091 |
| Income from the addition of specific valuation allowances | 63 | 0 |
| Allocation to provision for product risks | 219 | 0 |
| Allocation to the provision for litigation risks | 320 | 0 |
| Other expenses | 48 | 207 |
| **Total** | **1,505** | **1,298** |

## 3.4 FINANCIAL INCOME

Financial income is made up as follows:

| | 2019 | 2018 |
|---|---|---|
| | **EUR thousands** | **EUR thousands** |
| Other interest and similar income | 33 | 24 |
| Dividend income | 9 | 6 |
| Other | 31 | 0 |
| **Total** | **73** | **30** |

## 3.5 FINANCIAL EXPENSES

Financial expenses are made up as follows:

| | 2019 | 2018 |
|---|---|---|
| | **EUR thousands** | **EUR thousands** |
| Interest paid | 761 | 239 |
| Other interest and similar expenses | 504 | 563 |
| **Total** | **1,265** | **802** |

The increase in interest paid is due to the additional financial liabilities incurred for the investment measures at the new production site in Jintan.

Other interest and similar expenses mainly consist of interest expenses for defined benefit obligations in the amount of EUR 376 thousand (2018: EUR 346 thousand).

## 3.6 PERSONNEL EXPENSES

Personnel expenses are comprised as follows:

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| **Personnel costs** | | |
| Wages and salaries | 38,253 | 38,809 |
| Social security costs | 6,438 | 6,172 |
| Pensions | 665 | 1,398 |
| **Total** | **45,356** | **46,379** |

The expenses for share-based payments amount to EUR 5 thousand (2018: EUR 12 thousand).

## 3.7 RESEARCH AND DEVELOPMENT EXPENSES

The criteria of IAS 38 for the capitalisation of development expenses incurred were not met in the financial year, as was also the case in the previous year. The expenditure for research and development recognised as an expense stood at EUR 3.2 million (2018: EUR 3.9 million).

## 3.8 TAXES ON INCOME AND EARNINGS

Domestic corporate income tax (plus solidarity surcharge), trade taxes and similar income-related taxes levied abroad are reported in this item.

This item also includes deferred taxes resulting from temporary differences between the tax base of assets and liabilities and their carrying amounts in the IFRS consolidated balance sheet or from the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available.

Deferred taxes are calculated based on the tax rates applicable in each country.

Taxes on income and earnings are made up of expense (+)/income (-):

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| Current taxes related to the reporting period | -103 | 1,731 |
| Taxes on income from other periods | 8 | -2 |
| Deferred taxes<br>of which deferred taxes from temporary differences -EUR 487 thousand (previous year: -EUR 1.321 million)<br>of which reduction in deferred tax expense due to losses not previously recognised / due to reversal of an earlier write-down of a deferred tax asset EUR 0 thousand (previous year: EUR 57 thousand) | -2,039 | -1,378 |
| **Total taxes on income and revenue** | **-2,134** | **351** |

A loss carryback to the 2018 assessment year will result in a refund claim for corporate income tax of EUR 158 thousand, which is included in the taxes for the current reporting period. The item taxes on income and earnings results in total income of EUR 2.134 million.

Deferred taxes on transactions that are recognised directly in equity increased equity in the reporting period by EUR 754 thousand (2018: EUR 4 thousand).

### RECONCILIATION FROM EXPECTED TO ACTUAL TAX EXPENSE

The results of Schweizer Electronic AG in Germany are subject to corporate income tax (plus solidarity surcharge) and trade tax. Results assessed abroad are taxed at the tax rates applicable in the respective country. The tax rate of 28 percent on which the expected tax expense is based (2018: 28 percent) takes account of the company structure relevant for taxation.

Based on the consolidated annual result before income taxes and the expected income tax, the reconciliation to the actual income tax expense is as follows:

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| **Earnings before tax on profit** | **-7,713** | **858** |
| Expected income tax expense (-) / income (+) | 2,160 | -240 |
| Divergent tax rates | 121 | 104 |
| Tax-free income | 20 | 40 |
| Non-tax-deductible expenses | -94 | -80 |
| Taxes from other periods | -8 | -1 |
| Effects from the use of loss carryforwards for which no deferred tax assets were previously recognised | 0 | 341 |
| Effects of non-recognition of deferred tax assets on loss carryforwards | -47 | -583 |
| Other | -18 | 68 |
| **Actual tax expense** | **2,134** | **-351** |
| Effective tax expense in % | 28% | 41% |

## TAX RECEIVABLES

These items only include tax on profits; any other taxes are included in other payables or other receivables.

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| Corporate income tax refund | 583 | 1,164 |
| Trade tax refund | 300 | 880 |
| Corporate income tax credit | 7 | 0 |
| **Total receivables relating to taxes on income and revenue** | **890** | **2,044** |
| Non-current | 0 | 0 |
| Current | 890 | 2,044 |

The tax refunds result from the excess of tax prepayments over the calculated tax liability as well as the corporate income tax loss carryback to the 2018 assessment year.

## DEFERRED TAXES

Deferred taxes result from the following balance sheet items:

| | Deferred tax assets 31/12/2019 | Deferred tax liabilities 31/12/2019 | Deferred tax assets 31/12/2018 | Deferred tax liabilities 31/12/2018 |
|---|---|---|---|---|
| Tangible assets | 212 | 5,875 | 10 | 6,611 |
| Rights of use | 0 | 755 | 0 | 0 |
| Financial assets | 0 | 45 | 0 | 0 |
| Inventories | 1,773 | 0 | 1,560 | 0 |
| Receivables and other current assets | 0 | 2,453 | 0 | 2,449 |
| Provisions for pensions and similar obligations | 5,245 | 0 | 4,522 | 0 |
| Other provisions | 437 | 0 | 0 | 0 |
| Liabilities | 479 | 0 | 760 | 10 |
| Tax loss carryforwards | 1,864 | 0 | 312 | 0 |
| | **10,010** | **9,127** | **7,164** | **9,070** |
| Netting | -9,010 | -9,010 | -6,889 | -6,889 |
| **Recognition of deferred taxes** | **1,000** | **117** | **275** | **2,181** |

Deferred tax assets and deferred tax liabilities are offset when the Group has a legally enforceable right to set off current tax assets against current tax liabilities and these relate to income taxes for the same taxable entity levied by the same taxation authority.

As at 31 December 2019, tax loss carryforwards amounted to EUR 8.981 million (2018: EUR 4.272 million). The loss carryforwards attributable to Schweizer Electronic AG in Germany in the amount of EUR 2.480 million can be carried forward indefinitely.[1] The remaining loss carryforwards in the amount of EUR 6.501 million mainly relate to Schweizer Electronic (Jiangsu) Co., Ltd., China and can be carried forward for a limited period of five years. The majority of the foreign loss carryforwards are attributable to Schweizer Electronic (Jiangsu) Co., Ltd., based in China, and result from the investment in the new production site in Jintan.

Deferred tax assets on losses carried forward are only capitalised for losses carried forward in the amount of EUR 6.659 million (2018: EUR 1.837 million). To this extent, the company plans to be able to offset the loss carryforwards against future taxable profits. For the new production site in Jintan, it is expected that positive income will be generated after the start of operations, in order to offset the loss carryforwards from start-up losses incurred in 2019. On the remaining loss carryforwards in the amount of EUR 2.322 million (2018: EUR 2.435 million), no deferred tax assets were created as they are not expected to be used.

Deferred income taxes arising from items directly recognised in other comprehensive income during the financial year relate to:

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| Gains (losses) resulting from actuarial gains and losses on the revaluation of defined benefit pension plans | 754 | 4 |

Schweizer has decided that no previously undistributed profits of its subsidiaries will be distributed in the foreseeable future.

[1] Due to the loss carryback for corporate income tax in 2019, Schweizer Electronic AG has a different loss carryforward for trade tax purposes in the amount of EUR 3.350 million.

## 3.9 EARNINGS PER SHARE

When calculating the undiluted earnings per share, the earnings attributable to holders of ordinary shares of the parent company are divided by the weighted average number of ordinary shares in circulation during the year.

The following table shows the amounts on which the calculation of undiluted (= diluted) earnings per share is based:

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| **Earnings attributable to holders of ordinary shares of the parent company** | -5,565 | 512 |

| | 2019 | 2018 |
|---|---|---|
| **Weighted average number of ordinary shares*** | 3,769,912 | 3,766,993 |

*The weighted average number of shares includes the weighted average effect of changes in treasury share transactions during the year.

Earnings per share, based on the profit attributable to the holders of ordinary shares of the parent company, amount to -EUR 1.48 for the financial year (2018: EUR 0.14).

In the period between the balance sheet date and approval of the consolidated financial statement for publication, no (2018: 4,432) ordinary shares from the share-based compensation were transferred to the members of the Executive Board and to a member of the management team (see also Section 4.10 and Section 6.2).

# 4. NOTES TO THE CONSOLIDATED BALANCE SHEET

## 4.1 TANGIBLE AND INTANGIBLE ASSETS

The development of property, plant and equipment and intangible assets in financial years 2019 and 2018 is presented in the following overview:

### Development of consolidated fixed assets and intangible assets in 2019

| | Acquisition and manufacturing costs | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| in EUR thousands | **31/12/2018** | **IFRS 16 application effect** | **01/01/2019** | **Acquisitions** | **Divestments** | **Transfer postings** | **Currency translation** | **31/12/2019** |
| **Tangible assets** | | | | | | | | |
| Land and buildings | 38,527 | 0 | 38,527 | 0 | 0 | 0 | 0 | 38,527 |
| Technical equipment and machinery | 92,798 | -2,500 | 90,298 | 3,090 | 1,021 | 4,382 | 0 | 96,750 |
| Other plant, factory and office equipment | 56,300 | -329 | 55,971 | 331 | 62 | 120 | 3 | 56,362 |
| Advance payments and plants under construction | 7,228 | 0 | 7,228 | 87,619 | 60 | -4,577 | -933 | 89,279 |
| **Total tangible assets** | **194,853** | **-2,829** | **192,024** | **91,041** | **1,143** | **-74** | **-930** | **280,918** |
| **Rights of use** | | | | | | | | |
| Rights of use in accordance with IFRS 16 | 0 | 4,227 | 4,227 | 416 | 0 | 0 | 0 | 4,643 |
| **Intangible assets** | | | | | | | | |
| Industrial property rights and licences to such rights and assets | 6,397 | -744 | 5,653 | 571 | 0 | 74 | -7 | 6,291 |
| **Total** | **201,250** | **654** | **201,904** | **92,028** | **1,143** | **0** | **-937** | **291,852** |

| | | | Accumulated depreciations | | | | Carrying amounts | |
|---|---|---|---|---|---|---|---|---|
| **31/12/2018** | **IFRS 16 application effect** | **01/01/2019** | **Scheduled depreciation** | **Divestments** | **Currency translation** | **31/12/2019** | **31/12/2019** | **31/12/2018** |
| | | | | | | | | |
| 14,517 | 0 | 14,517 | 780 | 0 | 0 | 15,297 | 23,230 | 24,010 |
| 76,982 | -411 | 76,571 | 2,952 | 999 | 0 | 78,524 | 18,226 | 15,816 |
| 46,798 | -45 | 46,753 | 1,927 | 48 | 2 | 48,630 | 7,733 | 9,502 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 89,279 | 7,228 |
| | | | | | | | | |
| **138,297** | **-455** | **137,841** | **5,658** | **1,047** | **2** | **142,450** | **138,468** | **56,556** |
| | | | | | | | | |
| | | | | | | | | |
| 0 | 460 | 460 | 708 | 0 | 0 | 1,168 | 3,475 | 0 |
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |
| 4,604 | -5 | 4,599 | 246 | 0 | 0 | 4,844 | 1,447 | 1,793 |
| **142,901** | **0** | **142,900** | **6,612** | **1,047** | **2** | **148,463** | **143,389** | **58,349** |

## Development of consolidated fixed assets and intangible assets in 2018

| | Procurement and manufacturing costs | | | | | |
|---|---|---|---|---|---|---|
| In EUR thousands | **01/01/2018** | **Acquisi-tions** | **Divest-ments** | **Transfer postings*** | **Currency translation** | **31/12/2018** |
| **Tangible assets** | | | | | | |
| Land and buildings | 38,986 | 109 | 0 | -568 | 0 | 38,527 |
| Technical equipment and machinery | 92,790 | 1,456 | 1,965 | 517 | 0 | 92,798 |
| Other plant, factory and office equipment | 55,950 | 526 | 208 | 31 | 1 | 56,300 |
| Advance payments and plants under construction | 4,069 | 4,064 | 120 | -822 | 37 | 7,228 |
| **Total tangible assets** | **191,795** | **6,155** | **2,293** | **-842** | **38** | **194,853** |
| | | | | | | |
| **Intangible assets** | | | | | | |
| Industrial property rights and licences to such rights and assets | 4,984 | 1,363 | 0 | 56 | -6 | 6,397 |

*) Reclassifications to the balance sheet items "Non-current assets held for sale" and "Other financial assets" in the amount of EUR 511 thousand and EUR 218 thousand respectively were made.

| | Accumulated depreciations | | | | | | | Carrying amounts | |
|---|---|---|---|---|---|---|---|---|---|
| | **01/01/2018** | **Scheduled depreciation** | **Impairments** | **Divestments** | **Transfer postings*** | **Currency translation** | **31/12/2018** | **31/12/2018** | **31/12/2017** |
| | | | | | | | | | |
| | 13,800 | 774 | 0 | 0 | -57 | 0 | 14,517 | 24,010 | 25,186 |
| | 73,480 | 4,469 | 0 | 967 | 0 | 0 | 76,982 | 15,816 | 19,310 |
| | 45,025 | 1,979 | 0 | 207 | 0 | 1 | 46,798 | 9,502 | 10,925 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7,228 | 4,069 |
| | **132,305** | **7,222** | **0** | **1,174** | **-57** | **1** | **138,297** | **56,556** | **59,490** |
| | | | | | | | | | |
| | | | | | | | | | |
| | 4,293 | 311 | 0 | 0 | 0 | 0 | 4,604 | 1,793 | 691 |

### ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

The increase in property, plant and equipment results in particular from the construction of the new production site in Jintan and the related assets under construction as well as advance payments made in the total amount of EUR 87.619 million (2018: EUR 7.228 million). This includes borrowing costs capitalised in the period amounting to a total of EUR 399 thousand, for which a financing cost rate of 5.2 percent was applied.

