Schaffner Group
Annual Report
2013/14

SCHAFFNER
energy efficiency and reliability

What is in this report

This integrated report comprises the business review and financial reporting of the Schaffner Group, as well as its corporate governance and compensation reports, for fiscal year 2013/14.

The information on the financial position, results of operations and cash flows of the Schaffner Group is based on the requirements of the International Financial Reporting Standards (IFRS) and, where applicable, of Swiss law.

In this publication the Schaffner Group reports to its stakeholder groups on its economic performance and corporate social responsibility. The scope and content of the sustainability reporting is based on the latest report filed by the Schaffner Group in its capacity as an active member of the UN Global Compact.

External audit and opinion

Parts of the reporting of the Schaffner Group are audited by third parties. Auditors Ernst & Young AG have audited the consolidated and parent company financial statements and issued an unqualified audit opinion.

About the cover photo

Singapore's Tuaspring seawater desalination plant is the city-state's largest, with a daily production capacity of 318,500 cubic meters of fresh water. At Tuaspring, twenty-five ECOsine® Active harmonic filters from Schaffner ensure consistently high power quality and support the efficient and reliable functioning of the new facility, which began operation in 2014. The report cover shows a seawater desalination plant in Dubai.

This English version of the Schaffner Group annual report 2013/14 is a translation from the German and is provided solely for readers' convenience. Only the German version is binding.

In the interest of readability, this report may sometimes use language that is not gender-neutral. Any gender-specific references should be understood to include masculine, feminine and neuter as the context permits.

Contents

2 Key figures
4 To our shareholders
7 EMC division
11 Power Magnetics division
15 Automotive division
18 Operational excellence
20 Finances
24 Management
26 Quality
27 Sustainability

31 Corporate governance
51 Compensation report
61 Financial report

Energy efficiency and reliability

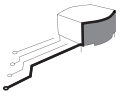
Renewable energy

Energy-efficient drive systems

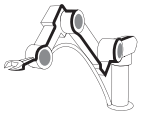
Rail technology

Automotive electronics

Electrical infrastructure



Power supplies for electronic devices



Machine tools and robotics

The Schaffner Group is a global leader in the development and production of solutions that ensure the efficient and reliable operation of power electronic systems. The company's portfolio ranges from EMC filters, power quality filters and power magnetic components to the development and implementation of customized solutions.

Schaffner components are deployed in energy-efficient drive systems and electronic motor controls, in wind power and photovoltaic systems, in rail technology applications, machine tools and robotics, electrical infrastructure, as well as in power supplies for a wide range of electronic devices used in sectors such as medical technology. For the automobile industry, Schaffner develops and manufactures components for convenience and safety features in cars and, in the promising electromobility market, offers solutions used in electric drive systems and in the charging infrastructure for electric vehicles.

Schaffner provides on-site service to customers around the world through its global application centers and distribution organization, and invests heavily in research and development in order to expand its position as international market leader.

The EMC division develops and manufactures standard and custom components that protect power electronic equipment from line interference (thus assuring electromagnetic compatibility, or EMC) and ensure the stability of power grids. As well, the dedicated Power Quality business unit develops and produces active and passive filter solutions to assure the best quality of electric power. Key sales markets include energy-efficient drive systems, renewable energy, power supplies for electronic devices, and machine tools and robotics.

The Power Magnetics division (PM) develops and manufactures components to ensure the reliable operation of power electronic systems, and builds customized high-performance transformers for demanding applications. Schaffner solutions deployed in solar inverters and converters in wind turbines are highly efficient and assure the best possible adaptation to electricity grids. Schaffner components are also integrated into compact, high-performance, energy-efficient locomotive drive systems and eliminate network interference from powerful motors.

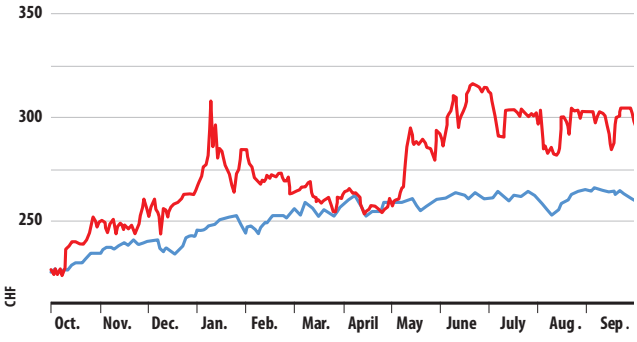
The Automotive division (AM) develops and manufactures components for keyless entry systems as well as solutions for the drive systems of hybrid and electric vehicles. Schaffner engineers work closely with leading automobile manufacturers and support them in the development stage of new models with specialized expertise in EMC.

		2009/10	2010/11	2011/12	2012/13	2013/14
Number of shares (par value of CHF 32.50)		635,940	635,940	635,940	635,940	635,940
Weighted average number of shares outstanding (entitled to dividend)		635,131	633,266	632,990	633,859	633,349
Earnings per share (EPS)	in CHF	18.87	16.03	6.17	9.64	19.86
Shareholders' equity per share	in CHF	88.04	89.52	94.87	91.33	104.80
Repayment of excess share premium, per share	in CHF	4.50	4.50	3.50	4.50	6.50[1]
Free float	in %	99.3	99.3	99.1	99.2	99.5
Share price[2]						
High for year	in CHF	220	350	271	240	315
Low for year	in CHF	148	216	204	203	250
At end of year	in CHF	219	235	235	227	295
Market capitalization[2]						
High for year	in CHF million	140	223	172	153	200
Low for year	in CHF million	94	137	130	129	159
At end of year	in CHF million	139	149	149	144	188

[1] Subject to approval by the Annual General Meeting on 15 January 2015.
[2] Period: fiscal year from 1 October to 30 September (Source: Bloomberg).

Share price performance 1 October 2009 to 30 September 2014[3]

Share price performance 1 October 2013 to 30 September 2014[3]



[3] Source: Thomson Reuters Datastream

Schaffner registered shares

SPI EXTRA® (adjusted)

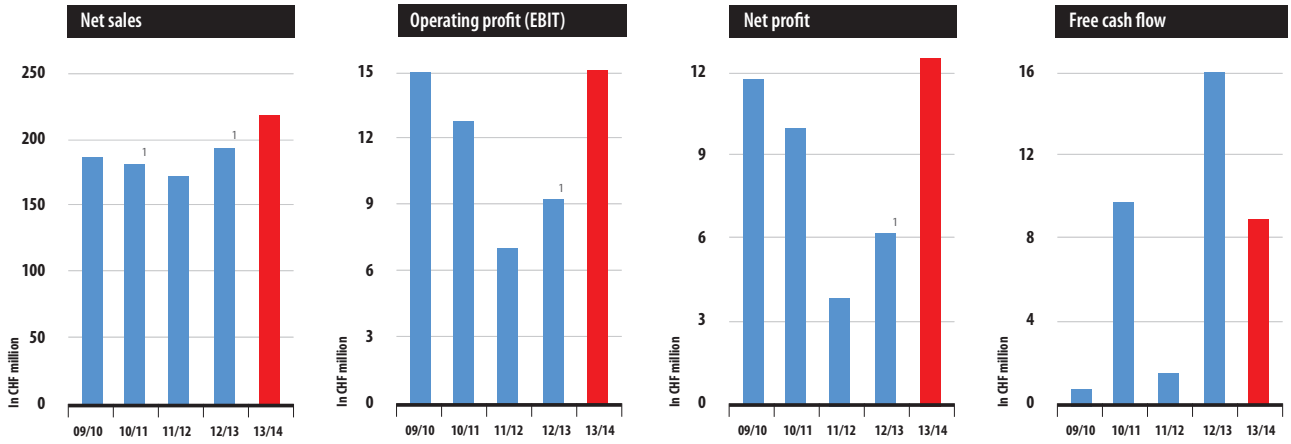
Trading of the Company's securities

The registered shares of Schaffner Holding AG are traded on the SIX Swiss Exchange under Securities No. 906209.

Ticker symbol

Registered shares: SAHN

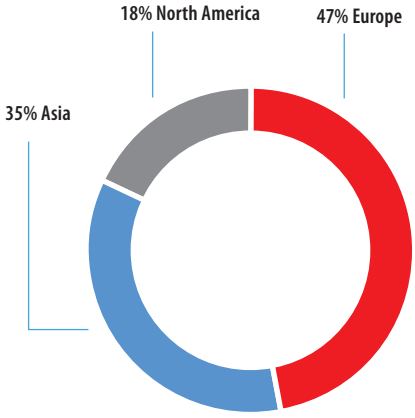
In CHF '000	2009/10	2010/11[1]	2011/12	2012/13[1]	2013/14
Net sales	**188,939**	**182,603**	**176,942**	**194,889**	**214,572**
Net sales, EMC division	n/a	128,932	105,784	109,686	109,993
Segment profit, EMC division	n/a	20,174	12,552	13,987	15,850
Net sales, Power Magnetics division	n/a	36,046	46,495	53,924	67,311
Segment profit/(loss), Power Magnetics division	n/a	– 331	– 284	2,953	4,302
Net sales, Automotive division	n/a	17,625	24,663	31,280	37,268
Segment profit/(loss), Automotive division	n/a	– 395	563	– 2,037	2,499
Operating profit [EBIT]	**15,000**	**12,810**	**7,243**	**9,205**	**15,012**
In % of net sales	7.9	7.0	4.1	4.7	7.0
Net profit for the period	**11,983**	**10,150**	**3,909**	**6,108**	**12,627**
In % of net sales	6.3	5.6	2.2	3.1	5.9
Total assets	**126,643**	**136,822**	**140,843**	**138,727**	**154,452**
Shareholders' equity	**55,985**	**56,929**	**60,333**	**58,081**	**66,646**
In % of total assets	44.2	41.6	42.8	41.9	43.2
Number of employees	**2,393**	**2,702**	**2,569**	**2,817**	**3,140**



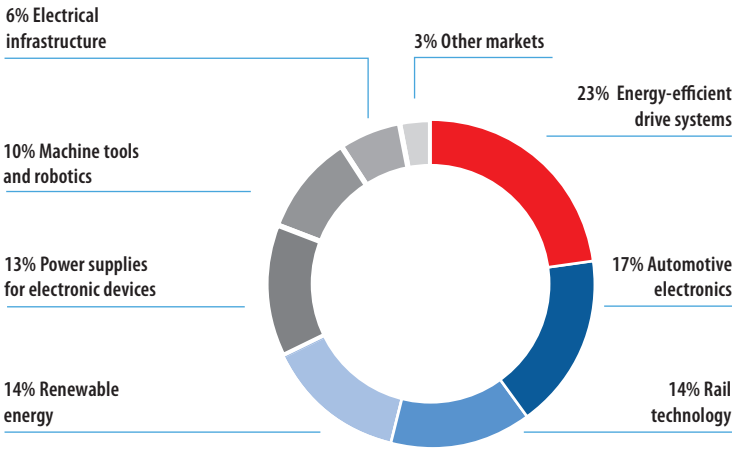
[1] Restated

Net sales in 2013/14 by region

Based on customer location



Net sales in 2013/14 by market



Successful year thanks to consistent execution of strategy

The Schaffner Group made significant progress in implementing its strategy in fiscal 2013/14. All three divisions boosted their operating performance in 2013/14 despite the cooling economic environment in the second half of the year. Gross margins continued to grow thanks to further improvements in operational excellence. The Power Magnetics division strengthened its long-term market position through both organic growth and the acquisition of US company Transformer Engineering LLC (Trenco). Within the EMC division, an independent business unit was launched to reflect the great importance of the power quality market segment. After high one-time expenses in the prior year, the Automotive division achieved the desired turnaround.

Robust growth in sales and earnings

The Schaffner Group increased its net sales by 10.1% in fiscal 2013/14, from CHF 194.9 million to CHF 214.6 million. In local currencies, sales growth was 12.1%. This growth was primarily organic in nature. Around 25% of the sales growth reported is attributable to the acquisition of Trenco. The Schaffner Group's new orders amounted to CHF 215.9 million in the period under review (prior year: CHF 196.8 million), bringing the book-to-bill ratio to 1.01. The Group's gross margin widened from 27.0% to 29.2% and the operating margin (EBIT margin) was pushed up from 4.7% to 7.0%. Operating profit (EBIT) increased by 60% to CHF 15.0 million (prior year: CHF 9.2 million) and net profit doubled, reaching CHF 12.6 million (prior year: CHF 6.1 million).

Growth in North America and Europe

Unlike fiscal 2012/13, when growth was primarily driven by the Asia-Pacific region, the strongest impetus to growth in the period under review was delivered by Europe and North America. Sales in Asia-Pacific, meanwhile, dropped on falling demand for components of photovoltaic inverters in China. This once more drives home the value of the Schaffner Group's global presence, which allows regional fluctuations in demand to be compensated. In 2013/14 the Schaffner Group benefited from market share gains in Europe as well as a slight economic recovery in Germany in the first half of the year. Europe remained the top region with a 47% share of Group sales (prior year: 44%), followed by Asia-Pacific at 35% (prior year: 41%) and North America at 18%, up from 15%. In line with its globalization strategy, Schaffner continues to target growth in North America above the Group average.

Strategic market sectors gain in importance

The strategic growth markets' share of sales continued to rise during the fiscal year, reaching 68% (prior year: 66%). Energy-efficient drive systems accounted for 23% (prior year: 23%), while sales with customers in the global automotive industry rose from 16% of Group sales to 17%. The renewable energy sector saw a significant decrease to 14% (prior year: 18%) due to the downturn in the Chinese market. In rail technology, on the other hand, important projects were won, increasing its share from 9% to 14%, helped also by a renewed pick-up in demand in China.

Positive development in the divisions

The Power Magnetics and Automotive divisions again grew at a more rapid pace in the period under review than EMC, the largest division. EMC's share of sales continued to decline, easing to 51% from 56% in the previous year. The Power Magnetics and Automotive divisions increased their respective share of sales from 28% to 31% and from 16% to 18%.

The EMC division posted steady net sales of CHF 110.0 million (prior year: CHF 109.7 million). Continued efforts to increase the gross margin led to an improvement of 13.3% in segment profit to CHF 15.9 million (prior year: CHF 14.0 million). The segment profit margin increased from 12.8% to 14.4%. New orders totaled CHF 107.8 million (prior year: CHF 109.7 million), giving rise to a book-to-bill ratio of 0.98.

Since its market entry in 2006, the Power Magnetics division has grown by an average of about 20% annually. In fiscal 2013/14, it achieved sales growth of 24.8% to a new total of CHF 67.3 million (prior year: CHF 53.9 million). The division's segment profit

From left: Daniel Hirschi and Alexander Hagemann

was CHF 4.3 million (prior year: CHF 3.0 million), with the corresponding profit margin coming in at 6.4% (prior year: 5.5%). New orders of CHF 68.9 million in 2013/14 (prior year: CHF 54.2 million) resulted in a book-to-bill ratio of 1.02.

The acquisition of Trenco has substantially improved the strategic market position in North America, particularly in the market for energy-efficient drive systems. The company's integration into the Schaffner Group was completed successfully and Schaffner is now one of the leading vendors of power magnetic components worldwide.

The Automotive division returned to profit on significantly higher sales of CHF 37.3 million in fiscal 2013/14 (a 19.1% increase from the prior year's CHF 31.3 million), reaping the rewards of three years of high outlays. Segment profit amounted to CHF 2.5 million (prior year: loss of CHF 2.0 million) and the EBIT margin was 6.7% (prior year: -6.5%). New orders of CHF 39.3 million (prior year: CHF 32.9 million) represented a book-to-bill ratio of 1.05.

Sound financing structure

The Schaffner Group's balance sheet structure remains sound, having absorbed the Trenco acquisition well. At the reporting date of 30 September 2014, net working capital was CHF 30.6 million (year earlier: CHF 25.5 million) and the ratio of this measure to Group sales increased slightly. At CHF 8.9 million, free cash flow remained satisfactory in fiscal 2013/14 after the previous year's very high free cash flow of CHF 16.0 million. As a result, net debt did not increase by much after the Trenco acquisition, rising from CHF 13.4 million to CHF 16.6 million. The gearing ratio (net debt to shareholders' equity) went up slightly to 25% (prior year: 23%). Shareholders' equity rose markedly to CHF 66.6 million (prior year: CHF 58.1 million) in spite of the negative effects of IFRS adjustments, enabling the equity ratio to be kept steady year-on-year at 43%. The Schaffner Group's good performance also positively impacted the key figures agreed with lending banks for the calculation of interest rates. Net interest payments thus fell by about CHF 0.4 million in fiscal 2013/14. With currency translation gains and losses virtually offsetting each other in the period under review, net finance expense improved by a further CHF 0.6 million compared with the prior year.

Distribution proposal

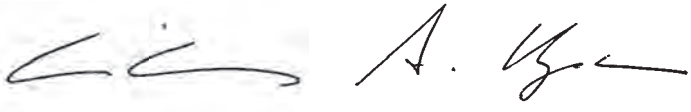
Based on the positive performance during the year under review, the Board of Directors of Schaffner Holding AG will propose a dividend of CHF 6.50 per share (prior year: CHF 4.50) at the Annual General Meeting on 15 January 2015. At 33%, the proposed dividend is within the payout ratio target range of 25% to 35% of net profit. The distribution will be made in the form of a tax-free repayment of capital.

Outlook

The global economic outlook has deteriorated in the second half of 2014. Going forward, this should detract from Group performance in the first six months of fiscal 2014/15. On the strength of its strategic growth initiatives, however, Schaffner expects to achieve further expansion in spite of the challenging environment. Moreover, the continuous enhancement of operational excellence should result in further earnings improvements. For the full year 2014/15 the Schaffner Group is targeting a percentage growth rate in the mid-single digits for sales, as well as a continuing improvement in EBIT margin. The strategic growth target over the economic cycle stands unchanged at 8% per year, as does the medium-term EBIT margin target of 9-12%.

Word of thanks

Schaffner's good performance in fiscal 2013/14 was made possible by the trust of our customers and the strong teamwork of our employees across divisions and locations throughout the world. To all of them and to the shareholders of Schaffner Holding AG, we extend our heartfelt thanks.



Daniel Hirschi
Chairman of the Board of Directors

Alexander Hagemann
Chief Executive Officer

EMC

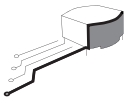
division

EMC division

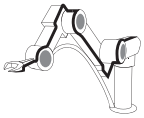
In fiscal 2013/14 the EMC division again benefited from its broad-based global market position. While in 2012/13 it was the Asian markets that showed strong growth, offsetting weak demand in Europe, the opposite was true in the year under review. High-single-digit sales growth in Europe, especially in Germany, the largest national market, not only represented additional gains in market share but also made up for a revenue decrease in Asia. Overall, sales were steady year-on-year at CHF 110.0 million (prior year: CHF 109.7 million). EMC contributed 51% (prior year: 56%) to total net sales of the Schaffner Group.

Renewable energy

Energy-efficient drive systems



Power supplies for electronic devices



Machine tools and robotics

Solid growth in Europe, weaker demand in Asia

The positive performance in Europe was primarily driven by the strategic core markets. Schaffner added well-known new customers and also successfully expanded its position with existing accounts. Weak overall demand in China was attributable especially to lower demand for harmonic filters, after several major projects had bolstered sales in the previous year. Toward the end of the fiscal year the division was able to reverse the trend by strengthening local sales organizations. Project delays as well as technology-led shifts toward simpler filter solutions affected the photovoltaics business in China. In the Japanese market, a lowering of feed-in tariffs for solar power and a VAT increase on 1 April 2014 triggered advance purchasing effects, with a bulge in demand followed by a weak demand. By the end of the fiscal year, though, the market had stabilized and even recovered to some extent. The Asia-Pacific region as a whole also showed signs of a modest recovery, driven primarily by standard products for third-party manufacturers as well as new projects in the area of power quality.

Strengthening the organization

A new stand-alone business unit for power quality solutions was established within the EMC division in the period under review to do justice to the particular requirements of power quality products. The move underlines the importance of power quality technology for the Schaffner Group. The new, dedicated business unit will be even better able to service existing, attractive growth markets, such as heating, ventilation and air conditioning (HVAC), building services, and oil and gas production. The EMC division

Guido Schlegelmilch, head of the EMC division, with an ECOsine® filter module
Using Schaffner's modular passive filter modules, any standard AC and DC motor drive can be upgraded to a so-called low harmonic drive.

also strengthened its development, product marketing and sales capabilities; the number of distribution partners worldwide was increased to more than 60, laying the foundation for sustainable growth of the Power Quality business unit.

To exploit the opportunities in the direct customer business in North America, the EMC division set up a new product design and prototyping center in the USA. This allows Schaffner to deliver product prototypes to its North American customers within the tight deadlines expected. The new center and the expansion of the sales team for power quality products highlight the growing strategic importance of the North American market for the EMC division.

Gains in profitability

Despite muted demand in the Asia-Pacific region in the period under review and substantial investment in the division's organization, profitability again improved. This was attributable in particular to a successful pricing strategy and continuing productivity increases in manufacturing. The division's segment profit rose by 13.3% to CHF 15.9 million (prior year: CHF 14.0 million). The operating margin widened to 14.4% from 12.8% in 2012/13.

Pressing ahead with innovations

In fiscal 2013/14, the EMC division again invested heavily in new product solutions. The popular ECOsine passive harmonic filter product line, for example, was expanded to include a new modular high power filter system and is now also available as open-frame modules with extended power ratings up to 400kW/50 Hz and 500HP/60Hz. Besides launching new power quality products, the division developed other filtering solutions, such as new AC/DC filter and output filter products. These will be launched in the course of fiscal 2014/15 and will complement the already broad portfolio by addressing new market needs. Design to cost and design to manufacturing was rigorously practiced throughout the development of these new products. Standardized modules and platforms were used to cut development times and time-to-market and improve quality standards. At the same time, the division's partnerships with universities and external development partners were expanded. This collaboration allows Schaffner to access external expertise and helps to further reduce development times even for highly complex products. Schaffner products not only boast top functionality but also a unique and functional design. The new, ultra-compact single stage and dual stage FN 9280 and FN 9290 series IEC inlet filters, for instance, won the iF Product Design Award, one of the most prestigious distinctions conferred for design excellence worldwide.

Investing in future growth

The investments made in fiscal 2013/14 in know-how, staff, organization and equipment will help the EMC division maintain and consolidate its leading market position in the future. New customer projects, the introduction of new product lines and the continued focus on operational excellence form the basis for lasting business success and are intended to generate sustained sales growth even in a challenging market environment.

23C10-001

PM

division

Power Magnetics division

Sales of the Power Magnetics division grew by 24.8% in fiscal 2013/14 to CHF 67.3 million (2012/13: CHF 53.9 million). The division's segment profit improved to CHF 4.3 million from CHF 3.0 million. The operating margin increased to 6.4% (from 5.5%), moving closer to the 8-10% target range. The division's heightened performance in the period under review resulted from improvements made throughout the organization.

Renewable energy

Energy-efficient drive systems

Rail technology

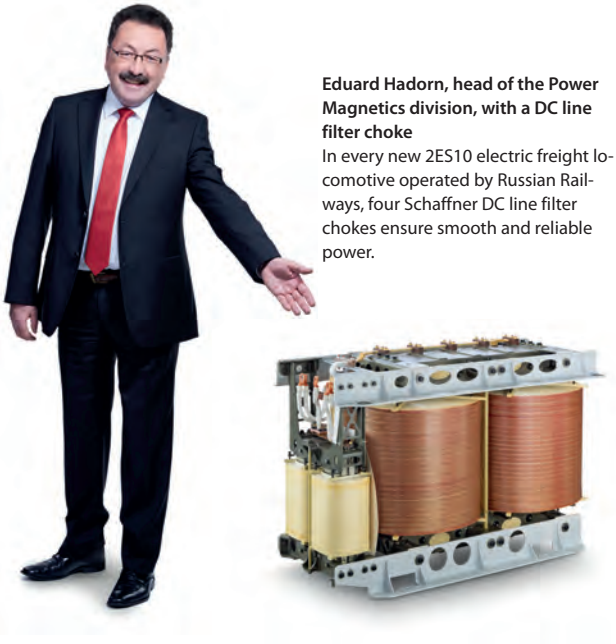
Electrical infrastructure

Marked increase in sales and earnings

The Power Magnetics division substantially strengthened its market position in all regions and fiscal 2013/14 brought a compelling increase in demand for newly developed water-cooled components and for comprehensive system solutions. The roll-out of worldwide standardization measures was stepped up, production costs and delivery times further reduced, and the optimization of operational processes advanced consistently under the Group's operational excellence initiative.

A leader in niche markets

Schaffner's overarching goal is to consolidate and develop its business in the defined niche markets of rail transportation, photovoltaics, wind turbines and drive systems. Rail technology remains the Power Magnetics division's most important sales market, as demand for high-quality, robust products is strongest here. In China, demand is growing in the high-speed train segment as well as in local transportation such as commuter trains, subways and trams. In Europe, too, the market picked up again in 2013/14, driven primarily by large-scale train projects of European manufacturers for end customers in North and South America, Africa, the Middle East and Russia. Demand for Power Magnetics' products in North America improved, particularly in the area of light rail systems. This is mainly due to the division's intensified efforts in Japan, as most US projects in the light rail segment are currently won by Japanese companies. Thanks to its latest acquisitions, Schaffner can directly supply these Japanese manufacturers locally in the USA.



Eduard Hadorn, head of the Power Magnetics division, with a DC line filter choke
In every new 2ES10 electric freight locomotive operated by Russian Railways, four Schaffner DC line filter chokes ensure smooth and reliable power.

In the photovoltaics segment, business remained challenging in 2013/14 in China, an important market. Only a fraction of the originally planned projects were actually realized. Schaffner therefore decided to limit its collaboration to a small number of selected suppliers of photovoltaic inverters, which also reduces non-payment risk significantly further. While sales in Japan stagnated, Schaffner benefited from an increase in demand for photovoltaic products in North America.

The Power Magnetics division consolidated its position in the Chinese market for wind turbines thanks to new complete harmonic filter solutions for the entire drive train of wind turbines. Trenco's excellent strategic position in the USA, combined with the broad application of the latest technologies, should enable the division to gain further market share in the wind energy cluster in the future.

Innovation and technology – keys to additional growth
The Power Magnetics division pursues a "buy and build" strategy. This allows it to break into new markets with selected new applications and to acquire pioneering technologies. From a cost perspective, too, there are advantages in exploiting synergies. The acquisition of US firm Transformer Engineering LLC (Trenco) in March 2014 reinforced the division's global focus and expanded its product range. Now renamed Schaffner Trenco, the new subsidiary has an excellent portfolio of patented 18-pulse transformers and offers a wide range of magnetic components particularly suitable for drive applications. The two product groups are complementary additions to Schaffner's existing product portfolio. The combination of Schaffner MTC in Wytheville, Virginia, a specialist in medium-voltage products, and Schaffner Trenco, specializing in low-voltage equipment, opens up new opportunities for Schaffner in North America and worldwide. The Power Magnetics division now has its own sales and application engineers in all major national markets, and production sites in Europe, Asia and North America. This means that it now operates in even closer proximity to its customers worldwide and can offer local support and design services as well as guarantee regional delivery. Globally standardized designs, processes and products bring substantial cost advantages for customers and accelerate their own product innovation.

Schaffner firmly believes that, even in technologically mature product categories such as transformers and chokes, innovation and new technologies can create new opportunities for growth. The Power Magnetics division anticipates rapidly rising demand for medium-frequency transformers and chokes that require the use of new amorphous and nanocrystalline core materials. Schaffner's extensive design know-how means it can meet these new material requirements and implement the new production processes associated with them within a very short space of time. In the future, Schaffner will offer not only magnetic components but complete electronic harmonic filtering solutions for the entire drive unit. For customers, these comprehensive solutions yield considerable savings of space and cost.

Well positioned for long-term growth
The Power Magnetics division is well positioned to meet future challenges head-on and continue to expand the business. The great potential offered by already tapped market segments allows that sales will continue to grow over the coming years. Schaffner will remain true to its global strategy and selectively expand its business in existing and growing markets. In fiscal 2014/15, Schaffner expects added growth through gains in market share. In addition, this will be the first full year in which Schaffner Trenco's contribution to profits is recognized in the Group financial statements.

AM

division

Automotive division

The Automotive division continued to grow in fiscal 2013/14 in line with the defined strategy. It also markedly improved its profitability, bringing EBIT margins closer to the 8-10% target range. Highlights of the year included the successful implementation of an antenna project for a prestigious new customer in the USA as well as a major filter systems project for a German premium car manufacturer.

Schaffner's Automotive division develops and manufactures electronic components and subsystems for cars. The division's main focus is on the convenience and safety electronics sector as well as on EMC filters for hybrid and electric cars, a fast-growing market. Big-name customers in the automobile and automotive supply industry rely on Schaffner products for use in their series production. Schaffner Automotive is a global vendor and market leader in the rapidly expanding growth markets of keyless entry systems and EMC filters for hybrid and electric vehicles.

Automotive electronics

Back in profit thanks to double-digit sales growth

Sales in the Automotive division increased by 19.1% in the period under review, to CHF 37.3 million (prior year: CHF 31.3 million), confirming expectations of growth well in the double digits. In Europe, solid growth helped consolidate the division's strong market position, while in the USA and the Asian growth markets the primary focus was on systematically expanding customer activities. There was further significant growth in sales of antennas and keyless entry systems, an area in which Schaffner is a global leader, enjoys a high level of acceptance from automotive customers and benefits from rapid market expansion. The hybrid and electric vehicles market, after a relatively sluggish performance in the previous year, surged ahead in fiscal 2013/14, driven also by two premium manufacturers that successfully implemented new, innovative concepts in the series production of battery-powered vehicles. Schaffner benefited from these successes and generated sales of CHF 4.5 million in Europe with battery and drive system filters, which represented about 12% of the division's total sales. The electric and hybrid vehicle market promises continuing significant growth going forward. Global sales volumes for electric vehicles are expected to reach 400,000 units in 2014, double the previous year's total. Leading analysts predict that electric vehicles will make up between 2% and 13% of total global vehicle production by 2020. Even on a conservative view of this wide forecast range, this equates to annual market volumes of several million electric vehicles. Schaffner is very well placed to participate in this growth.

Günther Werkmeister, head of the Automotive division, with an EMC filter for electric vehicles
The EMC filters from Schaffner safeguard the interference-free functioning of the latest electric cars.

Successfully focused on attractive niches

Following significant investment in the development of new products and processes in fiscal years 2010/11 and 2012/13 which had cumulatively led to a negative segment margin, the focus in fiscal 2013/14 was on utilizing these investments and returning the division to profit. This primarily involved improving the cost structure and increasing manufacturing efficiency, resulting in, for example, a reduction in overhead costs by more than 15% compared with the prior year, when extraordinary effects had impacted the result. High capacity utilization at the production plant in Lamphun, Thailand, combined with substantial increases in manufacturing efficiency, enabled the division to greatly increase its gross margin. These measures have thus led to a considerable improvement in the Automotive division's earnings situation and, now that the turnaround has been achieved, Schaffner is reaping the benefits of the work and funds invested over the three previous years. The segment loss of CHF 2.0 million in 2012/13 was turned into a segment profit of CHF 2.5 million in 2013/14. The EBIT margin reached 6.7%, already approaching the target range of 8% to 10%. With the current cost structure and progressive automation of key manufacturing processes, the Automotive division is on track to further improve its results in the future.

New head of division

At the beginning of 2014, Günther Werkmeister took over as the new head of the Automotive division, succeeding Chief Executive Officer Alexander Hagemann, who had overseen the division on an interim basis following the departure of the former division head at the end of 2012. In the course of 2013 the Automotive division's new head thoroughly familiarized himself with its operations. Günther Werkmeister has more than 30 years of experience in the automotive industry, including over 25 years in management positions at international automotive suppliers.

