

"The Crown of the East" – the China Pavilion that is the centerpiece of Expo Shanghai – is designed to be reminiscent of a traditional crown or an old-fashioned grain barn. Photovoltaic systems fitted with Schaffner components and offering a total output of 3 MW have been installed on the roof of the China Pavilion as well as the roof of the Theme Pavilion. Schaffner specializes in solving interference problems relating to the use of power electronics to ensure grid compatibility and reliability of renewable energy systems.

Annual Report 2009/10



Energy Efficiency and Reliability

The Schaffner Group is an international leader in the development and production of solutions which ensure the efficient and reliable operation of power electronic systems. The Groups' range of offerings includes EMC filters, harmonic filters and power magnetic components as well as 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, rail technology, machine tools and robotics, as well as in power supply systems for a wide range of electronic devices in sectors such as medical technology and telecommunications. For the automobile industry, Schaffner develops and produces both EMC and power quality components for electric drive systems in vehicles and for the charging infrastructure, as well as components for comfort and safety electronics. Schaffner provides on-site service to customers around the world through a global distribution organization and invests heavily in research and development to strengthen its position as international market leader.

The Schaffner Group's products and solutions improve power quality and enable substantial savings in energy consumption and costs. They extend the service life of electrically operated devices and systems, meeting both economic and ecological requirements.

The Schaffner Group comprises the three segments Electromagnetic Compatibility | EMC, Power Quality | PQ and Automotive | AM.

EMC

Electromagnetic Compatibility

The EMC segment designs and manufactures standard and customized components that ensure the electromagnetic compatibility of electrical and electronic devices and systems. Key sales markets include energy-efficient drive systems, renewable energy, power supply systems for electronic devices, telecommunications, machine tools and robotics.

16.7_{GW_p}

total new capacity of photovoltaic systems installed in 2010 worldwide – equivalent to 120% growth year-on-year.

36.5%

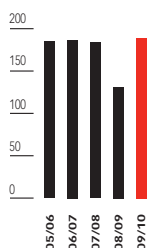
was contributed to the Schaffner Group's sales in the fiscal year 2009/10 by products for energy-efficient drive systems and renewable energy sources (prior year: 34.5%).

PQ

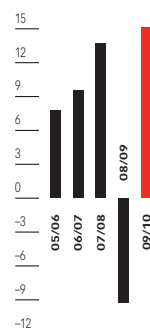
Power Quality

The PQ segment designs and manufactures magnetic components and harmonic filters that guarantee power quality in grids and the reliable functioning of energy-efficient devices and systems. Key sales markets include energy-efficient drive systems, renewable energy, rail technology, machine tools and robotics.

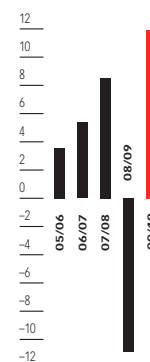
Net sales
in CHF million



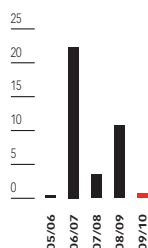
EBIT
in CHF million



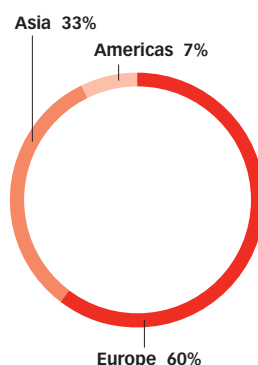
Net profit
in CHF million



Free cash flow
in CHF million



Net sales by region
in %



AM

Automotive

The AM segment designs and manufactures EMC and power quality components for electric drive systems in electric and hybrid vehicles and for the charging infrastructure, as well as components for convenience and safety electronics in automobiles.

Schaffner Group Annual Report 2009/10

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Strategic growth markets and Asia business drive Schaffner in fiscal 2009/10

In fiscal 2009/10 Schaffner emerged all the stronger from the economic crisis and surpassed even the good results of 2007/08. This was driven by product innovations for the strategic growth markets of energy-efficient drive systems, renewable energy and rail technology as well as the focus on Asia and further operational improvements in manufacturing. Consolidated net sales grew by 41.7% (49.7% in local currencies) to CHF 188.9 million (FY 2008/09: CHF 133.4 million) despite the shortage of electronic components in 2010. Operating profit rose to CHF 15.0 million from a prior-year loss of CHF 9.2 million, the EBIT margin increased to 7.9% from a negative margin of 6.9%, and net profit for the period grew to CHF 12.0 million (prior year: net loss of CHF 10.9 million). The net profit represented basic earnings per share of CHF 18.87 and diluted earnings per share of CHF 18.68 (prior year: basic and diluted loss per share of CHF 18.04). In 2009/10 the Schaffner Group recorded a vigorous increase of 56.5% in order intake to CHF 207.3 million (prior year: CHF 132.5 million). Propelled by the positive book-to-bill ratio in fiscal 2009/10, the Group has also made a buoyant start to 2010/11.

Dynamic trend in all growth markets and segments

The Asia/Pacific region, with sales growth of 71%, was where the Schaffner Group achieved the strongest expansion in fiscal 2009/10. Sales in China grew by 94% in local currency. At 22% of Group sales (prior year: 17%), China was Schaffner's second largest national market after Germany in the year under review. Europe remains the Group's foremost regional market at 60% of sales (prior year: 66%), followed by Asia/Pacific at 33% (prior year: 27%) and the Americas at 7% (prior year: 7%).

For fiscal 2009/10 the Schaffner Group's detailed segment reporting is for the first time based on the three business segments of Electromagnetic Compatibility (EMC), Power Quality (PQ) and Automotive (AM). All three segments performed well. EMC delivered an operating margin¹ of 16.4% (prior year: 0.1%) following the restructuring measures implemented in the previous fiscal year. PQ reported an operating margin of 5.0% (prior year: 0.0%) following operational improvements at the German site and strong volume growth in China, while AM also improved its operating margin slightly to 9.4% (prior year: 9.1%).

Schaffner significantly accelerated the pace of innovation in 2009/10 and stepped up its partnerships with research institutions. This heightened research and development intensity for advanced power electronics solutions was also reflected in the growing number of new products.

Sound financing structure

As the convertible bond (a six-year, 2.25% bond issued in 2004) matured and was redeemed on 28 January 2010, follow-up financing was secured with the Schaffner Group's four principal banks in the form of approved credit lines totaling CHF 40 million. Given the strong increase in sales, net working capital rose to CHF 38.3 million (end of prior year: CHF 30.7 million). Net debt was nonetheless held steady at CHF 11.8 million (prior year: CHF 11.9 million) and the gearing ratio of net debt to equity improved from 25% to 21%. With shareholders' equity of CHF 56.0 million (prior year: CHF 47.3 million), Schaffner's equity ratio improved to 44.2% (prior year: 37.3%), which is in the target range.

Staff news

Daniel Hirschi was newly elected to the Board of Directors for a three-year term at Schaffner's 14th Annual General Meeting, and appointed as new Chairman at the Board's subsequent constituting meeting. Outgoing Chairman Leo Steiner and Board member Peter E. Rued, whose terms expired at the 2010 Annual General Meeting, did not stand for reelection. The Board of Directors would like to thank both of them for their dedicated service to the company and wishes them all the best for the future.

Schaffner's long-serving former Chairman Alex Oechsli passed away in 2010 at the age of 76. For a quarter of a century he was a key driving force in the development of the Schaffner Group. It was under his stewardship that Schaffner grew into a global enterprise and that Schaffner Holding AG went public in 1998 on the SIX Swiss Exchange.

Dividend proposal

In view of the good results for 2009/10, the Board of Directors of Schaffner Holding AG will propose to the 15th Annual General Meeting a distribution of CHF 4.50 per share (exempt from Swiss anticipatory tax) in the form of a repayment from the reserve for additional paid-in capital. This is in line with the target payout ratio of 25% of the net profit.