### RECLASSIFICATIONS

The land use right acquired in 2018 for the new production site of Schweizer Electronic (Jiangsu) Co., Ltd., China was reclassified to rights of use as part of the first-time application of IFRS 16 (EUR 739 thousand residual carrying amount at the time of first-time application). In addition, three finance leases with a residual carrying amount of EUR 2.374 million were reclassified from technical equipment, plant and machinery and other equipment, factory and office equipment to rights of use as of 1 January 2019. In addition, there were newly capitalised operating leases amounting to EUR 653 thousand.

Reclassifications from advance payments made and assets under construction result from the commissioning of machinery and equipment at Schweizer Electronic AG.

### INTANGIBLE ASSETS

Intangible assets comprise exclusively acquired intangible assets, primarily software. The additions to intangible assets in 2019 mainly include EUR 565 thousand in costs for customising ERP systems acquired in 2018 for the new production site in China.

### DEPRECIATION

Scheduled depreciation of tangible assets is predominantly disclosed in the consolidated income statement under cost of sales. Scheduled amortisation of intangible assets is disclosed under general administration expenses.

### COLLATERAL

Land and buildings with a carrying amount of EUR 2.358 million (2018: EUR 2.358 million) serve as senior collateral for three bank loans of the Group. With regard to the land use right with a carrying amount of EUR 730 thousand, there is a local mortgage (mortgage contract), which arose from the syndicated loan agreement concluded with Industrial and Commercial Bank of China Ltd., Jiangsu, China on 12 December 2018 for a total of CNY 520 million or EUR 66.509 million. Furthermore, a chattel mortgage for machines is agreed in the loan agreement.

## 4.2 OTHER PARTICIPATING INTERESTS

This item materially concerns the participating interest in Meiko Electronics Co. Ltd., Ayase, Japan. This is shown at the market value of the shares denominated in JPY (carrying amount as at 31 December 2019: EUR 624 thousand; 2018: EUR 432 thousand).

A participating interest of 1.34 percent is also held in SCHRAMBERGER WOHNUNGSBAU GmbH, Schramberg, which is accounted for at an acquisition cost of EUR 12 thousand (2018: EUR 12 thousand).

## 4.3 LEASES

The Schweizer Group is a lessee of real estate, technical equipment, motor vehicles and other assets. Leases for motor vehicles generally have a term of 3 years. For technical equipment, the contract term is generally between 8 and 10 years. Real estate contracts generally have a term of between 2 and 4 years.

At present, the Group has no significant contractually agreed extension or termination options that have not already been exercised in 2019.

The following table shows the carrying amounts of the rights of use recognised in the balance sheet and the changes during the reporting period:

| in EUR thousands | Technical equipment | Real estate | Motor vehicles | Other assets | Total |
|---|---|---|---|---|---|
| As of 31 December 2018 | 0 | 0 | 0 | 0 | 0 |
| As of 1 January 2019 | 2,089 | 887 | 499 | 292 | 3,767 |
| Acquisitions | 0 | 53 | 364 | 0 | 416 |
| Depreciation expense | 259 | 89 | 313 | 47 | 708 |
| **As of 31 December 2019** | **1,830** | **851** | **551** | **244** | **3,475** |

The following table shows the carrying amounts of the lease liabilities recognised in the balance sheet and the changes during the reporting period:

| in EUR thousands | 2019 | 2018 |
|---|---|---|
| | | |
| As at 1 January | 3,099 | 1,656 |
| Acquisitions | 437 | 988 |
| Interest | 58 | 39 |
| Payments | -873 | -230 |
| **As at 31 December** | **2,721** | **2,453** |

The maturity analysis of the lease liabilities is presented in Section 4.17.

The following amounts were recognised in the income statement in the reporting period:

| in EUR thousands | 2019 |
|---|---|
| | |
| Depreciation expense for rights of use | 708 |
| Interest expenses for lease liabilities | 58 |
| Expenses for short-term leases (included in cost of sales) | 2 |
| Expenses for leases for low-value assets (included in administrative expenses) | 82 |
| Variable lease payments (included in cost of sales) | 2 |
| **Total amount recognised in profit or loss** | **852** |

The Group's cash outflows for leases amounted to EUR 958 thousand in 2019. Future cash outflows for leases that have not yet commenced are currently not expected.
No sale and leaseback transactions were carried out in the current financial year.

## 4.4 NON-CURRENT ASSETS HELD FOR SALE

In the consolidated balance sheet as at 31 December 2018, land located in Dunningen with a carrying amount of EUR 511 thousand was classified as a non-current asset held for sale. This land was sold with legal effect in January 2019 at a price of EUR 961 thousand. The resulting capital gain of EUR 450 thousand is reported in the consolidated income statement for 2019 under other operating income.

## 4.5 OTHER FINANCIAL ASSETS

Other financial assets are comprised as follows:

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| Gebrüder Schmid GmbH | 0 | 69 |
| Vendors with debit balances | 14 | 700 |
| Miscellaneous other financial assets | 177 | 58 |
| **Total other financial assets** | **191** | **827** |
| Non-current | 5 | 5 |
| Current | 186 | 822 |

The year-on-year decline in other financial assets is due in particular to a sharp drop in creditors with debit balances. On the one hand, machines returned to a supplier in 2018 to the amount of EUR 323 thousand were finally purchased in 2019. In addition, overpayments to an insurance company and Stadtwerke Schramberg existing on the previous balance sheet date were refunded or settled in 2019.

Other assets are comprised as follows:

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| Turnover tax claim Jintan | 6,178 | 84 |
| Miscellaneous other assets | 2,345 | 1,635 |
| **Total other assets** | **8,523** | **1,719** |
| Non-current | 5,316 | 0 |
| Current | 3,207 | 1,719 |

The increase in other assets to EUR 8.523 million (2018: EUR 1.719 million) is primarily due to accumulated VAT receivables for the new production site in Jintan in the amount of EUR 6.178 million.

## 4.6 INVENTORIES

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| Raw materials and supplies | 4,752 | 4,665 |
| Unfinished products | 2,478 | 2,451 |
| Finished products | 2,507 | 2,990 |
| **Total inventories** | **9,737** | **10,106** |

Write-downs on inventories, which were recognised as expenses in the reporting period, amount to EUR 1.373 million (2018: EUR 1.513 million) and are reported under cost of sales. The carrying amount of inventories measured at net realisable value is EUR 5.552 million (2018: EUR 4.862 million).

There are no major restrictions on ownership or disposal in respect of the inventories reported in the balance sheet.

## 4.7 TRADE RECEIVABLES

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| **Trade receivables** | **20,962** | **22,270** |

Trade receivables are not interest-bearing and are usually payable in 30 to 90 days.

| in EUR thousands | Gross carrying amount as at 31/12/2019 | Risk provision as at 31/12/2019 | Average expected probability of default in % | Gross carrying amount as at 31/12/2018 |
|---|---|---|---|---|
| Not due | 17,558 | 12 | 0.07 | 17,032 |
| Past due by 1-30 days | 2,889 | 3 | 0.10 | 4,512 |
| Past due by 31-60 days | 348 | 0 | 0.05 | 605 |
| Past due by 61-90 days | 56 | 0 | 0.03 | 91 |
| Past due by 91-120 days | 35 | 0 | 0.00 | 42 |
| Past due by 121-150 days | 90 | 0 | 0.09 | 40 |
| **Total** | **20,977** | **15** | **0.34** | **22,322** |

As at 31 December 2019, individual valuation allowances existed in the amount of EUR 76 thousand.

The development of valuation allowances on receivables is as follows:

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| **As at 1 January** | 52 | 0 |
| Utilised | 0 | 0 |
| Reversed | 52 | 0 |
| Addition to risk provision | 15 | 52 |
| Addition to individual value adjustment | 76 | 0 |
| **As at 31 December** | **91** | **52** |

## 4.8 CONTRACT ASSETS

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| **Contract assets** | **9,168** | **8,734** |

An impairment loss of EUR 6 thousand was recognised for the contract assets (2018: EUR 4 thousand).

## 4.9 CASH AND CASH EQUIVALENTS

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| | | |
| Bank balances and cash on hand | 33,364 | 28,565 |
| Short-term deposits | 0 | 437 |
| Money market funds | 989 | 988 |
| **As at 31 December** | **34,353** | **29,990** |

Bank balances earn interest at variable rates for on-call deposits.

Short-term deposits are made for varying periods of time ranging from one day to three months, depending on the Group's cash requirements. Short-term deposits earn interest at the interest rates applicable to short-term deposits. Since interest rates remain at a low level, the received interest is insignificant.

A money market fund exists at Union Investment in the amount of EUR 989 thousand (2018: EUR 988 thousand). This fund was classified as a cash equivalent as it can be converted into fixed cash amounts at any time and is only subject to minor value fluctuation risks. The reduction in short-term deposits results from the closure of a USD time deposit account.

As of 31 December 2019, the Group had committed credit lines of EUR 9.19 million (2018: EUR 8.19 million). The credit lines relate to Schweizer Electronic AG. Schweizer Electronic AG has requested Commerzbank AG, Germany to transfer a credit facility of EUR 1 million to Commerzbank AG, Singapore branch. Schweizer Electronic AG has given a guarantee for this.

## 4.10 EQUITY

### SCHWEIZER ELECTRONIC AG

The share capital amounted to an unchanged EUR 9,664,054 as per 31 December 2019 and is divided into 3,780,000 nominal shares (no-par-value shares).

In the 2019 financial year, 1,666 shares (2018: 3,701 shares) from a portfolio of 11,284 treasury shares held as of 1 January 2019 were made available to the members of the Executive Board as variable compensation components under a long-term incentive programme (LTIP). This represents an amount of EUR 4 thousand or 0.04 percent of the share capital. The transfer price of EUR 24 thousand was measured on the basis of the stock market price. In addition, 331 shares (2018: 731 shares) were transferred to employees of the management team at a market price of EUR 4 thousand. This represents a share of EUR 1 thousand or 0.01 percent of the share capital.

As at the balance sheet date, Schweizer Electronic AG held a total of 9,287 treasury no-par-value shares. This represents an amount of EUR 24 thousand or 0.25 percent of the share capital. The subscribed capital is shown net of the par value of the treasury shares.

Share performance

| | Treasury shares in EUR | Treasury shares in units | Outstanding shares in units |
|---|---|---|---|
| **As of 1 January 2018** | **40,180** | **15,176** | **3,764,284** |
| Issuance of shares to the Executive Board and one member of the management team | -11,331 | -4,432 | +4.432 |
| **As of 31 December 2018** | **28,849** | **11,284** | **3,768,716** |
| Issuance of shares to the Executive Board and one member of the management team | -5,106 | -1,997 | +1.997 |
| **As of 31 December 2019** | **23,743** | **9,287** | **3,770,713** |

Claims for share-based remuneration were met in the following year with the Group's own shares. As from 2019, equity instruments will no longer be issued as part of share-based payment. As from 2019, it will take the form of cash payments based in part on the price of the company's equity instruments.