Strong growth to continue

Schaffner expects the Automotive division to achieve further growth in fiscal 2014/15, supported by a continued high volume of global automobile production – the IHS research institute forecasts an average increase of 3.9% for the high-growth BRIC countries alone. Moreover, growth in keyless entry systems and sales of electric vehicles will outstrip the overall market's rate of growth. New products as well as improvements to existing product lines in terms of quality and manufacturing efficiency (design for manufacturability) will underpin the strengthening and expansion of the division's current customer base in Europe, Asia and North America. By relentlessly optimizing operational processes and investing in automation and quality, the division will prevail in the highly competitive market and intends to further improve its segment margin toward target range.

Operational excellence

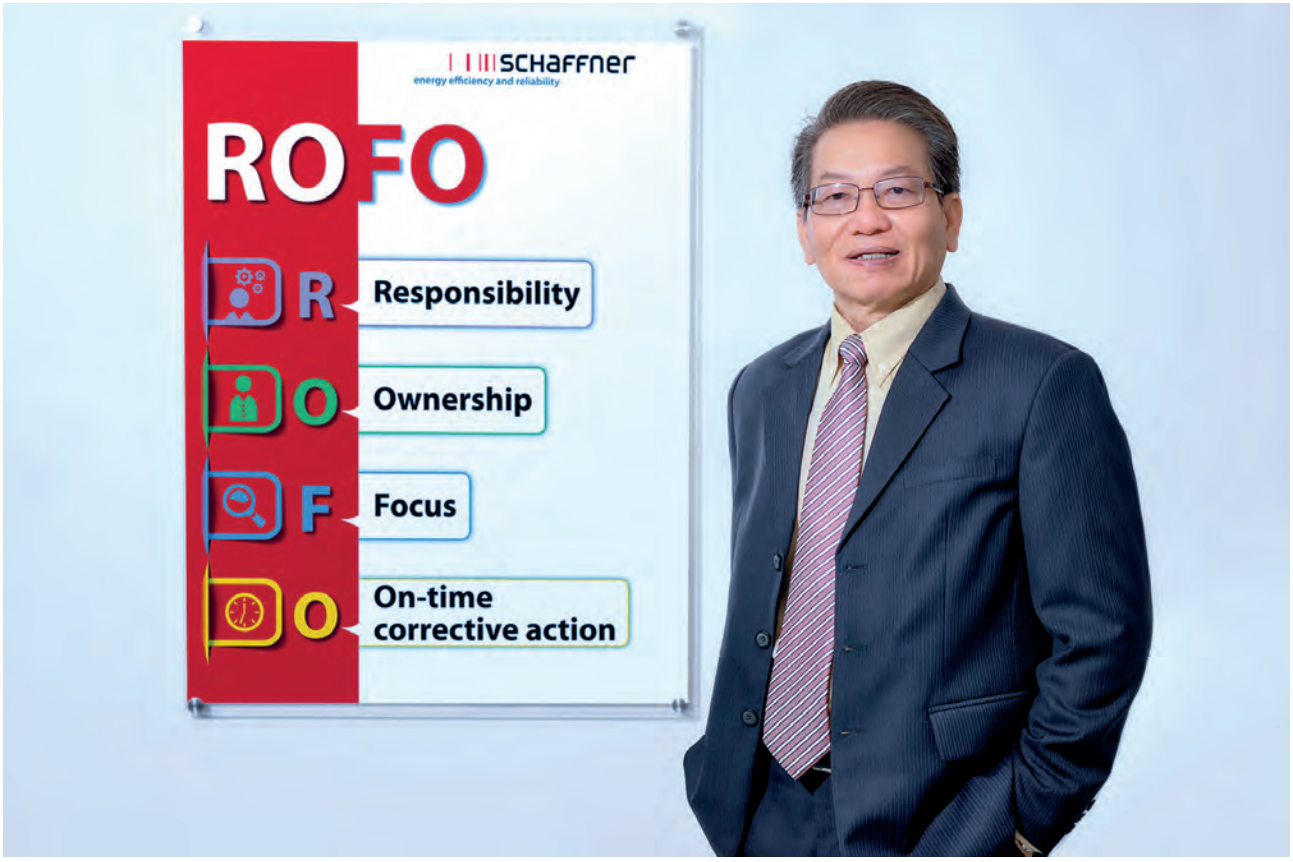
Constant, rapid change is a defining characteristic of the modern world. To compete successfully in this environment means to never cease developing and to continuously adapt to new demands. For the Schaffner Group, its long-term Operational Excellence initiative, as part of the Group's overall strategy, is therefore a key factor for lasting success. At its heart are two guiding principles: ROFO and Continuous Learning. ROFO (Responsibility, Ownership, Focus, On-time corrective action) means every employee must take responsibility for processes and persevere until the desired outcome is achieved. The principle of Continuous Learning encourages all of Schaffner's people to always pursue new knowledge and new skills, not only in order to keep pace with rising customer needs, but also to retain an edge over the competition.

Quality is central

Operational excellence at the Schaffner Group rests on three main pillars: quality, lean manufacturing, and procurement management. Quality is central to all efforts to achieve operational excellence. But to Schaffner, quality is more than simply ensuring that products meet requirements and that customers are happy. Schaffner takes a holistic view of quality that extends to every stage of the product development process as well as to comprehensive supplier management. Every Schaffner employee knows that only flawless products can meet customers' requirements, and Schaffner does not compromise on quality. Schaffner's production staff is equipped with the requisite training and direction to ensure that each and every product is manufactured to specification and to the highest applicable standards. In addition, technicians are on site at every production plant at all times to not only immediately detect and remedy any faults but also to implement preventive action to ward off future mistakes. Daily quality meetings help to resolve any problems in line with the ROFO principle.

Lean manufacturing firmly established

Schaffner launched its lean manufacturing initiative as far back as 2008. After initial tests in Thailand, the concept was gradually extended to other Schaffner production sites. Today, lean manufacturing is firmly established as a key element of operational excellence in all Schaffner production plants in Hungary, Germany, China and Thailand. Every employee received training on the basic principles and workings of the concept to ensure that it is understood and implemented uniformly at every plant worldwide. Schaffner's engineers are continuously improving processes by eliminating unnecessary transport or movement, defects or excessive time in storage. Since the introduction of lean manufacturing, productivity has vastly increased overall, offsetting most of the effect of the significant rise in payroll costs in Asia. The deep and comprehensive entrenchment of lean management principles is bearing fruit within the entire Schaffner organization. For example, the surge in demand for EMC inductors and IEC inlet filters within the space of a few months in 2013/14 was met without difficulty. The production site in Shanghai is now



Ah Bee Goh
Chief Operating Officer

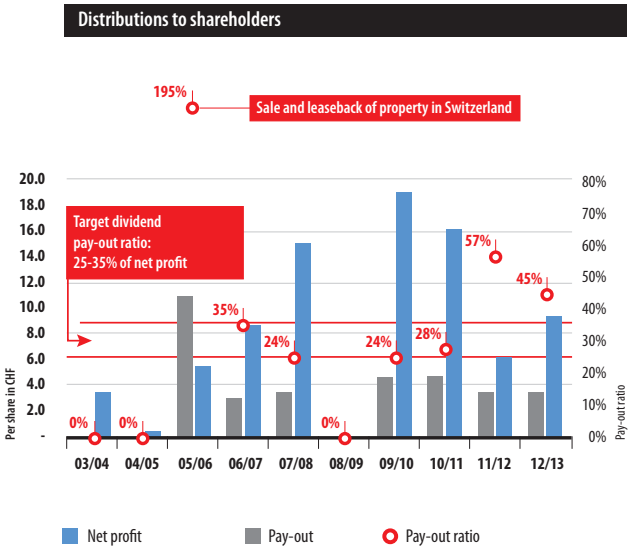
in a position, thanks to lean manufacturing, to flexibly accommodate the high expectations of its Chinese and Japanese customers. Similarly, the Automotive division multiplied its output of antennas for keyless entry systems from a few hundred thousand just ten years ago to several million units per month, fully satisfying customers' expectations and standards. Since Schaffner does not manufacture all required parts itself, professional procurement management constitutes the third pillar of operational excellence. To enhance quality and productivity, Schaffner's sourcing team maintains a permanent dialog with its global network of suppliers. Information on individual suppliers is swiftly shared between all sourcing staff worldwide and used to optimize procurement on a global scale.

Ongoing process

Striving for operational excellence is a continuous, never-ending process for Schaffner. Continuous improvement, continuous learning and ROFO are well established concepts within Schaffner's corporate culture, ensuring that the Group does not just remain competitive but stays ahead of the competition.

Finances – generating value

The Schaffner Group had a sound balance sheet at the end of fiscal 2013/14. At 43%, the equity ratio remained at the year-earlier level, in spite of the acquisition of US company Transformer Engineering LLC (Trenco) in late March 2014. The bridging loan for the purchase of Trenco was repaid by the middle of the year. The Schaffner Group also concluded long-term credit line agreements at favorable interest rates for a total of CHF 60 million with the Group's four principal banks; the agreements will run until 30 June 2019. The financial strength of the Schaffner Group broadens its scope for strategic development and supports a distribution policy that rewards shareholders.

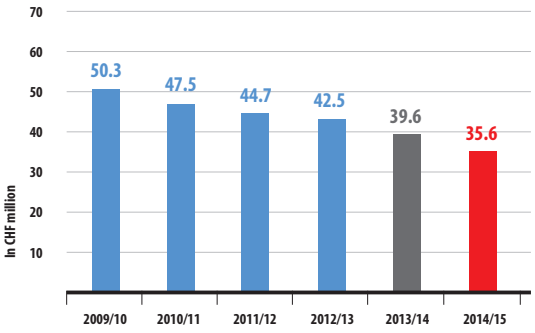


Giving back to shareholders

The Board of Directors of Schaffner Holding AG pursues a sustainable dividend policy. A target range of 25% to 35% of net profit serves as a guide in determining the amount of payouts. As the illustration shows, the interpretation of this target range is flexible and takes into account not only profit but also cash assets and expected future cash flows. Unless there are changes in the legal environment, the Board of Directors, instead of paying dividends out of retained earnings, intends to continue to make distributions to shareholders in the form of tax-free repayments of capital. Of the share premium of CHF 50.3 million originally available for this purpose, CHF 39.6 million remains as of the end of fiscal 2013/14. After the proposed current distribution of CHF 6.50 per share or CHF 4.1 million in total, CHF 35.6 million will remain available for the coming years.

Kurt Ledermann
Chief Financial Officer

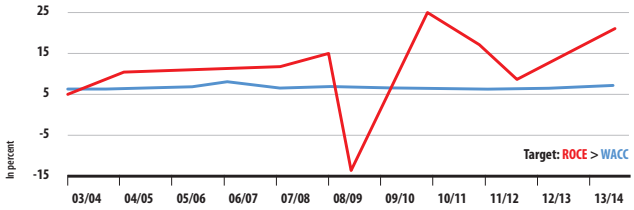
Available share premium for tax-free repayment of capital



Capital efficiency and value added

Although interest rates remain historically low, Schaffner puts great emphasis on utilizing capital efficiently. To measure capital efficiency, Schaffner compares the weighted average cost of capital (WACC) with the return on capital employed (ROCE). A company creates value when the capital employed returns more than it costs, i.e., when ROCE is higher than WACC. In the reverse scenario, value is destroyed, as was the case during fiscal 2008/09 under the impact of the global financial crisis. The slight decline in WACC in recent years is primarily attributable to lower interest rates. The positive trend in ROCE is the result of higher profitability and the continuously optimized utilization of funds.

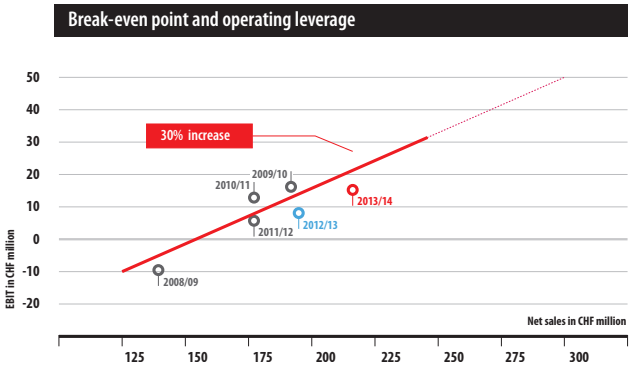
Capital efficiency



Beyond break-even: Exploiting operating leverage

The Schaffner Group's theoretical operating break-even point can be determined using an empirical model calculation based on the historical values of net sales and operating income (EBIT). Assuming largely unchanged organizational structures, the Schaffner Group requires sales of about CHF 150 million in order to reach break-even. If sales are less than this amount, as happened in fiscal 2008/09 during the financial crisis, this results in operating losses.

Break-even point and operating leverage



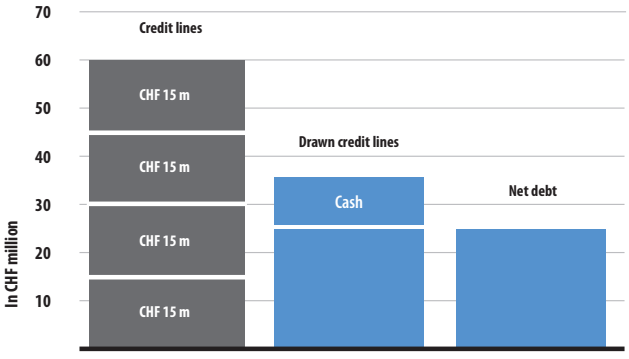
When the Group's net sales rise, the leverage effect causes operating income to increase disproportionately. Based on historical data, the Schaffner Group can expect about 30% of its sales growth to constitute additional operating income (EBIT). As a result, the Group's EBIT margin improves markedly when sales go up. Based on the empirical model, at net sales of CHF 250 million, the EBIT margin should thus increase from currently 7% to well above 10%. Of course, model calculations cannot be expected to translate directly into reality, but they serve to illustrate the general relationship between sales and EBIT or EBIT margin. To a significant extent, the actual figures also depend on

which Schaffner division or market the growth is recorded in. Overall, the Schaffner Group is currently in a position to achieve its medium-term growth targets without the need for significant structural adjustments.

Company acquisitions and financing

At the end of March 2014, Schaffner acquired Trenco, a US manufacturer of specialty transformers based in Cleveland, Ohio. The acquisition was financed by a USD 11 million bank loan obtained without using the Group's standing credit facilities.

Financing structure of the Schaffner Group



In June 2014, the Group's existing bank financing (CHF 50 million with a three-year term until May 2015) was renegotiated early, resulting in long-term credit agreements providing a total credit limit of CHF 60 million with the Group's four principal banks at largely unchanged terms. The new agreements run for five years and expire on 30 June 2019.

The new credit limit allowed the bank loan for the Trenco acquisition to be repaid and adds to the financial strength of the Schaffner Group, providing the flexibility needed to continue to successfully implement its growth strategy.

Currencies

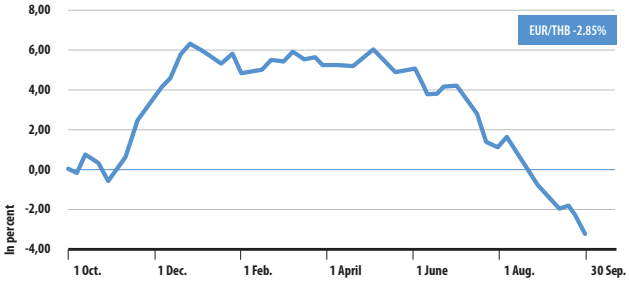
Schaffner develops, manufactures and sells products in different currency areas. The main currencies relevant to purchasing and production are the Thai baht, Chinese renminbi, US dollar and, to a lesser extent, the euro and the Hungarian forint. The exchange rates for the Thai baht and the renminbi are highly correlated with the US dollar.

Schaffner products are primarily sold in the euro and dollar zones, with the Japanese yen and Singapore dollar also significant. Most product development and the Group management are located in Switzerland, with the related costs therefore incurred in Swiss francs.

Currency risks are partly eliminated by costs and revenue occurring within the same currency area (natural hedging). The remaining costs and revenue involve currency risk for Schaffner, particularly the exchange rate between the Thai baht and the euro. These risks are always monitored and the exchange rates are hedged when necessary, in accordance with internal foreign currency guidelines.

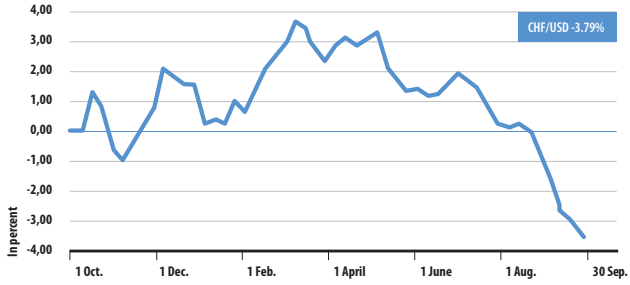
Movement of euro against Thai baht in fiscal 2013/14

(Value of EUR, expressed in THB)



Movement of Swiss franc against US dollar in fiscal 2013/14

(Value of CHF, expressed in USD)



Other currency risks arise from the translation of balance sheet and income statement items into Swiss francs. This risk is not hedged. Given that the Swiss franc is broadly stable against the euro thanks to the currency "floor" maintained by the Swiss central bank, the principal currencies involving risks are the US dollar and currencies closely correlated with the USD. The currency effect on net sales was negative in 2013/14 at -2%, while the effect on shareholders' equity was an increase of CHF 1.4 million.

Taxes

The nominal tax rate of the Schaffner Group – the weighted average rate theoretically expected based on the official tax rates in the countries where Schaffner operates – increased slightly to 22% from the prior year. However, the actual tax rate was significantly lower, at 9%. The main reasons were tax relief granted to Schaffner in certain countries as a result of its investment there, and tax loss carry-forwards from previous years. Tax audits were carried out in Switzerland and Germany in fiscal 2013/14 and did not lead to any significant arrears payments.

Corporate governance

From left to right: Gerhard Pegam, Georg Wechsler, Suzanne Thoma, Daniel Hirschi, Herbert Bächler

Board of Directors

The five members of the Board of Directors of Schaffner Holding AG are independent by the definition of the Swiss Code of Best Practice for Corporate Governance issued by Economiesuisse.

Daniel Hirschi, Chairman, born 1956, Swiss citizen
Degree in Engineering, Berne University of Applied Sciences, Biel
Board member since 2010

Herbert Bächler, born 1950, Swiss citizen
PhD in Technical Sciences, MSc in Electrical Engineering, Federal Institute of Technology, Zurich
Board member since 2009

Gerhard Pegam, born 1962, Austrian citizen
Electrical Engineer, Klagenfurt Technical College, Austria
Board member since 2013

Suzanne Thoma, born 1962, Swiss citizen
PhD in Technical Sciences, MSc in Chemical Engineering, Federal Institute of Technology, Zurich
Board member since 2012

Georg Wechsler, born 1956, Swiss citizen
Degree in Business Administration and Swiss Certified Accountant
Board member since 2012

Executive Committee

The Executive Committee, led by the Chief Executive Officer, consists of the CEO, the Chief Financial Officer, Chief Operating Officer and two Executive Vice Presidents.

Detailed information on the corporate governance of the Schaffner Group is found in the corporate governance report on pages 32 to 50 and online at: www.schaffner.com/en/investor-relations/corporate-governance.html.

From left to right: Eduard Hadorn, Kurt Ledermann, Alexander Hagemann, Ah Bee Goh, Guido Schlegelmilch

Alexander Hagemann, born 1962, German citizen
Degree in Mechanical Engineering from RWTH Aachen University
Joined the Schaffner Group as CEO on 1 March 2007.

Kurt Ledermann, born 1968, Swiss citizen
MSEE Degree in Electrical Engineering, Federal Institute of Technology, Zurich; Master of Arts HSG, University of St. Gallen
Joined the Schaffner Group as CFO on 1 June 2008.

Eduard Hadorn, born 1956, Swiss citizen
Degree in Business Administration
Joined the Schaffner Group in 2003. Executive VP and head of the Power Magnetics division since 1 October 2011.

Ah Bee Goh, born 1950, Singaporean citizen
HBSc Degree in Production Engineering, University of Strathclyde; MSc in Industrial Engineering, National University of Singapore; MSc in Finance, University of Leicester; MBA, University of Surrey
Joined the Schaffner Group on 1 July 2007. Vice President, Manufacturing, until 30 September 2011. COO since 1 October 2011.

Guido Schlegelmilch, born 1964, German citizen
Degree in Business Engineering and PhD, Darmstadt University of Technology
Joined the Schaffner Group in 2009. Executive VP and head of the EMC division since 1 October 2011.

Quality principles

The management, employees and partners of the Schaffner Group are committed to working for the benefit of all its stakeholders and to the highest standard of quality.

Quality policy of the Schaffner Group
At the Schaffner Group we are proudly committed to offering customers high-quality products and services. Our quality principles set us apart from competitors. We deliver products and services on time, free from defects and at competitive prices.

- We exceed our customers' expectations and win them over with our products, solutions and services. Through our activities we generate added value for our customers.
- We develop and implement stable, flexible, streamlined processes that can be adapted quickly to changing market requirements.
- We ensure sustained business growth through innovation, employee training and continuous improvement of our processes.
- Our suppliers are a key link in our value chain. Together we add value for our customers.
- We pursue environmental protection goals with great dedication and diligence.

All of Schaffner's sites operate in accordance with an ISO 9001 certified quality management system. Schaffner also holds the ISO/TS 16949 quality certification relevant for the automotive industry, and the plants in Shanghai and Büren are certified in the IRIS quality management system for rail applications. The plants in Shanghai and Büren are certified under EN 15085-2, which covers the welding of rail vehicles and components. The test laboratories in Luterbach are certified to Metas/SAS/STS for EMC/ONIR testing in accordance with ISO 1702.

All certifications are periodically reviewed and upgraded.

Sustainability

The success of the Schaffner Group is the result of a long-term focus on sustainable processes. Schaffner is committed to energy efficiency and reliability – both in innovative customer solutions and in the Group's own activities. The management of the Schaffner Group strongly supports employees' well-being through fair terms of employment, safe jobs and the development of every person's individual potential.

Martin Köppel,
VP, Quality Management

Susanne Bolliger
Head of Corporate HR

The Schaffner Group is known as an ethical company and is committed to maintaining this valuable reputation. Schaffner's golden rule is to be professional, fair and honest in its relationships with everyone, including its employees, shareholders, customers, suppliers, competitors, government agencies and interest groups.

The Schaffner Group is a signatory to the relevant international initiatives, such as the EICC Code of Conduct for the electronics industry, and the Conflict Minerals Policy. As well, all employees are bound by an Anti-Corruption Policy introduced in 2012/13. Schaffner also promotes the sustainable development of the Group by means of its own initiatives such as the ROFO principle (Responsibility, Ownership, Focus, On-time corrective action) explained in the chapter on operational excellence (page 18) and by systematically encouraging continuous learning.

UN Global Compact

By signing the UN Global Compact (www.unglobalcompact.org/participant/10379-Schaffner-Holding-AG) Schaffner has undertaken to implement the Compact's ten principles in the areas of human rights, labor, the environment and anti-corruption. These principles are integral components of all employment agreements. Schaffner is reducing its carbon footprint by optimizing material flows and strives to act as a role model regarding energy efficiency. The manufacturing facilities of the Schaffner Group practice environmental management to the international ISO 14001 standard; acquired companies are also integrated into this system. The Group's production centers in Asia, Hungary and Germany are compliant with OHSAS 18001 (Occupational Health and Safety Assessment Series), a process that has systematically improved workplace health and safety for employees.

https://www.unglobalcompact.org/COPs/active/73411

EICC Code of Conduct

By adopting the Code of Conduct for the electronics industry developed by the Electronic Industry Citizenship Coalition, Schaffner has committed to ensuring that working conditions are safe across the entire supply chain, that employees are treated with respect and dignity and that manufacturing operations are environmentally responsible.

www.eicc.info/EICC_CODE.shtml

Anti-Corruption Policy

An Anti-Corruption Policy has been part of all employment agreements in the Schaffner Group since fiscal 2012/13. The policy is supported through training programs at the Group sites, and compliance is monitored.

Conflict minerals policy

The Schaffner Group abides by the Conflict Minerals Act for the protection of human rights in the mining industry, particularly in the mining of ore to produce tin, tantalum, tungsten and gold in conflict regions. The Schaffner Group works closely with its suppliers to verify the origin of the raw materials used.

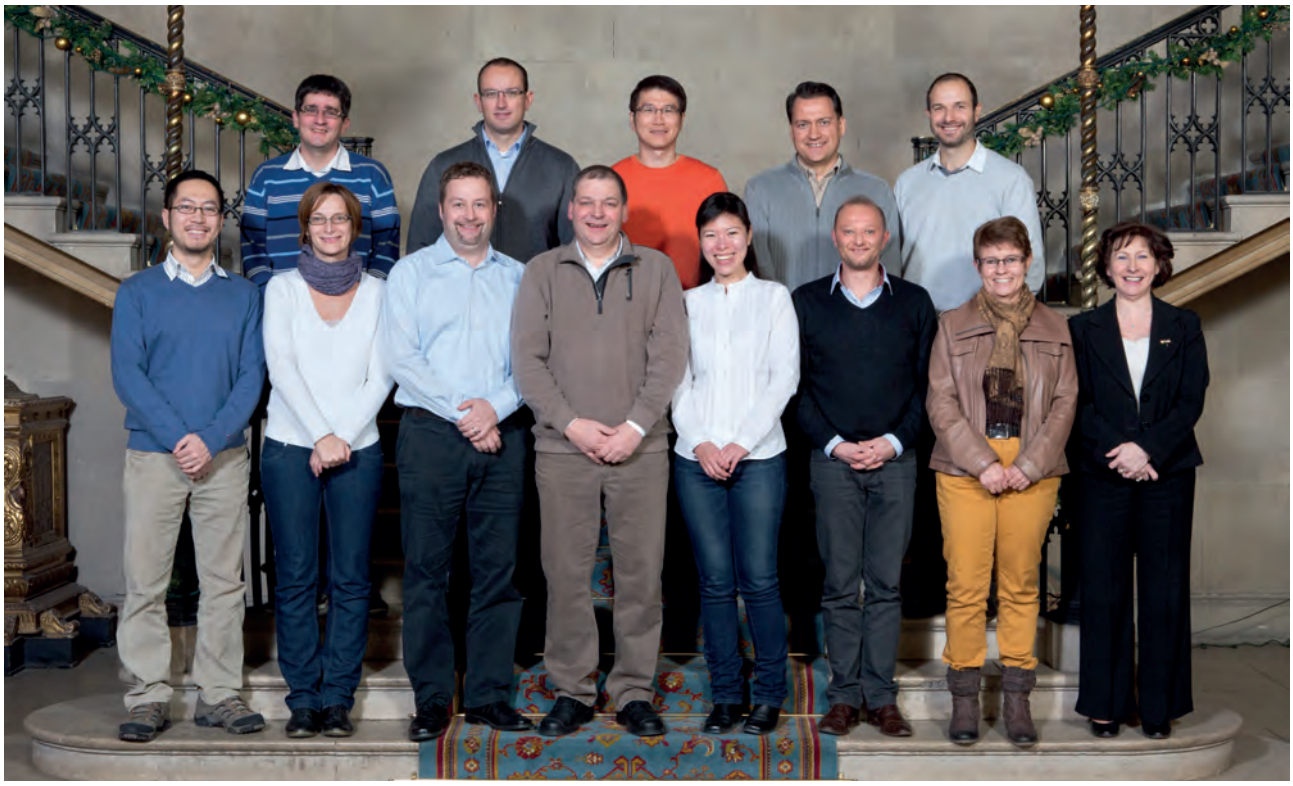
Employees

Schaffner is convinced that well-motivated employees are essential to the ability to offer the superior, innovative products and services which satisfy the exacting demands of customers and justify the Schaffner Group's claim to leadership. Its goal is therefore to be the sector's preferred employer worldwide. To this end, a host of measures are in place to attract, retain and develop the best staff. These include close attention to healthy and safe workplaces and annual job-specific training and development of employees' personal skills. As an international group, Schaffner also embraces diversity in the workplace (in respect of culture, age, gender, sexual orientation, mental and physical ability, and religion) as an integral condition of the company's sustainable development.

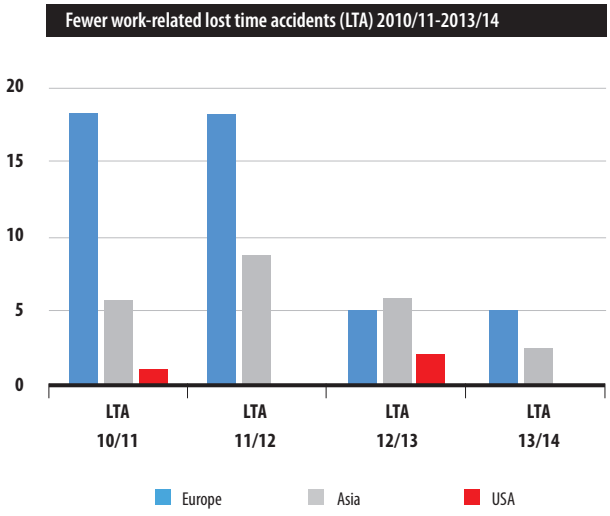
Employee health and safety

In recent years, Schaffner has consistently scaled up its investment in promoting the health and safety of its employees and is proud of its success. It has made great strides in occupational health and safety since launching a recording and measuring system in 2008/09. Despite strong growth in production, the number of work-related accidents resulting in more than one lost shift or working day (lost time accident, or LTA) was reduced significantly from 25 in 2010/11 to eight in the year under review. To attain the goal of zero lost time accidents per fiscal year and organization, Schaffner has introduced a detailed action program that includes the following elements:

- Making safety instruction an obligatory part of the induction of all new employees
- Holding regular information events and safety training courses
- Ongoing optimization of machinery and infrastructure
- Introducing a standard reporting system for analyzing accidents and developing and implementing informed safety measures on this basis



Participants of the 2012-2014 Talent Pool Program



Management development

Training and development programs in the Schaffner Group are organized at the local and divisional levels. At the major sites, where training goals and outcomes are systematically tracked, the goals are achieved by all employees.

An initiative that deserves special highlighting is the Talent Pool program supporting promotion of internal staff to key positions. Today 64% of participants in the program either are in a new position or have taken the next career step in their personal development plan. The major success of the program has prompted the Executive Committee of the Schaffner Group to supersede the talent pool initiative with a global management development program. The program will be broadly based and is to be open to all Schaffner employees in the future.

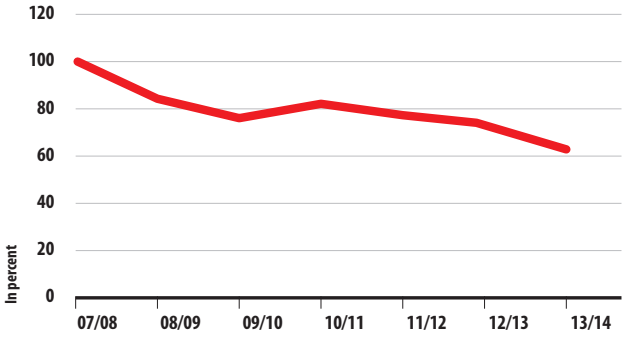
Shipping costs

With production centers in Asia, Europe and the USA, the Schaffner Group is able to manufacture its products in close proximity to customer delivery locations, thus substantially reducing shipping costs. Since 2007 Schaffner has reduced air freight by 37% in favor of sea freight and lowered the corresponding CO_2 emissions per unit (of weight and distance traveled) by an average of 38%. Schaffner is aiming for an additional 5% reduction in CO_2 emissions in the coming five years through continuous optimization of processes and a further increase in the share of sea freight.