Outlook

The management of the Schaffner Group anticipates that growth particularly for power quality solutions and the recovery in the cyclical EMC markets will continue. Demand in the automotive market is likely to remain constant at a high absolute level and to generate additional sales potential for Schaffner over the medium term as a result of new electromobility applications. The outlook for the photovoltaic applications market is very difficult to assess: contrasting with the anticipated decline in demand from Germany,

¹ Segment operating margins are based on operating profit before costs for Group functions, other income, restructuring costs and amortization of customer relationships.

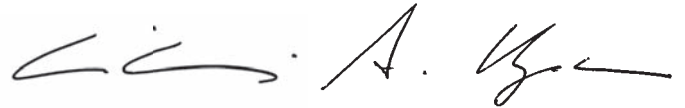
for example, are extremely good expectations for China and Italy. Overall for 2010/11, in local-currency terms, the Schaffner Group is targeting sales growth in the single digits and a further improvement in operating margins.

Word of thanks

The Board of Directors and executive management would like to thank all employees for their enormous personal commitment

in the year behind us. We also sincerely thank our commercial partners and you, the shareholders, for the trust you have placed in the Schaffner Group.

Luterbach, 7 December 2010



Daniel Hirschi
Chairman of the Board of Directors

Alexander Hagemann
Chief Executive Officer



EMC PQ

The Schaffner Group is the first global single-source provider of EMC and power quality solutions that guarantee the quality of energy fed into power grids. Better power quality enables significant savings in consumption and costs, substantially enhancing the efficiency of electrically operated devices and systems and extending their useful life. Schaffner components help to reduce power consumption in the long term and also support economic and ecological objectives.

Guaranteeing optimum functioning

The rapid growth in the number of electrical and electronic devices means that guaranteeing the reliable and efficient functioning of both device systems and power networks is becoming increasingly important. In particular, interference frequencies that arise when using power electronics and flow back into power

networks via the cable connection can lead to power networks and other power consumers working inefficiently or failing altogether.

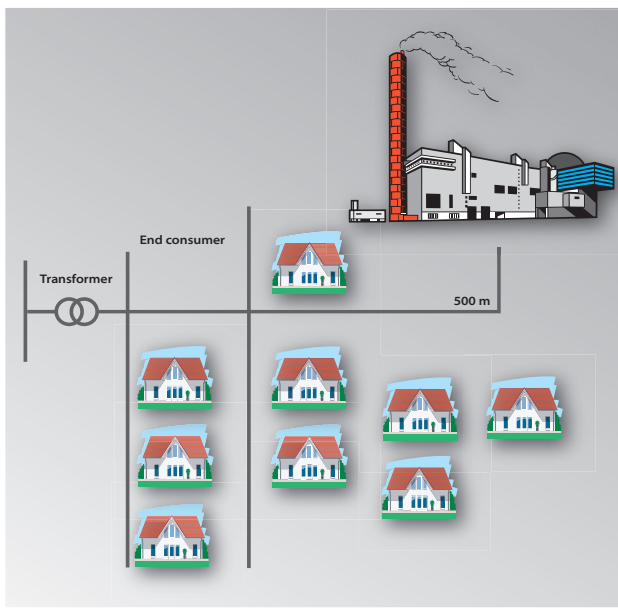
Comprehensive offering

The Schaffner Group specializes in the measurement, containment and elimination of undesirable interference frequencies in conducted environments. The company has a versatile range of standard components and extensive experience in developing customized solutions at the customer's premises and optimizing them for integration into new customer products, thereby ensuring compliance with international emissions standards not only for EMC but increasingly also for power quality. Customized products often represent a technically optimized and more cost-effective solution for customers. This is particularly true where:

- specific requirements have to be met in terms of mechanical construction, size, integration or connections
- compliance with the overall specifications for an application must be ensured
- specific filtration requirements can only be met by fine-tuning parameters
- the price/performance ratio for an application is to be optimized.

The advice provided to customers includes an analysis of the application requirements, the development, production and delivery of the components required and function-testing of the finished products and applications at the customer's premises or in Schaffner's test laboratories.

Schaffner's proprietary EMC and power quality components enable solutions for the efficient and reliable deployment of power electronics. More than 45 years' experience of dealing with interference and conformity problems, coupled with a vast knowledge base and extensive application expertise, make Schaffner a strong partner for resolving interference problems relating to the use of power electronics and tailoring both the mode of operation and the form of its solutions to the most diverse areas of application. The company also has international production and distribution structures, allowing it to manufacture large volumes of high-quality products and distribute them worldwide.

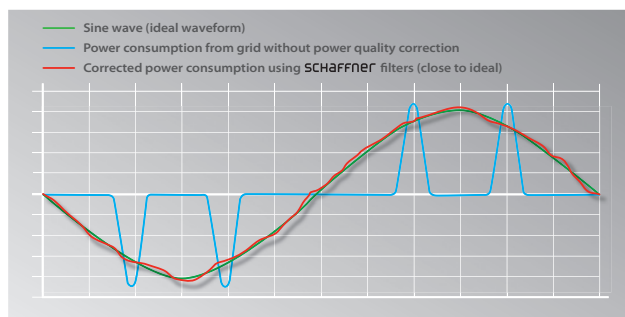


< Interference frequencies place strain on public power networks

The use of power electronics, particularly by industrial equipment, causes interference frequencies which flow back into the public electricity networks via cable connections. Electricity networks and electrical devices operating within them may work inefficiently or fail altogether as a result.

✓ Metrological power recording

Better power quality enables significant savings in consumption and costs, substantially enhancing the efficiency of electrically operated devices and systems and extending their useful life. Schaffner filters largely eliminate the interference frequencies that occur in electricity networks when power is being consumed.



Schaffner undertook a fundamental realignment in 2006 and 2007 by selling the EMC test systems business, entering the power quality market and creating a new management structure. After implementing operational improvements in 2007 and 2008 and coming through the 2009 recession, Schaffner developed a growth strategy that was approved by the Board of Directors in the year under review.

The Schaffner Group has set itself the goal of using its products and solutions to help shape a more energy-efficient future in which the use of electronically controlled drives, renewable energy and sustainable transport options such as rail or hybrid and electric vehicles is more widespread. This will require significantly more power electronics than are employed today, and the use of power electronics always creates potential for Schaffner as well. In addition to focusing on strategic growth markets, Schaffner will also further develop its leading position in its traditional markets (machine tools and robotics, electronic devices, telecommunications) through innovation and operational excellence.



innovation
excellence
leadership

leading to
new horizons

Mission statement



With its industry-leading expertise in the areas of electromagnetics and power electronics, the Schaffner Group offers customers around the world solutions to facilitate the efficient and reliable deployment of electrical and electronic devices.

Innovation



—
The Schaffner Group sees technology leadership as an essential prerequisite for achieving and maintaining the leading market position in its target markets and generating superior financial results. R&D intensity has been continually stepped up in recent years, with particular emphasis on new growth areas such as electromobility in order to establish Schaffner as a preferred development partner. In this endeavor, in-house development activities are just as important as partnerships with research establishments.

Excellence

—

The Schaffner Group focuses on the development and manufacture of technical products. For a production company like Schaffner, the quality and efficiency of corporate processes form the basis for successful operational management. To remain successful in the face of increasingly fierce competition, Schaffner is investing in its employees and infrastructure to ensure top quality and optimal production processes at all times. Key processes are measured using performance indicators and optimized on a systematic basis.

Leadership

—

Schaffner is the global market leader for EMC filters and also seeks this position in power quality solutions, harmonic filters and magnetic components for power electronics. Market leadership provides the foundation for continuous research and development to ensure competitive production and procurement processes. However, leadership also means systematically developing Schaffner's own employees and promoting a strong sense of responsibility towards customers, suppliers and society.

The Schaffner Group is developing innovative products to meet the growing demand for reliable, energy-efficient power electronics solutions.