### AUTHORISED CAPITAL

By resolution of the Annual General Meeting of 1 July 2016 and its entry in the commercial register, the Executive Board is authorised, subject to the approval of the Supervisory Board, to increase the company's share capital until 30 June 2021 by up to EUR 4,832,026.93 in total, by issuing new, registered ordinary or preferred shares (no-par-value shares) in return for contributions in cash and/or in kind (authorised capital). This authorisation may be exercised in full or in parts, and on one or several occasions. A subscription right is to be granted to the shareholders in this process, which can be excluded, subject to the consent of the Supervisory Board and certain conditions being fulfilled.

### CONDITIONAL CAPITAL

Furthermore, the Executive Board is authorised by the resolution of the Annual General Meeting of 1 July 2016 and its entry in the commercial register, subject to the consent of the Supervisory Board and until 30 June 2021, to issue bearer or registered bonds (convertible bonds, warrant bonds, participation rights, participation bonds or combinations of these instruments) with or without a restriction on maturity up to EUR 35 million and to grant the bearers and/or creditors of convertible or warrant bonds conversion or option rights to new, registered no-par-value shares of the company with a pro-rata amount of the share capital of up to EUR 4,832,026.93 overall. The bonds may be issued in full or in parts, and on one or several occasions. A subscription right is to be granted to the shareholders in this process, which can be excluded, subject to the consent of the Supervisory Board and certain conditions being fulfilled.

### NOTIFICATIONS OF VOTING RIGHTS

The German Securities Trading Act (Wertpapierhandelsgesetz; WpHG) obliges investors to notify the relevant company if their voting interest in listed companies reaches specified thresholds. Notifications of voting rights for financial year 2019 and later are also published on our website at www.schweizer.ag/en/investor-relations/corporate-governance.html.

### CAPITAL RESERVES

The capital reserve concerns premiums in relation to capital increases, share purchases and sales made at Schweizer Electronic AG and transferred own shares. Under the German Stock Corporation Act (Aktiengesetz), the capital reserve is not available for dividend payments.

### PROFIT RESERVES

The profit reserves essentially include changeover effects from the first-time preparation of an IFRS consolidated financial statement, as well as undistributed profits and losses generated in previous years by Schweizer Electronic AG and the consolidated subsidiaries, and allocations due to share-based payment transactions settled with equity instruments.

The modified, retrospective approach was chosen for the application of IFRS 16. As a result, the previous year's figures as of 31 December 2018 have not been adjusted.

The adjustment was made as of 1 January 2019, as a result of which a conversion effect of EUR 10 thousand was recognised in retained earnings.

In addition to differences from currency translation and changes in the fair value of assets measured at fair value with no effect on income, effects from the revaluation of pension obligations less offsetting deferred taxes are also reported here. The effect of the currency translation of foreign operations recognised in other comprehensive income, which is to be reclassified in the income statement in the subsequent periods, is comprised as follows:

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| **Currency translation of foreign operations** | | |
| Consolidation-related currency effects | -446 | 19 |
| **Total** | **-446** | **19** |

### DIVIDENDS

As announced, no cash dividend was distributed to the shareholders of Schweizer Electronic AG in the 2019 financial year in respect of the 2018 financial year.
The Executive Board proposes a dividend payment of EUR 0.00 (2018: EUR 0.00) per share and EUR 0 thousand (2018: EUR 0 thousand) for the 2019 dividend payment. The dividend payment for financial year 2019 is dependent on the approval of the Annual General Meeting of 26 June 2020.

## 4.11 NOTES ON CAPITAL MANAGEMENT

For purposes of capital management, equity includes subscribed capital as well as all other capital reserves attributable to the shareholders of the parent company. The primary objective of the Group's capital management is to maximise shareholder value.

The Group's capital structure is managed and adjusted depending on changes in economic conditions, as well as the agreed requirements. To maintain or adjust the capital structure, the Group may make adjustments to dividend payments to shareholders or make capital repayments to shareholders or issue new shares.

Firstly, the Group monitors its capital based on a debt ratio which corresponds to the ratio of debt to equity. Schweizer focuses on the development of the net gearing ratio. Net debts are determined from the financial liabilities less cash and cash equivalents. Schweizer continues to limit the net gearing ratio to a maximum of 150 percent. Secondly, the equity ratio, which corresponds to the ratio of equity to total capital, is used as a control parameter. As a target figure, the company observes a minimum ratio of 35 percent that should not be undershot where possible. A deviation from both stipulations is, however, permitted and is based on the actual situation (investment programme, interest rate levels, credit rating factors).

| | 2019 | 2018 |
|---|---|---|
| **Net gearing ratio as a performance indicator** | **EUR thousands** | **EUR thousands** |
| Financial liabilities | 67,858 | 25,428 |
| Less cash and cash equivalents | -34,353 | -29,990 |
| **Net financial liabilities** | **33,505** | **-4,562** |
| Equity | 55,202 | 62,978 |
| Net gearing ratio | 60.7% | -7.2% |

Group equity amounted to EUR 55.2 million as of the balance sheet date (2018: EUR 63.0 million). The equity ratio of Schweizer decreased by 22.5 percentage points to 24.1 percent in financial year 2019 (2018: 46.6 percent) due to the investment measures carried out at the new production site in Jintan.

## 4.12 FINANCIAL LIABILITIES

Interest-bearing loans of EUR 67.858 million relate to fixed-interest bank loans with a nominal value of EUR 9.1 million (2018: EUR 7.1 million) and a carrying amount of EUR 5.081 million (2018: EUR 5.969 million) as well as variable-interest bank loans with a nominal value of EUR 64.577 million (2018: EUR 19.459 million) and a carrying amount of EUR 62.777 million (2018: EUR 19.459 million).

The bank loans involve long-term and short-term financial liabilities. The terms of the loans extend from 2021 to 2028 With the exception of a loan with a nominal value of EUR 3 million (carrying amount: EUR 3 million; 2018: EUR 3 million), there is collateral in the form of mortgages of a total of EUR 20.804 million.

The repayments have been firmly agreed and it is not expected that cash flows will flow earlier or higher than agreed. The loan portfolio is reviewed on a weekly basis together with the regular short and medium-term financial planning for the Schweizer Group. The loan exposure is adjusted where necessary.

## 4.13 OTHER FINANCIAL LIABILITIES

| | 2019 | 2018 |
|---|---|---|
| | **EUR thousands** | **EUR thousands** |
| Lease liabilities (previous year only finance leases) | 2,721 | 2,374 |
| Miscellaneous other financial liabilities | 53 | 15 |
| **Total other financial liabilities** | **2,774** | **2,389** |
| Non-current | 2,023 | 2,222 |
| Current | 751 | 167 |

## 4.14 PROVISION FOR DEFINED BENEFIT PENSION PLANS

Pension obligations are commitments funded with provisions and are subject to the defined rules of the pension fund and legal requirements. These are benefit commitments that depend on the number of years worked and salary, and provide not only pension but also invalidity and survivors' benefits.

All defined benefit pension plans of the Group are exposed to typical actuarial risks, particularly interest rate risks. The past service costs and net interest on the net liabilities of defined benefit plans are reported in the profit and loss account as personnel expenses in the respective functional areas.

The carrying amount of the defined benefit obligations is determined according to the projected unit credit method using actuarial techniques. For the German companies, the following actuarial assumptions and the "2018 G guideline tables" of Prof Dr Klaus Heubeck have been applied:

| | | 2019 | 2018 |
|---|---|---|---|
| Financial assumptions | | | |
| Discount rate at 31 December | % | 0.96 | 1.82 |
| Future pay increases | % | - | - |
| Future pension increases, executive employees | % | 2.50 | 2.50 |
| Future pension increases, other | % | 1.00 | 1.00 |
| Demographic assumptions | | | |
| Expected age | | GT 2018 G | GT 2018 G |
| Assumed retirement age, individual commitments | Years | 60 | 60 |
| Assumed retirement age, others | Years | Statutory | Statutory |
| Fluctuation p.a. | % | 2.00 | 2.00 |

A salary trend based on future pay increases was not taken into account because, with one minor exception, the employment relationships have already ended.

The net obligations are reported in the balance sheet in the amount of EUR 23.5 million (2018: EUR 21.1 million) and are derived as follows:

| | 2019 | 2018 |
|---|---|---|
| **Changes in present value of defined benefit obligations** | **EUR thousands** | **EUR thousands** |
| **Liability from defined benefit obligation as at 1 January** | **21,074** | **21,372** |
| Expenses recognised in profit and loss | | |
| Interest expense | 376 | 346 |
| Current service cost | 209 | 225 |
| Retirement benefits paid | -928 | -885 |
| Amounts recognised in other comprehensive income | | |
| Actuarial gains and losses | | |
| Changes in demographic assumptions | 0 | 162 |
| Changes in financial assumptions | 2,768 | -525 |
| Experience adjustments to gains (-)/losses (+) | 22 | 379 |
| **Liability from defined benefit obligation as at 31 December** | **23,521** | **21,074** |
| | | |
| **Benefit commitment amounts recognised in the balance sheet** | | |
| | | |
| Present value of defined benefit obligations | 23,521 | 21,074 |
| **Provisions for pensions and similar obligations** | **23,521** | **21,074** |

The following amounts were recognised in the statement of comprehensive income:

| | 2019 | 2018 |
|---|---|---|
| **Effects, statement of comprehensive income** | **EUR thousands** | **EUR thousands** |
| Current service cost | 209 | 225 |
| Interest expense for defined benefit obligation | 376 | 346 |
| **Amounts recognised in the income statement** | **585** | **571** |
| | | |
| Actuarial gains (-) and losses (+) | | |
| from changes in demographic assumptions | 0 | 162 |
| from changes in financial assumptions | 2,768 | -525 |
| due to experience-based adjustments | 22 | 379 |
| **Amounts recognised in other comprehensive income** | **2,790** | **16** |
| | | |
| **Total (amounts recognised in the statement of comprehensive income)** | **3,375** | **587** |

The following sensitivity analysis shows how the present value of the obligation would change in the event of a change in the actuarial assumptions. No correlations between the individual assumptions are considered here, i.e. when varying one assumption, the other assumptions remain constant. The projected unit credit method used to determine the carrying values was also used in the sensitivity analysis.

| | | 2019 | 2018 |
|---|---|---|---|
| | | EUR thousands | EUR thousands |
| **Sensitivity** | | | |
| Discount rate | +0.5% | -1,677 | -1,429 |
| Discount rate | -0.5% | 1,891 | 1,605 |

In subsequent years, the following maturities of undiscounted payments for pensions are expected:

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| Within the next 12 months (next financial year) | 948 | 925 |
| between two and five years | 3,811 | 3,735 |
| between six and ten years | 4,921 | 4,879 |

The weighted average maturity of the defined benefit pension plans at the end of the reporting period is 15.3 years (2018: 14.6 years).

In the case of defined contribution plans for members of the Executive Board, no further obligations exist beyond remittance of the contributions to the provident fund. The contribution payments are recognised as a personnel expense and for the reporting year amount to EUR 456 thousand (2018: EUR 418 thousand).

Contributions to statutory pension insurance in the 2019 financial year came to EUR 2.948 million (2018: EUR 2.987 million).

## 4.15 TRADE AND OTHER PAYABLES

The increase in trade payables to EUR 46.35 million (2018: 9.789 million) is primarily due to invoices outstanding at the balance sheet date in connection with the investment measures at the new production site in Jintan amounting to EUR 31.793 million.

Other liabilities are comprised as follows:

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| Liabilities from salary and wage accounting | 2,156 | 1,790 |
| Liabilities from other taxes | 1,324 | 1,499 |
| Liabilities relating to social security | 125 | 10 |
| Miscellaneous other liabilities | 166 | 275 |
| **Total other liabilities** | **3,771** | **3,574** |
| Non-current | 0 | 0 |
| Current | 3,771 | 3,574 |

## 4.16 OTHER PROVISIONS

Other provisions are broken down into the following types of provisions and developed as follows in financial year 2019:

| In EUR thousands | As at 1 January | Acquisi-tions | Utilised | Reversals | Interest effect | As at 31 December |
|---|---|---|---|---|---|---|
| Obligations vis-à-vis employees | 2,940 | 1,603 | 1,899 | 17 | 5 | 2,632 |
| Guarantees | 277 | 0 | 0 | 47 | 0 | 230 |
| Insurance premiums | 8 | 3 | 0 | 0 | 0 | 11 |
| Additional provisions | 4,631 | 2,109 | 1,083 | 41 | 110 | 5,726 |
| **Total** | **7,856** | **3,715** | **2,982** | **105** | **115** | **8,599** |
| Of which current | 7,013 | | | | | 6,655 |
| Of which non-current | 843 | | | | | 1,944 |

The obligations vis-à-vis employees include costs for time credit entitlements, profit participations, outstanding holidays and other personnel expenses. In addition, the obligation to employees primarily includes provisions for anniversary obligations and partial retirement programs for which total actuarial gains of EUR 100 thousand were recognised in other comprehensive income (2018: losses of EUR 79 thousand).