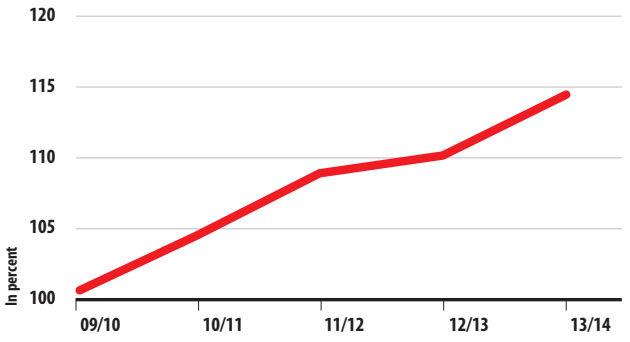
Production

At its biggest manufacturing facility, in Thailand, the Schaffner Group's investment in good building insulation, efficient production infrastructure and rigorous energy management has raised energy efficiency by 14% since 2010, saving 160 MWh of energy per year. Schaffner measures energy use at all its production sites and aims to reduce energy consumption at the plants by a further 5% over the next five years.

CO_2 emissions from international shipping



Energy efficiency at the manufacturing plant in Thailand



Corporate governance

2013
14

Contents

32 Principles
32 Implementation of the Ordinance Against Excessive Compensation at Listed Companies
33 Governance-related events in fiscal year 2013/14
33 Group structure and significant shareholders
35 Capital structure
37 Board of Directors
43 Executive Committee
46 Compensation
46 Shareholder participation rights
48 Changes in control and measures to prevent hostile takeovers
49 Auditors
49 Communication policy

SCHAFFNER
energy efficiency and reliability

Accountability and transparency for all stakeholders

At Schaffner, following the current corporate governance directives and policies is a key element of company supervision and management.

Principles

Transparency and well-defined responsibilities are the underpinnings of the Schaffner Group's corporate governance: Transparent financial reporting and clearly assigned duties and accountabilities in the interactions between shareholders, the Board of Directors and the Executive Committee.

As a company listed on the SIX Swiss Exchange, Schaffner fulfils the requirements of the SIX Swiss Exchange's amended Directive on Information Relating to Corporate Governance, which took effect on 1 October 2014. Schaffner also follows the current standards of the Swiss Code of Best Practice for Corporate Governance by Economiesuisse and the Ordinance Against Excessive Compensation at Listed Companies (OAEC).

Implementation of the Ordinance Against Excessive Compensation at Listed Companies (OAEC)

In a nationwide referendum in March 2013, the Swiss people voted in favor of the federal popular proposition against excessive pay (often referred to as the "Abzockerinitiative"). This led to an amendment of the Swiss constitution. The new provisions of the OAEC apply to all Swiss companies listed on a stock exchange. They were enacted by the Swiss Federal Council with effect from 1 January 2014.

Schaffner chose to apply the new ordinance early, at the January 2014 Annual General Meeting (AGM). The following table outlines the detailed timing of the implementation of the ordinance:

Individual election of the members of the Board of Directors for a term of one year by the General Meeting	2014 AGM (held in January 2014)
Election of the Chairman of the Board of Directors for a term of one year by the General Meeting	2014 AGM
Individual election of the members of the Compensation Committee for a term of one year by the General Meeting	2014 AGM
Delegation of management to individuals only	Not relevant for Schaffner
Company representatives and custodians are not permitted to vote shareholders' shares	1 January 2014
Election of the independent proxy for a term of one year by the General Meeting	2014 AGM
Ability to electronically authorize and instruct the independent proxy	2015 AGM
Amendment of the Articles of Association	2014 AGM
Publication of a compensation report	Fiscal year 2013/14
Report of the statutory auditor on the compensation report	Fiscal year 2014/15
Binding votes by the General Meeting on the compensation of the Board of Directors and Executive Committee	2015 AGM
Prohibition of severance pay[1]	1 January 2014
Prohibition of advance pay[1]	1 January 2014
Bonuses for the acquisition or sale of companies or parts of companies by the Company or by companies under its direct or indirect control are prohibited[1]	1 January 2014
Loans and other credit to members of the Board of Directors and Executive Committee[1]	1 January 2014
Amendment of internal regulations	Fiscal year 2013/14
Amendment of employment contracts of Executive Committee members	By December 2015 at the latest

[1] No contract with any member of the Board of Directors or Executive Committee provides for such compensation or loans or credit.

All relevant corporate governance documents are available at the following web address:
www.schaffner.com/en/investor-relations/corporate-governance.html

In addition, Schaffner's general principles of corporate governance are described in the Management Organization Regulations (in German: Organisationsreglement) of Schaffner Holding AG – which can be viewed at or requested from the Company's head office – and in the Company's Articles of Association. The Articles of Association are available at the following web address:
www.schaffner.com/fileadmin/mediapool/files/Association_Articles_Schaffner_Holding_AG.pdf

As an active participant of the UN Global Compact, the Schaffner Group is committed to honoring the principles of the Compact regarding human rights, labor, the environment and anti-corruption. Schaffner expects its employees to be accountable for their actions, to respect people, society and the environment, to follow applicable rules and act with integrity. The Group's current relevant report (Communication on Progress) can be accessed at: https://www.unglobalcompact.org/COPs/active/73411

The Schaffner Group has also adopted the Electronic Industry Code of Conduct (EICC) and is committed to its application in all Schaffner companies. This is to ensure that working conditions in the whole Schaffner supply chain are safe, that employees are treated with respect and dignity, and that manufacturing operations are environmentally sound: www.eicc.info/EICC_CODE.html

The Schaffner Group supports the Conflict Minerals Act for the protection of human rights in the mining industry, particularly in the mining of ore to produce tin, tantalum, tungsten and gold in conflict regions.

Governance-related events in fiscal year 2013/14

On 14 January 2014 at the 18th Annual General Meeting (AGM) of Schaffner Holding AG, shareholders re-elected the existing Board members Herbert Bächler, Daniel Hirschi, Gerhard Pegam, Suzanne Thoma and Georg Wechsler for a further term of one year. The shareholders elected Daniel Hirschi as Chairman of the Board of Directors for the term ending at the conclusion of the next AGM. For the same term, shareholders appointed Herbert Bächler, Daniel Hirschi and Suzanne Thoma as members of the Compensation Committee and Wolfgang Salzmann as the independent proxy. As the independent auditors for fiscal year 2013/14, shareholders elected Ernst & Young AG, Berne. As well, the Annual General Meeting approved the Board's proposal to transfer CHF 2,852,019 from share premium to the distributable share premium reserve and to distribute, from this newly funded reserve, CHF 4.50 per share entitled to dividends. The distribution was exempt from Swiss anticipatory tax. At the Annual General Meeting, numerous amendments to the Articles of Association of the Company were also passed. Thus, the unissued authorized capital for equity-based compensation was decreased by CHF 1,311,115 from CHF 2,351,115 to CHF 1,040,000. This action was made possible by the fact that after the expiration of parts of the share option plan, the authorized capital designated for them can be reduced. The OAEC ordinance also necessitated a major revision of the Articles of Association. The minutes of the 18th Annual General Meeting of Schaffner Holding AG can be accessed at the following web address: http://schaffner.com/en/investor-relations/annual-general-meeting.html

1 Group structure and significant shareholders

1.1 Group structure

1.1.1 Group operating structure

The Schaffner Group has a divisional organizational structure consisting of the three segments EMC, Power Magnetics and Automotive. The reporting to the Executive Committee (the Group's chief operating decision-maker) follows this structure.

The chart below shows the Group's operating structure at 30 September 2014:

General Meeting of shareholders
Board of Directors Audit and Risk Committee, Compensation Committee, Nomination Committee
Executive Committee Group Functions
EMC division – Power Magnetics division – Automotive division

The Chief Executive Officer has responsibility for the operational management of the Schaffner Group. He is also the head of the Executive Committee (the Group's top tier of executive management). The management of the Schaffner Group is provided by the Board of Directors and (through the Board's delegation of authority) by the Chief Executive Officer and the Executive Committee.

The division of responsibilities between the Board, Chief Executive Officer and Executive Committee is described on page 39 in section 3.5 as well as on page 42 in section 3.6 and on page 43 in section 4 of this corporate governance report.

The Executive Committee had the following structure at 30 September 2014:

Executive Committee	
Alexander Hagemann	Chief Executive Officer
Kurt Ledermann, Finance & IT	Chief Financial Officer
Ah Bee Goh, Manufacturing	Chief Operating Officer
Guido Schlegelmilch, EMC division	Executive Vice President
Eduard Hadorn, Power Magnetics division	Executive Vice President

The Automotive division is represented on the Executive Committee by Chief Executive Officer Alexander Hagemann. The head of the Automotive division, Günther Werkmeister, reports to the Chief Executive Officer. More information about the Executive Committee is provided on page 43 in section 4 of this corporate governance report.

1.1.2 Listed companies

The Schaffner Group maintains an international presence through its own subsidiaries and a network of independent distributors. The parent company of the Schaffner Group is Schaffner Holding AG, whose shares are traded on the SIX Swiss Exchange.

Schaffner Holding AG is the only Group company listed on a stock exchange.

Schaffner Holding AG is a public limited company incorporated in Switzerland and has its registered office in Luterbach. At 30 September 2014 the share capital consisted of 635,940 ordinary registered shares with a total nominal value of CHF 20,668,050.

Registered office	4542 Luterbach, Switzerland
Listing exchange and regulatory standard	SIX Swiss Exchange, Main Standard
Security number	906209
ISIN	CH 0 009 062 099
Ticker symbol	SAHN
Nominal value per share	CHF 32.50

Key share data for Schaffner Holding AG is provided on page 2 of this annual report.

1.1.3 Non-listed companies

The directly and indirectly held companies consolidated in the Group accounts of Schaffner Holding AG are shown on page 101 of this report in the notes to the consolidated financial statements.

1.2 Significant shareholders

At the balance sheet date of 30 September 2014 there were 1,370 shareholders registered with voting rights in the share register of Schaffner Holding AG (prior year: 1,226). Of the issued shares, 99.5% represented free float (prior year: 99.2%). The other 0.5% were held by Schaffner Holding AG as treasury shares (prior year: 0.8%). At 30 September 2014, shares of unregistered owners amounted to 21.4% of the issued shares (prior year: 15.0%).

Under section 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading (SESTA, or Stock Exchange Act), when a shareholder's voting rights in a company listed on the Six Swiss Exchange reach, rise above or fall below 3%, 5%, 10%, 15%, 20%, 25%, 33⅓%, 50% or 66⅔%, this event must be disclosed. In the year under review, six such disclosure notifications were made: on 2 October 2013, 19 October 2013, 10 January 2014,13 March 2014, 25 June 2014 and 11 September 2014. At the balance sheet date of 30 September 2014, Schaffner Holding AG had four significant shareholders (defined for this purpose as shareholders holding more than 3% of voting rights), named in alphabetical order:

Balfidor Fondsleitung AG, Basel
Buru Holding AG, Zug
Sarasin Investmendfonds AG, Basel
UBS Fondsleitung AG, Basel

Information on significant shareholders is also provided from page 105 in the notes to the company financial statements of Schaffner Holding AG. As well, a record of all notifications issued under section 20 Stock Exchange Act is available on the website of the SIX Swiss Exchange at:
www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

1.3 Cross-shareholdings

There were no cross-shareholdings between Schaffner and other publicly traded companies.

2 Capital structure

2.1 Issued share capital

The company has issued share capital of CHF 20,668,050, consisting of 635,940 ordinary registered shares with a nominal value of CHF 32.50 per share. The issued shares are fully paid. Each share carries one vote at the General Meeting. All shares not held by the Company or by one of its subsidiaries carry dividend and voting rights.

2.2 Authorized unissued capital

On 14 January 2014, shareholders at the 18th Annual General Meeting of Schaffner Holding AG approved the reduction of authorized capital for share option plans by CHF 1,311,115, from CHF 2,351,115 to a new total of CHF 1,040,000, divided into a maximum of 32,000 fully payable registered shares with a nominal value of CHF 32.50 per share. Detailed information can be found on page 92 of the Schaffner Group's annual report 2013/14, in section 18 of the notes to the consolidated financial statements.

The Company had no other authorized unissued capital at 30 September 2014, i.e., no unissued capital authorized for purposes other than the share option plans.

2.3 Changes in equity in the last three fiscal years

The Annual General Meeting on 12 January 2012 passed a resolution to distribute CHF 4.50 per share (exempt from Swiss anticipatory tax) in the form of a repayment of excess share premium. No other distribution to shareholders was made for fiscal 2010/11.

The Annual General Meeting on 14 January 2013 voted in favor of a shareholder proposal to distribute CHF 3.50 per share (exempt from Swiss anticipatory tax) in the form of a repayment of excess share premium. No other distribution to shareholders was made for fiscal 2011/12.

The Annual General Meeting on 14 January 2014 passed a resolution to distribute CHF 4.50 per share (exempt from Swiss anticipatory tax) in the form of a repayment of excess share premium. No other distribution to shareholders was made for fiscal 2012/13.

The changes in share capital, share premium, retained earnings and in the other components of consolidated equity are presented in detail on page 65 of the consolidated financial statements in this annual report 2013/14. The comparative information on changes in equity for the three prior years is found on page 55 of the consolidated financial statements in the annual report 2012/13, on page 55 of the annual report 2011/12 and page 57 of the annual report 2010/11.

2.4 Shares and participation certificates

2.4.1 Shares

The 635,940 issued shares of Schaffner Holding AG have a nominal value of CHF 32.50 per share. Each share carries one vote and attracts dividends.

Subject to provisions (i), (ii) and (iii) below, the shares are issued in uncertificated form and maintained as book-entry securities.

Transfers of or dispositions regarding book-entry securities, including the granting of interests therein as collateral, are subject to the Swiss Federal Act on Book-Entry Securities. If uncertificated shares are transferred by assignment, such a transfer is valid only if notified to the Company.

(i) Shares maintained as book-entry securities may be withdrawn from the custody system by the Company.

Shareholders that are registered in the share register may at any time request from the Company a certification of their ownership of their shares.

(ii) Shareholders do not have a right to the printing and delivery of certificates (physical securities) or to the conversion of registered shares issued in one form into another form. The Company may, however, at any time print and deliver certificates (single share certificates, collective certificates or global certificates) or convert uncertificated or certificated shares into another form, and may cancel issued certificates that are returned to the Company.

(iii) By amending the Articles of Association, the General Meeting of shareholders may at any time convert registered shares into bearer shares or convert bearer shares into registered shares.

2.4.2 Participation certificates

There were no participation certificates of Schaffner Holding AG at 30 September 2014 (participation certificates, or Partizipationsscheine in German, essentially are a type of preference share).

2.5 Dividend right certificates

Schaffner Holding AG had not issued any dividend right certificates as of 30 September 2014 (dividend right certificates, or Genussscheine in German, essentially are preference shares for related parties).

2.6 Restrictions on transferability and nominee registration

Registered shares of Schaffner Holding AG may be acquired by all legal or natural persons. The purchase of Schaffner shares is subject to registration restrictions concerning the recognition and registration of share purchasers, and of nominees, as voting shareholders. These restrictions are specified in detail in the Share Registration Regulation of Schaffner Holding AG. The Share Registration Regulation was issued by the Board of Directors in reliance on sections 685a and 685d et seq. of the Swiss Code of Obligations and article 6 of the Articles of Association, and can be viewed at or requested from the Company's head office. The Share Registration Regulation is also available at:
www.schaffner.com/en/investor-relations/share-registration-regulation.html

2.6.1 Recognition of share purchasers as voting shareholders

Shareholders or beneficial owners are deemed to be those persons registered in the Company's share register. In accordance with article 6 para. 3 of the Articles of Association of Schaffner Holding AG, purchasers of shares are upon their request recorded as voting shareholders in the share register by the Board of Directors if the purchasers expressly state that they have acquired and will hold the shares for their own account. Recognition as a shareholder with voting rights thus requires both that the shareholder in question bears the economic risk incident to ownership of the shares to be registered, and that, in the application for registration, the shareholder expressly declares to the Company that the shareholder has acquired and will hold the shares for the shareholder's own account. In reliance on article 6 para. 3 of the Articles of Association and the recognition requirements derived from it, applicants (purchasers holding legal title to the shares) are thus not recognized as voting shareholders if they have acquired, and are holding, the shares as a result of a securities lending transaction or similar transaction that gives them legal ownership without the associated economic risk.

Registration of share purchasers

For each registration in the share register as a voting shareholder, a personally signed registration application or a registration authorization must be on file at the respective SIX SIS AG custodian bank, containing all of the following information:

- For individuals:
  Last name, first name, nationality, and address
- For legal entities:
  Entity name, registered office, and address

Every registration in the share register requires evidence of the acquisition of full legal title to the stock or evidence of the establishment of beneficial ownership, and always requires an express declaration that the stock was acquired and is held by the applicant in the applicant's own name and for the applicant's own account.

In the case of registration applications by shareholders holding the shares for their own account where the applicant's resulting voting rights reach or rise above 3% of votes or any of the further thresholds set out in section 20 of the Stock Exchange Act, the registration is not performed until the Company has received a complete disclosure notification by the applicant pursuant to section 20 of the Stock Exchange Act. If the disclosure notification meets the legal requirements (i.e., if it contains the legally required information about the beneficial owner), the applicant (i.e., the acquired stock) is registered in the share register as having voting rights. If the disclosure notification is not made within the 20-day deadline specified in section 685g of the Swiss Code of Obligations, or is incomplete, the application for registration with voting rights is denied and the shareholder (i.e., the acquired stock) is registered in the share register as non-voting.

Registration of nominees

Persons who do not expressly declare in their registration application that they hold the shares for their own account are classified as nominees. In accordance with article 6 para. 4 of the Articles of Association, any single nominee is, by default, registered in the share register as holding voting shares only up to a maximum of 5% of the share capital recorded in the Swiss commercial register of companies. Above this limit of 5%, the Board of Directors registers shares of nominees in the share register as voting shares only if:

(i) the nominee discloses the names, addresses and holdings of Company shares of the persons for whose account the nominee

holds 0.5% or more of the total registered-share capital recorded in the commercial register, and

(ii) an agreement exists between the nominee and the Company which specifies the nominee's position and the details of the nominee's notification obligations.

The registrar (the company retained to operate the share register) is responsible for sending the nominee agreement to the respective nominee and collecting the information to be disclosed. If complete disclosure is not made by the 20-day deadline specified in section 685g of the Swiss Code of Obligations, or if no nominee agreement is concluded between the Company and the nominee within this period, the nominee is registered in the share register as non-voting in respect of these shares. To the extent permitted by law, the Board of Directors is authorized to enter into agreements with nominees regarding notification obligations. On a case-by-case basis, the Board may approve exceptions to the nominee rules.

Where legal entities or groups with joint legal status are related to one another by capital, voting rights, management or in some other manner, they are deemed collectively to constitute a single purchaser. Also deemed a single purchaser are all natural persons, legal entities or groups with joint legal status that by agreement, as a syndicate or in any other way act in a coordinated manner with a view to circumventing the nominee rules. The Company may void registrations in the share register with retroactive effect from the date of registration if they were based on false information given by the purchaser. The purchaser must be informed of this deletion immediately.

Registered non-voting shareholders and registered non-voting nominees cannot exercise the voting rights associated with the shares nor exercise other rights related to the voting rights. However, they are not restricted in exercising any of their other shareholder rights, including also pre-emptive rights. At the General Meeting the shares registered as non-voting are treated as unrepresented (see section 685 f (2) and (3) of the Swiss Code of Obligations).

The registration restrictions described above also apply to shares bought or subscribed through the exercise of pre-emptive rights, options or conversion rights.

At the balance sheet date of 30 September 2014, 21.4% (prior year: 15.0%) of all issued shares were unregistered or were registered as non-voting shares.

2.7 Convertible bonds and options

2.7.1 Convertible bonds

There are no outstanding convertible bonds of Schaffner Holding AG.

2.7.2 Share option plans

The share option plans for executive management and members of the Board of Directors of the Schaffner Group (the Employee Share Option Plan and the Performance Option Plan) are described in detail from page 92 of the consolidated financial statements.

3 Board of Directors

3.1 Members of the Board of Directors

The Articles of Association stipulate that the Board of Directors of Schaffner Holding AG shall have between three and seven members.

On 30 September 2014 the Board of Directors consisted of five, non-executive members. In the three years prior to the reporting period (fiscal years 2010/11, 2011/12 and 2012/13), none of these Board members were members of Schaffner's Executive Committee or of the management of a subsidiary, and none had or have material business relationships with the Schaffner Group. The members of the Board of Schaffner Holding AG are thus independent within the meaning of the Swiss Code of Best Practice for Corporate Governance issued by Economiesuisse, the Swiss business federation.

In fiscal year 2013/14 the Board of Directors of Schaffner Holding AG had the following members:

Daniel Hirschi, Chairman, born 1956, Swiss citizen

Degree in Engineering, Berne University of Applied Sciences, Biel

From 2006 to 2009 was Chief Executive Officer and Designated Representative of the Board of Directors of Benninger AG, Uzwil. From 1983 to 2005 served in various management functions at Saia-Burgess, Murten, including Chief Executive Officer from 2001 and Designated Representative of the Board from 2003.

Herbert Bächler, born 1950, Swiss citizen

PhD in Technical Sciences; MSc in Chemical Engineering, Federal Institute of Technology, Zurich

In charge of innovation management at ARfinanz Holding AG, Stäfa. From 2002 to 2008 was Chief Technology Officer at Sonova/Phonak AG and from 1981 to 2002 held various management positions in its R&D department.

Gerhard Pegam, born 1962, Austrian citizen

Electrical Engineer, Klagenfurt Technical College, Austria

Until beginning of 2012 was Chief Executive Officer of EPCOS AG. From 2009 to 2012 was a member of the Board of Directors of EPCOS parent company TDK-EPC Corp. From middle of 2011 to mid-2012 was a Corporate Officer of TDK Corporation, Japan, and from 2004 to 2012 was a member of the Board of ZVEI, the German Electrical and Electronic Manufacturers' Association. Between 1982 and 2001 held various management positions at EPCOS, Siemens and Philips.

Suzanne Thoma, born 1962, Swiss citizen

PhD in Technical Sciences; MSc in Electrical Engineering, Federal Institute of Technology, Zurich

From 1 January 2013: Chief Executive Officer of BKW AG, Berne. Previously member of the Group Executive Committee of BKW AG, Berne (formerly BKW FMB Energie AG) in charge of the Networks division. From 2007 to 2009 was head of the international automotive supply business of the Wicor Group, Rapperswil-Jona. Before that, was Chief Executive Officer of Rolic Technologies, Allschwil, and held management positions at Ciba Spezialitätenchemie AG, Basel (now BASF AG) in Switzerland and abroad. Member of the Executive Committee of the Swiss Academy of Engineering Sciences.

Georg Wechsler, born 1956, Swiss citizen

Degree in Business Administration; Swiss Certified Accountant

Since 1994 has been Chief Financial Officer and member of the Group Executive Committee of Model Holding AG, Weinfelden. Previous employers included Zurmont Finanz AG, Zurich; Zellweger Uster AG, Uster; and KPMG Fides, Zurich.

The Secretary of the Board, since June 2008, is Kurt Ledermann, Chief Financial Officer of the Schaffner Group. He is not a member of the Board.

3.2 External activities and interests

Herbert Bächler

Herbert Bächler holds various positions on the boards of companies not significant for the purposes of the Corporate Governance Directive (appendix section 3.2) of the SIX Swiss Exchange.

Daniel Hirschi

Daniel Hirschi is a member of the Board of Benninger AG, Uzwil; of Carlo Gavazzi Holding AG, Steinhausen; and of Komax Holding AG, Dierikon.

Gerhard Pegam

Gerhard Pegam is a member of the Board and the Strategy Committee of OC Oerlikon Corporation AG and a member of the Supervisory Board of Süss Microtech AG, Germany.

Suzanne Thoma

Suzanne Thoma is Chairwoman of the Board of Arnold AG, Selzach, and of BKW ISP AG, Ostermundigen, as well as a member of the Board of AEK Energie AG, Solothurn and Beckers Group, Berlin.

Georg Wechsler

Georg Wechsler holds various positions on the boards of companies not significant for the purposes of the Corporate Governance Directive (appendix section 3.2) of the SIX Swiss Exchange.

3.3 Restrictions on activities outside the Schaffner Group

A member of the Board of Directors may hold a maximum of five positions as a member of the highest-level governing or administrative body of other listed companies and a maximum of five such positions in non-listed legal entities within the meaning of section 12 para. 1 (1) of the Ordinance Against Excessive Compensation at Listed Companies.

For the purpose of this provision, positions (including employment positions) at companies controlled by the Company or positions/employment which the respective member assumes in the capacity of member of the Board of Directors (e.g., at joint ventures or pension funds of the Schaffner Group or at companies in which the Company holds a significant non-consolidated interest) are not deemed to be positions/employment outside the Company.

The following are counted as a single position for the purpose of this provision: positions/employment at mutually related companies outside the Schaffner Group, dual roles, and positions which are assumed in the capacity of a member of the top governing or administrative body or executive management of a legal entity outside the Schaffner Group (e.g., positions at joint ventures or pension funds of that legal entity or at companies in which that legal entity holds a significant non-consolidated interest).

3.4 Board elections and terms

The members of the Board of Schaffner Holding AG are annually elected individually by the General Meeting, and may be re-elected for consecutive terms. Board members must be shareholders of the Company and be less than 70 years of age on the day of their election or re-election.

The current members have been serving on the Board since their election in the years shown below:

	Since
Daniel Hirschi	2010
Herbert Bächler	2009
Suzanne Thoma	2012
Gerhard Pegam	2013
Georg Wechsler	2012

The General Meeting annually elects the Chairman of the Board of Directors and, individually, the members of the Compensation Committee (who must be members of the Board) and the independent proxy. Their term of office ends at the conclusion of the next Annual Shareholder Meeting.

3.5 Internal organization

Except for the election of the Board Chairman and the members of the Compensation Committee by the General Meeting, the Board of Directors constitutes itself in its first meeting of each term, in accordance with article 15 of the Articles of Association. The Board may appoint a Vice Chairman from among its members, who assumes the Chairman's responsibilities when the latter is unavailable. The Board designates its Secretary, who does not need to be a member of the Board.

3.5.1 Division of responsibilities within the Board

Daniel Hirschi has been the Chairman of the Board of Directors since the 2010 Annual General Meeting. The Compensation Committee is chaired by Daniel Hirschi. The chairman of the Nomination Committee is Herbert Bächler. The Risk and Audit Committee is chaired by Georg Wechsler. The Board has no other standing committees or designated positions.

3.5.2 Composition, purpose and responsibilities of Board committees

The Board of Directors of Schaffner Holding AG maintains the Board committees detailed below. Their principal purpose is to provide decision support to the Board in specific subject areas. The Board's duties and powers always remain with the full Board.

The Board committees are made up solely of non-executive members of the Board. The committees brief the Board on their conclusions and proposals at the ordinary Board meetings. In urgent matters they immediately inform the Chairman of the Board or Chief Executive Officer at any time. Outside the ordinary Board meetings, the Board committee members also work directly with members of the Executive Committee (which is the Group's top tier of executive management and is not a Board committee). New committees may be formed at any time as required. The term of office of committee members normally coincides with their term as Board members.

Compensation Committee

The Compensation Committee (CC) is made up of two or more Board members elected to the committee by the General Meeting. The Board of Directors elects the chairman of the committee.

Compensation Committee	Since
Daniel Hirschi, committee chairman	2013
Herbert Bächler	2012
Suzanne Thoma	2012

The CC meets as often as business requires, and generally at least twice per year. Every member of the committee may request a meeting. The meetings are called in writing or by e-mail, generally five working days in advance, stating the meeting agenda. The CEO and CFO usually attend the meetings, in an advisory role. Additional persons may be asked to attend, at the discretion of the committee chairman. Minutes of the meetings are recorded and provided to the Board of Directors.

The Compensation Committee acts solely in an advisory capacity. It regularly reports the results of its activities to the Board and submits the necessary proposals to the Board Chairman for transaction by the Board.

The Compensation Committee has the following responsibilities in particular:

- Establishment and periodic review of the Schaffner Group's compensation policy and principles, performance criteria and targets, periodic review of their implementation, and submission of proposals and recommendations to the Board of Directors
- Preparation of all relevant decisions of the Board of Directors with respect to compensation of the members of the Board of Directors and the Executive Committee, submission of proposals to the Board regarding the nature and amount of annual compensation of the members of the Board of Directors and Executive Committee, and preparation of the proposal for the respective maximum aggregate amount
- Submission of proposals to the Board regarding the selection of potential recipients of performance-related compensation and regarding the setting of the annual performance targets for this compensation
- Development of share option plans and submission of proposals to the Board with respect to: the selection of participants in share option plans, the allocation of shares, the issue price, and vesting or holding periods, in connection with the Company's share option plans
- Making or preparing decisions in accordance with applicable legal requirements or provisions of the Articles of Association

The Board of Directors may assign further duties to the Compensation Committee with respect to compensation, human resources and related areas. The Board sets out the organization, procedures and reporting methods of the Compensation Committee in a committee charter.

Nomination Committee

The Nomination Committee (NC) is made up of two or more Board members elected to the committee by the Board of Directors. The Board of Directors elects the chairperson of the committee.

Nomination Committee	Since
Herbert Bächler, committee chairman	2012
Daniel Hirschi	2013
Suzanne Thoma	2012

The NC meets as often as business requires, generally at least once per year. Every member of the committee may request a meeting. The meetings are called in writing or by e-mail, generally five working days in advance, stating the meeting agenda. The CEO and CFO usually attend the meetings, in an advisory role. Additional persons may be asked to attend, at the discretion of the committee chairman. Minutes of the meetings are recorded and provided to the Board of Directors.

The Nomination Committee acts solely in an advisory capacity. It regularly reports the results of its activities to the Board and submits the necessary proposals on the following types of matters to the Board Chairman for transaction by the Board:

- Staff promotions to the Executive Committee
- New hiring or dismissal of Executive Committee members. In cases of new hiring, members of the Nomination Committee participate in the evaluation of prospective staff

Risk and Audit Committee

The Risk and Audit Committee (RAC) is made up of two or more Board members elected to the committee by the Board of Directors. The Board elects the chairperson of the committee. The majority of RAC members, and especially the chairman, should have experience in finance and accounting and be independent.

Risk and Audit Committee	Since
Georg Wechsler, committee chairman	2012
Daniel Hirschi	2013
Gerhard Pegam	2013

The RAC meets as often as business requires, and generally at least twice per year. Every member of the committee may request a meeting. The meetings are called in writing or by e-mail, normally five working days in advance, stating the meeting agenda. The CEO and CFO usually attend the meetings, in an advisory role. Additional persons may be asked to attend (particularly representatives of the external auditors), at the discretion of the committee chairman. Minutes of the meetings are recorded and provided to the Board of Directors.

The Risk and Audit Committee acts solely in an advisory capacity. It assists the Executive Committee in handling financial matters and risk management. At the same time, on behalf of the Board of Directors, the Risk and Audit Committee monitors

performance especially in the following areas of responsibility of the Executive Committee:

- The appropriateness and validity of the Group's accounting
- The consolidated annual financial statements
- The analysis of the various risks to which the Schaffner Group is exposed
- The organization and processes of the system of internal control
- The organization and processes of risk management
- The tax planning
- The financial part of the rolling forecast
- Other major responsibilities of the finance department

The RAC, on behalf of the Board, receives the audit reports of the external independent auditors concerning the company and Group financial statements and presents them to the Board for review and comment. The RAC regularly briefs the Board on the results of its verification activities and submits the necessary proposals for courses of action to the Board Chairman for consideration by the Board.

3.5.3 Procedures of the Board and of Board committees

Meetings of the Board of Directors are called by the Chairman or Vice Chairman or, if both are unavailable, by another Board member. The Board convenes as often as business requires, or when a Board member requests it, and at least once per quarter. Board meetings are normally called in writing, stating the agenda items, which are set by the Chairman, who also includes items proposed by the Executive Committee. Board meetings are called at least ten days before the meeting date. In case of urgency, the requirement for written notice and/or for ten days' notice can be waived. When this occurs, it is noted in the minutes of the meeting.