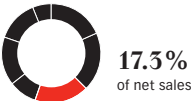
Energy-efficient drive systems



Renewable energy



Rail technology



EMC



EMC filter (FN3268) for ensuring electromagnetic compatibility



DC filter (FN2200) for protection of solar modules

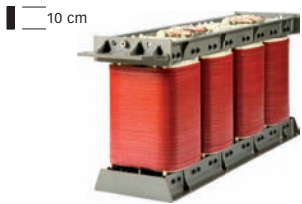
PQ



ECosine harmonic filter for improving quality and efficiency in electricity grids



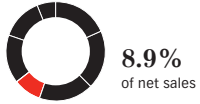
Combination of transformer and inductor (DSC9943) for compliant grid connection of photovoltaic systems



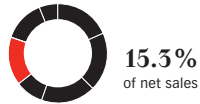
High-quality magnetic components (DSC9364) for use in drives and auxiliary systems in trains

AM

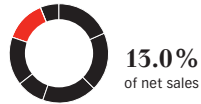
Automotive electronics



Power supply systems



Machine tools and robotics



Telecommunications



Compact EMC filter solution for reliability in electromobility



Innovative and versatile plug filter module (FN9288) for ensuring electromagnetic compatibility in medical technology, etc.



High-end three-phase and neutral line EMC/EMI filter (FN3280) for modern industrial machinery/equipment



Feedthrough filter (FN7611) for high-frequency technology in telecoms infrastructure



Sinusoidal filter (FN5040) for protecting electric motors and extending their service life



Antennas and sensors for convenience and safety applications in automobiles

Markets of the Schaffner Group With its leading expertise in the areas of electromagnetics and power electronics, the Schaffner Group offers its customers around the world solutions to facilitate the efficient and reliable deployment of electrical and electronic devices.



Energy-efficient drive systems

Nowadays, a large proportion of grid electricity is used by electric motors. Demand for energy-efficient drive systems in the industrial sector continues to grow. Energy-saving motors and electronic motor controls reduce the power consumption of conventional systems and cut operating costs. By doing so, they also contribute to ecologically sustainable use of energy.



Experts estimate that only 12% of all drive systems installed in production plants worldwide are electronically controlled. In Germany alone, systematic refitting could save around 27.5 billion kWh of electricity each year. As the sustainable use of electricity gains increasingly in economic and regulatory importance, the demand for solutions that offer lower energy consumption also rises. Although the market for energy-efficient drive systems suffered a serious decline in 2009 because of the economic downturn, it is now experiencing something of a revival.

Many systems in industry are still controlled by mechanical variable-speed drives. The motor operates at

full power continuously and up to 80% of the electrical power used is lost. An electronic speed control system ensures that the machinery receives only the energy it currently needs for the process. As a result, the facility's energy consumption can often be reduced by more than half.

Schaffner components support their interference-free integration in complete systems and protect the electricity grid and neighboring equipment from harmful perturbation effects. Schaffner's offering includes analyzing requirements, developing, manufacturing and delivering components, and testing for flawless functioning at the customer's premises or in its own development laboratories.



Renewable energy

The renewable energy market has long-term potential and is growing worldwide. Many countries are committing to the use of wind and solar power as energy sources for the future. Schaffner supplies the leading manufacturers of wind turbines and solar inverters worldwide with power electronics components such as transformers and filters.

tenfold within the next few years. "Wind power is very big in emerging markets and developing countries," says Stefan Melly, head of Strategic Marketing at Schaffner. Half of all wind power plants to be built between now and 2030 will be in the Asia/Pacific region. "And we are right there where the customers need our knowledge and our products," adds Melly. Electricity generated from renewable sources has to be converted by electronic power switches into grid-compatible alternating current before being fed into the grid. In the process, interfering pulses occur which impair the operation of other electrical and electronic devices and may infringe international power quality standards. Components made by the Schaffner Group adapt the electricity generated from renewable energy to the requirements of modern electricity grids.

In addition to wind energy, solar power is one of the growing markets in the renewable energy sector. Photovoltaic installations will supply 12% of the electricity demand in Europe by the year 2030, according to experts. After a moderate growth rate of only 13% in 2009 due to the world economic crisis, the solar power sector is expected to grow by 120% in

2010, followed by significantly slower growth in 2011 and then a higher growth rate of 30% again in 2012. Though feed-in tariffs have been cut considerably, photovoltaic installations will still be offering an attractive rate of return due to decreasing costs for solar modules.

Europe, Japan and the USA are major players in the field of photovoltaic installations, but China and India are significant as well. With an installed capacity of 160 MW in 2009, China is starting to catch up. In comparison, Europe leads with an installed capacity of 16 GW, followed by Japan with 2.6 GW and the USA with 1.6 GW. Melly emphasizes that, although still in their beginnings in emerging markets, photovoltaic systems have great potential there. The Schaffner Group will continue to benefit from the rapid growth underway and will help direct it with its products. With a global customer support network of application engineers, distribution experts and worldwide partners, Schaffner is within easy reach of its customers. Schaffner's product line includes magnetic components (reactors and transformers) for wind energy and EMC components (chokes, AC and DC filters) for photovoltaic systems.

Wind will generate around 12% of the world's electricity requirements less than ten years from now. In 2030, wind power could already provide up to 22% of worldwide energy demand, according to a study by the Global Wind Energy Council. Not only in Germany (where it has a share of 6.5%) is wind energy the leading renewable energy.

China is currently the biggest market for wind power. Experts believe that the installed capacity will grow





Rail technology

For the first time, China now buys more rail technology than any other country. It has passed the USA, long the world's largest market.



The railway technology market in the Asia/Pacific region will grow tremendously over the foreseeable future. The underdeveloped railway transportation system does not meet the demands of economic and population growth in the region. Fiscal stimulus packages will further boost the market.

Only hit marginally by the world economic crisis, the railway technology

market continued to grow at a rate of 4.5% in 2010. The annual growth rate for railway technology until 2015 is expected to be around 4.1%, according to a study by the railway consulting company SCI.

Schaffner is the only manufacturer in the international arena to supply magnetic components for use in rail technology and broad-based applications know-how from a single source. Components from Schaffner – transformers and power inductors – are used in the drive units of locomotives, coaches and wagons. They ensure an efficient flow of energy and reliable operation. They also prevent interference in onboard electronics. Schaffner serves the most important manufacturers worldwide with magnetic components for deployment in rail electronics application, ranging from high-speed trains to underground trains. Schaffner's range of

products includes auxiliary transformers, reactors, harmonic and EMC filters.

In recent years, Schaffner has had many large orders for different railway technologies. The company supplies auxiliary transformers for high-speed trains that will connect the cities of Beijing and Shanghai, reducing the ride to only four hours in 2012. Schaffner also supplies magnetic components for high performance locomotives which are being used for long-distance transportation of commodities.

Schaffner's leading market position in railway technology is based on vast technological know-how and the company's prominence in the Chinese market, where Schaffner not only has a manufacturing plant but also a large team of research engineers based in Shanghai.



Automotive electronics

The future of electric mobility has arrived. Hybrids are already being sold by most major automobile companies. Electric cars will be produced on a large scale in 2011 and can already be purchased worldwide. For these vehicles, infrastructure is being built to charge the battery while away from home.

In 2020, half of all new cars will have an electric drive. There will be e-cars that have an electric battery only, range extenders which have a generator in addition to the battery, and there will be hybrids or plug-in hybrids which have both, the conventional engine that runs on gasoline and an electric motor. The presently rather costly battery of e-cars soon will only be a third of the current price due to mass production, according to a study. That means e-cars will become financially attractive to commuters as early as 2015. It is estimated that about 10% of all new cars will be exclusively battery-powered by 2020.

The Schaffner Group was quick to spot this megatrend towards electro-

mobility. As an international leader in electromagnetic compatibility and power quality, the company's components ensure the efficient and reliable operation of electronic systems. Schaffner offers all the necessary products - from simple electronic components to complex filter systems - to protect e-cars from electromagnetic interference and safeguard the reliable functioning of integrated computer systems and electronics in the vehicle.



Cars with modern electric drives have an efficiency level of almost 100%, while diesel engines only achieve 40% and petrol engines only 30%.