The total obligation from partial retirement agreements amounted to EUR 1.299 million as of the balance sheet date (2018: EUR 1.283 million). Reinsurance assets secured against insolvency were netted at EUR 474 thousand (2018: EUR 275 thousand).

Other provisions include provisions for litigation and product risks, year-end closing costs and outstanding cost invoices. For the majority of the provisions, an outflow of economic benefits is expected within the next 12 months.

## 4.17 ADDITIONAL INFORMATION CONCERNING FINANCIAL INSTRUMENTS

The following table shows the reconciliation of the balance sheet items with the classes of financial instruments, divided according to the carrying amounts and fair values of the financial instruments, and the assignment of the balance sheet items to the measurement categories:

| In EUR thousands | Measurement category according to IFRS 9 | Carrying amounts 31/12/2018 | Carrying amounts 31/12/2019 |
|---|---|---|---|
| **Assets** | | | |
| Participating interests | at fair value through equity | 444 | 636 |
| Trade receivables | Amortised cost | 22,270 | 20,962 |
| | | | |
| Other financial assets | | | |
| Derivative financial assets (no hedge relationship) | at fair value through equity | 28 | 0 |
| Other non-derivative financial assets | Amortised cost | 799 | 191 |
| | | | |
| Cash and cash equivalents | Amortised cost | 29,990 | 34,353 |
| | | | |
| **Liabilities** | | | |
| Financial liabilities | Amortised cost | 25,428 | 67,858 |
| Trade payables | Amortised cost | 9,789 | 46,350 |
| | | | |
| Other financial liabilities | | | |
| Derivatives with negative market value | at fair value through equity | 5 | 0 |
| Leasing liabilities | Amortised cost | 2,374 | 2,721 |
| Other non-derivative financial liabilities | Amortised cost | 10 | 53 |

The carrying amounts of the financial instruments, aggregated according to the measurement categories of IFRS 9, are as follows:

**Aggregated presentation by measurement category**

| **Category** | **31/12/2018** | **31/12/2019** |
|---|---|---|
| | **EUR thousands** | **EUR thousands** |
| Financial assets measured at amortised cost (amortised cost) | 53,059 | 55,506 |
| Financial assets measured at fair value through profit or loss (fair value to P&L) | 28 | 0 |
| Financial assets (equity instruments) measured at fair value through equity (fair value OCI) | 444 | 636 |
| Financial liabilities measured at amortised cost (amortised cost) | 35,227 | 116,982 |
| Financial liabilities measured at fair value through profit or loss (fair value P&L) | 5 | 0 |

With regard to equity investments, the carrying amount corresponds to the fair value due to the measurement category.

In the case of trade receivables, other non-derivative financial assets and cash and cash equivalents, the carrying amounts correspond to the fair value, due to the predominantly short maturities of these instruments.
In the case of trade payables, other non-derivative financial liabilities and other liabilities, it is assumed, on the basis of the predominantly short maturities, that the carrying amounts of these instruments correspond to the fair values.

## INFORMATION ON MEASURING THE FAIR VALUE

The following table shows the assets and liabilities measured at fair value:

| | 31 December 2019 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| **In EUR thousands** | **Level 1** | **Level 2** | **Level 3** | **Level 1** | **Level 2** | **Level 3** |
| Derivative financial instruments with positive market value | | | | | 28 | |
| Other participating interests | 624 | | 12 | 432 | | 12 |
| **Assets** | **624** | | | **432** | **28** | |
| Derivative financial instruments with negative fair value | | | | | 5 | |
| **Liabilities** | | | | | **5** | |

There were no reclassifications between the levels of the measurement hierarchy in the financial year.

## NET LOSSES AND GAINS ON FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY IN ACCORDANCE WITH IFRS 9 FOR FINANCIAL YEAR 2019

| | | | | | 2019 |
|---|---|---|---|---|---|
| **In EUR thousands** | **Fair value** | **Value adjustment** | **From interest** | **From dividends** | **Net result** |
| Financial assets measured at amortised cost | 0 | -42 | -7 | 0 | -49 |
| Financial assets measured at fair value through profit or loss (FVTPL) | 20 | 0 | 0 | 0 | 20 |
| Financial assets (equity instruments) measured at fair value through other comprehensive income (FVOCI) | 193 | 0 | 0 | 9 | 202 |
| Financial liabilities measured at amortised cost (FLAC) | 0 | 0 | -732 | 0 | -723 |
| Financial liabilities measured at fair value through profit or loss (FVTPL) | 11 | 0 | 0 | 0 | 11 |
| **Total** | **224** | **-42** | **-732** | **9** | **-539** |

The net interest expense of EUR 731 thousand includes interest income of EUR 33 thousand and interest expense of EUR 764 thousand.

## NET LOSSES AND GAINS ON FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY IN ACCORDANCE WITH IFRS 9 FOR FINANCIAL YEAR 2018

| | | | | | 2018 |
|---|---|---|---|---|---|
| **In EUR thousands** | **Fair value** | **Value adjustment** | **From interest** | **From dividends** | **Net result** |
| Financial assets measured at amortised cost | 0 | -52 | 24 | 0 | -28 |
| Financial assets measured at fair value through profit or loss (FVTPL) | -11 | 0 | 0 | 0 | -11 |
| Financial assets (equity instruments) measured at fair value through other comprehensive income (FVOCI) | -66 | 0 | 0 | 6 | -60 |
| Financial liabilities measured at amortised cost (FLAC) | 0 | 0 | -698 | 0 | -698 |
| Financial liabilities measured at fair value through profit or loss (FVTPL) | -5 | 0 | 0 | 0 | -5 |
| **Total** | **-82** | **-52** | **-674** | **6** | **-802** |

## RISKS IN RELATION TO FINANCIAL INSTRUMENTS

SCHWEIZER is exposed to risks from changes in exchange rates and interest rates and uses standard derivative instruments to a limited extent to hedge risks arising from operating and financing activities in line with the risk assessment. The use of these instruments is governed by Group directives within the risk management system which lay down limits based on the value of the underlying transactions, define approval procedures, prohibit the use of derivative instruments for speculative purposes, minimise credit risks and regulate internal reporting and the segregation of duties. Reviews are carried out regularly to ensure compliance with these guidelines and the correct processing and measurement of transactions while observing the segregation of duties. The risk management of financial instruments is also integrated into the Group-wide risk management system.

The risks which are hedged are chiefly as follows:

**Interest rate risks:**

No interest rate hedging transactions were to be recognised as of the balance sheet date. The presentation of the quantitative indication of risk in relation to the interest rate risk required by IFRS 7 is based on a sensitivity analysis. This method is used to determine the effects of hypothetical changes in market interest rates on interest income and expenses and on equity as of the reporting date. The sensitivity analysis is based on the following assumptions: Original variable-interest financial instruments are subject to interest rate risk and must therefore be included in the sensitivity analysis. Fixed-interest financial instruments are not subject to any interest rate risk. If interest rates had been 100 basis points higher as of 31 December 2019, the financial result would have been EUR 193 thousand lower. It was not possible to determine interest rate risks on equity.

**Currency risks**:

Primary financial instruments are held essentially in the functional currency.
Exchange rate differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

If the EUR had risen (fallen) by 10 percent against the major currencies (USD, SGP and CNY) as at 31 December 2019, profit before tax would have been EUR 138 thousand (2018: EUR 694 thousand) lower and EUR 168 thousand (2018: EUR 847 thousand) higher respectively.

In order to reduce currency risks and to secure the calculation basis for customer orders, natural hedge transactions are carried out on a case-by-case basis or derivative financial instruments may be used depending on the assessment of developments on the currency market. Currency risks are monitored and managed centrally. There were no cross-year hedging contracts as of the balance sheet date.

**Liquidity risks:**

Risks arising from cash flow fluctuations are detected early within the framework of the established liquidity planning system. In view of the good ratings of several banks, as well as the lines of credit granted by banks, the Group is able to access substantial liquid funds at any time.

In addition, SCHWEIZER holds a liquidity reserve of EUR 3.2 million (2018: EUR 5.6 million), which is covered by part of the deposits and funds and may only be used with the approval of the Supervisory Board and the banking powers of attorney of the Executive Board.

**Maturity analysis of liabilities**

The financial liabilities have the following maturities:

| **2019** | | **up to 3** | **3 to 12** | **1 to 5** | **more than 5** | |
|---|---|---|---|---|---|---|
| | **31/12/2019** | **Months** | **Months** | **Years** | **Years** | **Total** |
| | **EUR thousands** | **EUR thousands** | **EUR thousands** | **EUR thousands** | **EUR thousands** | **EUR thousands** |
| **Financial liabilities** | | | | | | |
| Repayment | 67,858 | -641 | -1,922 | -43,095 | -22,200 | -67,858 |
| Interest | | -584 | -1,736 | -5,942 | -869 | -9,131 |
| **Balance** | **67,858** | **-1,255** | **-3,658** | **-49,038** | **-23,069** | **-76,989** |
| | | | | | | |
| **Trade payables** | **46,350** | **-13,735** | **-29,923** | **-2,692** | **0** | **-46,350** |
| | | | | | | |
| **Other financial liabilities** | **2,774** | **-240** | **-511** | **-1,614** | **-409** | **-2,774** |
| thereof lease liabilities | 2,721 | -188 | -511 | -1,614 | -409 | -2,721 |
| | | | | | | |
| **Total** | **116,982** | **-15,230** | **-34,092** | **-53,344** | **-23,478** | **-126,114** |

| **2018** | | **up to 3** | **3 to 12** | **1 to 5** | **more than 5** | |
|---|---|---|---|---|---|---|
| | **31/12/2018** | **Months** | **Months** | **Years** | **Years** | **Total** |
| | **EUR thousands** | **EUR thousands** | **EUR thousands** | **EUR thousands** | **EUR thousands** | **EUR thousands** |
| **Financial liabilities** | | | | | | |
| Repayment | 25,428 | -4,686 | -2,455 | -13,331 | -4,500 | -25,428 |
| Interest | | -91 | -260 | -1,173 | -275 | -1,799 |
| **Balance** | **25,428** | **-4,777** | **-2,715** | **-14,504** | **-4,775** | **-27,227** |
| | | | | | | |
| **Trade payables** | **9,789** | **-7,697** | **-2,089** | **-3** | **0** | **-9,789** |
| | | | | | | |
| **Other financial liabilities** | 2,389 | 0 | -372 | -2,017 | 0 | -2,389 |
| | | | | | | |
| **Derivatives** | | | | | | |
| Inflow | 0 | 0 | 0 | 0 | 0 | 0 |
| Outflow | 0 | 0 | -5 | 0 | 0 | -5 |
| **Balance** | **0** | **0** | **-5** | **0** | **0** | **-5** |
| | | | | | | |
| **Total** | **37,606** | **-12,474** | **-5,181** | **-16,524** | **-4,775** | **-39,410** |

**Counterparty default risks**
Identifiable risks are taken into account through individual valuation allowances. There are no generalised individual valuation allowances. Otherwise, the carrying amount represents the maximum credit risk.

Counterparty default risks are taken into account using the expected credit loss model. This means that a risk deduction is made according to the probability of default and taken into account for the corresponding term of the assets. There are no generalised individual valuation allowances. See also Section 1 of IFRS 9 "Financial Instruments". SCHWEIZER carries out active receivables management. All open receivables are classified as due or overdue on the basis of the relevant payment terms. The accounts receivable are divided into dunning levels and dunned according to the overdue date.

**Collateral**
Collateral is provided to banks exclusively in the form of mortgages totalling EUR 21.8 million, of which EUR 20.8 million (2018: EUR 18.0 million) was secured as of the reporting date. Of the loans secured by mortgages, an additional EUR 16.5 million is secured by machinery.

## 4.18 LIABILITIES FROM GOVERNMENT GRANTS

| | EUR thousands |
|---|---|
| **As at 1 January** | **0** |
| Received in the financial year | 20,820 |
| Recognised in profit or loss | 205 |
| **As at 31 December** | **20,615** |
| Of which current | 0 |
| Of which non-current | 20,615 |

In financial year 2019, Schweizer Electronic (Jiangsu) Co., Ltd., China, subsidised investments of CNY 161.2 million or EUR 20.6 million were made for buildings, which were received in identical amounts as a grant from the Administration Committee of Jincheng Science and Technology Industrial Park, Jintan, China, in accordance with the Investment Agreement of 11 November 2017. The grant is recognised in the liabilities from government grants. For the repayment, it was agreed that tax payments in the years 2022 to 2026 will be credited as repayment of the incentives. Incentives not yet repaid at the end of 2026 are non-refundable and would be recognised in the income statement.