The Board of Directors has a quorum when the majority of its members participate in oral discussions and votes. Members may also be present by telephone or via electronic media (e.g., videoconferencing). Resolutions are passed by a simple majority of votes. In the event of an equality of votes, the chairman of the meeting has a second or casting vote For the purpose of resolutions concerning capital increases, the Board has a quorum irrespective of the number of members present. Unless a member requests an oral discussion, the Board may also vote on its resolutions by written ballot (submitted by mail, fax or e-mail). In such a "postal" vote (also known as a written resolution), passage of a resolution requires the affirmative vote of the majority of all Board members. Postal votes and their outcome must be recorded in the minutes of the next meeting.

The Chairman of the Board (or if unavailable, the Vice Chairman or another deputy) prepares and directs the meetings of the Board. He is responsible for the proper calling and conducting of the meetings and for the timely and appropriate briefing of the Board members.

In the reporting period the Board met eight times. The following overview shows the individual Board members' attendance at Board and Board committee meetings, as well as the meetings' length:

Number of meetings in 2013/14	BD 8	RAC/AC 3	NCC/CC/NC 5
Daniel Hirschi	8	3	5
Herbert Bächler	8	-	5
Gerhard Pegam	7	3	-
Suzanne Thoma	8	-	5
Georg Wechsler	8	3	-
Meeting length in hrs	0.5-8.0	0.5-2.2	1.0-2.0
Average length in hrs	4.5	1.4	1.4

As part of the implementation of the OAEC, the Board of Directors reorganized the committees at its meeting in January 2014: The Audit Committee was defined as the Risk and Audit Committee, and the Nomination and Compensation Committee was split into a Compensation Committee and a Nomination Committee.

BD Board of Directors
AC Audit Committee
RAC Risk and Audit Committee
CC Compensation Committee
NC Nomination Committee
NCC Nomination and Compensation Committee

The Chief Executive Officer and Chief Financial Officer attend the ordinary meetings of the Board. For the discussion of specific matters, the Board calls on members of the Executive Committee, other management staff or external advisors to attend its meetings as required. In the year under review, no external advisors were called to any significant extent.

3.6 Division of authority

The Board of Directors of Schaffner Holding AG is responsible for determining the Group's strategy. It reviews the Group's broad plans and objectives and identifies internal and external risks and opportunities. Decisions on matters within the Board's non-delegable and inalienable responsibilities defined in article 18 of the Articles of Association and section 716a of the Swiss Code of Obligations are reserved for the Board.

Schaffner Holding AG is the holding company for the Schaffner Group. As a consequence, the Board of Directors has the following responsibilities in particular:

- Overall management of the Schaffner Group
- Setting and approving the strategy and business planning of the Schaffner Group and supervising their implementation
- Ensuring the efficiency (as necessary for implementation assurance) of accounting, financial controls, risk management and reporting
- Appointment and removal of the Executive Committee and authorized signatories
- Regular review of business activities
- Approval of the decisions of the Executive Committee on filing, defending or handling lawsuits, administrative or arbitration proceedings, and on the settlement of litigation where the amount in dispute exceeds CHF 1,000,000
- Decisions on matters not reserved for or transferred to another body by law, by the Articles of Association or by the Organizational Regulations
- Formulation and preparation of resolutions for consideration by the General Meeting
- Preparation of the management report (forming part of the annual report) and proposing a motion for the General Meeting regarding approval of the management report (from fiscal year 2014/15)
- Presentation to the General Meeting of nominations for the election of the Chairman and Vice Chairman of the Board, the members and chairman of the Compensation Committee, the independent proxy and the external auditors
- Proposal to the General Meeting regarding the approval of compensation, that is, the respective maximum aggregate compensation of the whole Board of Directors and whole Executive Committee for the next fiscal year, in accordance with articles 24 and 25 of the Articles of Association
- Setting the compensation of the individual Board members and Executive Committee members within the respective approved maximum aggregate amount
- Approval of compensation of Executive Committee members appointed after the approval of the maximum aggregate amount, for a fiscal year for which the General Meeting has already approved the compensation amounts or compensation budget, in reliance on and within the limits of article 26 of the Articles of Association
- Decisions on salaries, additional pay, awards of shares of Schaffner Holding AG, etc. for the individual Board members and Executive Committee members, subject to the provisions of the law, the Articles of Association and applicable regulations, and except inasmuch as decisions are reserved for the General Meeting
- Approval of the acceptance by Executive Committee members of additional positions within the meaning of article 23 of the Articles of Association. Outside the Schaffner Group, members of the Executive Committee must not hold more than two positions within the meaning of article 23
- Founding of subsidiaries, corporate mergers, and acquisition of business interests or their sale or their pledging as collateral or liquidation
- Entry by the Company into fundamentally new business activities, and material changes to the existing portfolio of businesses
- Acquisition, mortgaging and sale of real estate
- Establishment and closing of branch offices
- Approval of the decisions of the Executive Committee in all matters outside the scope of day-to-day business (i.e., those not covered by the Authorization Policy) that could give rise to one-time obligations or commitments of more than CHF 500,000 or to recurring obligations or commitments in an annual amount of more than CHF 250,000

To an extent consistent with the applicable legal provisions and the Company's Articles of Association, the Board of Directors has delegated the operational management of the Schaffner Group to the Executive Committee, led by the Chief Executive Officer. The CEO is responsible for the overall operational management of the Company. He has responsibility for the long-term success of the Group through implementation of the

strategy set by the Board of Directors. The Chief Financial Officer has responsibility for financial, tax and capital management and for ensuring the development and implementation of risk control principles, rules and limits. The Chief Financial Officer is also responsible for the transparency of the financial results and ensuring high-quality, timely financial reporting.

3.7 Monitoring and control in respect of the Executive Committee

Board of Directors
The Executive Committee provides the Board with a monthly written report on the Group's financial results. The reporting consists of the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, movement in provisions, and cash flow statement. The data are compared against the prior-year results. The Board of Directors regularly discusses the monthly reports at its meetings. The Chief Executive Officer and Chief Financial Officer attend the meetings. The Executive Committee carries out a risk assessment at least once per year and reports on the findings to the Board of Directors. In this assessment, general risks are analyzed and rated. Monitoring-and-control points and processes are defined based on the risk assessment and are implemented by the respective process owner. The Board of Directors monitors the assessment of the Group's risks and verifies the implementation of risk management. Other tools for the monitoring and control of the Executive Committee are the following:

- Periodic communication of the Executive Committee's forecasts for revenue and for the key earnings and financial position data
- Rolling forecast
- Annual strategic analytical reviews of the Group and the divisions
- A multi-year plan regularly updated by the Executive Committee
- Special reports by the Executive Committee on significant investments, acquisitions and partnerships

The Chief Executive Officer keeps the Board informed of all significant events. He promptly informs the Chairman of the Board of any exceptional developments.

Even outside the meetings and in addition to the monthly reporting by the Executive Committee, every member of the Board may also request further information from individual members of the Executive Committee on the business performance and other important matters.

Chairman of the Board
The Board Chairman regularly meets with the Chief Executive Officer and Chief Financial Officer to discuss current business performance and activities.

Committees
Outside the ordinary Board meetings, the Board committee members also work directly with members of the Executive Committee (which is the Group's top tier of executive management and is not a Board committee).

Internal Audit
In view of the size of the company, the Schaffner Group elects not to maintain a dedicated internal audit function. Instead, focused special audits are conducted by units of the Schaffner Group with the participation of the CFO and external consultants.

4 Executive Committee

The responsibilities and powers of the Executive Committee are specified in the Management Organization Regulations. Its main responsibilities are:

- Operational management
- Optimization of internal organization and processes
- External representation of the Schaffner Group
- Internal and external communication

Under the Articles of Association, the employment contracts of Executive Committee members must have either a fixed term of not more than one year, or an indefinite duration with a notice period of not more than twelve months. All employment contracts of Executive Committee members will be updated by 31 December 2015 to reflect the new legislation.

In the year under review the Executive Committee of the Schaffner Group had five members: the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and two Executive Vice Presidents.

Chief Executive Officer
The CEO is responsible for the overall operational management of the Company. He has responsibility for the long-term success of the Group through implementation of the strategy set by the Board of Directors. The CEO is responsible in particular for:

- Ensuring the implementation of the Board's decisions
- Representing Schaffner Holding AG to the public and in important associations, institutions, etc.
- Submitting proposals to the Board of Directors especially regarding strategy and financial targets and regarding all business which, under the Articles of Association, the Authorization Policy or the Management Organization Regulations, requires Board approval
- Submitting proposals to the Nomination Committee on the nomination and removal of members of the Executive Committee
- Submitting proposals to the Compensation Committee on salaries, additional pay, awards of shares of Schaffner Holding AG, etc., for the individual members of the Executive Committee
- Delivering operational management in accordance with Group strategy by performing the following duties:
  - Formulation of Group strategy, policy and procedures for the approval of the Board of Directors
  - Ensuring execution of the strategy set by the Board
  - Leadership of the Group's operational management, including striking an appropriate balance between meeting short-term targets and the needs of Group strategy
- Preparation of the Group's financial plans, particularly the annual targets and medium-term planning, with accountability for the overall financial performance against the targets set by the Board of Directors
- Leadership of the Executive Committee and the other positions reporting to the CEO
- Management development for the Company and preparation of the performance appraisals of the Executive Committee members for the attention of the Nomination Committee and Compensation Committee
- Ensuring the Group's adherence to internal policy and regulations and the Code of Conduct, the Articles of Association and applicable legal requirements
- Liaison between the Executive Committee and Board of Directors to ensure early and exact briefing of the Board

Chief Financial Officer
The Chief Financial Officer devises the framework for all strategic and operational controllership activities, ensures the Group's financing, optimizes its financing and tax structure, and supports the Chief Executive Officer and the other Executive Committee members in all financial matters.

Chief Operating Officer
The Chief Operating Officer is responsible for achievement of the productivity, efficiency and quality targets.

Executive Vice Presidents
The Executive Vice Presidents are accountable for achieving the objectives within their respective areas of responsibility. These targets and goals include, in particular, achieving a leading market position as well as continuous innovation to support lasting competitiveness.

4.1 Members of the Executive Committee

The Executive Committee, the Company's highest-ranking operational management body, supports the CEO in fulfilling his responsibility for managing the Group's activities.

It consists of the officers named in the list below and has the following responsibilities and accountabilities within the parameters set by the Board of Directors:

- Active participation in the process of Group management and planning and in the implementation of Board-approved strategy
- Efficient and effective fulfilment of its main duties, with close cooperation between the members of the Executive Committee
- Proposal and execution of strategic plans
- Management of the Group functions of the individual Executive Committee members
- All matters outside the scope of day-to-day business (i.e., those not covered by the Authorization Policy) that do not give rise to one-time obligations or commitments of more than CHF 500,000 or to recurring obligations or commitments in an annual amount of more than CHF 250,000

- Keeping of the accounting records required under the law and under the specific provisions of the accounting standards adopted by Schaffner Holding AG and under the Listing Rules of the SIX Swiss Exchange
- Human resources policy, HR management and labor relations

The members of the Executive Committee are actively involved in its consensus-oriented decision process. Decisions are made by consensus or, where a consensus cannot be reached, are made by the Chief Executive Officer with due regard to the opinions expressed by the Executive Committee's members.

In fiscal year 2013/14 the Executive Committee of the Schaffner Group had the following members:

Alexander Hagemann, CEO, born 1962, German citizen

Degree in Mechanical Engineering, RWTH Aachen University

Joined the Schaffner Group as Chief Executive Officer on 1 March 2007. Previously held a number of management positions at the Schott Group, including Executive Vice President, Optics for Devices. Earlier, worked in management roles in production and logistics at BMW.

Kurt Ledermann, CFO, born 1968, Swiss citizen

MSEE Degree in Electrical Engineering, Federal Institute of Technology, Zurich; Master of Arts HSG, University of St. Gallen

Joined the Schaffner Group as Chief Financial Officer on 1 June 2008. Previous roles included Executive Vice President, Finance & IT, RUAG Aerospace; Head of Finance & Accounting, Schaffner Group; Chief Financial Officer, Medivision; Group Controller and Head of Investor Relations, Sika Group.

Ah Bee Goh, COO, born 1950, Singaporean citizen

Honours Bachelor of Science in Production Engineering, University of Strathclyde; MSc in Industrial Engineering, National University of Singapore; MSc in Finance, University of Leicester; MBA, University of Surrey

Joined the Schaffner Group on 1 July 2007. Was Vice President, Manufacturing until 30 September 2011; Chief Operating Officer from 1 October 2011. Previously Managing Director at Leica Instruments, Singapore, and various management roles at Maxtor Peripherals, Seagate Technology and Tandon/Western Digital.

Eduard Hadorn, Executive VP, born 1956, Swiss citizen

Degree in Business Administration

With the Schaffner Group since 2003; Vice President, Business Development Asia from 1 March 2007. Managing Director, Schaffner EMC Ltd., Shanghai. Executive Vice President and head of Power Magnetics division since 1 October 2011. Previously was General Manager, Technology division at Diethelm & Co., and Head of Marketing & Sales at Beringer Hydraulik.

Guido Schlegelmilch, Executive VP, b. 1964, German citizen

Dipl.-Wirtsch.-Ing. , Dr. rer. pol., Technische Universität Darmstadt

Joined the Schaffner Group on 1 February 2009 as Managing Director, Schaffner Deutschland. Executive Vice President and head of EMC division since 1 October 2011. Previously held various management positions at Philips Semiconductors and NXP Semiconductors.

4.2 External activities and interests

Alexander Hagemann

Member of the Board of Directors of WICOR Holding AG, Rapperswil-Jona; Rapperswil-Jona, and member of the Board of the Swiss-Asian Chamber of Commerce.

Kurt Ledermann

Vice Chairman of the Board of Anlagestiftung Winterthur AWi, Zurich, and member of the Finance Committee of the city of Solothurn.

The other members of the Executive Committee do not hold any positions in governing or supervisory bodies of any significant organization, institution or foundation under private or public law, nor do they hold any permanent management or consultancy positions in significant interest groups or any public or political office.

4.3 Restrictions on positions outside the Schaffner Group

A member of the Executive Committee may hold a maximum of five positions as a member of the highest-level governing or administrative body of other listed companies and a maximum of five such positions in non-listed legal entities within the meaning of section 12 para. 1 (1) of the Ordinance Against Excessive Compensation.

For the purpose of this provision, positions (including employment positions) at companies controlled by the Company or positions/employment which the respective member assumes in the capacity of member of the Executive Committee (e.g., at joint ventures or pension funds of the Schaffner Group or at companies in which the Company holds a significant non-consolidated interest) are not deemed to be positions/employment outside the Company.

The following are counted as a single position for the purpose of this provision: positions/employment at mutually related companies outside the Schaffner Group, dual roles, and positions which are assumed in the capacity of a member of the top governing or administrative body or executive management of a legal entity outside the Schaffner Group (e.g., positions at joint ventures or pension funds of that legal entity or at companies in which that legal entity holds a significant non-consolidated interest).

The acceptance by members of the Executive Committee of positions/employment outside the Schaffner Group requires the approval of the Board of Directors.

4.3 Management contracts

Schaffner Holding AG and its Group companies have no management contracts with third parties.

5 Compensation, share ownership and loans

Information on compensation, shareholdings and loans of the Board of Directors and the Executive Committee is provided in the separate compensation report on pages 52 to 59 of this annual report. It is also available at:
http://annualreports.schaffner.com/en/2013-2014/compensation-report/

6 Shareholder participation rights

6.1 Voting rights restrictions and proxy voting

At 30 September 2014 there were 1,370 shareholders registered in the share register. Each share of Schaffner Holding AG, with the exception of shares held by the Company (treasury shares), carries one vote at the General Meeting of shareholders. There are no restrictions on voting rights.

Every shareholder with voting rights may have his shares represented by a proxy that he has appointed (which does not need to be a shareholder), or by the independent proxy.

Representation of shareholders requires the presentation of a written proxy (a written power of attorney), the recognition of which is a matter for the Board of Directors. Shareholders may also use electronic means to issue proxy mandates and directions to the independent proxy.

In the notice of the General Meeting, the Board of Directors announces the record date (at which registration in the share register is required for participation in and voting at the meeting), and the details of the written and electronic proxies and instructions.

The General Meeting annually elects an independent proxy. His term of office ends at the conclusion of the next Annual Shareholder Meeting. Re-election for consecutive terms is permitted. Natural persons, legal entities and partnerships are all eligible for election. If the Company does not have an independent proxy, the Board of Directors appoints one for the next General Meeting.

6.2 Quorums under the Articles of Association

Except as otherwise required by law or the Articles of Association, the General Meeting passes its resolutions and decides its elections by an absolute majority of the votes cast, excluding abstentions and blank and invalid votes. If an election is not completed in the first round and there is more than one candidate, a second round of voting is held, which is decided by a relative majority. In the event of an equality of votes, the meeting chairman has the casting vote. The Articles of Association of Schaffner Holding AG do not provide for special quorums that go beyond the provisions of Swiss corporation law.

6.3 Calling of the General Meeting

The General Meeting is called by the Board of Directors no later than 20 days before the meeting date by issuing a notice in the Company's official gazette for statutory notices. Notice of the meeting may additionally be sent by letter to all shareholders registered in the share register. In addition to the meeting date, hour and place, the notice must state the items of business to be discussed and the resolutions proposed by the Board of Directors and by shareholders that have requested a General Meeting or have put forward an item for discussion at the meeting.

Resolutions cannot be passed on matters that have not been announced in this manner, except for motions to call an Extraordinary General Meeting or to conduct a special audit.

Shareholders representing at least one-tenth (10%) of the share capital may submit a request – binding on the Company – to call an Extraordinary General Meeting. Such a request must be in writing and state the business to be discussed and the proposed resolutions.

6.4 Placing business on the General Meeting agenda

One or more shareholders who together represent at least 5% of the share capital, or shares with a nominal value of at least CHF 1,000,000, whichever is less, may by their written request have business placed on the agenda of a General Meeting. Such a written request must be received by the Company no later than 45 days before the General Meeting.

6.5 Registration in the share register

In accordance with article 6 para. 1 of the Articles of Association, Schaffner Holding AG maintains a share register. The Company may outsource the operation of the share register to a company specializing in such services (a registrar). At present the share register is operated by ShareComm Services AG, based in Opfikon, Switzerland. The manager of the share register is Schaffner's Chief Financial Officer. In matters concerning the share register, the CFO reports to the Chairman of the Board. The Chairman and the Chief Executive Officer receive regular reports on the shareholder structure (including share deregistrations above a certain size of shareholding). The Board of Directors annually receives a report on the shareholder structure.

The Share Registration Regulation of Schaffner Holding AG sets out the details of the rules governing registration in the share register, including particularly the responsibilities in relation to, and the maintenance of, the share register and the monitoring of the shareholdings recorded in the share register. The Share Registration Regulation was issued by the Board of Directors in reliance on sections 685a and 685d et seq. of the Swiss Code of Obligations and article 6 of the Articles of Association, and can be viewed at or requested from the Company's head office. It is also available at:
www.schaffner.com/en/investor-relations/share-registration-regulation.html

Further information regarding restrictions on transferability and nominee registrations is given from page 36 of this corporate governance report in section 2.6.

Shares for which the requirements (as set out in the Share Registration Regulation or in any amendments thereto) for registration as a voting shareholder are not, or are no longer, fulfilled, are registered in the share register as non-voting shares.

These registration restrictions also apply to shares bought or subscribed through the exercise of pre-emptive rights, options or conversion rights.

The authority structure for the approval of shareholder registrations in the share register is as follows:

- Registration applications for up to 5,000 shares per transaction that either clearly meet or clearly do not meet the requirements for registration as a voting shareholder or nominee: Approval by the registrar (the company commissioned to operate the share register)
- Applications for registration as a nominee: Approval by the registrar
- Registration applications for more than 5,000 shares per transaction and all other transactions which do not clearly meet the requirements for registration as a voting

shareholder or nominee, or in which there is uncertainty: Approval by the manager of the share register.
- All registration applications of shareholders or groups of shareholders that hold the shares for their own account where the applicant's resulting voting rights reach or rise above 3% of votes or any of the further thresholds set out in section 20 of the Stock Exchange Act: Approval by the manager of the share register.

Exceptional cases can at any time be forwarded for approval to the Chairman or, if absent, to the Vice Chairman of the Board.

The Board may, after hearing the affected party, void the party's registration in the share register as a voting shareholder, retroactively to the date of registration, if the registration was the result of false information supplied by the purchaser, and instead register the affected party as a non-voting shareholder. Registrations can also be deleted (or reclassified as non-voting) when a registered shareholder refuses, despite prior warning, to provide the requested information or fails to provide requested documentation (of beneficial ownership, etc.). The authority to decide on deleting or reclassifying the registration of a voting shareholder or nominee or on terminating the relationship with a nominee rests with the Chairman of the Board of Directors. The purchaser must be informed of a deletion immediately.

Under article 13 para. 4 of the Articles of Association, in the notice of the General Meeting the Board of Directors announces the record date at which registration in the share register is required for participation in and voting at the meeting, and thereby indicates the length of the period for which the share register will be closed. The record date for registration is generally the fifth trading day before the day of the General Meeting. Accordingly, the closure of the share register is as a rule in effect from the fourth trading day before the day of the General Meeting until and including the day of the General Meeting.

Deletions from the share register can be made during the closure. Thus, despite the closure, a share seller is struck from the share register to the extent of the shares sold, if the sale is reported to the Company or to the manager of the share register during the closure. An admission ticket already issued in the seller's name is automatically rendered void by the deletion from the share register. In the event of the partial sale of a shareholding, the admission ticket previously sent to the seller must be exchanged on the meeting date at the registration desk. The invitation to the General Meeting shall note this requirement.

7 Changes in control and measures to prevent hostile takeovers

7.1 Requirement to make a public purchase offer for shares

The Articles of Association of Schaffner Holding AG contain neither an opting-out nor an opting-up clause. This means that any person or entity acquiring one-third (33⅓%) or more of the voting rights of Schaffner Holding AG must, under section 32 of the Stock Exchange Act, make a public tender offer for the remaining shares.

7.2 Provisions on changes in control

The participants in the Schaffner Holding AG Employee Share Option Plan 1998 (ESOP), Schaffner Holding AG Performance Option Plan (POP) and Restricted Shares Plan (RSP) have the right to exercise immediately any portion of or all of their options without regard to the holding periods, in either of the following two cases:

- If any person or entity directly or indirectly acquires a number of shares in the Company that, under section 32 of the Stock Exchange Act, triggers the acquirer's obligation to make an offer to acquire all other outstanding shares of the Company, or
- If Schaffner Holding AG sells all or a substantial portion of the Company's assets.

8 Auditors

8.1 Duration of audit firm's engagement and tenure of lead audit partner

8.1.1 Starting date of current audit engagement

The external independent audit firm is elected annually by the General Meeting. Ernst & Young AG, Berne, have been the external independent auditors of Schaffner Holding AG since fiscal year 2002/03.

8.1.2 Date of first appointment of lead audit partner

The lead audit partner at the external auditors (the person in charge of the audit engagement), Ms. Bernadette Koch, has held this position since fiscal year 2009/10. By law, the lead audit partner's tenure is limited to seven years.

8.2 Audit fees

In fiscal year 2013/14, Ernst & Young AG invoiced the Schaffner Group a total of CHF 357 thousand for services in connection with the auditing of the company financial statements of Schaffner Holding AG and the consolidated financial statements of the Schaffner Group (prior year: CHF 350 thousand).

8.3 Additional fees

In addition, Ernst & Young AG invoiced the Schaffner Group CHF 42 thousand (prior year: CHF 51 thousand) for other services, which had the following composition:

In CHF ´000	2013/14	2012/13
Tax consulting	27	27
IT consulting	-	13
Other	16	11

8.4 Monitoring the external independent auditors

The Risk and Audit Committee, on behalf of the Board of Directors, annually reviews the license, performance, fees and independence of the external auditors and recommends to the Board which external auditors to propose for election by the General Meeting. It also ensures compliance with the legal requirement for rotation of the lead audit partner. The external auditors in the course of their audit activities regularly communicate to the Risk and Audit Committee their findings and any suggestions for improvement. The results are reported in a management letter from the external auditors to the Board of Directors (prepared after the audit of the annual financial statements) and through the other reports of the external auditors.

The Risk and Audit Committee meets with the external auditors at least two times per year, sets the scope and objectives of the audits, and annually assesses the work of the external audit firm through a performance evaluation process. This process takes into account the Committee's experience in working with the external audit firm and the audit firm's own quality assurance measures in respect of the engagement. The Risk and Audit Committee obtains assurance that the lead audit partner has the necessary technical qualifications and fulfills the requirements as to independence. The Chief Executive Officer and Chief Financial Officer also attend these meetings with the external auditors. The Board of Directors is kept informed by the Risk and Audit Committee.

9 Communication policy

Schaffner follows a policy of open and active communication with the public and the financial markets. The communication policy also adheres to the rules of the SIX Swiss Exchange and the applicable legal requirements. The Schaffner Group's financial reporting complies with International Financial Reporting Standards (IFRS).

As a company listed on the SIX Swiss Exchange, Schaffner also publishes information (so-called "ad-hoc" disclosures) relevant to the share price in accordance with section 72 of the Listing Rules. In the course of these communications the Schaffner Group makes forward-looking statements. These statements are always based on management's judgment, at the time the statement is made, regarding the current and future position and performance of the company. It is not the policy of Schaffner Holding AG to update previously published information.

The Schaffner Group reports on its financial and business performance on a half-yearly basis. All publications are made available in electronic format; the annual report is also available in hard copy. The half-year report is published on the Company's website and mailed on request.

The investor relations activities of the Schaffner Group include the following events (among others), conducted in compliance with the ad-hoc-disclosure requirements of the SIX Swiss Exchange:

- Annual General Meeting
- Annual presentation of the full-year results
- Conference calls for the publication of the half-year results or other news
- Road shows
- Themed investor days

Media releases remain available on the Schaffner website for at least two years after publication and can be accessed via the following link:
www.schaffner.com/en/investor-relations/ad-hoc-notices.html

Annual and half-year reports are kept available on the website for at least five years and are displayed at:
www.schaffner.com/en/investor-relations/reports.html

The corporate governance report can be found at:
www.schaffner.com/en/investor-relations/corporate-governance.html

The compensation report is available at:
http://annualreports.schaffner.com/en/2013-2014/compensation-report/

Annual and half-year reports, corporate governance and compensation reports, media releases and presentations for shareholders, investors and analysts are published on the Group's website at www.schaffner.com and archived there by publication date. The latest ad-hoc disclosures of the Schaffner Group can also be received by e-mail, promptly and free of charge, by registering for the news service at:
www.schaffner.com/en/news-service.html

Responsibility for corporate communications rests with the Chief Executive Officer. He is supported in investor relations activities by the Chief Financial Officer.

The Company's official gazette for the publication of statutory and regulatory news is the Swiss Official Gazette of Commerce, or SOGC.

Publications in connection with maintaining the listing of the Company's shares on the SIX Swiss Exchange are effected in accordance with the Listing Rules of the SIX Swiss Exchange. The Listing Rules can be obtained at:
www.six-exchange-regulation.com/admission_manual/03_01-LR_en.pdf

A current source of in-depth information on the Group, including products and contact details, is its website:
www.schaffner.com

Investor relations contacts

- Alexander Hagemann, Chief Executive Officer
  alexander.hagemann@schaffner.com
  T +41 32 681 66 06

- Kurt Ledermann, Chief Financial Officer
  kurt.ledermann@schaffner.com
  T +41 32 681 66 08

Financial calendar

15 January 2015	19th Annual General Meeting
12 May 2015	Publication of half-year report 2014/15
8 December 2015	Publication of annual report 2014/15
12 January 2016	20th Annual General Meeting

The fiscal year-end of Schaffner Holding AG is 30 September.

Compensation report

2013
14

Contents

52 Governing legislation and regulations
52 Guiding principles
52 Compensation system
56 Responsibility and procedures for determining compensation
57 Loans, other credit, and pension benefits
57 Compensation in fiscal year 2013/14

SCHAFFNER
energy efficiency and reliability

Compensation report of the Schaffner Group for fiscal year 2013/14

This compensation report provides information on the remuneration of the members of the Board of Directors and Executive Committee which in the past was presented in the corporate governance report and annual financial statements of Schaffner Holding AG.

The legislation and regulations governing the compensation practices of the Schaffner Group are set out in the following documents:

- Swiss Code of Obligations
- Ordinance Against Excessive Compensation at Listed Companies (OAEC), and section 95 para. 3 of the Swiss constitution
- Listing Rules of the SIX Swiss Exchange
- Directive on Information Relating to Corporate Governance (the Corporate Governance Directive, or DCG) issued by the SIX Swiss Exchange
- Swiss Code of Best Practice for Corporate Governance
- Articles of Association of Schaffner Holding AG
- Management Organization Regulations of Schaffner Holding AG

1 Guiding principles

The remuneration of the Board of Directors and Executive Committee is linked to the generation of sustainable earnings for shareholders and creates incentives conducive to the Schaffner Group's lasting financial success. Based on the conviction that the performance of the Schaffner Group depends in large measure on the quality and commitment of its people, the compensation policy is designed to attract, motivate and retain qualified employees for the long term. The performance-related compensation is intended as an incentive for entrepreneurial thinking and action. The most important principles underlying the remuneration system are:

- Compensation includes a performance-related element and is competitive with market levels
- Promotion of the Group's financial and business success
- Fairness and transparency in decisions on compensation
- Appropriate balance of short-term and long-term compensation

2 Compensation system

2.1 Compensation of the Board of Directors

2.1.1 Non-executive members of the Board

For their service on the Board – primarily for preparing for and participating in Board meetings and working on the Board committees – the non-executive members of the Board receive a fixed annual fee in cash, a flat expense allowance, and shares of the Company under the Schaffner equity incentive plan; the value of the share awards must not exceed the amount of the fixed annual fee. No other compensation is paid.

The compensation of the Board members is reviewed annually and set prospectively by the full Board of Directors, subject to shareholder approval at the Annual General Meeting, which votes on the compensation for the fiscal year next following the AGM (the fiscal year runs from 1 October to 30 September). The amount of the compensation for each Board member is set on a discretionary basis, according to the amount of responsibility assigned, the complexity of the duties involved, the required professional and personal qualifications and the expected demands on the Board member's time. Compensation levels in a peer group of comparable small-capitalization manufacturing companies listed on the Swiss stock market are also taken into account.

No significant benefits in kind are provided. The members of the Board do not participate in the pension plans of Schaffner Holding AG.

Where members move from the Executive Committee to the Board of Directors or vice versa, the individual's entire compensation for the year under review is reflected and disclosed under the new position.

When new members join the Board of Directors, they are compensated in this capacity generally from the month in which they take up the position.

When a member leaves the Board of Directors, compensation is paid until and including the month of departure.

2.1.2 Executive members of the Board

The Board of Directors of Schaffner Holding AG consists only of non-executive members.

2.2 Compensation of the Chief Executive Officer and Executive Committee

The Compensation Committee annually proposes to the Board of Directors the compensation of the Chief Executive Officer and reviews the proposals of the CEO for the compensation of the Executive Committee members.

The compensation of the Chief Executive Officer and the other members of the Executive Committee consists of fixed remuneration and of variable, performance-related compensation, subject to the following qualifications and supplementary information:

- The fixed compensation is made up of the monthly salary and a contribution to the management pension plan.
- An individual's performance-based compensation cannot exceed the amount of his fixed compensation.
- The Chief Executive Officer and the other members of the Executive Committee may be awarded shares under the Company's equity incentive plan.
- When new members join the Executive Committee, they are compensated in this capacity generally from the month in which they take up the position.
- Where members move from the Executive Committee to the Board of Directors or vice versa, the individual's entire compensation for the year under review is reflected and disclosed under the new position.
- When a member leaves the Executive Committee, compensation is paid until the date of departure.

The compensation of the Chief Executive Officer and other Executive Committee members is reviewed annually by the Board of Directors. Every year, the Board proposes to shareholders at the Annual General Meeting the maximum aggregate compensation of the Executive Committee for the fiscal year next following the date of the AGM (the year ending 30 September).