"We have the know-how in the automotive electronics industry, ranging from keyless entry systems to the complex technology you need for e-cars - and it all comes from one source," says Anton Häring, section manager of automotive technology at Schaffner. There will be between two to three million e-cars on the roads worldwide by 2015 already. "That is a huge market for us," adds Häring. At the moment, all parts for e-cars are manufactured in Schaffner's production plant in Thailand. However, with the anticipated rising demand the company is thinking about producing in the plant in China as well.

Countries like China, the USA, France, and the UK promote buying emission-free e-cars with refunds paid by the government. E-mobility will further benefit from plans for urban areas with high population densities to reduce their air pollution by introducing zero-emission zones in inner cities. The European Union (EU) wants to limit carbon emissions to 95 g/km CO₂ by 2020. That will only be possible by converting the fleets of automotive companies to mostly electric cars,

studies show. Furthermore, fossil fuels will soon be too rare and too expensive to use for individual mobility.

Attempts to power vehicles electrically go back a surprisingly long way, to the late 19th century. In those days, the main motive behind the then experimental technology was not environmental protection, but to exploit the efficiency of the electric motor compared to the combustion engine. While electric motors can reach almost 100% efficiency, diesel engines barely attain 40% and gasoline engines only achieve 30%. Much valuable energy is thus lost.

Environmentalists say that e-cars can only help the environment if the electricity to charge them is generated from renewable sources. As long as the power to fuel e-cars comes from coal-burning power plants, the car contributes less to saving the atmosphere than conventional gasoline-powered vehicles. In the renewable energy market, Schaffner supplies most of the leading manufacturers of solar inverters and wind turbines worldwide and supports customers with an extensive network of experienced application engineers and customer support staff.

Not only are electric vehicles environmentally friendly, they also tend to be a lifestyle product. The typical customer buying an e-car lives in the city, has a good income, loves new technology and wants to be part of the new world of e-mobility. By driving an electric car, owners can also show that they are helping the environment by reducing carbon emissions.

As to the infrastructure for electric vehicles, Schaffner is working with several major manufacturers to set up public charging stations for e-cars. Market observers estimate that 50% to 80% of potential e-car users can charge their cars at home overnight. Between 40% and 70% of future owners will be able to charge their car where they work. In addition, there will be express charging stations in public places such as malls where customers can plug in their cars while shopping.



Power supply systems for electronic devices in sectors such as medical technology

The phenomenon was all too familiar in the past: you switched on the vacuum cleaner at home and the TV screen started to flicker. Nowadays, the use of EMC filters prevents electrical devices from interfering with each other. The same applies to network-related interference. Schaffner components in power supply units guarantee the reliability of medical equipment, for example.



Demand for medical devices is continuing to grow. Over the past few decades the medical technology sector has experienced significant growth in the Western world, and an additional boost is coming above all from the major health-care markets in newly industrialized countries such as China and India.

A constantly ageing society places higher demands on diagnostics and the necessary medical equipment. At the same time, the cost of health-care provision to the general population is rising throughout the world.

As process automation increases, along with the complexity of electrical and electronic systems, the risk of a malfunction caused by electromagnetic interference and the need for corresponding EMC filters to ensure flawless functioning are steadily

growing. In addition to solutions for traditional areas of application such as office machinery and vending machines, Schaffner also develops and produces EMC filters and power quality components to support the reliability of electrical and electronic systems in medical technology. High-precision diagnostic and measuring equipment, X-ray machines and MRI scanners have to meet maximum security requirements and must function flawlessly at all times.

In future, diagnosis and treatment are set to be available not only in doctors' practices and hospitals, but increasingly at the patient's home or workplace, not least for economic reasons. Consequently, experts are anticipating strong growth in the next few years, not only in the sector for in-patient facilities, but to a greater extent in mobile medical equipment.



Machine tools and robotics

Sales of machine tools are on the rise again. The global economy continues to recover in the wake of the credit crunch, and toward the end of 2010 the order books of machine tool and robot manufacturers began filling up once more.

Fast-growing emerging markets such as China and India are still providing strong impetus, but studies show that even the USA, Brazil and Turkey are showing significant rates of increase. Schaffner supplies the worlds' major machine tool manufacturers with EMC and power quality components



which ensure that their equipment and robots operate efficiently and smoothly.

According to expert opinion, the demand for machine tools and robotics is set to bring growth in sectors such as the automotive industry, especially in emerging markets. By far the greatest demand for vehicles has

been reported in China, where some eight million cars were supplied between January and October 2010. New areas of application are also offering worldwide growth potential for high-performance machine tools and robotics. New robotic applications are also undergoing trials in growth industries such as medical technology, for example.



Telecommunications

Conducting components and EMC filters for the telecommunications infrastructure are designed to suppress interference in the high-frequency range and also improve – among other things – data security.

Telecommunications equipment is a key part of today's infrastructure. In all major markets, especially in the emerging newly industrialized nations, mobile networks and the requirements for efficient and fault-free mobile data transmission are increasing in importance. To ensure that the high network quality requirements are met, network providers are having to offer increasingly powerful solutions. Existing 3G networks are being superseded by new solutions such as HSPA and WiMAX technology, with ever-faster data speeds.

Because modern mobile networks are cellular in design, the number of mobile network base stations required for seamless data transmission increases with the introduction of high-performance networks. Schaffner develops and produces EMC filters and components for use in power supply systems and emergency power equipment for mobile network base stations, as well as distribution systems in fixed networks. The company's product portfolio ranges from standard components through customized solutions to integrated power distribution modules with monitoring electronics.

EMC

The EMC segment designs and manufactures standard and customized components that ensure the electromagnetic compatibility of electrical and electronic devices and systems. Key sales markets include energy-efficient drive systems, renewable energy and power supply systems for electronic devices in sectors such as medical technology, telecommunications, machine tools and robotics.

Energy-efficient
drive systems



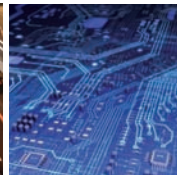
Renewable energy



Automotive
electronics



Power supply
systems



Machine tools
and robotics



Telecommunications



The Schaffner Group is the world's leading provider of electromagnetic products and solutions. It has the expertise and the most extensive range of products to enable it to identify and isolate potential sources of EMC interference at an early stage, both in the development of new products and during subsequent system optimization. It offers customers a broad range of standard components, an efficient measurement service, expert techni-

cal consulting, and the capacity to develop and produce customized solutions quickly and deliver them in large volumes to all markets throughout the world. Proven solutions and efficient technical support help ensure compliance with European and international guidelines and standards and improve the reliability and safety of electrical and electronic systems.

EMC

The EMC segment increased its sales by 35.4% to CHF 111.5 million in fiscal 2009/10 (prior year: CHF 82.3 million). The segment operating profit¹ of CHF 18.3 million (prior year: CHF 0 million) benefited from the restructuring measures implemented; the segment operating margin was 16.4%. EMC recorded a real boom in orders from the solar inverter industry in the year under review due to very high demand for solar power installations. Demand in the traditional European EMC markets of machine tools and robotics and power supply systems for electronic devices recovered gradually over the course of fiscal 2009/10 following the fall in the previous year. EMC accounted for 59% of Group sales.

Successful year and clear margin recovery

EMC continued its drive to boost operational excellence in the year under review:

- the consolidation of European production was completed with the new factory in the Hungarian town of Kecskemét, while
- the conversion of global production processes to lean production was systematically continued.

Despite occasional shortages in the electronic component supplier market, Schaffner was able to profit from the boom in demand for photovoltaic components in Europe and strengthen its operating margin thanks to a marked increase in volumes.

Focused innovation activities

As the leader in the field of electromagnetic compatibility, Schaffner continued its development activities in the year under review and further expanded its leading position in the international EMC market with the launch of two brand new product families and functions that were previously not adequately catered

for. This included a new series of innovative IEC plug filters such as those used in medical technology or in measuring and control technology devices.



Innovative and versatile plug filter module (FN9280) for ensuring electromagnetic compatibility in medical technology and other applications.

The innovative new products offer the potential to significantly strengthen Schaffner's position in this sector. New products that are geared to the specific requirements of customers in the wood processing and printing industries and help ensure compliance with new safety standards and regulations for these sectors were also launched during the year under review.