In addition, in accordance with the Investment Agreement of 11 November 2017, the Administration Committee of Jincheng Science and Technology Industrial Park, Jintan, China, paid a grant of CNY 1.5 million or EUR 205 thousand for the purpose of passing on these funds to employees for property acquisitions in Jintan District or as rent subsidies. This expense-related incentive (individual subsidy) is granted annually over six years up to a total amount of CNY 9 million upon proof.

For machines to be purchased, a subsidy of 20 percent of the respective purchase price was agreed, which does not include any repayment obligation. No subsidies in this connection have yet been provided.

# 5. NOTES TO THE CASH FLOW STATEMENT

### CASH FLOW FROM OPERATING ACTIVITIES

Operating cash flow decreased by a total of -EUR 0.6 million to EUR 5.3 million (2018: EUR 6.0 million). This resulted in a -EUR 8.6 million reduction in earnings before taxes. In contrast, the increase in trade payables and other assets of +EUR 5.1 million and the paid/refunded income taxes of +EUR 3 million compared to the previous year contributed to an increase in operating cash flow. The repayment and interest payments for lease liabilities in the amount of EUR 0.8 million were taken into account in the cash flow from financing activities, unless they were short-term or low-value rights of use. The first-time application of IFRS 16 thus had an additional positive effect of EUR 0.8 million on the cash flow from operating activities.

### CASH FLOW FROM INVESTMENT ACTIVITIES

The cash flow from investing activities amounted to -EUR 42 million in the reporting year (2018: -EUR 4.2 million). Cash investments in property, plant and equipment and intangible assets – particularly in connection with the new production site in China – increased by EUR 57 million to EUR 63.5 million. The Group received EUR 20.6 million from the receipt of government grants in China.

### CASH FLOW FROM FINANCING ACTIVITIES

The EUR 24.1 million year-on-year cash inflow resulted from the utilisation of bank loans to finance investments at the new production site in China.

# 6. OTHER NOTES

## 6.1 CONTINGENT LIABILITIES

### GUARANTEES AND OTHER COMMITMENTS

As at 31 December 2019, there are guaranteed amounts from cooperative shares of Schweizer Electronic AG in the amount of EUR 5 thousand (2018: EUR 5 thousand).

In connection with the financing of the new production unit Schweizer Electronic (Jiangsu) Co., Ltd., China, Schweizer Electronic AG already in 2018 provided an undertaking to the banking syndicate of the Industrial and Commercial Bank of China in the form of a letter of comfort to actively take measures to raise funds for the maintenance of normal debt servicing and operating financial requirements in the event of standstills in loan repayments or other liquidity bottlenecks at Schweizer Electronic (Jiangsu) Co., Ltd. The letter of comfort will take effect from the first half of 2019, once the conditions of the loan agreement between the subsidiary and the Chinese bank consortium have been met.

With regard to the letter of comfort to a supplier of Schweizer Electronic Singapore Pte. Ltd. for financial year 2015, no liabilities existed as of 31 December 2019 (31 December 2018: EUR 155 thousand).

Schweizer Electronic AG continues to be committed to fulfilling the obligation arising from a local service contract between Schweizer Electronic Singapore Pte. Ltd. and the former CEO if the company is unable to fulfil it punctually and on time. This agreement is valid as long as financial obligations exist.

Furthermore, Schweizer Electronic AG undertakes to meet all the obligations of Schweizer Electronic Singapore Pte. Ltd., if the company is unable to fulfil them punctually and in good time.

There are no guarantees or other commitments at the level of the subsidiary.

The risk of claims arising from guarantees is deemed to be negligible.

**LEGAL DISPUTES**

The lawsuit filed by Darcet Pte., Ltd., Singapore, against Swiss Energy Production Singapore Pte., Ltd. was heard by the Singapore court in the first half of 2019 and was dismissed in full on 21 May 2019. The applicant appealed against this decision on 12 June 2019, but the appeal has not yet been substantiated.

In March 2017, a lawsuit was filed against Schweizer Electronic AG by Dr Maren Schweizer. The subject of the action is the dismissal by the Supervisory Board of Dr Maren Schweizer as Chair of the Executive Board of Schweizer Electronic AG with immediate effect and the extraordinary termination of the employment contract with effect from 1 February 2017. The claims raised amount to a sum in the low single-digit millions.

## 6.2 SHARE-BASED REMUNERATION

The company has granted the members of the Executive Board share-based, long-term cash compensation as part of a long-term incentive plan (LTI) since financial year 2019.

Payment under the LTI plan is made if an average target achievement rate of at least 80 percent is achieved over a four-year performance period. The first payment under the LTI plan will therefore be made after financial year 2022 at the earliest, as the first four-year cycle begins with financial year 2019.

The amount paid out under the LTI plan is based on the performance of the Schweizer Electronic AG share price, the achievement of the return on capital employed (ROCE) target and a corporate factor determined by the Supervisory Board.
The amount paid out is largely determined by the average price of the Schweizer Electronic AG share at the end of the performance period. The amount to be paid out is calculated by multiplying this share price by the number of virtual shares granted to the Executive Board member under the LTI plan. The number of virtual shares is calculated as follows: Depending on the level of target achievement, a certain amount (40 percent of the gross annual fixed salary in the case of 100-percent target achievement; a maximum of 80 percent of the gross annual fixed salary) is converted into virtual shares based on an average starting price determined at the beginning of the performance period. This initial number of virtual shares is adjusted using the ROCE target achievement factor on average over the performance period and the company factor to produce a final number of virtual shares at the end of the performance period.

The entitlements earned under the LTI plan up to the end of the reporting period are measured at a fair value of EUR 106 thousand as of the balance sheet date. A target achievement of 100 percent is assumed. The measurement of the virtual shares is based on the stock market price of the Schweizer Electronic AG share as of the balance sheet date.

Payment under the LTI plan is made in the form of a cash payment at the end of the four-year performance period. Further information on the remuneration of the members of the Executive Board can be found in Section 6.3.

## 6.3 INFORMATION ON RELATED PARTY TRANSACTIONS

**RELATED COMPANIES**

Related companies that are controlled by Schweizer Electronic AG or managed jointly with another party are presented in Section 7.6. The business transactions between Schweizer Electronic AG and its subsidiaries were eliminated within the framework of consolidation.

**RELATED PERSONS**

The related persons of the Schweizer Group comprise the members of the Executive Board and the Supervisory Board of Schweizer Electronic AG (see Section 7.5) and their close family members.

Remuneration for the active members of the Executive Board and the Supervisory Board is comprised as follows:

| | 2019 | 2018 |
|---|---|---|
| | EUR thousands | EUR thousands |
| Current benefits (without share-based remuneration) | 1,884 | 1,108 |
| Benefits after termination of employment | 456 | 418 |
| Share-based remuneration | 5 | 82 |
| **Total** | **2,345** | **1,608** |

The pension provisions include a provision in the amount of EUR 6.25 million (2018: EUR 6.002 million) for the former members of the Executive Board and their surviving dependants. The post-employment benefits also include the remuneration of a former member of the Executive Board (currently member of the Supervisory Board) in the amount of EUR 193 thousand (2018: EUR 193 thousand).

The employees' representative on the Supervisory Board, who is employed at Schweizer, also received a salary for her activity as an employee.

Further disclosures regarding the remunerations of the Executive Board and the Supervisory Board are set out in the remuneration report.

#### OTHER RELATIONSHIPS WITH RELATED PARTIES

Mr Chris Wu has been a member of the Supervisory Board since 7 July 2017. Mr Wu is the managing partner of WUS Printed Circuit (Kunshan) Co. Ltd., Kunshan, China, from which goods in the amount of EUR 14.226 million (2018: EUR 124 thousand) were purchased. As of the balance sheet date, there were liabilities of EUR 3.496 million (2018: EUR 44 thousand) to this company. In addition, revenues of EUR 336 thousand (2018: EUR 0 thousand) were generated from transactions with the company in the financial year.

### 6.4 EVENTS AFTER THE BALANCE SHEET DATE

With effect from 6 March 2020, Dr Rolf Merte decided to leave Schweizer Electronic AG early for personal reasons. No significant effects from Dr Merte's departure are expected on the earnings situation in 2020 compared with the budget.

After the balance sheet date, there was an increased spread of the novel coronavirus (SARS-CoV-2) in many countries. At the beginning of the year, the increased incidence in China led to a temporary restriction of the business activities of the companies affected there. It is expected that the coronavirus crisis will have a significant impact on the net assets, financial position and results of operations for 2020. The most probable effects cannot be reliably estimated at this time. The forecast of the financial effects is therefore based on a more optimistic and a more pessimistic scenario in each case. However, this is not expected to have any significant impact on production. As the year progressed, the virus also spread in Germany. An estimate of the financial impact of the spread of the virus and the associated consequences for the order situation of the Schweizer Group is not possible at the present time due to uncertainties regarding the timeframe, scope and chain of effects of the measures. In the more optimistic scenario, we assume that the Group will generate an EBITDA in a range of -2 to -6 percent (approx. EUR -2 to -6 million). The crucial factor in this estimate is the expected negative earnings contribution of between EUR -6 and -7 million from the ramp-up of the Jintan plant. Considering a more pessimistic scenario, we expect an EBITDA ratio of between -4 and -8 percent (approx. EUR -4 to -8 million). The negative earnings contribution of the new plant in Jintan will be roughly the same as in the more optimistic scenario. Group EBITDA excluding the plant in China would be neutral to slightly negative in this scenario. As a result, a significant increase in the gearing ratio and a decline in the equity ratio are expected in both scenarios.

On 1 April 2020, Schweizer sold all its shares in Meiko Electronics Co. Ltd., Ayase, Japan, at a sales price of EUR 341 thousand. These were capitalised in the balance sheet as of 31 December 2019 with a carrying amount of EUR 624 thousand (2018: EUR 432 thousand).

## 7. ADDITIONAL DISCLOSURES PURSUANT TO HGB

### 7.1 GROUP STRUCTURE

As the parent company, Schweizer Electronic AG prepares consolidated financial statements for the 2019 financial year in accordance with international accounting standards pursuant to Section 290 in conjunction with Section 315e HGB for the largest and smallest group of companies. These are published in the Federal Gazette.

## 7.2 DECLARATION IN ACCORDANCE WITH SECTION 161 AKTG WITH REGARD TO THE GERMAN CORPORATE GOVERNANCE CODE

The Executive Board and the Supervisory Board of Schweizer Electronic AG have issued the declaration for 2019 stipulated in Section 161 AktG and have made this declaration available to shareholders on the company website www.schweizer.ag.

## 7.3 NUMBER OF EMPLOYEES

The average number of employees is:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **National** | **International** | **Total** | **National** | **International** | **Total** |
| Wage-earning employees | 444 | 44 | 488 | 473 | 9 | 482 |
| Employees | 239 | 45 | 284 | 249 | 5 | 254 |
| **Number of employees** | **683** | **89** | **772** | **722** | **14** | **736** |
| Trainees | 24 | 0 | 24 | 19 | 8 | 27 |
| **Number of employees (including trainees)** | **707** | **89** | **796** | **741** | **22** | **763** |

## 7.4 AUDIT AND CONSULTING FEES

The auditor's fee charged for the financial year amounts to EUR 366 thousand (of which EUR 23 thousand for the previous year) for audit services, EUR 13 thousand for other certification services, EUR 0 thousand for tax consulting services and EUR 76 thousand for other services (of which EUR 53 thousand for the previous year).

## 7.5 COMPANY EXECUTIVE BODIES AND THEIR MANDATES

### EXECUTIVE BOARD

The following persons were appointed as members of the Executive Board during this financial year:

**Dr Rolf Merte** (until 6 March 2020)
Chair of the Executive Board
Responsible for Technology & Business Development, Sales & Marketing and Information Systems

Other activities and mandates:

- Member of the Supervisory Board of the Hahn-Schickard-Gesellschaft für angewandte Forschung e.V. (Hahn-Schickard Society for Applied Research)
- Member of the Advisory Board of Endiio GmbH and Endiio Engineering GmbH

**Nicolas-Fabian Schweizer**
Member of the Executive Board, (Deputy Chair)
Responsible for Operations, Technology, Business Development, Human Resources, Legal and Media & Communications. In addition, he is responsible for the management of embedding issues and the partner management for IFX, WUS and Meiko.

Activities and mandates within the Group:

- Director of Schweizer Pte. Ltd., Singapore
- Supervisor of Schweizer Electronic (Suzhou) Co., Ltd., China
- Supervisor of Schweizer Electronic (Jiangsu) Co., Ltd., China
- Member of the Executive Board of Unterstützungskasse Christoph Schweizer e.V.

Other activities and mandates:

- Member of the plenum of IHK Schwarzwald-Baar-Heuberg
- Member of Deutsche Bank AG's Freiburg Regional Advisory Board
- Member of the Advisory Board of WVIB Schwarzwald AG

**Marc Bunz**
Member of the Executive Board
Responsible for Operations, Sales & Marketing, Finance & Controlling, Supply Chain, Information Technology, Investor Relations and management of Schweizer Electronic (Jiangsu) Co. Ltd. China.