2.2.1 Fixed base salary

The fixed base salary is determined on a discretionary basis, taking into account the individual's duties, amount of responsibility, formal qualifications and experience required, as well as the market environment. The process for determining base salaries includes taking into consideration market levels of pay relevant to the respective country, based on the latest Mercer Total Remuneration Survey. Additionally, the compensation of the Chief Executive Officer is benchmarked by referencing a sample of comparable manufacturing companies listed on the Swiss stock market.

2.2.2 Variable compensation

The variable, performance-related compensation (Management Incentive Plan – MIP) is based partly on net profit for the period and partly on performance against personal targets. The performance-related compensation of the members of the Executive Committee is determined according to the following principles:

- The target amount of performance-based compensation is contractually agreed (note: the target amount is the amount payable on exact achievement of the performance targets). This target compensation can be up to 50% of the fixed compensation.
- The performance-related compensation can decrease to 0% of the target amount if the performance targets are not achieved, or can increase up to a maximum of 200% of the target amount if the performance targets are significantly surpassed.
- The percentage share of net profit for the period is set by the Board of Directors individually for each Executive Committee member for several years at a time.
- The personal performance targets are set anew at the beginning of each fiscal year by the Board of Directors. These are strategic, financial and/or individual targets. Performance against targets is evaluated by the Board after the end of the fiscal year.
- The performance-related compensation is paid in cash.

2.2.3 Equity incentive plans

Share ownership plans (equity incentive plans) contribute to aligning the medium- and long-term interests of senior management with those of shareholders.

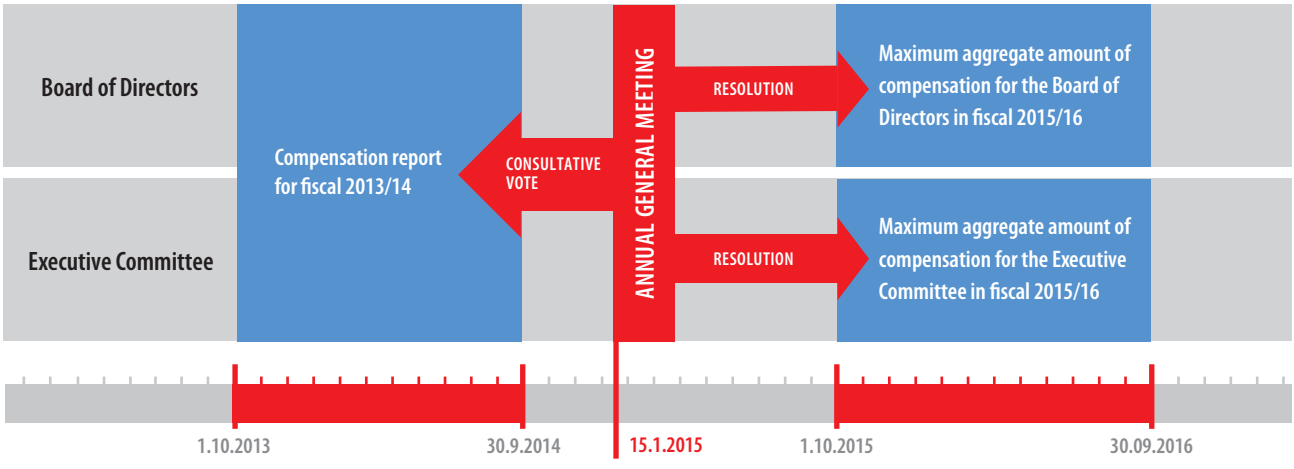
The following criteria are used to determine the number of shares to be allocated to the members of the Board of Directors and of the Executive Committee under the Company's equity incentive plan:

- The number of shares to be awarded is set by the Board based on a proposal of the Compensation Committee; the aggregate amount of the shares awarded must not be more than 2% of the Company's share capital as per the latest annual report.
- The shares are valued using the quoted market price at the date of the award.
- The Board, based on a proposal of the Compensation Committee, sets the holding periods, which must be at least three years. The holding periods may terminate early in the event of a change of control or liquidation of the Company, or of disability or death of the grantee.
- The shares carry voting and dividend rights from the date of the award.
- The shares required to satisfy the Company's obligations under the equity incentive plan may be drawn from authorized capital designated for use in equity-based compensation (in German: bedingtes Kapital) or from other authorized capital (genehmigtes Kapital) or from treasury shares.
- The value of the shares awarded is counted towards the maximum aggregate amount set prospectively by shareholders at the General Meeting.

2.3 "Additional amount" for members of the Executive Committee

An "additional amount" within the meaning of section 19 OAEC (additional to the maximum aggregate amount) is available for Executive Committee members who are appointed after the approval of the current maximum aggregate amount and for whose compensation this maximum would therefore not leave enough room. The value of the amount is governed by article 26 of the Company's Articles of Association as follows: The "additional amount" for a new Chief Executive Officer must not be more than 25% higher than the amount which had been allocated to the previous CEO out of the maximum aggregate amount of compensation approved by the General Meeting for the respective fiscal year for the whole Executive Committee (it is important to note that the "additional amount" is thus called only because it is additional to the maximum aggregate amount – it is not additional to a predecessor's compensation). For any other new member of the Executive Committee, the additional amount for each such member must not be more than 25% higher than the average total compensation of an Executive Committee member for the respective fiscal year. The average total compensation of a member of the Executive Committee is calculated as the approved maximum aggregate amount for the whole Executive Committee, less the amount attributable to the CEO, divided by the number of Executive Committee members (not including the CEO) at the date of the approval by the General Meeting.

Compensation and approval mechanism



Compensation system for the Chief Executive Officer

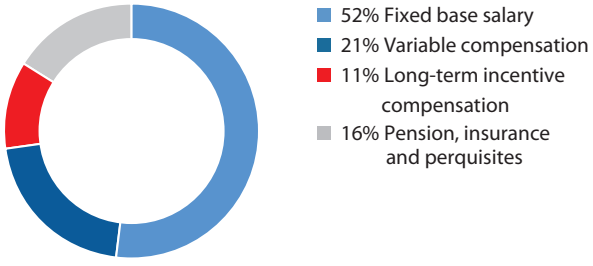
	Long-term target range for share of total compensation	Basis	Vehicle	Purpose	Drivers	Performance measures
Fixed base salary	50–60%	Employment contracts	Monthly cash compensation	Staff acquisition/ retention	Position, market rates of pay, individual's skills and experience	
Variable compensation – management dividend	Approx. 10%	Management Incentive Plan (MIP)	Annual cash compensation	Alignment with shareholder interests Pay for performance	Company performance	Net profit for the period
Variable compensation – personal award	Approx. 10%	Management Incentive Plan (MIP)	Annual cash compensation	Pay for performance	Personal performance	Net sales, free cash flow, strategy execution
Long-term incentive compensation	5–10%	Restricted Share Plan (RSP)	Shares with mandatory holding period	Staff retention Alignment with shareholder interests	Share price over three years	Determined annually by the Board
Pension, insurance and perquisites	5–15%	Employment contracts	Pension and insurance plans Perquisites	Protection against risks Staff acquisition/ retention	Market practice, employee position	

Compensation system for the Executive Committee

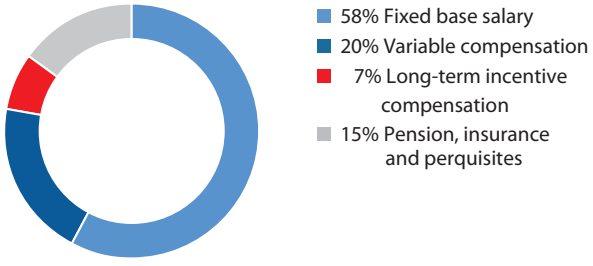
	Long-term target range for share of total compensation	Basis	Vehicle	Purpose	Drivers	Performance measures
Fixed base salary	50–60%	Employment contracts	Monthly cash compensation	Staff acquisition/ retention	Position, market rates of pay, individual's skills and experience	
Variable compensation – management dividend	Approx. 10%	Management Incentive Plan (MIP)	Annual cash compensation	Alignment with shareholder interests Pay for performance	Company performance	Net profit for the period
Variable compensation – personal award	Approx. 10%	Management Incentive Plan (MIP)	Annual cash compensation	Pay for performance	Personal performance	Net sales, segment profit of divisions, free cash flow, strategy execution
Long-term incentive compensation	5–10%	Restricted Share Plan (RSP)	Shares with mandatory holding period	Staff retention Alignment with shareholder interests	Share price over three years	Determined annually by the Board
Pension, insurance and perquisites	5–15%	Employment contracts	Pension and insurance plans Perquisites	Protection against risks Staff acquisition/ retention	Market practice, employee position	

Target short- and long-term compensation

Chief Executive Officer



Executive Committee (excluding CEO)



3 Responsibility and procedures for determining compensation

The Board of Directors annually submits a proposal to the General Meeting for the approval of a maximum aggregate amount of compensation for each of the Board of Directors and the Executive Committee, for the fiscal year (ending 30 September) next following the Annual General Meeting. Every year at the Annual General Meeting, a binding vote is held on the maximum aggregate amounts, which encompass the following items:

Board of Directors

- Fixed compensation of the Board of Directors
- Share awards to the members of the Board of Directors

Executive Committee

- Fixed compensation of the Chief Executive Officer and Executive Committee
- Variable and other compensation of the Chief Executive Officer and Executive Committee
- Share awards to the members of the Executive Committee
- Pension and other benefits

If the General Meeting declines to approve the maximum aggregate amount for the Executive Committee and/or the Board of Directors, the Board may convene a new General Meeting.

The Board of Directors annually submits for shareholders' consultative vote at the General Meeting a compensation report which describes the compensation provided in the most recent fiscal year ended before the date of the AGM.

3.1 Compensation Committee

The Board of Directors has a Compensation Committee, which consists of two or more members of the Board.

The Compensation Committee has the following general responsibilities:

- Establishment and periodic review of the Schaffner Group's compensation policy and principles, performance criteria and performance targets
- Periodic review of the implementation of the above items and submission of proposals and recommendations to the Board of Directors
- Preparation of all relevant decisions of the Board of Directors with respect to compensation of the members of the Board of Directors and the Executive Committee, submission of proposals to the Board regarding the nature and amount of annual compensation of the members of the Board of Directors and Executive Committee, and preparation of the proposal for the respective maximum aggregate amount
- Submission of proposals to the Board regarding the selection of potential recipients of performance-related compensation and regarding the setting of the annual performance targets for this compensation
- Development of equity incentive plans, and submission of proposals to the Board with respect to: the selection of participants in equity incentive plans, the allocation of shares, the issue price, and vesting or holding periods, in connection with the Company's equity incentive plans
- Decision-making or decision support in accordance with applicable legal requirements or provisions of the Articles of Association

The Board of Directors may assign further duties to the Compensation Committee with respect to compensation, human resources and related areas. The Board sets out the organization, procedures and reporting methods of the Compensation Committee in a committee charter.

3.2 Membership of Compensation Committee at 30 September 2014

The Compensation Committee is made up of two or more Board members elected to the committee by the General Meeting. The Board of Directors elects the chairman of the committee.

Compensation Committee	Since
Daniel Hirschi, committee chairman	2013
Herbert Bächler	2012
Suzanne Thoma	2012

The Compensation Committee convenes as often as business requires, and not less than twice per year. The Committee may invite other Board members, Executive Committee members or specialists to its meetings as needed.

All five meetings in the fiscal year were also attended by the Chief Executive Officer and Chief Financial Officer, as well as the head of Corporate Human Resources, who is not a member of the Executive Committee.

The Compensation Committee performs its duties generally without involving external advisors.

4 Loans, other credit, and pension benefits

Loans and other credit granted by the Company to a member of the Board of Directors or Executive Committee, or guarantees or other sureties provided by the Company for obligations of a member of the Board or Executive Committee, must not exceed CHF 50 thousand.

Pension and insurance benefits of members of the Board of Directors and Executive Committee accrue only under domestic and foreign pension plans and similar plans of the Company or its Group companies.

The benefits of the plan participants and the employer contributions are determined by those plans or the respective sets of regulations.

5 Compensation in fiscal year 2013/14

This section of the compensation report provides information on the compensation paid by Schaffner Holding AG or its subsidiaries in fiscal year 2013/14 to the Board of Directors, Chief Executive Officer and Executive Committee.

The compensation of the Board of Directors and Executive Committee disclosed below includes the compensation in respect of the full year under review, subject to the following qualifications and supplementary information:

- The variable compensation elements shown relate to the year under review. In the annual financial statements they are recognized on an accrual basis, relying on the information available at the balance sheet date. Once the annual accounts have been audited, the Board decides the actual amounts, which may differ from the amounts accrued. The variable compensation is ordinarily allotted and paid after the annual financial statements have been adopted by the Annual General Meeting.
- When new members join the Executive Committee, they are compensated in this capacity generally from the month in which they take up the position.
- Where members move from the Executive Committee to the Board of Directors or vice versa, the individual's entire compensation for the year under review is reflected and disclosed under the new position.
- When a member leaves the Executive Committee, compensation is paid until the date of departure.
- Depending on their specific position and country of residence, members of the Executive Committee are in some cases provided with a company car. Additional compensation is paid for postings to other countries (i.e., to expatriates). The value of any company car privileges and out-of-country allowances is reported on page 106 of the financial report (the financial statements), under "other compensation".
- All payments to pension plans, contributions to management pension plans and contributions in the form of premium reductions for insurance are reported within the item "pension costs".
- Some members of the Executive Committee are also members of boards of directors of Group subsidiaries. To the extent that board member fees are paid by the subsidiaries for these board functions, the compensation is paid not to the members of the Executive Committee but to the Company, which remunerates these individuals in their capacity as Executive Committee members.
- In the year under review the Group did not provide any loans, credit, sureties or guarantees of significant value on behalf of members of the Board of Directors or Executive Committee.
- Neither Schaffner Holding AG nor any other Group company waived repayment of any debt outstanding from a member of the Board of Directors or Executive Committee.
- In the year under review the members of the Board of Directors and Executive Committee did not receive any fees or compensation for any additional services rendered to Schaffner Holding AG or another Group company.

5.1 Board of Directors

In fiscal year 2013/14 the members of the Board of Directors received aggregate total compensation of CHF 556 thousand (prior year: CHF 484 thousand), including CHF 235 thousand (prior year: CHF 184 thousand) in the form of shares.

Detailed information on the compensation of the members of the Board of Directors is provided on page 106 of the financial report 2013/14.

5.2 Compensation Committee

The members of the Compensation Committee, like the members of the other Board committees, are paid an annual fixed amount of CHF 11 thousand in addition to the fixed fee paid to Board members. In the year under review no compensation was paid to parties related to members of the Compensation Committee.

5.3 Chief Executive Officer and Executive Committee

5.3.1 Aggregate total compensation of the Executive Committee

The aggregate overall compensation of the Executive Committee declined by about 16% from the prior year. The change resulted from the base effect of a non-recurring expense of CHF 440 thousand in the prior year for the termination of the employment contract under French law of a former member of the Executive Committee. In fiscal year 2013/14 the members of the Executive Committee received aggregate total compensation of CHF 3,038 thousand (prior year: CHF 3,635 thousand), including CHF 648 thousand (prior year: CHF 524 thousand) of variable non-equity compensation, CHF 326 thousand (prior year: CHF 285 thousand) as equity compensation and CHF 453 thousand (prior year: CHF 667 thousand) in the form of pension and insurance contributions and perquisites.

5.3.2 Highest compensation

The highest total compensation in the Schaffner Group in fiscal year 2013/14 was earned by the Chief Executive Officer. His total compensation in fiscal year 2013/14, consisting of the fixed annual base salary, the variable performance-related compensation, and pension, insurance and perquisites, amounted to CHF 994 thousand (prior year: CHF 958 thousand).

Analysis of Chief Executive Officer's annual compensation

	Share of total	2013/14 CHF ´000	Share of total	2012/13 CHF´ 000
Fixed annual base salary	50%	500	50%	480
Variable compensation	20%	200	24%	229
Long-term incentive component	14%	135	12%	118
Pension, insurance and perquisites	1%	159	14%	131
Total	**100%**	**994**	**100%**	**958**

Analysis of Executive Committee's annual compensation (excluding CEO)

	Share of total	2013/14 CHF ´000	Share of total	2012/13 CHF ´000
Fixed annual base salary	54%	1,111	46%	1,239
Variable compensation	22%	448	11%	295
Long-term incentive component	9%	191	8%	167
Pension, insurance and perquisites	15%	294	20%	536
Termination benefits	–	–	16%	440
Total	**100%**	**2,044**	**100%**	**2,677**

Further information on the compensation of the members of the Executive Committee is provided on page 106 in the financial report 2013/14.

5.4 Former members of management

In the year under review, no compensation was paid to persons who ceased to be a member of the Board of Directors or Executive Committee in the year under review or in prior years, nor to parties related to them.

5.5 Related parties

In the year under review, no fees or other compensation for services rendered to the Schaffner Group or to one of its subsidiaries were paid to or accrued by parties related to members of the Board or of the Executive Committee.

5.6 Loans

In fiscal year 2013/14 the Schaffner Group did not provide any sureties on behalf of, nor provide any loans, advances or other forms of credit to, former or current members of the Board of

Directors or Executive Committee or parties related to them, and no such commitments or receivables were outstanding at the end of the fiscal year.

5.7 Management transactions

Since 1 July 2005, Schaffner Holding AG reports to the SIX Swiss Exchange the transactions in Schaffner shares and options concluded by members of the Board of Directors or Executive Committee or by parties related to them, including the names and positions of the persons concerned.

Management transactions in fiscal year 2013/14

Transaction date	Member of		Number of shares	CHF '000
02.10.2013	EC[1]	Sale	–49	–4
03.10.2013	EC	Sale	–180	–14
04.10.2013	EC	Sale	–271	–51
10.10.2013	EC	Sale	–350	–26
25.10.2013	EC	Sale	–250	–24
12.12.2013	EC	Sale	–800	–77
13.12.2013	EC	Sale	–425	–42
09.01.2014	EC	Purchase (RSP[1])	1,042	287
14.01.2014	BD[1]	Purchase (RSP)	815	233
01.04.2014	EC	Sale	–500	–5
22.05.2014	EC	Sale	–300	–8
12.06.2014	EC	Sale	–450	–22
15.06.2014	EC	Purchase	500	77
26.08.2014	EC	Sale	–425	–61
Net result			**–1,643**	**263**

[1] EC: Executive Committee; BD: Board of Directors; RSP: restricted share plan

A compilation of the management transactions in the year under review is also available on the website of the SIX Swiss Exchange at the following link:
www.six-swiss-exchange.com/shares/companies/management_transactions_en.html

An overview of the holdings of shares, options and conversion rights of the members of the Board of Directors and Executive Committee at 30 September 2014 and 2013 is provided on page 107 of this report in the company financial statements of Schaffner Holding AG.

5.8 Equity incentive plans

The Schaffner Group maintains several equity incentive plans (share ownership plans) for key executive management and the Board of Directors. These are option-based plans (ESOP and POP) and share-based plans (RSP).

In fiscal year 2012/13 the Board of Directors decided to replace the Employee Share Option Plan for key executive management and Board members (ESOP) with a Restricted Share Plan (RSP). As a result, no new options have been issued since including 2012/13. However, any rights associated with previously issued options remain intact.

Detailed information on the equity incentive plans can be found in section 18 of the 2013/14 financial report, on pages 92 to 94.

Financial report

2013
14

Contents

Consolidated financial statements of the Schaffner Group

62 Consolidated balance sheet
63 Consolidated income statement
63 Consolidated statement of comprehensive income
64 Consolidated cash flow statement
65 Consolidated statement of changes in equity
66 Notes to the consolidated financial statements
102 Report of the statutory auditor on the consolidated financial statements

Company financial statements of Schaffner Holding AG

103 Company balance sheet
103 Company income statement
104 Notes to the company financial statements of Schaffner Holding AG
108 Proposal for the appropriation of retained earnings
109 Report of the statutory auditor on the company financial statements

Consolidated balance sheet

In CHF '000	Note	30.9.2014	Restated 30.9.2013	Restated 1.10.2012
Intangible assets	3	24,112	19,624	22,327
Property, plant and equipment	4	24,794	20,945	21,109
Other non-current assets	5, 21	4,776	7,448	8,189
Deferred tax assets	16	3,726	3,150	2,976
Non-current assets		**57,408**	**51,168**	**54,601**
Inventories	6	31,321	28,094	29,873
Trade receivables	7, 21	38,502	34,021	34,766
Income tax receivables		516	535	582
Other receivables, prepaid expenses and accrued income	8, 21	3,152	3,817	3,674
Other current financial assets		4,912	4,079	2,065
Cash and cash equivalents	21	18,640	17,012	10,256
Current assets		**97,043**	**87,558**	**81,215**
Total assets		**154,452**	**138,726**	**135,816**
Equity attributable to equity holders of Schaffner Holding AG		66,646	58,081	55,931
Shareholders' equity		**66,646**	**58,081**	**55,931**
Non-current provisions	9	6,101	6,046	6,464
Deferred tax liabilities	16	1,200	1,286	1,197
Non-current borrowings	10, 21	35,111	29,814	35,959
Non-current liabilities		**42,411**	**37,146**	**43,620**
Current provisions	9	2,328	1,969	2,934
Current borrowings	10, 21	160	549	194
Income tax payables		1,003	731	966
Trade and other payables	11, 21	41,903	40,251	32,172
Current liabilities		**45,394**	**43,500**	**36,266**
Total liabilities		**87,806**	**80,646**	**79,886**
Total liabilities and shareholders' equity		**154,452**	**138,727**	**135,817**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated income statement

(year ended 30 September)

In CHF '000	Note	2013/14	Restated 2012/13
Net sales	**17**	**214,572**	**194,889**
Cost of sales		– 151,906	– 142,346
Gross profit		**62,665**	**52,544**
Other income		102	373
Marketing and selling expense		– 18,469	– 17,021
Research, development and application expense		– 15,306	– 15,590
General and administrative expense		– 13,025	– 10,237
Operating profit before amortization of customer relationships		**15,968**	**10,069**
Amortization of customer relationships[1]	3	– 956	– 864
Operating profit [EBIT]		**15,012**	**9,205**
Finance income	15	5,968	4,674
Finance expense	15	– 7,119	– 6,746
Profit before tax [EBT]		**13,861**	**7,133**
Income tax	16	– 1,233	– 1,025
Net profit for the period		**12,628**	**6,108**
Earnings per share in CHF	**19**		
Basic		19.94	9.64
Diluted		19.77	9.58

[1] In a strict classification by function of expense, amortization of customer relationships would be presented under marketing and selling expense.

Consolidated statement of comprehensive income

(year ended 30 September)

In CHF '000	Note	2013/14	Restated 2012/13
Net profit for the period		**12,628**	**6,108**
Items of other comprehensive income that will not be reclassified to the income statement			
Actuarial (losses)/gains	14	– 3,047	163
Income tax		627	– 10
Total items that will not be reclassified to the income statement		**– 2,420**	**153**
Items of other comprehensive income that will be reclassified to the income statement			
Exchange differences		1,370	– 1,240
Movement in cash flow hedges	21	120	169
Income tax		0	0
Total items that will be reclassified to the income statement		**1,490**	**– 1,071**
Other comprehensive (loss) for the period		**– 930**	**– 918**
Total comprehensive income for the period		**11,698**	**5,190**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated cash flow statement

(year ended 30 September)

In CHF '000	Note	2013/14	Restated 2012/13
Net profit for the period		12,628	6,108
Depreciation and impairment of property, plant and equipment	4	4,273	4,195
Amortization and impairment of intangible assets	3	2,830	2,764
(Gain)/loss on disposal of property, plant and equipment and intangible assets		–4	18
Change in provisions	9	–1,022	–1,574
Change in inventories		–1,224	1,313
Change in receivables		–753	–44
Change in current liabilities		–245	9,037
Change in deferred tax	16	46	–183
Share-based payments expense/(income)		106	–952
Exchange differences on intra-Group items		–1,295	196
Change in net defined benefit plan asset		–5	–60
Cash flow from operating activities		**15,335**	**20,818**
Purchase of property, plant and equipment	4	–6,390	–4,786
Disposal of property, plant and equipment		343	296
Purchase of intangible assets	3	–396	–369
Acquisition of subsidiaries or businesses, and contingent consideration	2	–8,596	–359
Change in current financial assets		–679	–1,929
Change in loan receivables and non-current financial assets		–57	992
Cash flow from investing activities		**–15,775**	**–6,155**
Purchase of treasury shares	20	–3,082	–1,104
Sale of treasury shares	20	50	0
Proceeds from exercise of employee share options and from purchase of restricted shares by staff	20	2,646	1,236
Repayment of excess share premium		–2,853	–2,221
Proceeds from borrowings		5,214	0
Repayment of borrowings		0	–5,476
Amortization in connection with finance lease		–182	–177
Cash flow from financing activities		**1,793**	**–7,742**
Effect of exchange rates on cash and cash equivalents		275	–165
Change in cash and cash equivalents		**1,628**	**6,756**
Cash and cash equivalents at 1 October		17,012	10,256
Cash and cash equivalents at 30 September		18,640	17,012
Free cash flow[1]		**8,892**	**15,959**
Included in cash flow from operating activities:			
Interest paid		–870	–1,303
Interest received		151	188
Income tax paid		–1,384	–348

[1] Cash flow from operating activities less net investment in property, plant and equipment and in intangible assets.

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

In CHF '000	Share capital	Share premium	Cumulative translation differences	Retained earnings	Treasury shares	Hedging reserve	Total shareholders' equity
At 1 October 2012 as reported	**20,668**	**56,462**	**–14,300**	**–617**	**–1,469**	**–411**	**60,333**
IAS 19 restatement				–4,402			–4,402
At 1 October 2012 restated	**20,668**	**56,462**	**–14,300**	**–5,019**	**–1,469**	**–411**	**55,931**
Net profit for the period				6,108			6,108
Other comprehensive (loss)			–1,240	153		169	–918
Total comprehensive income for the period			**–1,240**	**6,261**		**169**	**5,190**
Treasury shares				–818	419		–399
Repayment of excess share premium[1]		–2,221					–2,221
Share option plans and restricted share plans		–952		532			–420
At 30 September 2013 restated	**20,668**	**53,289**	**–15,540**	**956**	**–1,050**	**–242**	**58,081**
Net profit for the period				12,628			12,628
Other comprehensive (loss)			1,370	–2,420		120	–930
Total comprehensive income for the period			**1,370**	**10,208**		**120**	**11,698**
Treasury shares				–1,278	91		–1,187
Repayment of excess share premium[2]		–2,852					–2,852
Share option plans and restricted share plans		106		801			907
At 30 September 2014	**20,668**	**50,543**	**–14,170**	**10,686**	**–959**	**–122**	**66,646**

[1] CHF 3.50 per share.

[2] CHF 4.50 per share.

Share capital

The issued share capital of Schaffner Holding AG consists of 635,940 ordinary registered shares with a nominal value of CHF 32.50 per share. The issued shares are fully paid. Each share carries one vote at the General Meeting. All shares not held by the Company or by one of its subsidiaries attract dividends.

There is also authorized unissued capital of 32,000 shares with a total nominal value of CHF 1.0 million. This is reserved for the Schaffner share option plans (see note 18 on page 92).

Share premium

The share premium (also known as additional paid-in capital) represents the excess of the issued share capital's market value over its nominal value. The reduction in share premium in the year under review resulted from the correction of past grants of conversion rights under the share option plans (see note 18 on page 92). In the reporting period, share premium was reduced by CHF 2.9 million through the repayment of CHF 4.50 per dividend-bearing registered share from this capital reserve.

Translation reserve

Shareholders' equity is carried at historical exchange rates. The resulting foreign exchange differences are recognized in other comprehensive income and accumulated in a separate component of equity until the disposal of the subsidiary in question.

The accompanying notes are an integral part of the consolidated financial statements.

Accounting policies

Basis of preparation

The consolidated financial statements comprise the individual financial statements of Schaffner Holding AG (the "Company") and its subsidiaries (together, "Schaffner", the "Group" or the "Schaffner Group") as at 30 September 2014, drawn up in accordance with the uniform accounting policies of the Group.

The consolidated financial statements have been prepared under the historical cost convention, except for certain items (such as derivatives and listed securities) that are stated at fair value, as further detailed in the accounting policies below. The consolidated financial statements comply with Swiss law and have been prepared in accordance with International Financial Reporting Standards (IFRS) and the IFRIC interpretations issued by the IFRS Interpretations Committee (IFRIC). The presentation currency of the consolidated financial statements is the Swiss franc.

The consolidated financial statements are prepared in German and translated into English. The English version is provided solely for readers' convenience. Only the German version is definitive and legally binding.

Changes in accounting policies

The Schaffner Group adopted the following changes in accounting practices with effect from 1 October 2013:

- Annual Improvements to IFRSs 2009-2011
- IAS 19 – Revised – Employee Benefits
- IAS 27 – Revised – Separate Financial Statements
- IAS 28 – Revised – Investments in Associates and Joint Ventures
- IFRS 10 – Consolidated Financial Statements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 10, IFRS 11, IFRS 12 – Amendments – Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
- IFRS 13 – Fair Value Measurement

With the exception of the revisions to IAS 19, Employee Benefits, the changes in accounting policy have no effect on Schaffner's financial position, results of operations and cash flows. The changes were applied retrospectively in accordance with IAS 8 and are explained below. The impact on the balance sheet, income statement and statement of comprehensive income is additionally shown in table form. The impact on the cash flow statement is not material; therefore, no detailed reconciliation is provided.

IFRS standards becoming effective after the reporting period

The following new or amended standards and interpretations have been issued, but are not effective until subsequent periods and have not been applied early in these consolidated financial statements. Their impact on the consolidated financial statements of the Schaffner Group has not yet been systematically analyzed. The rating of the expected impact of each standard and interpretation, shown in the following table, therefore represents only a preliminary assessment.

		Expected impact	Effective date	Planned adoption by the Schaffner Group
	– Annual Improvements to IFRSs 2010-2012	**	1.7.2014	2014/15
	– Annual Improvements to IFRSs 2011-2013	**	1.7.2014	2014/15
IAS 16, IAS 38	– Amendments – Clarification of Acceptable Methods of Depreciation and Amortization	*	1.1.2016	2016/17
IAS 19	– Amendments – Defined Benefit Plans: Employee Contributions	*	1.7.2014	2014/15
IAS 36	– Amendments – Recoverable Amount Disclosures for Non-Financial Assets	**	1.1.2014	2014/15
IFRS 9	– Financial Instruments	***	1.1.2018	2018/19
IFRS 11	– Amendments – Accounting for Acquisitions of Interests in Joint Operations	*	1.1.2016	2016/17
IFRS 15	– Revenue from Contracts with Customers	***	1.1.2017	2017/18
IFRIC 21	– Levies	*	1.1.2014	2014/15

* There is expected to be no, or no significant, impact on the consolidated financial statements.

** The impact on the consolidated financial statements is expected to take the form mainly of additional disclosures or of changes in presentation.

*** The impact on the consolidated financial statements cannot yet be determined with sufficient reliability.

Revised IAS 19 – Employee Benefits
IAS 19 has been revised in two important respects.

First, the expected rate of return on plan assets and the interest expense on the defined benefit obligation are both replaced with the discount rate used to determine the defined benefit obligation. Under the pre-revision IAS 19, an expected rate of return had been applied to the plan assets which was estimated based on the investment portfolio of the pension fund and its projected performance. With the standard's revision, the determination of the present value of the defined benefit obligation also takes into account the expected future contributions by employees. This risk-sharing between employer and employees changes the amount of the pension obligation and the allocation of service cost.

Second, the revision abolished the corridor method previously used by Schaffner. Under that method, actuarial gains and losses from the periodic recalculation of the defined benefit obligation – to the extent that they exceeded 10% of the greater of the plan assets or the defined benefit obligation – had been amortized in the income statement on a straight-line basis over the average of the remaining working lives of the participating employees. Actuarial gains and losses are now recognized immediately in other comprehensive income.