Ongoing expansion of position as global leader

Schaffner's proven solutions and technical support help customers around the world comply with EMC guidelines and standards and improve the reliability and safety of electrical and electronic systems. As market leader, Schaffner has a solid basis for continuous development, efficient procurement and production processes and an effective global production and sales network. Following the recovery in demand from the traditional, major EMC sales markets, Schaffner expects the moderate growth in these sectors to be maintained, thereby ensuring that the traditional EMC markets will continue to make a substantial contribution to Schaffner's success.

The growing demand for innovative

power electronics solutions offers long-term growth potential for Schaffner. With a high rate of innovation, operational excellence and targeted expansion of its distribution structures, Schaffner will continue to develop, manufacture and market new products and solutions and expand its leading position in the EMC market. There is also huge potential in the fact that Schaffner is the only company worldwide to offer customers around the globe the unique combination of proven EMC and power quality expertise from a single source.

Safety - for health and well-being

Schaffner EMC solutions available from leading distributors worldwide

Schaffner EMC offers the state-of-the-art of electromagnetic compatibility in medical devices and in vitro diagnostic equipment. These multi-functional power entry modules simplify the design phase and help to comply with international EMC and safety regulations.

- Compliance with IEC 60601-1
- Compact and versatile EMC solution
- Superior attenuation performance
- Choice of mounting style
- Models with up to 4 functions, including surge protection, EMI filter, surge protector and fuse holder
- UL, CSA, EMC and CE approval for global application

www.schaffner.com

SCHAFNER
energy efficiency and reliability

Example advertisement from the current ad campaign

¹ Segment operating profit is calculated before costs for Group functions, other income, restructuring costs and amortization of customer relationships.

PQ

The PQ segment designs and manufactures magnetic components and harmonic filters that guarantee power quality in grids and the reliable functioning of energy-efficient devices and systems. Key sales markets include energy-efficient drive systems, renewable energy, rail technology, machine tools and robotics.

Energy-efficient
drive systems



Renewable energy



Rail technology



Machine tools
and robotics



If electrical energy is to be used consistently at a high level of quality, manufacturers must do more than simply guarantee the electromagnetic compatibility of their equipment. This is where EMC meets power quality. The Schaffner Group is the first global single-source provider of EMC and power quality solutions that guarantee the quality of energy fed into power grids. Better power quality permits significant savings in consumption

and costs, substantially enhancing the efficiency of electrically operated devices and systems and extending their useful life. Schaffner components help to reduce power consumption in the long term and also support economic and environmental objectives. Schaffner takes a broader view of power quality and also focuses on load-side solutions, particularly the output side of motor drives.

PQ

PQ's sales rose by 42.7% year-on-year in fiscal 2009/10 to CHF 60.9 million (from CHF 42.7 million). The largest share of the sales increase came from the Asian market. The growing market for harmonic filters to ensure interference-free power supply in buildings and infrastructure installations also delivered a very pleasing performance; Schaffner is already one of the world's leading providers in this field just two years after it first entered the market. Active and passive harmonic filters accounted for around 5% of Group sales in fiscal 2009/10. In rail technology, Schaffner is now the global leader for auxiliary transformers and other magnetic power components for vehicle drives. Segment operating profit¹ increased to CHF 3.1 million (prior year: CHF 0 million). The segment operating margin improved considerably to 5.0% in the year under review following high development costs and capital investment in business expansion. Schaffner intends to further increase operating profitability over the medium term. PQ generated 32% of Group sales.

Sustainable growth

The good performance of the PQ segment in fiscal 2009/10 was attributable to three main factors:

- a clear increase in demand from the rail technology, photovoltaics and wind turbine construction markets, particularly in Asia
- strong growth in sales of innovative active and passive harmonic filters coupled with marked improvements in the production cost base and an expanded distribution structure
- the successful optimization of structures and processes at the German manufacturing site, resulting in an immediate significant improvement in operating margin from 2% in the first six months of the year to about 7% in the second half.

Production capacity in China and development capacity worldwide was expanded significantly to meet high demand for customized solutions in rail technology, photovoltaics and wind turbine construction.

Strong position in dynamic markets

Schaffner currently works for most major rail electronics manufacturers. Its magnetic components are found in high-speed trains and locomotives as well as in regional and underground trains. The order from Siemens in April 2010 to supply the second tranche of transformers and chokes for the construction of high-speed trains for the Chinese National Railway confirmed the Schaffner Group's strong position as a leading supplier of magnetic components to the international rail technology sector. The extension of this major order in what is currently the world's biggest market for high-speed trains significantly strengthens Schaffner's position in this key market.



Travelling at a speed of up to 450 km an hour, Shanghai's Transrapid magnetic levitation train covers the 30 km route between Longyang Road Station and Shanghai Pudong International Airport in around 7 minutes 18 seconds, carrying up to 440 passengers.

The wind turbine market continues to shift from Europe to China, which is also emerging as a key domestic market for photovoltaics in the solar technology sector. Schaffner's strong position in Shanghai means it is well placed to benefit from this trend.

High rate of innovation strengthens market position

Schaffner unveiled a wealth of new products in the year under review, including a new standard series of output filters that help extend the life of elec-

tric motors as well as high-performance harmonic filters and models for higher voltage ranges.



The ECOSINE™ Active harmonic filters from Schaffner guarantee flawless functioning of electricity grids at all times.

In addition to building services, Schaffner harmonic filters are also used increasingly in the automotive industry, mining, water treatment and sewage works, public transport and the oil and gas industry to guarantee the quality of power networks and ensure the proper functioning of electrical and electronic devices. The increasingly strict rules governing grid quality also create further growth potential for harmonic filters. In view of the growing risks of grid problems caused by inadequate power quality, intensive efforts are underway worldwide to develop new standards in this area - a process in which Schaffner is involved in Europe.

¹ Segment operating profit is calculated before costs for Group functions, other income, restructuring costs and amortization of customer relationships.

I AM

The AM segment designs and manufactures EMC and power quality components for the drive systems and charging infrastructure of hybrid and electric vehicles and components for convenience and safety electronics in automobiles.

Automotive
electronics



Schaffner components for convenience and safety applications in automobiles are chiefly found in keyless access systems, electronic immobilizers and tire pressure monitoring systems. In these applications, Schaffner antennas ensure secure communication between electronic components. Schaffners' expertise in EMC and power quality is also becoming increasingly important in its role

as partner to the international automotive industry in the development and production of innovative hybrid and electric vehicles and in the creation of an efficient battery charging infrastructure for electrically powered vehicles. Electromobility solutions will become a key growth driver and sales generator for the Schaffner Group in the long term.

AM

Sales in the AM segment increased by 98.6% year-on-year in fiscal 2009/10 to CHF 16.6 million (from CHF 8.3 million). Segment operating profit¹ amounted to CHF 1.5 million (CHF 0.8 million) and the segment operating margin was 9.4%. Drivers of the jump in sales included the general recovery in the market and newly acquired projects for automobile manufacturers in Asia and Europe, production for which commenced during the first half of the year under review. New projects to develop EMC filters for use in hybrid and electric vehicles will have a positive impact on segment sales in the medium term. The AM segment contributed 9% of Group sales.

Strong demand for components for convenience applications

Among EMC components for convenience and safety applications in automobiles, sales of components for keyless access systems saw a particularly sharp rise in the year under review. This positive trend is based on the economic recovery in the international automobile industry and the growing demand for keyless entry systems, particularly among Asian customers. A new order

from a US manufacturer will also have a positive impact on segment sales from fiscal 2010/11 onwards. Schaffner expects demand for components for keyless access systems to continue rising, while solutions for tire pressure systems and immobilizers could become less important.

Successful entry into the promising electromobility market

Over the past few months Schaffner has been able to penetrate the promising electromobility market. Early successes included an order from a major European automobile manufacturer to supply power components for a series-production electric drive vehicle. The multi-year order, with a value in the low double-digit millions, will have a positive impact on the Schaffner Group's sales from fiscal 2011/12 and marks an important milestone on the road to positioning the Schaffner Group as the leading international partner for forward-looking EMC and power quality solutions in the field of electromobility.