Activities and mandates within the Group:

- Managing Director of Schweizer Pte. Ltd., Singapore
- Director of Schweizer Electronic (Jiangsu) Co., Ltd., China
- Director of Schweizer Energy Production Singapore Pte. Ltd., Singapore
- Member of the Executive Board of Unterstützungskasse Christoph Schweizer e.V.

Other activities and mandates:

- Member of the Stock Exchange Council of the Baden-Württembergische Wertpapierbörse
- Member of the Advisory Board of HDI Global SE

### SUPERVISORY BOARD

The Supervisory Board consists of the following persons:

**Christoph Schweizer** (since 28 June 2019)
Chair
Member of the Finance Committee
Former Managing Director of Schweizer Verwaltungs- und Beteiligungsgesellschaft mbH and Schweizer Air Service GmbH & Co.KG

**Dr Stephan Zizala**
Deputy Chair
Member of the Finance Committee
Vice President & General Manager Business-Line High Power, Automotive Division of Infineon Technologies AG

**Michael Kowalski** (Chair until 28 June 2019)
Member of the Finance Committee
Consultant, Senior Adviser of mmc Mollenhauer Management Consulting AG, Wiesbaden

**Chris (Chuan Pin) Wu**
President of WUS Printed Circuit (Kunshan) Co., Ltd. Kunshan/China

Other activities and mandates:
- Director of Biggering (BVI) Holdings Co., Ltd.
- Director of Happy Union Investment Co., Ltd.

**Karin Sonnenmoser** (until 28 June 2019)
Member of the Finance Committee
Chief Financial Officer of Ceconomy AG (from 1 March 2019)

Other activities and mandates:
- Member of the Supervisory Board of Vivantes-Netzwerk für Gesundheit GmbH, Berlin

**Petra Gaiselmann*** (since 28 June 2019)
Deputy Chair of the Works Council
Schweizer Electronic AG, Schramberg

**Jürgen Kammerer*** (since 28 June 2019)
Mechanics Process Engineer,
Schweizer Electronic AG, Schramberg

**Carsten Brudlo*** (until 28 June 2019)
Surface Finishing Manager,
Schweizer Electronic AG, Schramberg

**Siegbert Maier*** (until 28 June 2019)
Quality Test Department Administrator
Schweizer Electronic AG, Schramberg

*) Employee representative

## 7.6 SHAREHOLDINGS AS AT 31 DECEMBER 2019

| Name | Headquarters | Share of equity (in %) |
|---|---|---|
| **Fully consolidated subsidiaries** | | |
| Schweizer Pte. Ltd. | Singapore | 100.0 |
| Schweizer Electronic Singapore Pte. Ltd. | Singapore | 100.0 |
| Schweizer Energy Production Singapore Pte. Ltd. | Singapore | 94.5 |
| Unterstützungskasse Christoph Schweizer e.V. | Schramberg, Germany | 100.0 |
| Schweizer Electronic (Suzhou) Co., Ltd. | Suzhou, China | 100.0 |
| Schweizer Electronic (Jiangsu) Co., Ltd. | Jiangsu, China | 100.0 |
| | | |
| **Other participating interests** | | |
| SCHRAMBERGER WOHNUNGSBAU GmbH | Schramberg, Germany | 1.3 |

Schramberg, 7 April 2020

Schweizer Electronic AG

The Executive Board

(N. F. Schweizer) (M. Bunz)

# INDEPENDENT AUDITOR'S REPORT

To Schweizer Electronic AG

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND GROUP STATUS REPORT

### Audit opinions

We have audited the consolidated financial statements of Schweizer Electronic AG, Schramberg, and its subsidiaries (the Group), comprising the consolidated income statement, the consolidated statement of comprehensive income for the financial year from 1 January to 31 December 2019, the consolidated balance sheet as of 31 December 2019, the consolidated cash flow statement and the consolidated statement of changes in equity for the financial year from 1 January to 31 December 2019 and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the Group status report, which has been combined with the status report of Schweizer Electronic AG, Schramberg, for the financial year from 1 January to 31 December 2019. In accordance with German legal requirements, we have not examined the content of the corporate governance statement published on the website indicated in the Group status report, which is an integral part of the Group status report. In addition, we have not included in our examination the information external to the Annual Report to which reference is made in the section "Takeover-relevant information" in the Group status report.

In our opinion based on the findings of our audit,

- the enclosed consolidated annual financial statements are in all material respects in compliance with IFRS as applicable in the EU and the supplementary provisions under commercial law pursuant to Section 315e (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group as at 31 December 2019 and its earnings situation for the financial year from 1 January 2018 to 31 December 2019 in accordance with these requirements and
- the accompanying Group status report provides a suitable understanding of the Group's position. In all material aspects, this Group status report is consistent with the consolidated financial statements, complies with German law and suitably presents the opportunities and risks of future development. Our audit opinion on the Group status report does not extend to the content of the above-mentioned corporate governance statement.

In accordance with Section 322 (3) Sentence 1 HGB, we declare that our audit has not led to any objections against the correctness of the consolidated financial statements and the combined Group status report.

### Basis for the audit opinions

We conducted our audit of the consolidated annual financial statements and the Group status report in accordance with Section 317 HGB, EU Auditor Regulation (No. 537/2014; hereinafter "EU-APrVO") and the generally accepted German accounting standards laid down by the German Institute of Public Auditors (Institut der Wirtschaftsprüfer; IDW). Our responsibility in accordance with these regulations and principles is further described in the section "Responsibility of the auditor for the audit of the consolidated financial statements and Group status report" of our audit opinion. We are independent of the Group company in accordance with European and German commercial and professional legal regulations and have met our other German professional duties in accordance with these requirements. In addition, we declare in accordance with Article 10 (2) Letter f) of the EU-APrVO (EU Regulation on the Preparation of Financial Statements) that we have not provided any prohibited non-audit services pursuant to Article 5 (1) of the EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the consolidated financial statements and Group status report.

### Particularly important audit issues in the audit of the consolidated financial statements

Particularly significant audit issues are those which, in our opinion and due discretion, were most significant to our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2019. These issues have been considered in connection with our audit of the consolidated financial statements as a whole and in forming our opinion thereon; we do not express a separate opinion on these issues.

In the following, we describe what we consider to be particularly important audit issues:

### 1) Valuation of provisions for litigation risks

**Reasons for determining this as a particularly important audit issue**

The Group is facing legal action from a former member of the Executive Board and a co-shareholder of a subsidiary in Singapore. In the case of the former member of the Executive Board, the actions relate to the dismissal as Chair of the Executive Board by the Supervisory Board and the extraordinary termination of the employment contract with effect from 1 February 2017 and, in the case of the co-shareholder of a subsidiary, to claims based on losses suffered by the joint investment company.

In these lawsuits, payment claims are raised by the co-shareholder to a mid-single-digit amount in the millions and by the former Executive Board member to a higher single-digit amount in the millions. In view of the amount of the claims, their significance for the presentation of a true and fair view of the net assets and financial position of the Group, and the fact that the amount of the provisions depends on the discretion of the legal representatives, the provisions for litigation risks are to be regarded as a particularly important audit issue.

**Audit procedure**

As part of our audit, we discussed the individual lawsuits with the Executive Board, the Chair of the Supervisory Board and the employees responsible for legal matters. In addition, in order to assess the outcome of the legal proceedings, we obtained the opinion of the attorneys responsible for the legal proceedings and the local auditor of the subsidiary, as well as the cost calculation for assessing the amount of the provisions. We assessed the discretionary decisions made by the legal representatives with regard to the valuation of the provision against the background of these findings. Our audit procedures did not give rise to any objections to the measurement of provisions for litigation risks.

**Reference to related information**

Schweizer Electronic AG has made disclosures in Section 2 and Section 4.16 of the notes to the consolidated financial statements in order to assess the provisions for litigation risks and to indicate the level of litigation risks.

### 2) Recognition and measurement of deferred taxes

**Reasons for the determination as a particularly important audit issue**

The Group conducts its business in countries with varying local tax laws. The recognition of deferred taxes on valuation differences and on loss carryforwards was a particularly important issue in the context of our audit, as it requires a high degree of discretionary decisions, estimates and assumptions by the legal representatives. This relates in particular to the recoverability of deferred tax assets on valuation differences and on loss carryforwards. The recoverability of deferred tax assets is based on the assessment of their usefulness based on future taxable income. In this respect, the legal representatives make estimates with regard to the economic development of the Group companies and the future use of existing loss carryforwards, which are subject to discretionary powers.

**Audit procedure**

We called in internal tax experts to assist in assessing deferred taxes. We dealt with the processes set up by the legal representatives, reviewed domestic tax values on the basis of tax assessments and the confirmation from the external tax consultant, took random samples to examine the identification, completeness and correct quantification of deviations between the recognition and measurement of assets and liabilities in accordance with tax regulations and IFRS accounting, and comprehended the calculation of deferred taxes and the application of the applicable tax rate.

As part of our audit procedures to assess the recoverability of deferred tax assets, we tested, on a sample basis, whether the tax planning was derived correctly from the corporate plans prepared by management. In addition, we assessed the tax planning assumptions of the respective company from the perspective of the taxable income generated in the past.

Our audit procedures did not give rise to any objections to the recognition and measurement of deferred taxes.

**Reference to related information**

With regard to the procedure regarding deferred taxes, Schweizer Electronic AG provides a report in the notes to the consolidated financial statements, inter alia, in Section 2 and in Note 3.8.

**3) Revenue recognition**

**Reasons for determinations as a particularly important audit issue**

Revenue is recognised in accordance with IFRS 15 "Revenue from contracts with customers" when the customer has gained control of the asset. Depending on the terms of the agreement, revenue may be recognised over a period of time as well as on a point in time basis. In our opinion, the accounting treatment of performance obligations resulting from contracts entered into is an area with a significant risk of material misstatement and is therefore a particularly important area of audit, as the assessments of the legal representatives have a significant impact on the interpretation of the contracts. When assessing the legal claim to payment for services already rendered, the respective individual contractual agreements and the general contractual conditions are taken into account. If no legal claim to payment for the service already rendered can be derived from these, supplementary provisions of the German Civil Code (Germany) or relevant comparable local laws (abroad) are applied.

**Audit procedure**

As part of our audit, we examined the company's internal documentation on IFRS 15, contract management and the assessments of the legal representatives with regard to the lack of alternative uses and the legal entitlement to payment for services already provided by Group companies.

On the basis of risk-oriented selected samples, we assessed the estimates and assumptions made by the legal representatives, particularly with regard to the timing of revenue recognition, on a case-by-case basis. In particular, we selected those contracts with customers that represent a significant sales volume. Our audit procedures included, among other things, a review of the contractual basis and terms and conditions, including contractually agreed provisions on termination rights, penalties for late performance and contractual penalties, and damages. For the selected contracts, in order to assess the accrual-based determination of earnings, we also considered the sales revenue billable as of the balance sheet date and the related cost of sales to be recognised in profit or loss as well as the presentation of the related balance sheet items in the balance sheet.

Our audit did not give rise to any objections with regard to the recognition of revenue from supply contracts.

**Reference to related information**

Schweizer Electronic AG reports on the accounting and valuation principles applied to the recognition of sales revenues in Section 2 of the notes to the consolidated financial statements.

**Miscellaneous information**

The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, the legal representatives are responsible for the other information. Other information includes the above-mentioned corporate governance statement as well as the components intended for the Annual Report, of which we have obtained a version up to the date of issuing this audit opinion, in particular the sections non-financial statement (Group), responsibility statement and corporate governance report, but not the consolidated financial statements, not the Group status report information included in the content of the audit and not our associated audit opinion. In addition, the miscellaneous information includes the other components of the Annual Report that are expected to be made available to us after our audit opinion has been issued, in particular the sections IFRS key figures, companies and information.

Our opinion on the consolidated financial statements and Group management report does not extend to miscellaneous information, and accordingly we do not express an audit opinion or any other form of conclusion on such information.

In connection with our audit, we have the responsibility to read the miscellaneous information and, in doing so, to assess whether the miscellaneous information

- is materially inconsistent with the consolidated financial statements, Group status report or the findings of

our audit, or
- otherwise appears materially misrepresented.

**Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the Group status report**

The legal representatives are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the EU, the additional requirements of German law pursuant to Section 315e (1) HGB in all material aspects, and for the presentation of the net assets, financial position and results of operations of the Group in accordance with these requirements. In addition, the legal representatives are responsible for the internal controls that they have determined to be necessary to permit the preparation of consolidated financial statements free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing, where relevant, matters relating to the continuation of the company's activities. In addition, they are responsible for accounting on the basis of the going-concern accounting principle, unless there is the intention to liquidate the Group or to discontinue operations or there is no realistic alternative.