Reconciliation of reported and restated balance sheet

In CHF '000	As reported 30.9.2013	IAS 19 restatement	Restated 30.9.2013	As reported 1.10.2012	IAS 19 restatement	Restated 1.10.2012
Intangible assets	19,624		19,624	22,327		22,327
Property, plant and equipment	20,945		20,945	21,109		21,109
Other non-current assets	12,521	–5,073	7,448	13,327	–5,138	8,189
Deferred tax assets	3,004	146	3,150	2,864	112	2,976
Non-current assets	**56,095**	**–4,927**	**51,168**	**59,627**	**–5,026**	**54,601**
Inventories	28,094		28,094	29,873		29,873
Trade receivables	34,021		34,021	34,766		34,766
Income tax receivables	535		535	582		582
Other receivables, prepaid expenses and accrued income	3,817		3,817	3,674		3,674
Other current financial assets	4,079		4,079	2,065		2,065
Cash and cash equivalents	17,012		17,012	10,256		10,256
Current assets	**87,558**		**87,558**	**81,215**		**81,215**
Total assets	**143,653**	**–4,927**	**138,726**	**140,842**	**–5,026**	**135,816**
Equity attributable to equity holders of Schaffner Holding AG	62,512	–4,431	58,081	60,333	–4,402	55,931
Shareholders' equity	**62,512**	**–4,431**	**58,081**	**60,333**	**–4,402**	**55,931**
Non-current provisions	5,558	488	6,046	6,091	373	6,464
Deferred tax liabilities	2,270	–984	1,286	2,194	–997	1,197
Non-current borrowings	29,814		29,814	35,959		35,959
Non-current liabilities	**37,642**	**–496**	**37,146**	**44,244**	**–624**	**43,620**
Current provisions	1,969		1,969	2,934		2,934
Current borrowings	549		549	194		194
Income tax payables	731		731	966		966
Trade and other payables	40,251		40,251	32,172		32,172
Current liabilities	**43,500**		**43,500**	**36,266**		**36,266**
Total liabilities	**81,142**	**–496**	**80,646**	**80,510**	**–624**	**79,886**
Total liabilities and shareholders' equity	**143,654**	**–4,927**	**138,727**	**140,843**	**–5,026**	**135,817**

Reconciliation of reported and restated income statement

In CHF '000	As reported 2012/13	IAS 19 restatement	Restated 2012/13
Net sales	**194,889**		**194,889**
Cost of sales	– 142,301	– 45	– 142,346
Gross profit	**52,589**	**– 45**	**52,544**
Other income	373		373
Marketing and selling expense	– 17,066	45	– 17,021
Research, development and application expense	– 15,482	– 108	– 15,590
General and administrative expense	– 10,135	– 102	– 10,237
Operating profit before amortization of customer relationships	**10,278**	**– 210**	**10,069**
Amortization of customer relationships	– 864		– 864
Operating profit [EBIT]	**9,414**	**– 210**	**9,205**
Finance income	4,674		4,674
Finance expense	– 6,746		– 6,746
Profit before tax [EBT]	**7,343**	**– 210**	**7,133**
Income tax	– 1,056	31	– 1,025
Net profit for the period	**6,287**	**– 179**	**6,108**
Earnings per share in CHF			
Basic	9.92	– 0.28	9.64
Diluted	9.86	– 0.28	9.58

Reconciliation of reported and restated statement of comprehensive income

In CHF '000	As reported 2012/13	IAS 19 restatement	Restated 2012/13
Net profit for the period	**6,287**	**– 179**	**6,108**
Items of other comprehensive income that will not be reclassified to the income statement			
Actuarial gains		163	163
Income tax		– 10	– 10
Total items that will not be reclassified to the income statement		**153**	**153**
Items of other comprehensive income that will be reclassified to the income statement			
Exchange differences	– 1,237	– 3	– 1,240
Movement in cash flow hedges	169		169
Income tax			0
Total items that will be reclassified to the income statement	**– 1,068**	**– 3**	**– 1,071**
Other comprehensive (loss) for the period	**– 1,068**	**150**	**– 918**
Total comprehensive income for the period	**5,219**	**– 29**	**5,190**

Assumptions and estimates

The consolidated financial statements of the Schaffner Group contain assumptions and estimates which affect the reported financial position, results of operations and cash flows. These assumptions and estimates were made on the basis of management's best knowledge at the time of preparation of the accounts. Actual results could differ from the values presented. The following estimates have the greatest effects on the consolidated financial statements:

- Goodwill, customer relationships, technology and trademarks: For acquisitions, the fair value of the acquired net assets (including intangible assets) is estimated. Any amount paid in excess of this estimate represents goodwill. These estimates are based on the business plans developed for the acquisition, expected revenues with key customers, and royalty rates for brand and technology licensing. Intangible assets with a finite life are written off over the expected period of use; those with an indefinite life (primarily goodwill) are not amortized, but tested annually for impairment. The initial measurement of intangible assets (including goodwill), the estimation of useful life and the assumptions involved in the impairment test (see note 3) can have an effect on the consolidated financial statements.
- Provisions: Provisions represent obligations arising from a past event and are recognized only if settlement is likely to require an outflow of resources of unknown amount that can be estimated reliably. Nevertheless, provisions are based on assumptions, which may later prove to be incorrect.
- Pension obligations: The calculation of the pension obligations of the defined benefit plans is based on actuarial assumptions that may be adjusted in the subsequent year to reflect changed circumstances and that may thus have an impact on the financial position, results of operations and cash flows. A sensitivity analysis for this is provided in note 14.
- Income tax: Current income tax is determined based on the results of the fiscal year. The actual income tax payable may differ from the amount originally determined, as the final tax assessment sometimes occurs several years after the end of the fiscal year. Resulting risks of cumulative multi-year error are individually evaluated and estimated and the appropriate provisions recognized if necessary. Deferred tax assets are determined on the basis of in some cases longer-range estimates. The underlying forecasts cover a period of several years and involve interpretations of existing tax laws and regulations.

Definitions

A subsidiary is a company over which Schaffner Holding AG, Luterbach, directly or indirectly exercises control.

The term "non-current liabilities" refers to all liabilities with remaining maturities of more than one year; "current liabilities" refers to all liabilities with remaining maturities of one year or less. Current liabilities thus also include that portion of non-current borrowings maturing within one year. All interest-bearing liabilities are included under borrowings.

Methods of consolidation

The consolidated financial statements include the financial statements of Schaffner Holding AG and of its subsidiaries. Schaffner Holding AG and the subsidiaries are included by full consolidation. Under this method, these companies' assets, liabilities, income and expenses are fully included in the consolidated financial statements.

All intra-Group balances, income and expenses are eliminated on consolidation (both among the subsidiaries, and between the subsidiaries and Schaffner Holding AG). This also includes intra-Group profits on inventories and on non-current assets.

Companies acquired during the reporting period are included in the consolidated financial statements from the effective date of their acquisition. Companies divested during the reporting period remain included in the consolidated financial statements until the Group ceases to have control.

Translation of subsidiaries' functional currencies into the Group's presentation currency

All assets and liabilities in the balance sheets of foreign subsidiaries drawn up in foreign currencies are translated into Swiss francs (CHF) at period-end exchange rates (i.e., at closing rates for the reporting period). Expenses, income and cash flows are translated into Swiss francs at weighted average exchange rates for the period, which approximate the actual transaction rates. Foreign exchange differences arising from the variation in applicable exchange rates are recognized directly in the consolidated statement of comprehensive income, where they are accumulated in the item "exchange differences".

Foreign currency transactions

Foreign currency transactions of subsidiaries are translated into the functional currency of the subsidiary at exchange rates prevailing at the transaction date (i.e., at transaction rates). Their foreign currency balances are translated at period-end exchange rates. Gains and losses arising from the recovery, settlement or translation of foreign currency monetary assets and liabilities are recognized as income or expense in the income statement.

Intangible assets

Intangible assets are stated at historical cost less any amortization and impairment. Intangible assets other than goodwill (which is not amortized) are amortized on a straight-line basis over the following estimated useful lives:

Trademarks, technology and rights	10 years
Software	3-8 years
Customer relationships	10 years

Acquisitions and goodwill

Companies are consolidated from the date at which control is acquired. Business combinations are accounted for using the acquisition method. The cost of an acquisition is calculated as the total consideration transferred, measured at fair value at the acquisition date. Transaction costs of an acquisition are recognized as an expense.

Any contingent consideration payable is recognized at the acquisition date at fair value. Subsequent changes in the fair value of contingent consideration are recognized in the income statement.

If the acquisition cost of the company exceeds the market value of the acquired identifiable assets, liabilities, contingent liabilities and non-controlling interests, the difference is recognized as goodwill.

Goodwill is assessed for impairment annually and any impairment is charged to the consolidated income statement.

Group companies are derecognized from the date when Schaffner ceases to have control. The difference between the sales proceeds and the divested net assets is recognized in the income statement by Schaffner as at that date. Attributable goodwill and the accumulated currency translation differences and value fluctuations of financial instruments recognized in other comprehensive income are derecognized, through the income statement, as a component of the gain or loss on disposal.

Research and development costs

Development costs for new products are not capitalized, as a future economic benefit can be demonstrated only after a successful market launch. Development costs for software are capitalized as intangible assets, provided that the software will generate a future economic benefit through sale or through use within the Group and that its cost can be reliably estimated. Other conditions for capitalization are the technical feasibility of the asset and the intention, ability and available resources to complete its development and to either use or sell it.

Intangible assets recognized for software development costs are amortized on a straight-line basis over their estimated useful life. The capitalized costs are tested for impairment annually (while the software is not yet in use) or when there are objective indications of impairment.

Property, plant and equipment

Items of property, plant and equipment are stated at historical cost less depreciation and impairment. They are depreciated on a straight-line basis over their estimated useful life, which is as follows:

Land	Not depreciated
Buildings	10-50 years
Machinery and equipment	5-10 years
Furniture and fixtures	5-10 years
Vehicles	3-6 years
Information technology hardware	3-5 years
Tools	1-5 years

Leases under which a Group company as lessee has substantially all the benefits and risks of ownership are classified as finance leases. The leased asset is capitalized at the lower of its fair value or the present value of the minimum lease payments, and a liability of the same amount is recognized in borrowings. The interest portion (the finance charge) of the lease payments is charged to the income statement. Payments made under operating leases are recognized as an expense in the income statement in equal installments over the life of the lease.

Impairment of non-financial assets

The recoverable amount of an asset is estimated whenever there is an indication of impairment. If the asset's carrying amount exceeds the recoverable amount, the difference is recorded as an impairment charge in the income statement. The recoverable

amount is the higher of an asset's net selling price and its value in use. An asset's value in use is the present value of the estimated future cash flows from the asset.

Inventories
Products purchased for resale, and raw materials, are measured at cost of purchase. Internally produced goods are measured at the cost of conversion, including related production overhead. Inventories in the balance sheet, and the charge to the income statement for the conversion cost of goods sold (cost of sales), are measured using the standard cost method. The standard costs are regularly reviewed and, when necessary, brought into line with current circumstances. Inventories that are slow-moving or have a lower market value are written down. Unsaleable inventory is fully written off. Inventory is thus not measured at more than its net realizable value.

Trade receivables
The carrying amount (also known as carrying value) of trade receivables is their nominal value less a provision for doubtful debts, i.e., for impairment.

Securities held as current assets
Securities held as current assets are divided into two categories: listed securities and other securities. Listed securities are shares quoted on a stock exchange and are measured at market value. Other securities held as current assets are normally measured at fair value, with changes in value recognized in comprehensive income. In the unusual event that their market value cannot be determined, securities are measured at cost. Treasury shares are presented as a deduction from shareholders' equity.

Cash and cash equivalents
Cash and cash equivalents consist of cash in hand, bank deposits in postal and other bank accounts, bankers' acceptances, and short-term time deposits with original maturities of up to 90 days.

Provisions
Provisions are recognized when Schaffner has an obligation to a third party as a result of a past event, the amount of the obligation can be estimated reliably and it is probable that an outflow of resources will be required to settle the obligation. If the outflow of resources is not probable or its amount cannot be determined with sufficient reliability, the obligation is reported in contingent liabilities. Provisions for warranty claims are as a rule determined and recognized based on historical experience.

Where the effect of the time value of money is material, provisions are measured at the present value of the expected future expenditures.

Restructuring provisions are recognized if the costs attributable to a restructuring plan can be determined reliably and represent a contractual obligation or a constructive obligation created by communication.

Revenue recognition and interest income
Net sales represent the revenue from goods sold and services rendered to third parties, net of discounts and other price reductions. Sales are recognized at the time that the benefits and risks of ownership of the products sold are transferred to the customer or that the service is rendered; this timing depends on the agreed shipment terms.

Revenue is recognized if an economic benefit is likely to accrue to the Group and the amount of revenue can be reliably determined.

Interest income is recognized on a time-proportion basis by the effective interest method.

Pension obligations
The Schaffner Group operates a number of pension plans in various countries worldwide. The pension plans are generally financed by contributions from employees and the respective Group companies. The plans' assets are as a rule held in legally separate, trustee-administered funds, the management of which takes into account the recommendations of independent qualified actuaries. Where plan assets are not held in such segregated funds, those assets which serve to secure future pension obligations are recognized in the item "other non-current assets" in the Group's consolidated balance sheet and the corresponding pension obligation is recorded in liabilities as a provision.

For defined benefit pension plans, the present value of the defined benefit obligation is determined using the projected unit credit method, based on annual actuarial valuations. This involves taking into consideration the years of contributions by employees up to the balance sheet date, and expected rates of future salary increases. The employer's pension cost and the net interest cost or credit on the net defined benefit obligation or asset are recognized in the income statement in the period in which they accrue.

Actuarial gains and losses as well as the effect of any ceiling applied to the defined benefit asset are recognized in other comprehensive income.

Borrowing costs
Borrowing costs are recognized as an expense in the period in which they are incurred.

Segment reporting
The Schaffner Group is organized into three divisions: EMC, Power Magnetics and Automotive. This delineation of segments (i.e., divisions) is consistent with the internal reporting on the basis of which the chief operating decision maker allocates resources to these segments and evaluates their profitability.

The Schaffner Group has identified the Executive Committee as the chief operating decision maker.

Segment profit or loss represents the given segment's operating profit or loss before amortization (if any) of customer relationships.

Income tax
Current income tax is recognized on the basis of reported profits, in the period in which the profits arise. Tax is calculated in conformity with the tax laws applicable in the individual countries.

Deferred income tax is recognized using the liability method. Under this approach, the income tax effects of temporary differences between carrying amounts in the financial statements and their tax bases used in the calculation of taxable income are recorded in non-current liabilities or non-current assets, using the tax rates that are expected to apply to the period in which an asset is recovered or the liability settled. The change in deferred tax assets and liabilities is recognized as deferred income tax expense or benefit in the income statement, unless the temporary difference arises from a transaction not affecting profit or loss. In the latter case, the change in deferred tax is recognized in the statement of comprehensive income. Deferred tax liabilities are calculated on all taxable temporary differences.

Deferred tax assets, including assets for unused tax loss carryforwards, are only recognized to the extent it is probable that future taxable profits will be available which will allow the assets to be utilized. The determination of the amount of deferred tax assets to be recognized involves assumptions and estimates by management as to the likely timing and amounts of future taxable profits and as to future tax planning strategies.

Financial assets and liabilities
The Schaffner Group has financial assets and liabilities belonging to the following categories:

- Financial assets and liabilities at fair value through profit or loss (these are assets classified as held for trading, and certain financial assets and liabilities designated as at fair value through profit or loss)
- Loans and receivables
- Financial liabilities at amortized cost

Financial assets are initially measured at fair value (including transaction costs, except in the case of financial assets at fair value through profit or loss, which are measured net of transaction costs). All purchases and sales of financial assets are recognized at the transaction date. Financial assets at fair value through profit or loss are subsequently measured at their fair value. Changes in value are reported as finance income or expense in the reporting period in which they occur.

Assets not measured at fair value are tested for impairment at every balance sheet date. Financial assets are derecognized when Schaffner ceases to control them, i.e., when the related rights have been sold or have lapsed. Financial liabilities are derecognized when the contractual obligation is discharged, canceled or expires.

Non-current financial liabilities are measured by the effective interest method. The interest expense therefore includes not only the actual interest payments but also the amounts for the unwinding of discount and for proportional transaction costs. Liabilities arising from trading activities and derivatives are measured at fair value.

Derivative financial instruments and hedging
The Group uses derivative financial instruments to hedge its interest rate risks. Such derivatives are recognized at their fair value both at the date of the derivative contract's inception and at every subsequent measurement. Derivatives with positive fair values are recorded as assets; derivatives with negative fair values are recorded as liabilities.

Any gains or losses arising during the year from changes in fair value of derivative positions that were not entered into for hedging purposes are taken directly to the income statement

Cash flow hedges
Cash flow hedges are used to hedge exposure to variability in cash flows resulting from interest rate risks of a financial instrument. The effective portion of the gain or loss on the hedging instrument is recognized directly in the consolidated statement of comprehensive income, while any ineffective portion is recorded immediately in the income statement.

Amounts recognized in the consolidated statement of comprehensive income are transferred to the income statement in the period in which the transaction occurs or when it is no longer expected that the transaction will occur.

At the inception of a hedge relationship, the Group formally designates and documents the relationship, including documenting the risk management objective and strategy. The documentation also includes the identification of the hedge instrument, the hedged item or transaction, the nature of the risk being hedged and how the effectiveness of the hedge is to be assessed.

If the hedging instrument expires or is sold or cancelled or its designation as a hedge is revoked, amounts previously recognized in the consolidated statement of comprehensive income remain recognized there until the forecast transaction occurs.

Share-based payments
The fair value of granted share options is calculated using the Enhanced American Model (a sophisticated binomial model) at the grant date. Their fair value is expensed over the relevant vesting periods and also recorded as an increase in equity.

The cumulative expenditure for share-based payment transactions from the balance sheet date to the vesting date represents the best estimate of the number of Schaffner shares which can then actually be purchased by employees. Expense adjustments for changes in expectations regarding the number of Schaffner shares which can be purchased are recognized in staff costs for the relevant reporting period.

All options can only be exercised through the purchase of shares and are not cash-settled.

1 Foreign currencies

In the consolidation of Group companies' separate financial statements, the following exchange rates were applied in translating foreign-currency-denominated accounts into Swiss francs:

			Balance sheet		Income statement	
			30.9.2014	30.9.2013	2013/14	2012/13
Country or region	Currency		In CHF	In CHF	In CHF	In CHF
China	CNY	100	15.58	14.78	14.66	15.06
EU	EUR	100	120.64	122.38	121.94	122.36
UK	GBP	100	155.15	146.01	149.48	145.05
Hungary	HUF	100	0.39	0.41	0.40	0.41
Japan	JPY	100	0.87	0.93	0.88	1.00
Sweden	SEK	100	13.23	14.11	13.55	14.21
Singapore	SGD	100	74.95	72.05	71.70	74.73
Thailand	THB	100	2.95	2.89	2.79	3.05
Taiwan	TWD	100	3.14	3.06	3.00	3.14
USA	USD	100	95.68	90.44	90.17	93.08

2 Business combinations

Trenco

On 31 March 2014 the Group purchased the US companies Transformer Engineering LLC (Trenco), Magnetics Technologies LLC and Transformer Real Estate LLC from Transformers Holding LLC. The integration of Trenco strengthens the strategic position of the Power Magnetics division.

The acquisition was accounted for using the acquisition method. Production synergies and combined distribution channels and product portfolios justify the goodwill recognition.

The provisionally determined fair values of the identifiable assets and liabilities at the acquisition date were as follows:

Acquired net assets In CHF '000	Fair value at acquisition date of 31 March 2014
Cash and cash equivalents	88
Customer relationships	1,944
Technology	884
Trademarks	1,237
Property, plant and equipment	1,531
Inventories	1,411
Trade receivables	2,053
Other receivables, prepaid expenses and accrued income	69
Total assets	**9,217**
Provisions	–428
Trade and other payables	–1,333
Total liabilities and shareholders' equity	**–1,761**
Net assets	7,456
Goodwill	1,905
Total consideration	**9,361**

Satisfied by:	
Cash paid	8,684
Contingent consideration	677
Total consideration	**9,361**

Cash flow on acquisition:	
Net cash outflow	8,596

The fair value and gross amount of trade receivables was CHF 2,053 thousand.

None of the trade receivables were impaired, and the contractual amounts were recoverable.

In addition to the cash component shown above, the purchase price includes two earn-out components: The first earn-out component represents 8% of that portion of net sales which exceeds a defined minimum amount in specified periods between 1 April 2014 and 31 March 2017. The second earn-out component represents 4% of net sales with four specified customers in the period from 1 April 2017 to 31 March 2018. The acquisition-date fair value of these contingent consideration components was CHF 677 thousand. At the balance sheet date it was determined that the sales target for the first earn-out period was not achieved. The fair value of the contingent consideration was therefore adjusted (in "other income" in the income statement) to CHF 538 thousand.

The goodwill from the acquisition is tax-deductible and is allocated to the Power Magnetics segment. The transaction costs of CHF 622 thousand were charged to income and are presented within general and administrative expense.

In the period from the acquisition to 30 September 2014, the acquired companies contributed CHF 5.4 million to net sales and CHF 0.2 million to net profit for the period. Had the business combination occurred earlier, on 1 October 2013, net sales would have been higher by CHF 6.1 million and net profit for the period would have been higher by CHF 0.2 million.

The values are provisional, as the purchase price allocation is not yet fully completed.

MTC Transformers

At 1 September 2011 the Group acquired the dry-type transformer division of US company MTC Transformers, Inc. under an asset purchase agreement.

In the prior year the last earn-out was missed and the provision of CHF 362 thousand (USD 368 thousand) was therefore released to other income. All contractual obligations arising from this acquisition were thus settled.

3 Intangible assets

In CHF '000	Trademarks, technology and rights	Software	Goodwill	Customer relationships	Intangible assets under construction	Total
Cost at 1 October 2012	**5,431**	**10,695**	**9,149**	**8,588**		**33,863**
Additions purchased separately		182			187	369
Disposals	– 283	– 2,320				– 2,603
Reclassifications		103			– 103	
Exchange differences	– 86	– 14	– 156	– 60		– 316
Cost at 30 September 2013	**5,062**	**8,646**	**8,993**	**8,528**	**84**	**31,313**
Additions purchased separately		327		69		396
Additions acquired through business combinations	2,121		1,905	1,944		5,970
Reclassifications		84			– 84	
Exchange differences	316	26	400	280		1,022
Cost at 30 September 2014	**7,499**	**9,083**	**11,298**	**10,821**	**0**	**38,701**
Accumulated amortization and impairment at 1 October 2012	**– 1,701**	**– 6,378**		**– 3,457**		**– 11,536**
Amortization	– 470	– 1,430		– 864		– 2,764
Disposals	283	2,320				2,603
Exchange differences	10	12		– 13		9
Accumulated amortization and impairment at 30 September 2013	**– 1,878**	**– 5,476**		**– 4,334**		**– 11,688**
Amortization	– 566	– 1,308		– 956		– 2,830
Exchange differences	– 47	– 17		– 7		– 71
Accumulated amortization and impairment at 30 September 2014	**– 2,491**	**– 6,801**		**– 5,297**		**– 14,589**
Net book value at 30 September 2013	**3,184**	**3,170**	**8,993**	**4,193**	**84**	**19,624**
Net book value at 30 September 2014	**5,008**	**2,282**	**11,298**	**5,524**	**0**	**24,112**

Goodwill

Consistent with the internal organizational and reporting structure, goodwill impairment testing is conducted on an operating segment basis.

For the purposes of reviewing goodwill in the balance sheet for impairment, the relevant cash-generating units are therefore defined as the segments.

At the balance sheet date, goodwill was allocated to cash-generating units as follows:

In CHF '000	30.9.2014	30.9.2013
Electromagnetic Compatibility (EMC)	4,817	4,817
Power Magnetics (PM)	6,481	4,176
Total	**11,298**	**8,993**

The change in goodwill in the PM segment resulted from the acquisition of Trenco (see note 2) and from US dollar exchange rate movement. As the goodwill in the EMC segment is measured in Swiss francs, it is not subject to currency-induced variation. The goodwill in the balance sheet was tested for impairment in the year under review, by comparing the carrying amount of the cash-generating units with their recoverable amount. Their recoverable amount equals their value in use. The calculations were made for a five-year period on the basis of estimated cash flows used in the business plan approved by the Board of Directors and on the basis of management's estimates. Cash flows beyond this period were extrapolated using a growth rate of 0%. The cash flow projections are based on historical experience and take into account potential variances from the un-

derlying assumptions. The impairment test of goodwill carried in the balance sheet did not identify a need for an impairment charge.

The measurement of value in use is based on the following key assumptions:

	Discount rate (WACC) before tax		Discount rate (WACC) after tax		Long-term growth rate	
	30.9.2014	30.9.2013	30.9.2014	30.9.2013	30.9.2014	30.9.2013
Electromagnetic Compatibility (EMC)	6.5%	8.7%	5.2%	7.1%	0%	0%
Power Magnetics (PM)	6.4%	8.6%	5.2%	7.1%	0%	0%

A sensitivity analysis shows that a reduction of 10% in cash flows or an increase of 10% in the discount rate would not lead to impairment of goodwill. Using a zero growth rate for the projected cash flows from fiscal year 2015/16 would also not lead to impairment of goodwill.

The sensitivity analysis shows the following safety margins:

In CHF million	Reduction in cash flow by 10%	Increase in discount rate by 10%	Zero growth in cash flow from 2015/16
EMC	288	290	218
PM	121	122	54
Total	**409**	**412**	**272**

Customer relationships

Customer relationships (existing at acquisition date) from the purchase price allocation of the former Jacke GmbH (now Schaffner Deutschland GmbH), from the acquisition of the dry-type transformer division of US company MTC Transformers (now Schaffner MTC LLC) and the acquisition in the period under review of Transformer Engineering LLC (now Schaffner Trenco LLC) were valued and capitalized at 30 September 2014. The respective dates of these acquisitions were 3 November 2006, 1 September 2011 and 31 March 2014.

At the balance sheet date the key information about customer relationships was as follows:

	Carrying amount at 30.9.2014 in CHF '000	Carrying amount at 30.9.2013 in CHF '000	Useful life	Amortization method	Remaining useful life
Schaffner Deutschland GmbH	1,072	1,616	10 years	Straight line	2 years 1 month
Schaffner MTC LLC	2,382	2,577	10 years	Straight line	6 years 11 months
Schaffner Trenco LLC	2,000	0	10 years	Straight line	9 years 6 months

At the balance sheet date, all customer relationships subject to amortization pertained to the PM segment. The measurement at acquisition was performed by the excess earnings method.

An impairment test was carried out at the balance sheet date for the customer relationships of Schaffner MTC LLC and Schaffner Trenco LLC. These tests showed no need for an impairment charge.

In the year under review, the business with traditional Schaffner PM products was in line with expectations. For this reason there was no indication of a possible impairment of customer relationships at Schaffner Deutschland GmbH at the balance sheet date.

Technology

At 30 September 2014 Schaffner carried on its books the "active harmonic filter" technology acquired through the purchase of BETEC-Engineering effective 5 January 2009, the "dry-type transformer" technology acquired with the dry-type transformer division of US company MTC Transformers effective 1 September 2011, and the 18-pulse transformer technology from the acquisition of Transformer Engineering LLC effective 31 March 2014.

At the balance sheet date the following material information can be reported concerning the measured technologies:

	Carrying amount at 30.9.2014 in CHF '000	Carrying amount at 30.9.2013 in CHF '000	Useful life	Amortization method	Remaining useful life
Active harmonic filters	927	1,121	10 years	Straight line	4 years 3 months
Dry-type transformers	1,853	2,005	10 years	Straight line	6 years 11 months
18-pulse transformers	909	0	10 years	Straight line	9 years 6 months

At the balance sheet date the dry-type transformer technology and the 18-pulse transformer technology were associated with the PM segment and the active harmonic filter technology was associated with the EMC segment. The measurement at acquisition was performed using the relief-from-royalty method.

For the capitalized technologies, impairment tests were conducted at the balance sheet date. These tests showed no need for an impairment charge.

In the consolidated income statement, amortization of intangible assets is included within cost of sales, marketing and selling expense, research, development and application expense, general and administrative expense and amortization of customer relationships.

4 Property, plant and equipment

In CHF '000	Land and buildings	Plant and machinery	Information technology hardware	Furniture and fixtures	Vehicles	Assets under construction	Total
Cost at 1 October 2012	**12,599**	**34,823**	**4,481**	**1,569**	**1,164**	**800**	**55,436**
Additions purchased separately	840	2,264	285	66	92	1,238	4,786
Disposals	–1,754	–355	–1,655	–53	–122	–269	–4,209
Reclassifications	63	423	1	1		–488	0
Exchange differences	–211	–907	–51	–42	–17	–64	–1,292
Cost at 30 September 2013	**11,537**	**36,247**	**3,063**	**1,541**	**1,116**	**1,217**	**54,721**
Additions purchased separately	529	5,137	258	74	155	237	6,390
Additions acquired through business combinations	1,105	290		108		28	1,531
Disposals		–1,042	–44	–21	–293	–285	–1,685
Reclassifications	8	195				–203	0
Exchange differences	363	714	42	27	–6	18	1,158
Cost at 30 September 2014	**13,542**	**41,540**	**3,319**	**1,730**	**972**	**1,012**	**62,115**
Accumulated depreciation and impairment at 1 October 2012	**–5,265**	**–22,987**	**–4,024**	**–1,127**	**–924**		**–34,327**
Depreciation	–1,015	–2,632	–291	–152	–105		–4,195
Disposals	1,754	348	1,655	19	117		3,893
Exchange differences	134	624	44	34	15		851
Accumulated depreciation and impairment at 30 September 2013	**–4,392**	**–24,647**	**–2,616**	**–1,226**	**–897**		**–33,778**
Depreciation	–1,052	–2,698	–260	–158	–104		–4,272
Disposals		1,022	48	10	263		1,343
Exchange differences	–174	–393	–37	–20	7		–617
Accumulated depreciation and impairment at 30 September 2014	**–5,618**	**–26,716**	**–2,865**	**–1,394**	**–731**		**–37,324**
Net book value at 30 September 2013	**7,147**	**11,600**	**447**	**316**	**219**	**1,217**	**20,945**
Of which finance leases	2,755	15					2,770
Net book value at 30 September 2014	**7,926**	**14,825**	**454**	**336**	**241**	**1,012**	**24,794**
Of which finance leases	2,599	16					2,615

Property, plant and equipment are covered by a Group-wide insurance policy. The maximum insured amount is CHF 80 million per claim.

At the end of the fiscal year there were commitments to purchase property, plant and equipment in the amount of CHF 914 thousand (prior year: CHF 333 thousand).

Operating leases

The future minimum payments under non-cancelable operating leases (mainly rent for office and manufacturing space), and future minimum sublease income under non-cancelable subleases, are presented in the table below:

In CHF '000	30.9.2014	30.9.2013
Operating leases		
Minimum lease payments due:		
Within 1 year	3,593	3,225
In more than 1 year and not more than 5 years	6,170	6,275
Thereafter	0	0
Total minimum payments	**9,763**	**9,500**
Subleases		
Total future minimum income from sublease payments	973	991
Total minimum income	**973**	**991**

In fiscal year 2013/14, total operating lease expenses were CHF 4.3 million (prior year: CHF 4.4 million). Total sublease income in 2013/14 was CHF 497 thousand (prior year: CHF 534 thousand).

Finance lease

At 1 January 2012 the Group moved into a new logistics center in Wittelsheim, France. This facility is accounted for as a finance lease with an acquisition cost of EUR 2.4 million (CHF 2.9 million) in the land and buildings category.

The logistics center is depreciated on a straight-line basis over a useful life of 25 years. From 1 January 2019 the Schaffner Group has the option of purchasing the building at the residual lease obligation plus administrative costs. As well, at the end of the lease term (31 December 2023) the Schaffner Group has the right to buy the building for EUR 240 thousand.