To date, automobile manufacturers have done little research into the requirements of hybrid and electric vehicles in terms of electromagnetic compatibility and power quality. Schaffner is working with the German Fraunhofer Gesellschaft to provide the automobile industry with the requisite fundamental and application knowledge. A first

seminar in May 2010 was very well received, and in recent months individual workshops have been held with several manufacturers that have already resulted in development projects for various vehicle brands.

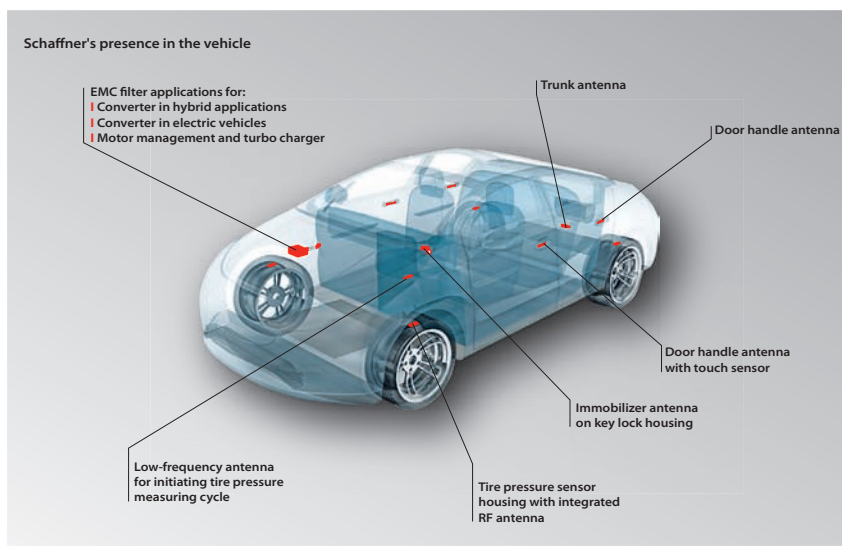
In addition to pure electric vehicles, plug-in hybrids – vehicles with a hybrid drive that can also be charged externally via the grid – also offer huge development potential for Schaffner.

Partner for manufacturers of battery charging systems

Alongside the development of electric and plug-in hybrid vehicles, work is continuing internationally to create a charging infrastructure for electrically operated automobiles. Schaffner is currently working with Chinese, European, Japanese and US manufacturers of battery charging systems.

R&D intensity and production capacity expanded

Schaffner stepped up its development activities in the field of electromobility in fiscal 2009/10 and expanded the production capacity for electromobility-related EMC solutions in Thailand. Initial steps were also made in the year under review to establish Schaffner in the Chinese electromobility market. Schaffner's strong position as a partner for forward-looking EMC and power quality solutions in the field of electromobility was also confirmed at eCarTec, the leading electromobility trade fair, held in Munich at the end of October 2010. Overall, the Schaffner Group expects the AM segment and the electromobility market in particular to achieve marked growth and make a significant contribution to sales over the long term.



¹ Segment operating profit is calculated before costs for Group functions, other income, restructuring costs and amortization of customer relationships.

Responsible corporate management

For Schaffner, responsible corporate governance means achieving the right combination of entrepreneurial management and transparent reporting for all stakeholders.



Alexander Hagemann
Chief Executive Officer



Kurt Ledermann
Chief Financial Officer



Fabian Beck
Vice President Research & Development



Jean-Michel Calleri
Vice President Sales Europe



Ah Bee Goh
Vice President Manufacturing



Eduard Hadorn
Vice President Business Development Asia



Martin Koeppel
Vice President Supply Chain Management

Executive Committee

On 30 September 2010, Schaffner's Executive Committee had the following members:

Alexander Hagemann, born 1962
Degree in Mechanical Engineering, RWTH Aachen University. Chief Executive Officer since 2007

Kurt Ledermann, born 1968
MSEE, Federal Institute of Technology, Zurich; Degree in Economics, University of St. Gallen. Chief Financial Officer since 2008

Fabian Beck, born 1969
MSEE, Federal Institute of Technology, Zurich; Executive Master of Business and Engineering. Vice President, Research & Development since 2007

Jean-Michel Calleri, born 1956
Electrical Engineering Diploma ESIGE-LEC, Rouen; IESTO CNAM, Paris. Vice President, Sales Europe since 2007

Ah Bee Goh, born 1950
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. Vice President, Manufacturing since 2007

Eduard Hadorn, born 1956
Business Economist. Vice President, Business Development Asia since 2007

Martin Koeppel, born 1960
Degree in Precision Engineering, Systems Engineering and Software Engineering. Vice President, Supply Chain Management since 2007

Board of Directors

As of 30 September 2010 the Board of Directors of Schaffner Holding AG had the following members (all of them non-executive):

Daniel Hirschi
Chairman, elected until 2013

Herbert Baechler
Member since 2009, elected until 2012

Hans Hess
Member since 2006, elected until 2013

Robert F. Spoerry
Member since 1998, elected until 2013

Markus Zenhausern
Member since 2008, elected until 2012

Detailed information on the Schaffner Group's corporate governance is provided on pages 1 to 16 of the Annual Report's separate section titled "Schaffner Group Financial Report and Corporate Governance" and on our website at www.schaffner.ch ([http://www.schaffner.ch/corporate/en/corporate/governance/index.asp?language_id=12&level=1\\$2](http://www.schaffner.ch/corporate/en/corporate/governance/index.asp?language_id=12&level=1$2)).

Quality principles The management, employees and partners of the Schaffner Group are committed to representing all stakeholder groups and providing them with top-quality service.

Quality policy of the Schaffner Group:

- We exceed our customers' expectations and win them over with our products, solutions and services. We generate added value for our customers as a result of our activities.
- We develop and implement stable, flexible, streamlined processes that can be adapted quickly to changing market requirements.
- We ensure ongoing business growth through innovation, employee train-

ing and continuous improvement of our processes.

- Our suppliers are a key link in our value chain. Together we generate added value for our customers.
- We pursue environmental protection goals with great dedication and diligence.

All Schaffner plants have an ISO-9001-certified quality management system in place. Schaffner also possesses the ISO/TS 16949 quality certification relevant

for the automotive industry, and preparations are underway to obtain IRIS certification, a quality management system developed for rail applications, for the plant in Shanghai. All certifications are reviewed and refined from time to time.

Corporate citizenship The name "Schaffner" is synonymous with energy efficiency and reliability both in innovative customer solutions and in its own activities.

Schaffner participates in the UN Global Compact and is committed to implementing its ten principles in the areas of human rights, labor, the environment and anticorruption (www.unglobalcompact.org).

Schaffner seeks to continuously reduce its carbon footprint by optimizing material flows and acting as a role model in promoting energy efficiency. All Schaffner Group production sites have environmental management systems in place that conform to the international ISO 14001 standard, and Schaffner production in Asian countries is also com-

pliant with OHSAS 18001 (Occupational Health and Safety Assessment Series), a process that supports the systematic improvement of occupational health and safety for employees.

Employees

Schaffner is convinced that motivated employees and first-class and innovative solutions are essential if it is to meet the exacting demands of its customers and assert the Schaffner Group's claim to leadership. Schaffner's aim is therefore to become the sector's employer

of choice worldwide. To this end, it has developed numerous measures designed to attract, retain and develop the best staff. These include healthy and safe workplaces, annual job-specific training and development of employees' personal skills.