Moreover, the legal representatives are responsible for the preparation of the Group status report, which as a whole provides a suitable view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they have deemed necessary to enable the preparation of a Group status report in accordance with the applicable German legal provisions and to provide sufficient suitable evidence for the statements in the Group status report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the Group status report.

**Responsibility of the auditor for the audit of the consolidated financial statements and Group status report**

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatements, whether intended or not, and whether the Group status report as a whole provides a suitable view of the Group's position and is in accordance, in all material respects, with the consolidated financial statements and the findings of our audit, complies with the requirements of the German legal regulations and suitably presents the opportunities and risks of future development, and to issue an audit report that includes our audit opinions on the consolidated financial statements and Group status report.

Reasonable assurance is a high level of assurance, but not a guarantee, that an audit conducted in accordance with section 317 HGB and the EU-APrVO and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misstatements can result from violations or inaccuracies and are regarded as material if it could reasonably be expected that they would individually or collectively influence the economic decisions of recipients made on the basis of these consolidated financial statements and Group status report.

During the audit, we exercise due discretion and maintain a critical attitude. In addition,

- we identify and assess the risks of material misstatements, whether intentional or not, in the consolidated financial statements and Group status report, plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to form the basis for our audit opinion. The risk that material misrepresentations are not detected is higher in the case of violations than in the case of inaccuracies, since violations may involve fraudulent interaction, forgery, intentional incompleteness, misleading representations or the repeal of internal controls;
- we gain an understanding of the internal control system relevant to the audit of the consolidated financial state-

ments and of the precautions and measures relevant to the audit of the Group status report for planning audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems;

- we assess the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values and related disclosures presented by the legal representatives;
- we draw conclusions about the appropriateness of the going-concern accounting principle applied by the legal representatives and, based on the evidence obtained, whether there is a material uncertainty in connection with events or circumstances that could raise significant doubts about the Group's ability to continue its activities as a going concern. If we conclude that there is material uncertainty, we are obliged to draw attention to the relevant information in the consolidated financial statements and the status report in our audit report or, if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. Future events or circumstances may, however, result in the Group no longer being able to continue its business activities;
- we assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying business transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB;
- we obtain sufficient, suitable audit evidence for the accounting information of the companies or business activities within the Group to express an opinion on the consolidated financial statements and the combined status report. We are responsible for the management, supervision and execution of the audit of the consolidated financial statements. We bear the sole responsibility for our audit opinions;
- we assess the consistency of the combined Group status report with the consolidated financial statements, its compliance with the law and the picture it conveys of the Group's position.
- we perform audit procedures on the forward-looking statements presented by the legal representatives in the Group status report. On the basis of sufficient suitable audit evidence, we follow up on the significant assumptions underlying the future-oriented statements made by the legal representatives and assess the appropriate derivation of the future-oriented statements from these assumptions. We do not express an independent opinion on these forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discuss with those responsible for monitoring, inter alia, the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system, which we identify during our audit.

We make a statement to those responsible for the monitoring that we have complied with the relevant independence requirements and discuss with them all the relationships and other matters that can reasonably be expected to affect our independence and the safeguards taken to that end.

From the matters that we have discussed with those responsible for supervision, we determine those matters that were most significant in the audit of the consolidated financial statements for the current reporting period and which are therefore particularly important audit matters. We describe these matters in the auditor's report, unless laws or other legal provisions exclude public disclosure of the facts.

**Miscellaneous legal and other legal requirements**

**Other disclosures in accordance with Article 10 of the EU-APrVO**

We were elected as Group auditors by the Annual General Meeting on 28 June 2019. We were appointed by the Supervisory Board on 18 July 2019. We have been the Group auditors of Schweizer Electronic AG without interruption since financial year 2015.

We declare that the audit opinions contained in this audit report are consistent with the additional report to the Audit Committee under Article 11 of the EU-APrVO (audit report).

In addition to auditing the financial statements of the Group companies, we provided the following services that were not disclosed in the consolidated financial statements or in the Group status report:

- Consultations on new IFRS provisions and accounting issues;
- Statutory sector-specific audits;
- Audit services not required by law in relation to financial information.

**Responsible auditor**

The auditor responsible for the audit is Dr Eckart Wetzel.

Freiburg im Breisgau, 8 April 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft [Audit firm]

| | |
|---|---|
| Dr Wetzel | Mittelberger |
| Auditor | Auditor |

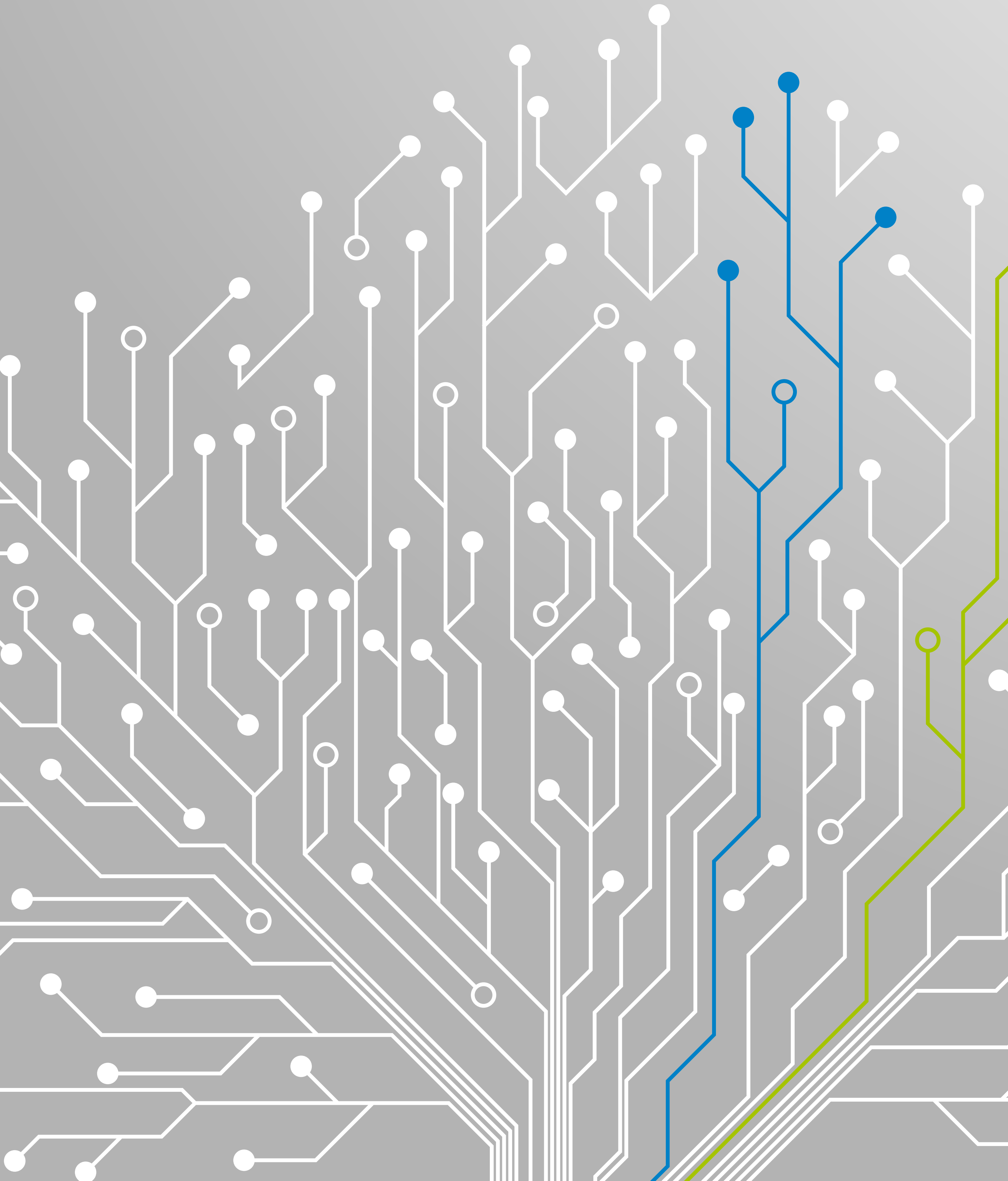
# DECLARATION BY THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group status report, that is combined with the status report of Schweizer Electronic AG, includes a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Schramberg, 7 April 2020

The Executive Board

N.-F. Schweizer M. Bunz



# COR-PORATE GOVERNANCE

# CORPORATE GOVERNANCE STATEMENT AND CORPORATE GOVERNANCE REPORT

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 procedural rules.

The Supervisory Board monitors, advises and supports the Executive Board in its activities. The procedural 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 minimising 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 2019 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 website *www.schweizer.ag/de/investorrelations/corporate-governance.html*.

The Executive Board and the Supervisory Board dealt with the recommendations and guidelines of the German Corporate Governance Code once again in the 2019 financial year.

## DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SECTION 161 AKTG

(as at: December 2019)

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 2018. 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 2018, the recommendations of the Code were and are being 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:** In No. 4.2.3 (2) Clause 8, the Code 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. In the event of extraordinary developments arising within the company (e.g. change in legal form, share buyback, corporate actions, acquisition and/or sale of the company and operations, realisation of hidden reserves) that have a significant impact on board members' ability to achieve the targets affecting variable remuneration, the current and future remuneration rules stipulated in the Executive Board employment contracts provide 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 their 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. Section 4.2.3, Para. 5 of the German Corporate Governance Code recommends that payments promised in the event of premature termination of management duties due to a change of control should not exceed 150 percent 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. Given the aforementioned, a partial deviation from Code No. 4.2.3, Para. 5 in conjunction with No. 4.2.3, Para. 4 Clause 3 is declared.

**Code No. 5.1.2:** Code No. 5.1.2, Para. 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 and 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:** In Code No. 5.4.1, Para. 2, Clause 1, Alt. 1 and Clause 2, it is recommended that, when stating the specific objectives to be achieved when constituting the board, the Supervisory Board should consider, inter alia, an appropriate age limit for members of the Supervisory Board and an appropriate 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.

In Code No. 5.4.1, Paras. 6 to 8, it is recommended that when proposing candidates to the Annual General Meeting the Supervisory Board should disclose each candidate's personal and professional relationships with the company, with executive bodies of the company and with a 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:** According to the Code recommendation in No. 5.4.6, Para. 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 Subclause, it is recommended that the consolidated financial statements and the 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 2019
Schweizer Electronic AG

Executive 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 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. Elections to the Supervisory Board are held as individual elections. The term of office of Supervisory Board members elected during the reporting year shall be until the Annual General Meeting in 2024 for four members and up to the Annual General Meeting in 2021 and 2022 respectively for one member respectively.

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.

In addition, there is a Personnel and Finance Committee consisting of three members of the Supervisory Board, the Chair of the Supervisory Board, Mr Christoph Schweizer and two other shareholder representatives, Dr Stephan Zizala and Mr Michael Kowalski. 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 on its functioning and the annual review of its activities by means of a questionnaire can be found in the Supervisory Board report.

### Composition of the Personnel and Finance Committee

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 *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. The body comprised three members until 6 March 2020 and since then has had two members. Further information regarding the areas of responsibility and resumes of the Executive Board members can be found on the company website at *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 "Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector Act" stipulates a minimum quota of 30 percent for women and men (gender quota) on the supervisory boards of companies that are publicly listed and 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 percentage 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, for the percentage of women on the **main management level** below the Executive Board, the Supervisory Board has stipulated that at least one position on this management level 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 report directly to the Executive Board and comprised a total of eleven persons. When defining the new target figure, there were no women at this management level.

These targets should be achieved 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 all the knowledge and experience that are regarded as significant given the activities and business fields of Schweizer on the Supervisory Board as a whole. 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), personnel and law (including compliance and regulatory 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);

- 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;

- 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, aims for an appropriate representation 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.
Personnel matters are prepared in the Personnel and Finance Committee and dealt with and decided on by the Supervisory Board. The members of the Personnel and Finance Committee and the Supervisory Board discuss succession planning for the Executive Board as necessary and, if meaningful, also in the absence of the Executive Board.

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 woman on the Supervisory Board by 30 June 2022 has been met since the Annual General Meeting in 2017.

In addition, the Supervisory Board has an appropriate number of independent members in accordance with its target set on 19 June 2017. According to this target, the Supervisory Board should have at least three independent Supervisory Board members, of whom at least one independent member is a shareholder. At present, in accordance with the target set in 2017, Mr Michael Kowalski is the at least one independent shareholder representative on the Supervisory Board. Mr Kowalski is regarded by the committee as independent due to his professionalism and experience despite his long-term Supervisory Board membership.