The maturity structure of the future outflows of funds under finance leases is shown in note 21 on page 99.

5 Other non-current assets

In CHF '000	30.9.2014	Restated 30.9.2013
Present value of defined benefit assets and IFRIC 14 asset[1]	3,271	6,016
Rental/utility security deposits and guarantees	1,505	1,432
Total other non-current assets	**4,776**	**7,448**

[1] See note 14, page 85.

6 Inventories

In CHF '000	30.9.2014	30.9.2013
Raw materials	13,298	11,154
Work in process and semi-finished goods	4,190	3,545
Finished goods	13,833	13,395
Total inventories	**31,321**	**28,094**

Inventory provisions

In CHF '000	2013/14	2012/13
At 1 October	**3,387**	**3,187**
Created	841	1,125
Used	–698	–422
Unused amounts reversed	–272	–449
Exchange differences	18	–54
At 30 September	**3,276**	**3,387**

The amount of expensed inventories in the reporting period was CHF 105.2 million (prior year: CHF 97.5 million).

7 Trade receivables

In CHF '000	30.9.2014	30.9.2013
Trade receivables, gross	38,652	34,420
Provision for doubtful debts	–150	–399
Total trade receivables	**38,502**	**34,021**

8 Other receivables, prepaid expenses and accrued income

In CHF '000	30.9.2014	30.9.2013
Other receivables	2,101	3,277
Prepaid expenses and accrued income	1,050	540
Total other receivables, prepaid expenses and accrued income	**3,152**	**3,817**

9 Provisions

In CHF '000	Warranty provisions	Provisions for employee benefits[1]	Restructuring provisions	Other provisions	Total
At 1 October 2012 as reported	**2,927**	**3,629**	**852**	**1,617**	**9,025**
IAS 19 restatement		373			373
At 1 October 2012 restated	**2,927**	**4,002**	**852**	**1,617**	**9,398**
Created	960	478		77	1,515
Used	– 355	– 207	– 246	– 195	– 1,002
Unused amounts reversed	– 1,214	– 87		– 592	– 1,893
Unwinding of discount				13	13
Exchange differences	– 11	– 9	4	1	– 16
At 30 September 2013 restated	**2,307**	**4,177**	**610**	**921**	**8,015**
Created	2,028	523	2	627	3,180
Amounts acquired through business combinations	428				428
Used	– 1,185	– 356	– 244	– 18	– 1,803
Unused amounts reversed	– 619	– 113	– 20	– 751	– 1,503
Unwinding of discount				11	11
Exchange differences	86	– 30		45	101
At 30 September 2014	**3,045**	**4,201**	**348**	**835**	**8,429**
Non-current provisions	1,491	4,177	368	9	6,046
Current provisions	816		242	911	1,969
Total provisions at 30 September 2013	**2,307**	**4,177**	**610**	**921**	**8,015**
Non-current provisions	1,276	4,201	75	549	6,101
Current provisions	1,769		273	286	2,328
Total provisions at 30 September 2014	**3,045**	**4,201**	**348**	**835**	**8,429**

[1] See note 14 on page 85.

Current provisions relate to cash outflows expected to occur within twelve months. Non-current provisions relate to outflows due after more than twelve months; where the time value of money is significant, the expected cash flows are discounted.

Warranty provisions

The warranty provisions were created primarily for the warranty risks inherent in the nature of the business activities. Warranty provisions are measured based on historical experience regarding repairs and returns and adjusted to reflect current sales volumes. The outflows are expected to occur within a period extending from the subsequent fiscal year to three years after the balance sheet date.

Provisions for employee benefits

Employee benefit provisions consist mainly of pension provisions for unfunded defined benefit plans in Germany, Thailand and France.

Restructuring provisions

The restructuring provisions were created after the discontinuation of production at the Luterbach site, for resulting unused leased factory space that is not sublet. In the year under review, CHF 0.2 million of these provisions was used. Schaffner believes that, until the expiration of the current lease for this space, a considerable portion of it will not be successfully sublet. The provision at the balance sheet date was CHF 0.3 million. The cash outflows are expected to occur within one to two years.

Other provisions

The category "other provisions" includes primarily provisions of CHF 0.5 million for deferred consideration for the acquisition of Trenco. The provisions for deferred consideration are non-current in nature. The related outflows are expected to occur in one to four years. The rest of the provisions included in "other provisions" is almost entirely current in nature and will involve cash outflows within one year.

10 Borrowings

The average interest rate payable on borrowings in fiscal year 2013/14 was 2.0% (prior year: 3.2%).

The composition of borrowings is shown in the following table:

In CHF '000	Effective interest rate at 30.9.2014	30.9.2014	30.9.2013
Bank loans in Switzerland	LIBOR + 1.35%	32,696	24,543
Bank loans in China		0	2,364
Bank overdrafts		0	533
Interest rate swap	1.16%	146	266
Finance leases	4.51%	2,429	2,657
Total borrowings		**35,271**	**30,363**
Of which:			
Current borrowings		160	549
Non-current borrowings		35,111	29,814

The debt financing of the Schaffner Group is assured through credit lines with four banks, with a credit limit of CHF 15 million per facility. These credit agreements are tied to covenants, which were fulfilled both during the year and at the balance sheet date.

The remaining maturities of the Group's individual bank borrowings at the balance sheet date ranged up to 4 years and 9 months. Under the credit agreements, they can be rolled over continuously until at least 30 June 2019.

11 Trade and other payables

In CHF '000	30.9.2014	30.9.2013
Trade payables	28,211	27,350
Other payables	3,752	3,587
Accrued expenses	9,940	9,314
Total trade and other payables	**41,903**	**40,251**

12 Contingent liabilities and pledged assets

As a company with worldwide operations, Schaffner is exposed to numerous legal risks. The outcome of currently pending legal proceedings cannot be predicted with certainty. Provisions are established inasmuch as the financial consequences of a past event can be estimated reliably and the estimate can be confirmed by independent expert opinion.

A court case entailing customs risks is pending in France. Schaffner was found not guilty both by the arbitration authority and the court of first instance; the judgment of second instance found for the customs authority. However, management expects that the next higher appellate authority will do justice to the exculpatory facts in line with the conclusion of the arbitration authority and has therefore not raised a provision for this matter.

Assets of CHF 219 thousand (prior year: CHF 150 thousand) were pledged as collateral for electricity consumed and for pension liabilities. There are no other terms and conditions associated with the use of collateral.

13 Staff costs and staff count

In CHF '000	2013/14	Restated 2012/13
Wages and salaries	48,699	46,436
Share-based payments expense[1]	907	–952
Social security costs	8,349	8,441
Temporary employees and other staff costs	5,980	3,193
Pension costs for defined benefit plans[2]	1,087	1,093
Total staff costs	**65,022**	**58,211**
Number of employees in full-time equivalents (average for the year)	**3,140**	**2,817**

[1] See note 18, page 92.
[2] See note 14, page 85.

14 Post-employment and other long-term employee benefits

To complement the benefits provided by state post-employment benefit arrangements, Schaffner maintains additional pension plans at some subsidiaries. These can be broadly classified as follows:

DEFINED CONTRIBUTION PENSION PLANS: Most Schaffner subsidiaries operate defined contribution pension arrangements. Under these, as a rule, the employees and employer pay into pension funds administered by third parties. The Schaffner Group has no payment obligations beyond making these contributions. The contributions are recognized in staff costs.

DEFINED BENEFIT PENSION PLANS: Defined benefit pension plans are maintained at six Group companies. The largest plan exists in Switzerland, at 89.3% (prior year: 88.2%) of Schaffner's total defined benefit obligation and 100% (prior year: 100%) of plan assets. Further plans are operated in Germany, France and Thailand.

SWISS PENSION PLANS: The Swiss pension plan is a defined benefit plan under IAS 19; its actuarially determined plan surplus is therefore recognized in the consolidated balance sheet.

The Schaffner Group pension fund in Switzerland (German name: Personalvorsorgestiftung der Schaffner Gruppe) is a private sector pension arrangement in the legal form of a foundation. It administers the provision of Schaffner's mandatory (legislated) and voluntary post-employment benefits in Switzerland under the Swiss Federal Act on Occupational Retirement, Survivors' and Disability Pensions (the BVG).

The top governing body of the Schaffner Group pension fund is the foundation's board of directors, made up of equal numbers of employee and employer representatives. The benefits provided by the pension fund, their financing, the organization and administration of the fund, the relationship to the sponsoring companies and to the plan participants (active employees and pension recipients) are all specified in the regulations of the Schaffner Group pension fund. These regulations are issued by the foundation's board of directors. The board may delegate the operational management to a management body. The foundation is supervised by the supervisory authority of the Canton of Solothurn.

Under the pension plan, employees and their survivors are insured against the economic consequences of old age, disability and death. The insured benefits exceed the legal requirements and are paid out as annuities or in lump sums. All insurance risks are fully reinsured. The pension plan is financed from contributions and investment returns. The sponsoring companies choose among two versions of saving plan. Within the savings plan selected, the participants choose between a basic and premium

plan. The sponsoring companies and the participants pay the contributions to the pension fund based on a percentage of the participants' insured pay. The amount of the contributions is calibrated such that the sum of the contributions and the expected return on the plan's investments will safeguard the ability to pay the plan obligations (benefits).

The foundation's board of directors is responsible for the investment of the plan assets. The organization of the investing activities and the associated authority structure are set out in the investment regulations of the Schaffner Group pension fund, which are issued by the board of the foundation. The investment regulations supplement the applicable legal framework. They determine the asset allocation and set out the qualitative and quantitative guidelines for the individual asset classes. The plan assets are invested in such a way as to ensure capital preservation and an appropriate return on capital, good diversification of risks, and cover of the foreseeable cash requirements. The foundation's board of directors has delegated responsibility for the implementation of the investing activities to an investment committee. The investment activities of the Schaffner Group pension fund are performed by external providers (asset managers) and supervised by the investment committee. The plan assets are invested in accordance with legal requirements and the guidelines set by the foundation's board and consist of a well-diversified portfolio of investments in Switzerland and other countries. Recognized Swiss banking institutions serve as custodians.

The occupational pension expert periodically prepares the actuarial balance sheet and reviews the financial and actuarial position of the Schaffner Group pension fund. At 31 December 2013 the funded ratio of the Schaffner Group pension fund as determined under the Federal Act on Occupational Retirement, Survivors' and Disability Pensions (BVG) was 118.6% (prior year: 117.6%). In the event of underfunding as defined by the BVG, appropriate remedial measures must be taken by the board of the foundation, acting in agreement with the occupational pension expert, such as increasing the level of regular contributions or collecting remedial contributions. The employer contribution must be at least as high as the aggregate contributions of the employees.

The valuation prepared by the occupational pension expert for the Schaffner Group pension fund is not based on the projected unit credit method specified by IFRS. Also, the pension fund uses a different balance sheet date than the Schaffner Group. An additional valuation compliant with IFRS is therefore prepared annually for Schaffner by an independent pension expert at the balance sheet date of the Schaffner Group (30 September).

Amounts recognized in the balance sheet

In CHF '000	30.9.2014	Restated 30.9.2013
Funded plans		
Fair value of defined benefit assets	39,187	36,537
Present value of defined benefit obligations	–36,735	–31,370
Present value of net defined benefit assets recognized in the balance sheet	**2,452**	**5,167**
Unfunded plans		
Provisions for pensions	–3,882	–3,610
Present value of defined benefit assets	824	849
Present value of net assets/obligations recognized in the balance sheet	**–3,058**	**–2,761**
Other		
Provisions for other employee benefits	–319	–570
Present value of other employee benefit obligations recognized in the balance sheet	**–319**	**–570**

Amounts recognized in the income statement

In CHF '000	2013/14	Restated 2012/13
Current service cost of employer	– 1,118	– 1,090
Interest cost on defined benefit obligation	– 700	– 714
Interest income on plan assets	731	710
Pension cost	**– 1,087**	**– 1,094**

Amounts recognized in the statement of comprehensive income

In CHF '000	2013/14	Restated 2012/13
Actuarial (gains)/losses		
Changes in financial assumptions	327	204
Experience adjustments	4,888	897
Return on plan assets (excluding interest based on discount rate)	– 2,168	– 1,264
Total remeasurement of employee benefits	**3,047**	**– 163**

Movement in fair value of defined benefit assets

In CHF '000	2013/14	Restated 2012/13
At 1 October	**36,537**	**35,169**
Interest income on plan assets (based on discount rate)	731	710
Return on plan assets (excluding interest based on discount rate)	2,168	1,264
Employer contributions	1,038	998
Employee contributions	666	592
Benefits paid	– 1,712	– 1,958
Insurance premiums	– 241	– 238
At 30 September	**39,187**	**36,537**

In total, the Group expects to contribute CHF 1.7 million to post-employment benefit plans in the subsequent year (year under review: CHF 1.6 million).

Movement in present value of defined benefit obligations

In CHF '000	2013/14	Restated 2012/13
At 1 October	**– 35,550**	**– 34,432**
Current service cost of employer	– 1,118	– 1,090
Employee contributions	– 687	– 594
Interest cost	– 700	– 714
Actuarial loss	– 5,215	– 1,101
Benefits paid	2,057	2,144
Insurance premiums	241	238
Exchange differences	36	0
At 30 September	**– 40,936**	**– 35,550**

Allocation of plan assets

In CHF '000	30.9.2014		30.9.2013	
Cash and cash equivalents	596	1.5%	3,562	9.8%
Mortgages	235	0.6%	237	0.7%
Swiss equities	6,964	17.8%	5,583	15.3%
Foreign equities	10,294	26.3%	5,645	15.5%
Swiss bonds	9,240	23.6%	8,981	24.6%
Foreign bonds	7,261	18.5%	5,565	15.2%
Property	3,621	9.2%	4,976	13.6%
Other assets	976	2.5%	1,988	5.4%
Fair value of defined benefit assets	**39,187**	**100%**	**36,537**	**100%**

For all net assets there are quoted prices in an active market. The pension plans are not invested in property utilized by the Schaffner Group.

Actuarial assumptions

In CHF '000	2013/14	2012/13
Discount rate	1.9%	2.1%
Expected rate of future salary increases	1.1%	1.1%
Expected rate of future pension increases	0.1%	0.1%
Mortality tables used	BVG 2010 GT	BVG 2010 GT

The actuarial assumptions are the averages of the parameters used for the valuation of all defined benefit plans. They are weighted according to the defined benefit obligations of the individual plans.

Sensitivity analysis

As the discount rate and the rates of salary and pension increases are regarded as material actuarial assumptions, a sensitivity analysis is performed on them. As the pension plan in Switzerland accounted for 89.3% (prior year: 88.2%) of all defined benefit obligations in the Schaffner Group, the sensitivity analysis was confined to this plan for clarity and cost/benefit reasons. If the values assumed were to increase or decrease as shown below, the defined benefit obligations would change as follows:

	Defined benefit obligation	
In CHF '000	Effect of an increase	Effect of a decrease
Discount rate (change of 0.5%-points)	–8.9%	9.3%
Expected rate of future salary increases (change of 0.5%-points)	2.2%	–1.8%
Expected rate of future pension increases (change of 0.5%-points)	3.0%	n/a
Expected mortality rate (change of 10%)	–2.8%	2.6%

The sensitivity analysis was performed using a method which determines how the defined benefit obligation is affected by varying the above assumptions as at the end of the reporting period.

The expected maturities of the future benefit payments are as follows:

In CHF '000	Total	Within 1 year	In more than 1 year and not more than 2 years	In more than 2 years and not more than 5 years	Thereafter
Maturities of the defined benefit obligations at 30 September 2014	**40,936**	**1,257**	**1,727**	**3,303**	**34,649**

The average duration of the defined benefit obligations was 14.7 years.

15 Finance income and expense

Finance income

In CHF '000	2013/14	2012/13
Interest income	152	185
Foreign exchange gains	5,816	4,489
Total finance income	**5,968**	**4,674**

Finance expense

In CHF '000	2013/14	2012/13
Interest expense	–833	–1,272
Foreign exchange losses	–5,939	–5,187
Other finance expense	–347	–287
Total finance expense	**–7,119**	**–6,746**

16 Income tax

In CHF '000	2013/14	Restated 2012/13
Current tax in respect of the current year	–1,512	–1,124
Adjustments in respect of prior periods, net	325	–84
Current tax	**–1,186**	**–1,208**
Current tax	–1,186	–1,208
Deferred tax	–47	183
Income tax	**–1,233**	**–1,025**

Deferred tax consisted of i) deferred tax liabilities of CHF 47 thousand (prior year: deferred tax assets of CHF 77 thousand) from the origination and reversal of temporary differences and the resulting capitalization of tax effects of loss carryforwards, and ii) deferred tax of CHF 0 (prior year: deferred tax assets of CHF 106 thousand) from changes in applicable tax rates. Deferred tax liabilities of CHF 1.9 million (prior year: deferred tax liabilities of CHF 1.5 million) for temporary differences in connection with reinvested profits in subsidiaries were not recognized at the end of the fiscal year, as the Group is able to control the timing of reversal of these differences and no repayment is planned for the foreseeable future.

Unused tax losses for which no deferred tax asset was recognized in the balance sheet were as follows:

In CHF '000	2013/14	2012/13
Expiry in 1 year	46	201
Expiry in 2 years	119	33
Expiry in 3 years	4,268	902
Expiry in 4 years	3,734	4,420
Expiry in 5 years	1,506	3,729
Expiry in more than 5 years	737	3,878
Total unused tax loss carryforwards	**10,411**	**13,164**

Reconciliation of profit before tax (EBT) to income tax expense:

In CHF '000	2013/14	Restated 2012/13
Profit before tax reported in the income statement	**13,861**	**7,133**
Nominal tax rate	22%	20%
Expected income tax at nominal tax rate	– 2,997	– 1,433
Effect of non-recognition of tax loss carryforwards	– 43	– 333
Effect of tax rates other than nominal tax rate	718	– 14
Effect of expenses not deductible for tax purposes	– 148	– 85
Effect of non-taxable income	165	144
Utilization of previously unrecognized tax losses or gains	520	231
Adjustments in respect of prior periods	325	– 84
Non-refundable withholding taxes	– 135	– 90
Change in recognition of tax loss carryforwards	384	563
Effect of changes in tax rates or of new taxes		106
Other	– 22	– 30
Income tax expense reported in the income statement	**– 1,233**	**– 1,025**

The Group's nominal tax rate for 2013/14 is 21.62% (prior year: 20.09%). It is calculated as the weighted average of the products from multiplying each Group company's earnings before tax by the respective local statutory tax rate.

At the balance sheet date the deferred tax liabilities and assets were attributable to items in the balance sheet as follows:

In CHF '000	2013/14	Restated 2012/13
Intangible assets	– 155	– 471
Property, plant and equipment	– 556	– 662
Other non-current assets	– 441	– 952
Inventories	1,182	1,140
Trade receivables	14	43
Provisions	1,011	556
Trade and other payables	527	755
Tax loss carryforwards	944	1,457
Net deferred tax assets	**2,526**	**1,865**
Of which:		
Reported in the balance sheet as deferred tax liabilities	– 1,200	– 1,286
Reported in the balance sheet as deferred tax assets	3,726	3,151

17 Operating segments

The Schaffner Group consists of three reportable segments: Electromagnetic Compatibility, Power Magnetics and Automotive. They represent the organizational units for which results are reported to the Executive Committee (the Group's chief operating decision maker).

Electromagnetic Compatibility (EMC)

The EMC division develops and manufactures standard and custom components that protect power electronic equipment from line interference (ensuring electromagnetic compatibility) as well as power quality filters to safeguard the stability of power grids. The key sales markets include energy-efficient drive systems, renewable energy, power supplies for electronic devices, machine tools, robotics and electrical infrastructure.

Power Magnetics (PM)

The Power Magnetics division develops and manufactures power magnetic components (chokes and transformers) that ensure the reliability of power electronic systems, as well as customized high-performance transformers for demanding applications. Power magnetic components are an integral part of high- and ultra-high-performance systems for power conversion. The main sales markets include energy-efficient drive systems, renewable energy and rail technology.

Automotive (AM)

The Automotive division develops and manufactures components for convenience and safety features in cars and for the drive trains of hybrid and electric vehicles.

Corporate

The "corporate" column comprises all costs for Group functions that cannot be allocated to a particular segment. These are primarily the expenses of Schaffner Holding AG and acquisition costs.

No operating segments have been aggregated to form these reportable business segments.

No reconciliation of the management reporting data to the financial reporting data is required or provided, as the internal and external reporting follow the same accounting and presentation policies.

2013/14 In CHF '000	EMC	PM	AM	Corporate	Group
Net sales	109,993	67,311	37,268		214,572
Segment profit/(loss)	**15,850**	**4,307**	**2,499**	**–6,688**	**15,968**
Amortization of customer relationships					–956
Operating profit [EBIT]					**15,012**
Finance income					5,968
Finance expense					–7,119
Profit before tax [EBT]					**13,861**
Income tax					–1,233
Net profit for the period					**12,628**

Restated 2012/13 In CHF '000	EMC	PM	AM	Corporate	Group
Net sales	109,685	53,924	31,280		194,889
Segment profit/(loss)	**13,987**	**2,953**	**–2,037**	**–4,834**	**10,069**
Amortization of customer relationships					–864
Operating profit [EBIT]					**9,205**
Finance income					4,674
Finance expense					–6,746
Profit before tax [EBT]					**7,133**
Income tax					–1,025
Net profit for the period					**6,108**

Information by region

In the analysis below, net sales with external customers are allocated to regions according to the domicile of the Schaffner company which generated the revenue. The non-current assets consist of property, plant and equipment and intangible assets in the respective country/region.

In CHF '000	Switzerland	Rest of Europe	Europe total	Asia	North America	Group
Net sales	4,946	106,845	111,791	64,332	38,449	214,572
Non-current assets	4,449	12,526	16,975	13,814	18,117	48,906

In CHF '000	Switzerland	Rest of Europe	Europe total	Asia	North America	Group
Net sales	3,780	92,244	96,024	69,210	29,655	194,889
Non-current assets	5,407	12,738	18,145	12,162	10,263	40,569

Information by customer

No single external customer represented 10% or more of net sales.

18 Equity incentive plans

The Schaffner Group maintains several equity incentive plans (share ownership plans) for key executive management and the Board of Directors. These are option-based plans (ESOP and POP) and share-based plans (RSP).

In the prior fiscal year the Board of Directors decided to replace the Employee Share Option Plan for key executive management and Board members (ESOP) with a Restricted Share Plan (RSP). As a result, no new options have been issued since including fiscal year 2012/13. However, any rights associated with previously issued options remain intact.

Option-based incentive plans

Since 1 October 1998, the Group granted options over ordinary registered shares of Schaffner Holding AG to key executive management and to members of the Board of Directors. The awarding of such options was based on the Schaffner Holding AG Employee Share Option Plan 1998 (ESOP) – before and after changes to the ESOP on 13 November 2006 – and on the Schaffner Holding AG Performance Option Plan (POP). The share capital allocated to satisfying the combined obligations under the ESOP and POP comprises both (i) authorized unissued share capital of CHF 1.0 million, consisting of 32,000 registered shares of Schaffner Holding AG with a nominal value of CHF 32.50 per share, and (ii) treasury shares.

- Employee Share Option Plan (ESOP) options issued before the plan amendment of 13 November 2006: Share options granted under the pre-amendment ESOP ordinarily vested in five annual installments of 20%, beginning one year after the grant date. Five years after the grant date, all granted options were thus ordinarily vested. The options were granted over three years in equal annual tranches. This resulted in a different vesting period for each tranche. Unexercised options expire ten years after the grant date
- ESOP options issued after the plan amendment of 13 November 2006: Share options granted under the post-amendment ESOP ordinarily vested in four annual installments of 25%, beginning one year after the grant date. Four years after the grant date, all granted options are thus ordinarily vested. Unexercised options expire seven years after the grant date.
- Performance Option Plan (POP): 100% of POP share options ordinarily vested (provided that the non-vesting conditions were satisfied) if the performance target was reached at 30 September 2013. Unexercised options expire ten years after the grant date.

As the POP's performance target at 30 September 2013 was not reached, all expenses recognized in prior periods for this item, totaling CHF 1.2 million, were reversed in the prior year. This amount was recognized as a deduction item in general and administrative expense and correspondingly reduced the related reserves formed in the prior periods.

	30.9.2014		30.9.2013	
	Number of share options outstanding	Average exercise price in CHF	Number of share options outstanding	Average exercise price in CHF
At 1 October	34,533	208	70,019	188
Granted in the year	0		0	
Exercised in the year	–9,558	193	–4,097	172
Expired/cancelled in the year	–1,187	208	–31,389	168
At 30 September	**23,788**	**214**	**34,533**	**208**
Of which:				
Vested	17,938	207	22,439	200
Covered by treasury shares	3,243		4,811	
Covered by authorized unissued share capital	20,545		29,722	
Uncovered	**0**		**0**	

Share options were granted for the last time on 21 November 2011. No further share options have been granted since then.

The terms of the share options outstanding at the end of the fiscal year were as follows:

	30.9.2014		30.9.2013	
Expiry date	Number of share options	Exercise price in CHF	Number of share options	Exercise price in CHF
14.11.2013	0	212.00	718	212.00
24.11.2013	0	192.00	1,417	192.00
17.04.2014	0	250.00	500	250.00
09.11.2014	1,200	260.00	2,899	260.00
29.11.2014	1,318	180.00	1,918	180.00
11.11.2015	1,110	180.00	1,493	180.00
14.11.2015	1,350	153.50	3,150	153.50
30.11.2016	3,225	159.90	6,013	159.90
13.01.2017	1,000	157.00	1,000	157.00
21.11.2017	6,380	240.50	6,910	240.50
21.11.2018	8,205	235.00	8,515	235.00
Total share options outstanding	**23,788**		**34,533**	

In the year under review, an expense of CHF 107 thousand (prior year: income of CHF 995 thousand) on share options plans was recognized in the income statement.

Share-based incentive plans

Restricted share plans

Executive management and the members of the Board of Directors are annually granted restricted shares. The shares are subject to a three-year holding period, during which they carry full voting and dividend rights. If the recipient leaves the company during the holding period, the shares do not revert to the company, but do remain subject to the holding period.

In the year under review, 3,000 shares (prior year: 2,345 shares) with a fair value of CHF 267 per share (prior year: CHF 227) were granted. The expense of CHF 801 thousand (prior year: CHF 532 thousand) was recognized in the year under review.

Restricted Share Plan – BETEC

At 28 January 2009, key staff members of the acquired BETEC-Engineering were granted 620 restricted shares. These shares carry full voting and dividend rights; they revert to Schaffner if the grantees do not remain employed with the company for four years.

The fair value of these restricted shares of CHF 145 per share is charged to the income statement over the term of four years. In the year under review, the expense charged to the income statement was CHF 0 (prior year: CHF 6 thousand).

Restricted Share Plan – MTC

At 1 September 2011, key personnel of the acquired division of MTC Transformers, Inc. were granted 570 restricted shares. These shares carry full voting and dividend rights; they revert to Schaffner if the grantees do not remain employed with the company for four years.

The fair value of these restricted shares of CHF 258 per share is charged to the income statement over the term of four years. As one participant in this plan left the Schaffner Group in the year under review, the expenses of CHF 38 thousand recognized for this person's shares in the prior years were reversed and the shares reverted to Schaffner. In the year, a credit of CHF 1 thousand (prior year: expense of CHF 37 thousand) was recognized in the income statement.

19 Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to shareholders of Schaffner Holding AG by the weighted average number of ordinary shares outstanding during the reporting period, excluding ordinary shares purchased by the Group and held as treasury shares.

	2013/14	Restated 2012/13
Basic earnings per share		
Net profit for the period in CHF '000	12,628	6,108
Weighted average number of shares outstanding entitled to dividend	633,349	633,859
Basic earnings per share in CHF	19.94	9.64

Diluted earnings per share

Diluted earnings per share are calculated by dividing the net profit for the period attributable to shareholders of Schaffner Holding AG by the weighted average number of ordinary shares outstanding during the reporting period, including all shares that would result from the exercise of all potentially dilutive outstanding share options.

	2013/14	Restated 2012/13
Diluted earnings per share		
Net profit for the period in CHF '000	12,628	6,108
Relevant share options outstanding, in number of shares	5,287	3,733
Weighted average number of shares outstanding used in calculation of diluted earnings per share	638,636	637,592
Diluted earnings per share in CHF	19.77	9.58

20 Treasury shares

	Number of shares	Average share price in CHF	At average price in CHF '000
At 1 October 2012	**5,858**	**251**	**1,469**
+ Purchase[1]	5,086		1,104
– Sale[1]	– 1		0
– Shares utilized for Employee Share Option Plan[2]	– 4,097		– 704
– Shares utilized for restricted share plans[2]	– 2,035		– 532
Valuation differences[3]			– 287
At 30 September 2013	**4,811**	**218**	**1,050**
+ Purchase[1]	11,000		3,082
– Sale[1]	– 200		– 50
– Shares utilized for Employee Share Option Plan[2]	– 9,558		– 1,844
– Shares utilized for restricted share plans[2]	– 2,810		– 801
Valuation differences[3]			– 478
At 30 September 2014	**3,243**	**296**	**959**

[1] At share prices quoted at transaction date.

[2] At exercise price.

[3] The difference between the average purchase price and the exercise price or selling price is taken to retained earnings.

21 Financial instruments

The Schaffner Group has a variety of financial assets that arise directly from its own business operations (such as cash and cash equivalents, receivables, prepaid expenses and accrued income), as well as other non-current assets. At the balance sheet date, the fair values of the Group's financial assets did not differ significantly from their carrying amounts.

Financial assets

	Carrying amount		Fair value	
In CHF '000	30.9.2014	30.9.2013	30.9.2014	30.9.2013
Cash and cash equivalents[1]	18,640	17,012	18,640	17,012
Receivables, prepaid expenses and accrued income[1]	41,654	37,838	41,654	37,838
Other financial assets[1,2]	6,418	5,511	6,418	5,511
Total financial assets	**66,712**	**60,361**	**66,712**	**60,361**

[1] Classified to the loans and receivables category.

[2] Excluding defined benefit assets and IFRIC 14 asset.

The main financial liabilities of the Schaffner Group are bank borrowings and trade payables. These financial liabilities are principally intended to ensure the financing of the Group's day-to-day business operations. The fair values of the financial liabilities substantially correspond to their carrying amounts.

At 30 September 2013 Schaffner also had an open interest rate swap position with a negative fair value of CHF 146 thousand (prior year: CHF 265 thousand). The swap was designated as a cash flow hedge of future variable interest payments. The variable interest payments relate to the Group's debt financing.

The hedge was contracted on the following terms in July 2010:

- Notional principal amount: CHF 12 million
- Maturity date: 26 July 2015
- Reference rate: CHF, 3-month LIBOR
- Fixed rate: 1.1575%

At the balance sheet date the management of the Schaffner Group considers that the credit facility will remain drawn in the amount of CHF 12 million until at least the expiry of the swap. In view of this circumstance and the matching other critical

terms of the credit facility and the hedge, the Schaffner Group assesses this hedge as highly effective at the balance sheet date.

The variable interest rate payments are due every quarter; the final such payment under this hedge is expected to occur in July 2015. In the year under review, as the hedge relationship is deemed highly effective, an unrealized gain of CHF 120 thousand (prior year: unrealized gain of CHF 169 thousand) was recognized in the statement of comprehensive income rather than in profit or loss. No hedging reserves had to be removed from equity and taken to profit or loss.

Financial liabilities (including derivatives)

	Carrying amount		Fair value	
In CHF '000	30.9.2014	30.9.2013	30.9.2014	30.9.2013
Non-current borrowings[1]	34,965	29,549	34,965	29,549
Current borrowings[1]	160	549	160	549
Trade and other payables[1]	41,903	40,251	41,903	40,251
Derivative financial instruments[2]	146	265	146	265
Total financial liabilities, including derivatives	**77,174**	**70,614**	**77,174**	**70,614**

[1] Measured at amortized cost.

[2] Classified as financial liabilities at fair value through profit or loss.