Selected addresses of the Schaffner Group

Headquarters and global innovation and development center

Schaffner Group
Nordstrasse 11 4542 Luterbach Switzerland
T +41 32 681 66 26 F +41 32 681 66 30
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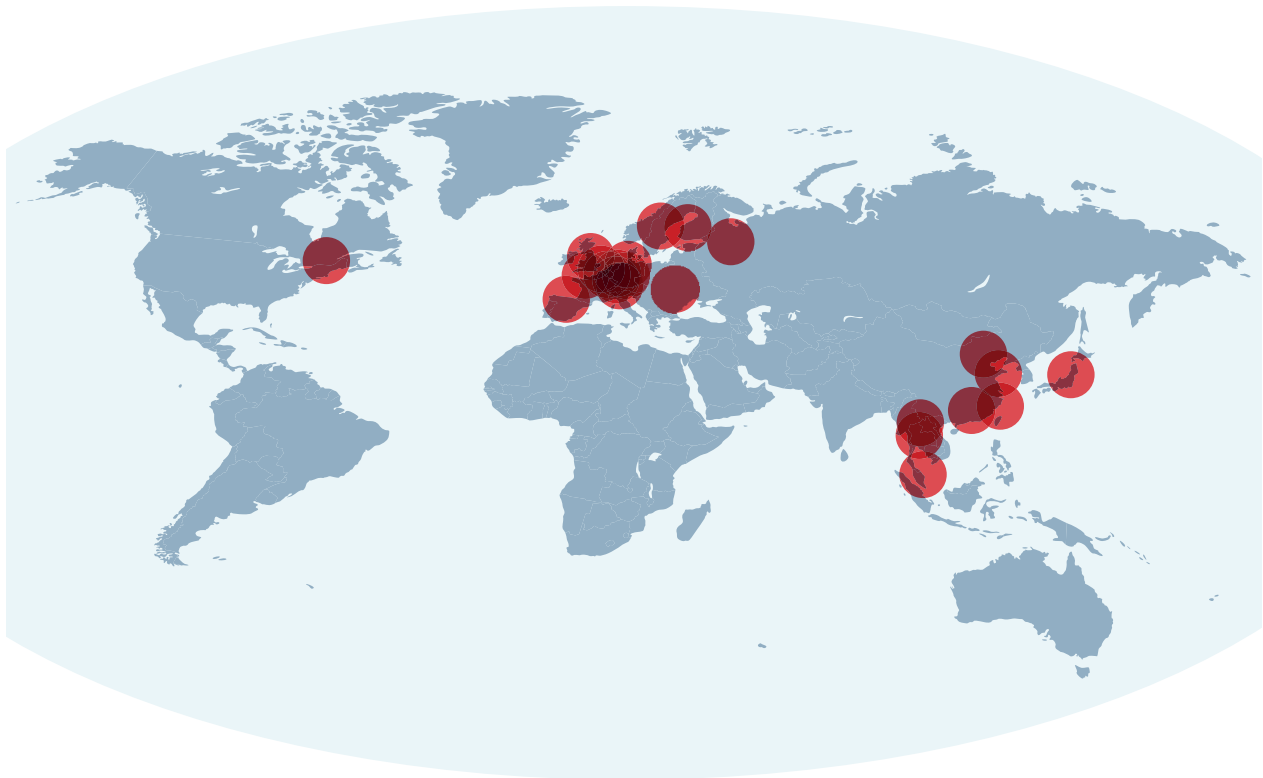
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Global presence and unique proximity to the customer



The global presence of the Schaffner Group, with its international engineering, production, sales and distribution organization, supports customer-focused logistics and enables it to forge links with international customers. The

Schaffner Group is a globally active company with a local presence in all key markets. Highly efficient production facilities in Europe and Asia as well as 20 customer service and application centers enable streamlined processes, consulting and customer-oriented engineering. This in turn speeds up the development of customized applications and considerably reduces delivery times. Comprehensive testing services based on the latest measuring systems can be used directly in the customers' development departments or in the Schaffner laboratory. Schaffner Group engineers and consultants know their customers personally. They are familiar with their individual requirements and also understand the cultural differences.

Headquarters, global innovation and development center

Switzerland – Luterbach

European logistics center

France – Illzach

Development and production centers

China – Shanghai

Germany – Bueren

Thailand – Lamphun

Hungary – Kecskemét

Sales and application centers

China – Beijing

China – Shanghai

China – Shenzhen

Germany – Büren

Germany – Karlsruhe

Germany – Nürtingen

Germany – Warstein

Finland – Lohja

France – Argenteuil

France – Cesson-Sévigné

Italy – Cinisello Balsamo

Japan – Tokyo

Sweden – Sollentuna

Switzerland – Luterbach

Singapore – Singapore

Spain – Madrid

Taiwan – Taipei

Thailand – Bangkok

UK – Wokingham

USA – Edison

Schaffner Group Financial Report and Corporate Governance 2009/10

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50	Company Financial Statements of the Schaffner Holding AG
56	Key Share Data
57	Key Financials

Accountability and transparency for all stakeholders

For Schaffner, the commitment to responsible corporate governance means an appropriate balance between entrepreneurial management, transparent reporting and the safeguarding of shareholders' best interests.

This corporate governance report of Schaffner Holding AG includes the disclosures required under the Directive on Information Relating to Corporate Governance issued by the SIX Swiss Exchange in its form effective at 30 September 2010. The structure of the report substantially follows that of the Directive and the general principles of corporate governance described in the Company's Organizational Regulations as well as in its Articles of Association, which can be viewed at or requested from the Company's head office.

In addition, the corporate governance report contains the required statutory disclosures of the compensation and shareholdings of senior management. All relevant corporate governance documents are displayed on the home page of the Schaffner Group's website under "Corporate Governance": [http://www.schaffner.com/corporate/en/corporate/governance/index.asp?level=1\\$2&language_id=12](http://www.schaffner.com/corporate/en/corporate/governance/index.asp?level=1$2&language_id=12)

Governance-related changes in the fiscal year 2009/10

The 14th Annual General Meeting of Schaffner Holding AG on 13 January 2010 approved the amendment of the Articles of Association to reflect the Book Entry Securities Act (Bucheffectengesetz) which entered into force in Switzerland on 1 January 2010.

On 28 January 2010 Schaffner Holding AG completed the redemption of the 2.25% convertible bond issued in 2004 and maturing on that date in 2010, in accordance with the terms and conditions of the issue prospectus. The convertible bond had been traded on the SIX Swiss Exchange under security number 1754641 and ticker symbol SAH04. Of the Company's authorized but unissued capital, the CHF 6.175 million (or 190,000 shares at CHF 32.50 per share) which had been reserved for the purpose of satisfying conversion obligations in respect of the convertible bond expired with the bond's redemption. The follow-up financing is in place in the form of credit lines with the four primary banks of Schaffner Holding AG. These credit agreements are tied to covenants.

1 Group structure and significant shareholders

1.1 Group structure

1.1.1 Group operating structure

The Schaffner Group consists of three operating segments: Electromagnetic Compatibility (EMC), Power Quality (PQ) and Automotive (AM).

The following chart shows the Group’s operating structure at 30 September 2010:

General Meeting of Shareholders

Board of Directors – Audit Committee, Nomination & Compensation Committee

Executive Committee – Group functions

EMC segment

PQ segment

AM segment

The Chief Executive Officer has responsibility for the operational management of the Schaffner Group. He also leads 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 delegation of authority from the Board) by the Chief Executive Officer and the Executive Committee.

The Board of Directors and Executive Committee are supported in their work by various central Group functions. The division of responsibilities between the Board, Chief Executive Officer and Executive Committee is described on page 8 of this corporate governance report in section 3.5.

The Executive Committee had the following structure at 30 September 2010:

Executive Committee	Chief Executive Alexander Hagemann <u>Chief Executive Officer</u>	Finance & IT Kurt Ledermann <u>Chief Financial Officer</u>	Sales Europe Jean-Michel Calleri <u>Vice President</u>
		Research & Development Fabian Beck <u>Vice President</u>	Business Development Asia Eduard Hadorn <u>Vice President</u>
		Manufacturing Ah Bee Goh <u>Vice President</u>	Supply Chain Management Martin Koeppel <u>Vice President</u>

More information about the Executive Committee is provided on page 9 of this corporate governance report in section 4.1.

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 2010 the share capital consisted of 635,940 ordinary registered shares with a total nominal value of CHF 20,668,050.00.