In the selection process for suitable candidates for the new appointment to the Executive Board in 2018, the Supervisory Board focused on 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 30 June 2017 | Target by 30 June 2022 | As at 31/12/2019 |
|---|---|---|---|
| Supervisory Board | No women | One woman | One woman |
| Executive Board | No women | No women | No women |
| Key management level[1] | No women | One woman | One woman |

[1] 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 great 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.

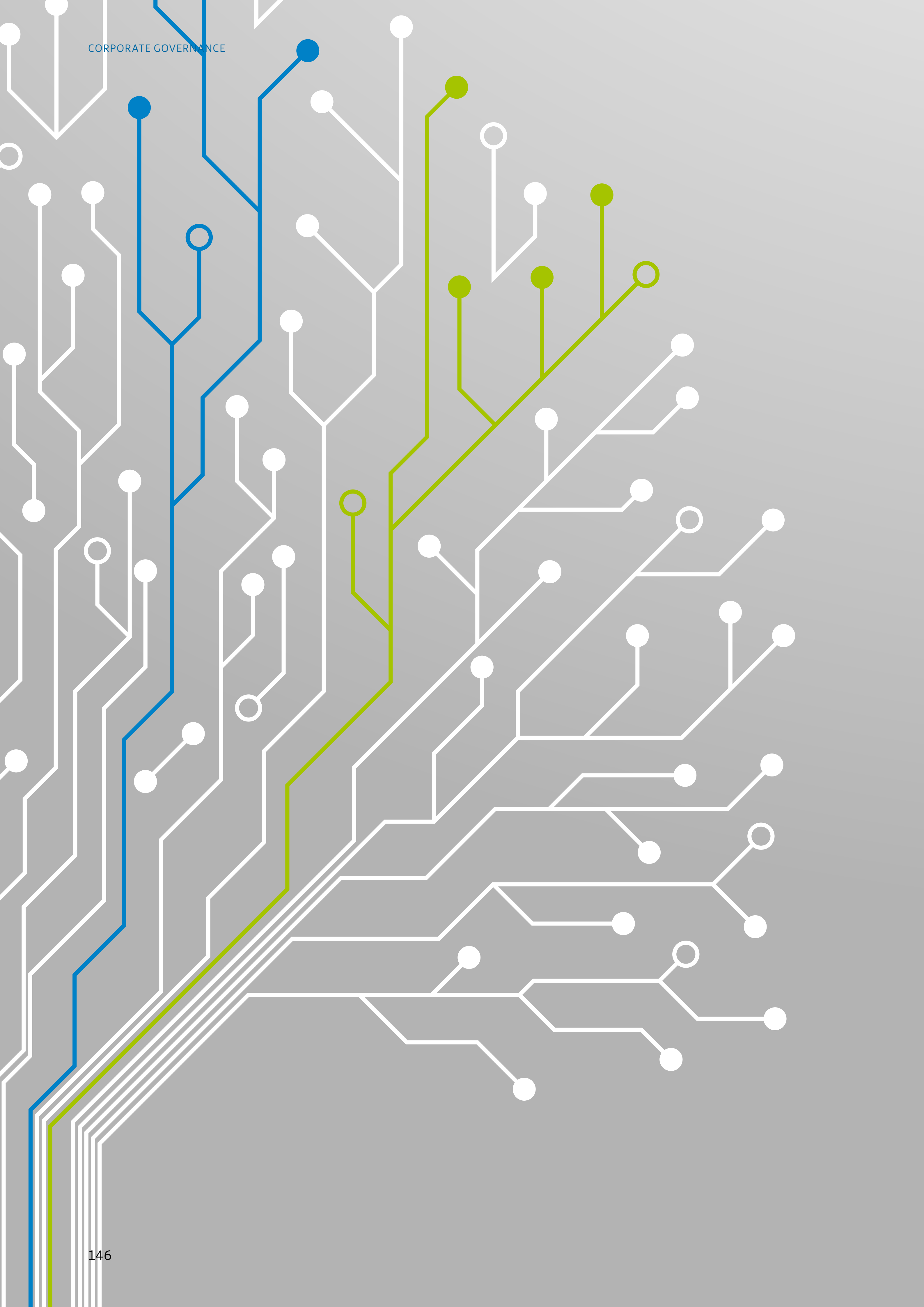
Information is also communicated via press releases and ad-hoc disclosures. All reports and disclosures are available at *www.schweizer.ag/en/investor-relations.html*. Queries are handled by the Investor Relations or Communications departments.

### 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 (EUR 20,000 as from 2020) 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 website at *www.schweizer.ag/en/investor-relations/corporate-governance/directors-dealings.html* .

Schramberg, 9 April 2020

| Executive Board | Supervisory Board |
|---|---|
| Nicolas-Fabian Schweizer<br>Chair<br>of the Executive Board | Christoph Schweizer<br>Chair<br>of the Supervisory Board |



# INFORMATION

# FINANCIAL GLOSSARY

### AktG
Abbreviation for the "Aktiengesetz", which is the German Stock Corporation Act.

### Incoming orders
Total value of all orders (reduced by cancellations) received by the company from its customers in the corresponding accounting period.

### Cash flow
Any excess of receipts over payments for a company, which is variably determined depending on the size of the payments under consideration.

### Corporate governance
Refers to the responsible management and control of a company, aligned towards long-term value creation. The German Corporate Governance Code Governmental Commission compiles the relevant standards and integrates them in the Corporate Governance Code.

### D&O insurance
Abbreviation for director and officers insurance. D&O insurance is professional liability insurance for bodies, such as management and supervisory boards, and executive employees.

### Derivative financial instruments
Derivative financial instruments are used to insure against and minimise interest rate and/or currency risks due to fluctuations in the exchange rate or market interest rate.

### EBIT
Abbreviation for earnings before interest and taxes and/or EBITDA ./. Depreciation of tangible and intangible assets.

### EBITDA
Abbreviation for earnings before interest, taxes, depreciation and amortisation or operating results before financial result, taxes and depreciation.

### EVA®
Abbreviation for Economic Value Added®. Indicator used in the context of a comprehensive performance measurement and value creation concept.

### Equity ratio
Calculated as the ratio of total equity to total assets.

### EPS
Abbreviation for earnings per share, calculated by dividing the annual net income of the company by the number of shares.

### Free float
Proportion of the share capital not in the permanent possession of specific shareholders, but that are in free float.

### Free cash flow
Calculated as the difference between the cash flow from operating activities and the cash flow from investing activities.

### General standard
One of the three levels of transparency that companies can choose to have listed on the regulated market. Issuers in the general standard fulfil the high transparency standard of the regulated market, without having a specific international orientation. The general standard is primarily suitable for medium and large companies focused primarily on domestic investors.

### HGB
Abbreviation for "Handelsgesetzbuch", which is the German Commercial Code.

### Investment ratio
The ratio of investments made to generated EBITDA.

### IFRS/IAS
Abbreviation for International Financial Reporting Standards. The internationally accepted accounting standards ensure the comparability of consolidated financial statements. The individual standards of the IFRS are referred to as IAS (International Accounting Standards), while the newer standards are referred to as IFRS.

### ISIN
Abbreviation for International Security Identification Number. Used to clearly identify securities internationally.

### Cash flow statement
Analysis of the development of liquid funds/flow of payments under consideration of the source and use of funds.

### Consolidation
Within the consolidated financial statement, it is necessary to consolidate the shareholding relationships that exist between the Group companies. Here, the carrying amount of the participating interest is offset against the proportionate equity capital amounts of the subsidiaries.

### Deferred taxes
Payable or recoverable income taxes that result from the difference between the values stated in the tax and commercial balance sheets.

### LTIP
Abbreviation for long-term incentive programme. Variable remuneration component with a long-term incentive effect and risk character in the form of a "share matching" plan.

### MSTI
Abbreviation for medium and short-term incentive. Variable remuneration component with a medium and short-term incentive effect.

### Net gearing
Interest-bearing liabilities after allowing for liquid assets and current financial assets.

### Net gearing ratio
(Interest-bearing liabilities after allowing for liquid assets and current financial assets) / equity capital.

### Prepayments and accrued income
Payments that have already been made or received in advance in the reporting period, but relate to a period after the reporting date.

### ROCE
Abbreviation for return on capital employed. The ratio of EBIT to long-term capital employed (consisting of equity and long-term debt).

### Provisions
Payments or depreciations in value for later periods recognised as expenditure in the accounting period, the level and/or time of which is not fixed on the reporting date, but which is reasonably certain to occur.

### Cost-of-sales method
Procedure for the income statement to determine the success of the relevant period, whereby expenses are split into functional areas (manufacturing, administration, sales). The sales revenue is only set against the manufacturing costs that were responsible for the sales.

### Senior loan
Senior secured loan.

### WKN
Abbreviation for "Wertpapier-Kenn-Nummer", the German securities code, which uniquely identifies securities in Germany. In international transactions the German securities code number is replaced by the ISIN.

### Working capital
The difference between current assets and current liabilities. This is calculated by deducting current liabilities from current assets (excluding cash and cash equivalents).

# TECHNOLOGY GLOSSARY

### Embedding technology
Technology for the integration of active and passive components in PCBs.

### FR4 Flex
3D PCB with a bending radius of up to 180°.

### High-frequency application
In this case, in the 24 GHz and 77 GHz range. These are radar applications in vehicles.

### $i^2$ Board technology
Integration of semiconductors as well as passive components in PCBs.

### Inlay solution
Inlay is a solid copper layer that is embedded in the PCB using a special technique. The inlay is form-fitted in a resin composite.

### KoRRund
The name of this research project stands for "Conforming multistatic radar configurations for all-round visibility in automated driving".

### Power electronics
The conduction of high currents and/or heat dissipation.

### Power semiconductor
Power semiconductors offer almost unlimited freedom in shaping the flow of electrical energy. Their advantage is that they can switch extremely fast – typically within a split second – between the "open" and "closed" states. Due to the rapid succession of on/off pulses, almost any form of energy flow can be simulated.

### PCB
Printed circuit board – a carrier for electronic components. PCBs are used to link active, passive and electromechanical components as well as connectors. Depending on the technological requirements, PCBs are available in a variety of formats. They offer a wide range of technological possibilities, which can be combined with each other, according
to the modular principle.

### NTI
NT Information Ltd. (Circuit board expert editor, Hayao Nakahara).

### $p^2$ Pack technology
Innovative technology for the manufacture of power modules.

### SiC
SiC stands for silicon carbide.

### Smart PVI Box
The name stands for the BMBF funding project Smart Photovoltaic Inverter Box - Smart PVI Box.

# FINANCIAL CALENDAR

| Date | Publication/event |
|---|---|
| 21/04/2020 | Annual financial report 2019 |
| 08/05/2020 | Announcement in 1st quarter 2020 |
| 08/05/2020 | Analyst conference |
| 26/06/2020 | Annual General Meeting |
| 07/08/2020 | Half-yearly financial report as at 30/06/2020 |
| 06/11/2020 | Announcement in 3rd quarter 2020 |

These dates and potential updates are also detailed on our website at *www.schweizer.ag/de/investorrelations/finanzkalender.html*.

# LEGAL NOTICE

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In this report, Schweizer Electronic AG is also referred to as Schweizer .
In this report, Meiko Electronics Co., Ltd. is also referred to as Meiko.
In this report, WUS Printed Circuit (Kunshan) Co., Ltd. is also referred to as WUS.
In this report, Elekonta Marek GmbH & Co. KG is also referred to as Elekonta.
All figures are rounded, which can lead to minor deviations when these are added up.
For reasons of simplicity and brevity, the gender-neutral form is used throughout this document for the inclusion of female, male and diverse designations.

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# SAFE HARBOUR STATEMENT

This communication contains forward-looking statements and information; that is, statements about events in the future, not the past. These forward-looking statements can be identified by formulations such as "expect", "wish to", "anticipate", "propose", "plan", "believe", "seek to", "estimate", "become" or similar terms. While such forward-looking statements represent our current expectations and particular assumptions, they are subject to various risks and uncertainties. A number of factors, many of which are outside the control of Schweizer, have an impact on Schweizer's business activities, strategy and results. These factors could cause the actual results and performance of the Schweizer Group to differ materially from the information on results and performance made explicit or implied in these forward-looking statements. On our part, these uncertainties arise in particular due to the following factors: Changes to the overall economic and business position (including margin developments in the major divisions), challenges posed by the integration of important acquisitions and the implementation of joint ventures and other major portfolio measures, changes to exchange and interest rates, the introduction of competing products or technologies by other companies, failure to find acceptance of new products and services among Schweizer's target client groups, changes to the business strategy and various other factors. Should one or more of these risks or uncertainties be realised or should it become apparent that the underlying assumptions were incorrect, this could cause the actual results to differ materially both in a positive and negative sense from the results referred to in forward-looking statements such as expected, anticipated, proposed, planned, projected or estimated. Schweizer does not obligate itself and does not intend to revise or correct these forward-looking statements in light of developments which differ from those anticipated.

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