The financial assets and liabilities measured at fair value are categorized into the following fair value hierarchy according to the valuation technique used:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Techniques for which all inputs that have a significant effect on the recorded fair value are based on directly or indirectly observable market data.
- Level 3: Techniques using inputs that have a significant effect on the recorded fair value and are not based on observable market data.

Analysis by level in the fair value hierarchy

	2013/14			2012/13	
In CHF '000	Level 2	Level 3	Total	Level 2	Total
Liabilities measured at fair value					
Derivative financial instruments	146		146	266	266
Contingent consideration		538	538		
Total liabilities measured at fair value	**146**	**538**	**684**	**266**	**266**

The derivative position consists of an over-the-counter interest rate derivative. The valuations are at middle rates of exchange at the balance sheet date. The contingent consideration from the Trenco acquisition was calculated based on existing business plans and management's revenue estimates and discounted to the balance sheet date. There were no reclassifications between levels.

Financial instruments

In CHF '000	Loans and receivables	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total
Carrying amount at 30 September 2014	**66,712**	**77,028**	**146**	
Interest income/(expense)	152	– 809	– 24	– 681
Foreign exchange (losses)/gains[1]	– 315	192		– 123
Net other finance expense		– 347		– 347
Change in provision for doubtful debts	102			102
Net loss recognized in the income statement	**– 61**	**– 964**	**– 24**	**– 1,049**
Net loss recognized in equity[2]	– 93			– 93
Total net loss in 2013/14	**– 154**	**– 964**	**– 24**	**– 1,142**
Carrying amount at 30 September 2013	**60,361**	**70,349**	**265**	
Interest income/(expense)	185	– 1,248	– 24	– 1,087
Foreign exchange losses[1]	– 611	– 87		– 698
Net other finance expense		– 287		– 287
Change in provision for doubtful debts	– 183			– 183
Net loss recognized in the income statement	**– 609**	**– 1,622**	**– 24**	**– 2,255**
Net loss recognized in equity[2]	– 69			– 69
Total net loss in 2012/13	**– 678**	**– 1,622**	**– 24**	**– 2,324**

[1] The foreign exchange gains/losses from intra-Group loans are as a rule classified to the loans and receivables category.

[2] From valuation of equity-like loans.

The derivative position consists of an over-the-counter interest rate derivative. The valuations are at middle rates of exchange at the balance sheet date. The contingent consideration from the Trenco acquisition was calculated based on existing business plans and management's revenue estimates and discounted to the balance sheet date. There were no reclassifications between levels.

The most significant risks in connection with the Group's financial instruments are interest rate, foreign currency, credit and liquidity risk. The Risk and Audit Committee approves and reviews the guidelines for the monitoring, reporting and control of all these risks, which are summarized below.

Interest rate risk

The Schaffner Group's exposure to risk from fluctuations in interest rates was related primarily to current interest-bearing financial assets and non-current financial liabilities such as bank loans. In the reporting period the Group entered into hedges in the form of interest rate swaps in order to reduce the interest rate risk on bank loans, which is tied to 3-month LIBOR.

The table below presents the sensitivity of profit before tax (EBT) to a reasonably possible change in interest rates when all other variables are held constant. The change in interest rates, expressed in basis points, is based on the actual range of fluctuation observed during the respective fiscal year.

	2013/14		2012/13	
	Decrease in basis points	Effect on EBT in CHF '000	Decrease in basis points	Effect on EBT in CHF '000
CHF	1	0	2	1
CNY	67	– 20	97	– 26
EUR	12	– 5	17	– 8
USD	2	2	6	6

Respectively, increases in interest rates by the same number of basis points as that shown in the preceding table have an effect equal and opposite to that shown.

Foreign exchange risk

Its worldwide activities and focus on exports expose the Schaffner Group to currency risks arising from the purchase and sale of goods in foreign currencies which are not invoiced in the functional currency of the respective subsidiary. This foreign exchange risk resulting from business operations can be reduced by buying and selling primarily in the subsidiary's own foreign currency, an approach known as natural hedging. As well, on a monthly basis, Schaffner analyzes and quantifies the foreign exchange risks and assesses the need for risk management measures under internally defined foreign exchange guidelines, which require an intervention whenever the calculated value-at-risk exceeds 10% of budgeted EBIT. The table below shows the sensitivity of profit before tax (EBT) and of shareholders' equity to a reasonably possible movement in the exchange rates of the euro, US dollar and Thai baht against the Swiss franc when all other variables are held constant.

	2013/14			2012/13		
	Increase in %	Effect on EBT in CHF '000	Effect on equity in CHF '000	Increase in %	Effect on EBT in CHF '000	Effect on equity in CHF '000
EUR/CHF	2	182	46	2	152	48
USD/CHF	5	329	31	5	486	30
THB/CHF	6	–480	0	7	–600	0

Respectively, decreases in exchange rates by the same percentage amounts shown in the preceding table have an effect equal and opposite to that shown.

The percentage movement in exchange rates is based on the actual range of fluctuation during the respective reporting period.

The calculation of foreign currency risk includes all material holdings of financial instruments that are not reported in the functional currency of the respective Group company. The effect on equity arises from foreign exchange differences on equity-like loans between Group companies denominated in euros and US dollars.

Credit risk

Cash and cash equivalents

When investing cash, the Schaffner Group is exposed to potential losses from credit risks in the event that financial institutions do not fulfill their obligations. In order to minimize this risk, the Group spreads its cash and cash equivalents among a number of banks and invests only in safe instruments with low default risk. The table below shows the amounts of cash and cash equivalents held at the three largest counter-parties at the balance sheet date.

Creditworthiness of key counterparties

In CHF '000	30.9.2014		30.9.2013	
	Rating	Balance	Rating	Balance
Bank A	A	5,591	A	3,517
Bank B	A-	4,832	A-	2,681
Bank C	A-	2,263	A-	2,525
Other counterparties		5,921		8,275
Total cash and cash equivalents, other than cash in hand		**18,607**		**16,998**

Trade receivables

The Schaffner Group markets a wide range of products. Concentration risks in connection with trade receivables are limited as a result of the Group's large, diverse and global customer base. The Group companies locally regularly assess and monitor receivables balances and adherence to payment terms.

Impairment risks on receivables are provided through individual impairment provisions, and collectively on the basis of historical experience. Receivables are only written off when there is sufficient evidence that no further payment is likely. Past experience has shown the risk of trade receivables impairment to be relatively low.

Provision for doubtful debts

In CHF '000	2013/14	2012/13
At 1 October	**399**	**375**
Created	206	211
Used	–119	–53
Unused amounts reversed	–332	–129
Exchange differences	–4	–5
At 30 September	**150**	**399**

The ageing of trade receivables is detailed in the following table:

			Overdue			
In CHF '000	Total	Not overdue	Up to 30 days	31 to 60 days	61 to 90 days	More than 90 days
Trade receivables at 30 September 2014	**38,502**	**30,708**	**6,186**	**1,097**	**223**	**288**
Trade receivables at 30 September 2013	**34,021**	**26,819**	**5,326**	**984**	**290**	**602**

The Schaffner Group's maximum exposure to credit risk at 30 September 2014 was CHF 66.8 million (prior year: CHF 60.4 million), taking into account all financial assets.

Liquidity risk

Liquidity risk is the risk that the Schaffner Group will no longer be fully able to meet its financial obligations. The Schaffner Group monitors its liquidity risk and strives to avoid liquidity shortages through prudent liquidity management. In addition, six-month bottom-up rolling liquidity and cash flow forecasts are generated every month.

The following table provides an overview of the maturity structure of the Schaffner Group's financial liabilities at the balance sheet date based on all contractual payment obligations (undiscounted).

			Cash outflow due in				
In CHF '000	Carrying amount	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years
Non-current financial liabilities[1]	32,682	33,700	151	0	12,321	21,228	0
– Of which hedged[2]	12,146	12,204	75	0	12,129	0	0
– Of which unhedged[2]	20,536	21,496	76	0	192	21,228	0
Current financial liabilities[1]	42,063	42,063	48	37,940	4,075	0	0
– Of which interest rate swap	146	136	34	0	102	0	0
Finance leases	2,429	2,774	73	0	219	1,168	1,314
Total financial liabilities at 30 September 2014	**77,174**	**78,537**	**272**	**37,940**	**16,615**	**22,396**	**1,314**
Non-current financial liabilities[1]	27,172	28,403	674	511	1,953	25,265	0
– Of which hedged[2]	12,265	12,553	86	0	208	12,259	0
– Of which unhedged[2]	14,907	15,850	588	511	1,745	13,006	0
– Interest rate swap	265	273	34	0	102	137	0
Current financial liabilities[1]	40,785	40,785	533	36,298	3,954	0	0
Finance leases	2,658	3,372	78	0	232	1,203	1,859
Total financial liabilities at 30 September 2013	**70,614**	**72,560**	**1,285**	**36,809**	**6,139**	**26,468**	**1,859**

[1] Excluding finance leases; these are presented as a separate line item.

[2] Including interest margin.

Capital management

The primary objectives of capital management in the Schaffner Group are to safe-guard the business as a going concern and ensure sustained growth in the Group's value. In its financial management the Group uses a system of financial ratios and other metrics. These control parameters, which are tailored to the business model, relate to liquidity, growth and profitability. To monitor its capital structure, the Schaffner Group uses a gearing ratio, defined as the ratio of net debt to shareholders' equity. The capital structure is designed to ensure sufficient equity to cover the business risks and secure the Group's financial flexibility. Borrowings must not exceed an amount that the Group can repay in the medium term out of free cash flows.

In CHF '000	30.9.2014	Restated 30.9.2013
Non-current borrowings	35,111	29,814
Current borrowings	160	549
Cash and cash equivalents	– 18,640	– 17,012
Net debt	**16,631**	**13,351**
Shareholders' equity	66,646	58,081
Gearing ratio	**25%**	**23%**

22 Related parties

All transactions with related parties are conducted at arm's length. All transactions with subsidiaries were completely eliminated on consolidation.

Compensation of Executive Committee and Board of Directors

The following compensation was paid to the members of the Executive Committee, including the Chief Executive Officer:

In CHF '000	2013/14	2012/13
Short-term compensation (base salaries, variable cash compensation and benefits in kind)	2,556	2,775
Contractual post-employment benefits	0	441
Share-based payments (expense)/income[1]	326	– 755
Pension plan contributions	205	182
Total compensation of Executive Committee	**3,087**	**2,643**

[1] The expense for the options granted in prior years is spread over the vesting periods (see note 18 on page 92). The expense for the 1,024 restricted shares issued in the year under review at a market value of CHF 267 per share, i.e. at a combined market value of CHF 278 thousand (prior year: 795 restricted shares with a market value of CHF 227 per share or total market value of CHF 180 thousand), was recognized immediately.

In the year under review, members of the Board of Directors were paid fees and expense allowances (including flat expense allowances) of CHF 350 thousand (prior year: CHF 330 thousand) and were granted 815 restricted shares at a market value of CHF 267 per share (prior year: 623 restricted shares at a market value of CHF 227 per share).

Disclosures under the Swiss Code of Obligations on compensation of the Executive Committee and Board of Directors are set out on page 106 in the notes to the company financial statements of Schaffner Holding AG.

Swiss pension plan

The Group's pensions in Switzerland are administered by a legally separate fund in the form of a foundation. In the year under review, total contributions of CHF 1.7 million (prior year: CHF 1.6 million) were paid to this foundation. At the balance sheet date the Group had a net payables balance of CHF 92 thousand with the foundation (prior year: net payables of CHF 79 thousand). As in the prior year, the pension fund held no ownership interests in Schaffner Holding AG and was not invested in property utilized by the Schaffner Group.

23 Risk assessment

The Board of Directors of Schaffner Holding AG evaluates the risks to the Group through systematic risk identification and analysis. Risk management measures are formulated on this basis and their implementation and results are continually monitored. The Group uses a risk management system which is designed for the timely detection, evaluation and mitigation of risks.

24 Release of the consolidated financial statements for publication

The consolidated financial statements were released by the Board of Directors of Schaffner Holding AG on 8 December 2014 for publication and will be presented to shareholders for adoption at the Annual General Meeting on 15 January 2015.

25 Events after the balance sheet date

No events have occurred after the balance sheet date that have a material effect on the amounts in the consolidated financial statements.

26 Companies of the Schaffner Group

The following companies' results are included in the Schaffner Group's consolidated financial statements at 30 September 2014:

Company	Registered office		Capital in '000	Group's interest in %
Schaffner Holding AG	Luterbach, Switzerland	CHF	20,668	100%
Schaffner Trading AG	Luterbach, Switzerland	CHF	250	100%
Schaffner EMV AG	Luterbach, Switzerland	CHF	14,000	100%
Schaffner Oy	Lohja, Finland	EUR	34	100%
Schaffner EMC S.A.S.	Illzach, France	EUR	5,330	100%
Schaffner Ltd.	Wokingham, UK	GBP	260	100%
Schaffner EMV Hungary Kft.	Kecskemét, Hungary	HUF	8,000	100%
Schaffner EMC S.r.l.	Milan, Italy	EUR	100	100%
Schaffner Deutschland GmbH	Büren, Germany	EUR	380	100%
Schaffner EMC AB	Sollentuna, Sweden	SEK	200	100%
Schaffner EMC, Inc.	Edison, NJ, USA	USD	1,030	100%
Schaffner MTC LLC	Wytheville, VA, USA	USD	2,676	100%
Schaffner Trenco LLC	Cleveland, OH, USA	USD	3,758	100%
Magnetics Technologies LLC	Cleveland, OH, USA	USD	466	100%
Transformer Real Estate LLC	Cleveland, OH, USA	USD	42	100%
Schaffner EMC Ltd.	Shanghai, China	CNY	52,815	100%
Schaffner EMC K.K.	Tokyo, Japan	JPY	10,000	100%
Schaffner EMC Pte. Ltd.	Singapore	SGD	1,200	100%
Schaffner EMC Co. Ltd.	Lamphun, Thailand	THB	140,000	100%
Schaffner EMV Ltd. (Taiwan Branch)	Taipei, Taiwan	TWD	5,000	100%

**To the General Meeting of
Schaffner Holding AG, Luterbach**

As statutory auditor, we have audited the consolidated financial statements of Schaffner Holding AG, which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes (pages 62 to 101), for the year ended 30 September 2014.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 30 September 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Berne, 8 December 2014

Ernst & Young Ltd

Bernadette Koch
Licensed audit expert
(Auditor in charge)

Philippe Wenger
Licensed audit expert

Balance sheet

In CHF '000	30.9.2014	30.9.2013
Property, plant and equipment	0	28
Investments in subsidiaries	85,251	85,251
Non-current assets	**85,251**	**85,279**
Receivables from subsidiaries	22,784	7,771
Other receivables, and prepaid expenses with non-Group entities	124	63
Securities and term deposits	694	809
Cash and cash equivalents	114	105
Current assets	**23,716**	**8,748**
Total assets	**108,967**	**94,027**
Share capital	20,668	20,668
General legal reserve	4,134	4,134
Reserve for treasury shares	959	1,050
Share premium	39,598	42,450
Retained earnings	16,608	14,981
Net profit for the period	2,595	1,536
Shareholders' equity	**84,562**	**84,819**
Non-current borrowings	16	15
Liabilities to subsidiaries	22,967	7,354
Current borrowings	0	533
Other liabilities to non-Group entities	279	205
Accrued expenses	1,143	1,101
Total liabilities	**24,405**	**9,208**
Total liabilities and shareholders' equity	**108,967**	**94,027**

Income statement

(year ended 30 September)

In CHF '000	2013/14	2012/13
Other income	8,077	6,800
Total income	**8,077**	**6,800**
Staff costs	–3,377	–3,037
Operating expenses	–2,759	–2,141
Depreciation	–10	–3
Finance expense	–45	–237
Finance income	131	397
Foreign exchange gains/(losses) on financing, net	850	–100
Income tax	–272	–143
Net profit for the period	**2,595**	**1,536**

Guarantees and pledged assets

In CHF '000	30.9.2014	30.9.2013
Guarantees	**49,500**	**41,250**
Of which utilized in subsidiaries in respect of credit obligations	32,749	27,440

As the Group's Swiss companies are treated as a single entity for the purposes of value-added taxation, Schaffner Holding AG has joint and several liability for the Swiss subsidiaries' VAT obligations to the Swiss federal tax authority.

Under Group-wide agreements with Commerzbank and Credit Suisse, Schaffner Holding AG as a participant in the Group's cash pool has joint and several liability to the extent of its free reserves.

Issued share capital

The company has issued share capital of CHF 20,668,050, consisting of 635,940 ordinary registered shares with a nominal value of CHF 32.50 per share. The issued shares are fully paid. Each share carries one vote at the General Meeting. All shares not held by the Company or by one of its subsidiaries attract dividends.

Authorized but unissued capital

The Company has authorized but unissued share capital with a total nominal value of CHF 1.0 million (32,000 ordinary registered shares at CHF 32.50 per share). This capital is allocated to satisfying obligations under the share option plans. At 30 September 2014 there were 23,788 share options outstanding, each relating to the purchase of one share of Schaffner Holding AG. In the year under review no options were exercised out of authorized unissued share capital.

Direct investments in subsidiaries

- Schaffner EMV AG, Luterbach, Switzerland: 100% of the share capital of CHF 14 million
- Schaffner Trading AG, Luterbach, Switzerland: 100% of the share capital of CHF 250 thousand
- Schaffner EMV Hungary Kft., Kecskemét, Hungary: 2% of the share capital of HUF 8 million

Release of the company financial statements for publication

The company financial statements were released by the Board of Directors of Schaffner Holding AG on 8 December 2014 for publication and will be presented to shareholders for adoption at the Annual General Meeting on 15 January 2015.

Fire insurance coverage

Group fire insurance with a maximum insured amount of CHF 80 million per claim is carried on property, plant and equipment.

Information about treasury shares

The reserve for treasury shares was CHF 1.0 million. In the balance sheet at 30 September 2014, treasury shares were measured at the lower of their average cost or the average exercise price of the share options (CHF 214). In the year under review, 9,558 options were exercised, at an average price of CHF 193 each.

Treasury shares

	Number of shares	Fair value per share in CHF	Average price per share in CHF	At fair value in CHF '000	At average price in CHF '000
At 1 October 2012	**5,858**	**160**	**251**	**939**	**1,469**
+ Purchase[1]	5,086			1,104	1,104
– Shares utilized for Employee Share Option Plan[2]	–4,097			–704	–704
– Shares utilized for restricted share plans[1]	–2,035			–532	–532
Valuation differences[3]				2	–287
At 30 September 2013	**4,811**	**168**	**218**	**809**	**1,050**
+ Purchase[1]	11,000			3,082	3,082
– Sale[1]	–200			–50	–50
– Shares utilized for Employee Share Option Plan[2]	–9,558			–1,844	–1,844
– Shares utilized for restricted share plans[1]	–2,810			–801	–801
Valuation differences[3]				–501	–478
At 30 September 2014	**3,243**	**214**	**296**	**694**	**959**

[1] At share prices quoted at transaction date.

[2] At exercise price.

[3] Year-end closing price or average exercise price of the options, whichever was less.

Significant shareholders

	30.9.2014		30.9.2013	
	Number of shares	Equity interest	Number of shares	Equity interest
Buru Holding AG	67,984	10.69%	60,801	9.56%
Sarasin Investmentfonds AG	63,119	9.93%	62,599	9.84%
UBS AG	61,337	9.65%	57,699	9.07%
Balfidor Fonds	22,006	3.46%	27,242	4.28%
SUVA (Swiss National Accident Insurance Fund)	11,809	1.86%	23,100	3.63%
Alpine Select AG	0	0.00%	62,308	9.80%
Shareholders with interests of less than 3%	406,442	63.92%	337,380	53.06%
Free float	**632,697**	**99.51%**	**631,129**	**99.24%**
Treasury shares	3,243	0.49%	4,811	0.76%
Total shares outstanding	**635,940**	**100.00%**	**635,940**	**100.00%**

Compensation of the Executive Committee and Board of Directors

The remuneration of the members of the Board of Directors and Executive Committee consists primarily of fees, salaries, variable compensation, options and restricted shares under the equity incentive plans, and other compensation, such as contributions to rental or travel costs. The variable compensation is dependent upon corporate financial results and the achievement of personal performance targets. It is paid out after the Board of Directors (based on recommendations of the Nomination & Com-pensation Committee) has confirmed the extent of target achievement. The variable compensation is ordinarily awarded and paid after the annual financial statements have been adopted by the Annual General Meeting.

All variable compensation is presented on an accrual basis, which means that any variable compensation shown under a given fiscal year was accrued in that fiscal year. The expense for share-based payments consists of the market value of granted share options and restricted shares attributable to the respective fiscal year.

Board of Directors in 2013/14

In CHF '000	Cash fees or base salaries[1]	Variable compensation	Pension costs	Share-based payments expense[2]	Other compensation	Total
Daniel Hirschi, Chairman	117			85		202
Herbert Bächler	51			42		93
Gerhard Pegam	51			36		87
Suzanne Thoma	51			36		87
Georg Wechsler	51			36		87
Total compensation of the Board of Directors	**321**	**0**	**0**	**235**	**0**	**556**

Executive Committee in 2013/14

In CHF '000						
Alexander Hagemann, Chief Executive Officer	500	200	149	135	10	994
Total for all other members of the Executive Committee	1,111	448	222	191	72	2,044
Total compensation of the Executive Committee	**1,611**	**648**	**371**	**326**	**82**	**3,038**

[1] Excluding flat expense allowances.

[2] At market value.

Board of Directors in 2012/13

In CHF '000	Cash fees or base salaries[1]	Variable compensation	Pension costs	Share-based payments expense[2,3]	Other compensation[4]	Total
Daniel Hirschi, Chairman	112			75		187
Herbert Bächler	47			37		84
Hans Hess (until 14 January 2013)	12			24		36
Gerhard Pegam (from 14 January 2013)	35			0		35
Suzanne Thoma	47			24		71
Georg Wechsler	47			24		71
Total compensation of the Board of Directors	**300**	**0**	**0**	**184**	**0**	**484**

Executive Committee in 2012/13

In CHF '000						
Alexander Hagemann, Chief Executive Officer	480	229	121	118	10	958
Total for all other members of the Executive Committee	1,239	295	448	167	528	2,677
Total compensation of the Executive Committee	**1,719**	**524**	**569**	**285**	**538**	**3,635**

[1] Excluding flat expense allowances.

[2] At market value.

[3] For the Executive Committee, over the previous four years a cumulative total of CHF 1.0 million had been reported as share-based payments under the Performance Option Plan (POP). This represented four years of annual expenses at market values, spread over the vesting periods in accordance with IFRS 2. As the POP performance target in fiscal year 2012/13 was not reached, the plan participants do not receive any of the share options which were available under the plan. The share-based compensation element arising from the POP for fiscal year 2012/13 was thus CHF 0. In accordance with transparency legislation, the compensation shown in the prior periods is not presented as negative compensation.

[4] This includes statutory and contractual payments of CHF 440 thousand of termination benefits for Jean-Michel Calleri.

Holdings of shares, options and conversion rights

	30.9.2014				30.9.2013			
	Number of shares held	Number of share options held			Number of shares held	Number of share options held		
Board of Directors		Vested	Not vested	Total		Vested	Not vested	Total
Daniel Hirschi, Chairman	598	1,995	665	2,660	327	1,080	1,580	2,660
Herbert Bächler	740	990	330	1,320	604	660	660	1,320
Gerhard Pegam	136	0	0	0	10	0	0	0
Suzanne Thoma	245	0	0	0	109	0	0	0
Georg Wechsler	440	0	0	0	304	0	0	0
Total holdings of the Board of Directors	**2,159**	**2,985**	**995**	**3,980**	**1,354**	**1,740**	**2,240**	**3,980**
Executive Committee								
Alexander Hagemann, Chief Executive Officer	1,159	2,385	995	3,380	725	3,115	2,065	5,180
Kurt Ledermann, Chief Financial Officer	1,080	1,490	480	1,970	889	1,747	973	2,720
Ah Bee Goh, Chief Operating Officer	690	700	350	1,050	751	1,075	725	1,800
Eduard Hadorn, Executive Vice President, Power Magnetics division	788	550	350	900	649	1,293	725	2,018
Guido Schlegelmilch, Executive Vice President, EMC division	325	550	300	850	186	375	550	925
Total holdings of the Executive Committee	**4,042**	**5,675**	**2,475**	**8,150**	**3,200**	**7,605**	**5,038**	**12,643**

In the year under review, Schaffner did not grant any loans or other credit to current or past members of the Board of Directors, members of the Executive Committee or parties related to them.

Risk assessment

The Board of Directors of Schaffner Holding AG evaluates the risks to the Group through systematic risk identification and analysis. Risk management measures are formulated on this basis and their implementation and results are continually monitored.

The Group uses a risk management system which is designed for the timely detection, evaluation and mitigation of risks.

The Board of Directors proposes to the Annual General Meeting to allocate retained earnings as follows:

In CHF '000	2013/14	2012/13
Net profit for the period	2,595	1,536
Earnings brought forward	16,519	14,564
Change in reserve for treasury shares	89	419
Retained earnings available for distribution	**19,203**	**16,519**
Allocation to general legal reserve	0	0
Earnings carried forward	**19,203**	**16,519**

The Board of Directors will also propose to the Annual General Meeting to allocate share premium (the reserve for additional paid-in capital) as follows:

In CHF '000	2013/14	2012/13
Distributable share premium reserve brought forward	0	0
Transfer from share premium account to distributable share premium reserve	4,113	2,840
Distribution of CHF 6.50 (prior year: CHF 4.50) per share entitled to dividends, exempt from Swiss anticipatory tax	–4,113	–2,840
Distributable share premium reserve carried forward	**0**	**0**
Total number of shares outstanding	635,940	635,940
Number of treasury shares	–3,243	–4,811
Number of shares entitled to dividends[1]	632,697	631,129

[1] Shares entitled to dividends are those shares not held by the Company or one of its subsidiaries.

[2] Amounts approved by last year's Annual General Meeting.

**To the General Meeting of
Schaffner Holding AG, Luterbach**

As statutory auditor, we have audited the financial statements of Schaffner Holding AG, which comprise the balance sheet, income statement and notes (pages 103 to 107), for the year ended 30 September 2014.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of association. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 30 September 2014 comply with Swiss law and the company's articles of association.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of association.

We recommend that the financial statements submitted to you be approved.

Berne, 8 December 2014

Ernst & Young Ltd

Bernadette Koch
Licensed audit expert
(Auditor in charge)

Philippe Wenger
Licensed audit expert

Headquarters and global innovation and development center

Switzerland
Schaffner Group
Nordstrasse 11
4542 Luterbach
T +41 32 681 66 26
F +41 32 681 66 30
info@schaffner.com
www.schaffner.com

Customer service and application centers

China
Schaffner EMC Ltd. Shanghai
T20-3, No 565 Chuangye Road
Pudong New Area
Shanghai 201201
T +86 21 3813 9500
F +86 21 3813 9501 / 02
cschina@schaffner.com
www.schaffner.com.cn

Germany
Schaffner Deutschland GmbH
Schoemperlenstrasse 12B
76185 Karlsruhe
T +49 721 56910
F +49 721 569110
germanysales@schaffner.com

Finland
Schaffner Oy
Sauvonrinne 19 H
08500 Lohja
T +358 19 35 72 71
finlandsales@schaffner.com

France
Schaffner EMC S.A.S.
112, Quai de Bezons
95103 Argenteuil
T +33 1 34 34 30 60
F +33 1 39 47 02 28
francesales@schaffner.com

Italy
Schaffner EMC S.r.l.
Via Galileo Galilei 47
20092 Cinisello Balsamo (MI)
T +39 02 66 04 30 45/47
F +39 02 61 23 943
italysales@schaffner.com

Japan
Schaffner EMC K.K.
1-32-12, Kamiuma, Setagaya-ku
7F Mitsui-Seimei sangenjaya Bldg.
154-0011 Tokyo
T +81 3 5712 3650
F +81 3 5712 3651
japansales@schaffner.com
www.schaffner.jp

Sweden
Schaffner EMC AB
Turebergstorg 1, 6
19147 Sollentuna
T +46 8 5792 1121 / 22
F +46 8 92 96 90
swedensales@schaffner.com

Switzerland
Schaffner EMV AG
Nordstrasse 11
4542 Luterbach
T +41 32 681 66 26
F +41 32 681 66 41
sales@schaffner.ch

Singapore
Schaffner EMC Pte Ltd.
Blk 3015A Ubi Road 1
05-09 Kampong Ubi Industrial Estate
408705 Singapore
T +65 6377 3283
F +65 6377 3281
singaporesales@schaffner.com

Spain
Schaffner EMC España
Calle Caléndula 93
Miniparc III, Edificio E
El Soto de la Moraleja
Alcobendas
28109 Madrid
T +34 618 176 133
spainsales@schaffner.com

Taiwan R.O.C.
Schaffner EMV Ltd.
6th Floor, No 413
Rui Guang Road
114 Neihu District
Taipei City
T +886 2 8752 5050
F +886 2 8751 8086
taiwansales@schaffner.com

Thailand
Schaffner EMC Co. Ltd.
Northern Region Industrial Estate
67 Moo 4 Tambon Ban Klang
Amphur Muangg P.O. Box 14
Lamphun 51000
T +66 53 58 11 04
F +66 53 58 10 19
thailandsales@schaffner.com

UK
Schaffner Ltd.
5 Ashville Way
Molly Millars Lane
Wokingham
RG41 2PL Berkshire
T +44 118 977 00 70
F +44 118 979 29 69
uksales@schaffner.com
www.schaffner.uk.com

USA
Schaffner EMC Inc.
52 Mayfield Avenue
08837 Edison, NJ
T +1 800 367 5566
T +1 732 225 9533
F +1 732 225 4789
usasales@schaffner.com
www.schaffner.com/us

Schaffner MTC LLC
6722 Thirlane Road
24019 Roanoke, Virginia
T +1 276 228 7943
F +1 276 228 7953
www.schaffner-mtc.com

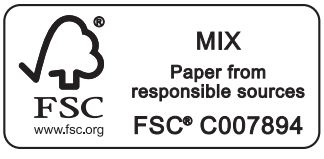
Schaffner Trenco LLC
2550 Brookpark Road
44134 Cleveland, Ohio
T +1 216 741 5282
F +1 216 741 4860
www.schaffner-trenco.com

Important note on forward-looking statements

This report contains forward-looking statements, which may be identified by the use of expressions such as "could", "propose", "opens up opportunities", "outlook", "attractive", or similar wording. Such forward-looking statements reflect management's current opinion and are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Schaffner Group to differ materially from those contained or implied in such statements. These include, but are not limited to, risks related to the success of and demand for the Group's products, the potential for its products to become obsolete, the Group's ability to protect its patents, the Group's ability to develop and market new products quickly enough, the rapidly changing and competitive environment in which the Group operates, the regulatory environment, fluctuation in foreign exchange rates, the Group's ability to generate revenue and net profits, and its ability to carry out expansion or cost control projects in a timely manner. Should one or more such risks or uncertainties materialize or come to bear, or should underlying assumptions prove incorrect, the actual results could differ materially from the outcomes suggested in this report. The information in this report represents Schaffner's best knowledge at the time of publication. Schaffner does not undertake any obligation to update any forward-looking statements contained herein, whether as a result of new information, future events or otherwise.

Publication information

© Schaffner Holding AG, December 2014
Concept and consulting: Communicators AG, Zurich
Translation: Martin Focken, North Bay, Ontario, Canada; CLS Communication AG, Glattbrugg-Zurich
English editing: Martin Focken
Prepress: W4 Marketing AG, Zurich/Dresden
Publishing system: ns.publish by Multimedia Solutions AG, Zurich
Printing: Neidhart + Schön AG, Zurich
Photography: flamisch photography, Düsseldorf; Getty Images; Shutterstock



Schaffner Holding AG
Nordstrasse 11
4542 Luterbach, Switzerland
T +41 32 681 66 26
F +41 32 681 66 30
www.schaffner.com