Registered office	4542 Luterbach, Switzerland
Listing exchange and regulatory standard	SIX Swiss Exchange, Main Standard
Security number	906209
ISIN	CH0009062099
Ticker symbol	SAHN
Nominal value per share	CHF 32.50

Key share data for Schaffner Holding AG for the year ended 30 September 2010 can be found on page 56 of this 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 48 of this report in the notes to the consolidated financial statements.

1.2 Significant shareholders

At 30 September 2010 there were 1,223 shareholders registered in Schaffner's share register with voting rights (prior year: 1,301). Of the issued shares, 99.3% represented free float. Schaffner held the other 0.7% of the shares as treasury shares. Shares of unregistered owners amounted to 14.7% of the issued shares at 30 September 2010.

Under the Swiss Federal Act on Stock Exchanges and Securities Trading (SESTA, or Stock Exchange Act), any holder of shares of a company listed on the SIX Swiss Exchange must notify the issuer company and the SIX Swiss Exchange whenever the holder's voting rights exceed or fall below one of the following thresholds: 3%, 5%, 10%, 15%, 20%, 25%, 33⅓%, 50% and 66⅔%. This disclosure obligation exists regardless of whether the voting rights can be exercised or not. Therefore, certain derivatives positions, such as options and similar financial instruments, are also notifiable. Upon receiving such notification, the issuer of the shares must relay the information to the public through an announcement on the electronic publication platform of the SIX Swiss Exchange.

Information on significant shareholders is also provided on page 52 in the notes to the parent company financial statements. A complete overview of all notifications issued under section 20 Stock Exchange Act is available on the website of the SIX Swiss Exchange at http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

1.3 Cross-shareholdings

There were no cross-shareholdings with other publicly traded companies.

2 Capital structure

2.1 Issued share capital

CHF 20,668,050.00

The issued share capital 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 one of its subsidiaries attract dividends.

2.2 Authorized unissued capital

CHF 693,550

The authorized but unissued share capital consists of 21,340 ordinary registered shares authorized for the share option plans. Detailed information can be found on page 39 of this report in section 18 of the notes to the consolidated financial statements.

The authorized unissued capital of CHF 6.175 million (190,000 shares at CHF 32.50 per share) reserved for the convertible bond expired with the redemption of the convertible bond on 28 January 2010.

The Company had no other authorized unissued capital at 30 September 2010, i.e., no unissued capital authorized for purposes other than the share option plans.

2.3 Changes in equity

By a resolution of the Annual General Meeting on 17 January 2007, the issued share capital of Schaffner Holding AG was reduced from CHF 31,797,000 to CHF 24,801,660 by decreasing the nominal value per share from CHF 50 to CHF 39.

By a resolution of the Annual General Meeting on 16 January 2008, the issued share capital of Schaffner Holding AG was reduced from CHF 24,801,660 to CHF 22,893,840 by decreasing the nominal value per share from CHF 39 to CHF 36. The authorized unissued capital was also reduced accordingly.

By a resolution of the Annual General Meeting on 14 January 2009, the issued share capital of Schaffner Holding AG was reduced from CHF 22,893,840 to CHF 20,668,050 by decreasing the nominal value per share from CHF 36 to CHF 32.50. The authorized unissued capital was also reduced accordingly.

The changes in share capital, in share premium, in retained earnings and in the other components of consolidated equity are presented in detail on page 21 of this Annual Report 2009/10 in the consolidated financial statements. The comparative information for the three prior years is found on page 17 of the Annual Report 2008/09, page 35 of the Annual Report 2007/08 and page 37 of the Annual Report 2006/07.

2.4 Shares and participation certificates

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. There were no participation certificates (in German: Partizipationskapital) of Schaffner Holding AG at 30 September 2010.

2.5 Dividend right certificates

Schaffner Holding AG had not issued any dividend right certificates (in German: Genusssscheine) at 30 September 2010.

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 the following registration restrictions: Shareholders or beneficial owners are deemed to be those persons registered in the share register, i.e., the shareholders of record. Purchasers of shares are upon their request recorded as voting shareholders in the share register by the Board of Directors if the purchasers state explicitly that they have acquired, and will hold, the stock for their own account.

By default, the Board of Directors registers nominees 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, shares of nominees with voting rights are only registered in the share register if the nominee discloses the names, addresses and holdings of Schaffner shares of the persons for whose account the nominee holds 0.5% or more of the total share capital that is registered in the share register. Nominees are persons who do not expressly declare in their registration application that they have bought and are holding the shares for their own account. To the extent permitted by law, the Board of Directors is authorized to enter into agreements with nominees regarding reporting obligations. The Board may approve exceptions to the nominee rules on a case-by-case basis.

Where legal entities or groups with joint legal status are connected by capital, voting rights, management or in some other manner, they are deemed to constitute a single purchaser, as 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 immediately of the deletion. 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 end of the fiscal year, 17.7% 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. The redemption of the convertible bond which matured on 28 January 2010 was completed in accordance with the terms and conditions of the issue prospectus. This convertible bond was issued on 28 January 2004 with a coupon of 2.25%, a principal amount of CHF 49.4 million and a maturity of six years. Detailed information can be found on page 33 of this report in section 10 of the notes to the consolidated financial statements.

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 on page 39 in the consolidated financial statements.

3 Board of Directors

3.1 Members of the Board of Directors

The Board of Directors of Schaffner Holding AG currently consists of five, non-executive members. The Articles of Association allow for between three and seven Board members. All Board members are independent within the meaning of the Swiss Code of Best Practice for Corporate Governance, and in the last three years (the fiscal years 2007/08, 2008/09 and 2009/10) were neither members of Schaffner's Executive Committee nor of the management of a subsidiary. They maintain no material business relationships with the Schaffner Group. At the 14th Annual General Meeting on 13 January 2010, Daniel Hirschi was elected to the Board of Directors for a term of three years; at the Board's constituting meeting he was then appointed the new Chairman of the Board. Hans Hess and Robert F. Spoerry were re-elected to the Board for a further three-year term. Leo Steiner and Peter E. Rued, whose terms expired at the Annual General Meeting in 2010, did not stand for re-election.

At 30 September 2010 the Board of Directors of Schaffner Holding AG had the following members:

Daniel Hirschi, Chairman, born 1956, Swiss citizen
Board member since 2010, elected until 2013

Degree in Engineering

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 Baechler, born 1950, Swiss citizen
Board member since 2009, elected until 2012

PhD in Technical Sciences and Master of Science in Electrical Engineering, Federal Institute of Technology, Zurich. In charge of innovation management at ARfinanz Holding AG, Stäfa, and Senior Technical Advisor at Sonova/Phonak AG, Stäfa. From 2002 to 2008 was Chief Technology Officer and from 1981 to 2002 held various management positions in R&D department at Sonova/Phonak AG.

Hans Hess, born 1955, Swiss citizen
Board member since 2006, elected until 2013

Degree in Mechanical Engineering, Federal Institute of Technology, Zurich; MBA, University of Southern California. From 8 September 2006 to 31 March 2007 was Interim Designated Representative of the Board of Directors of Schaffner Holding AG. Until 2005 held various management positions in the Leica Group, most recently ten years as Chief Executive Officer and Designated Representative of the Board of Directors of Leica Geosystems, Heerbrugg.

Robert F. Spoerry, born 1955, Swiss citizen
Board member since 1998, elected until 2013
Degree in Mechanical Engineering, Federal Institute of Technology, Zurich; MBA, University of Chicago. Since 1998 is Chairman of Mettler-Toledo International Inc., Greifensee. From 1983 held various management positions at Mettler-Toledo; CEO from 1993 to 2007.

Markus Zenhausern, born 1962, Swiss citizen
Board member since 2008, elected until 2012
Degree in Economics, University of St. Gallen; PhD in Political Science, University of Fribourg.
Chief Financial Officer and member of the Group Executive Committee of Swiss Post, Berne. From 2005 to 2008 was Chief Financial Officer and member of the Group Executive Committee of Sika Group, Baar. Previously Chief Financial Officer of North East Asia Ciba SC and the Habasit Group, Corporate Controller of the Hero Group and consultant and auditor with Coopers & Lybrand.

Kurt Ledermann: Secretary of the Board

3.2 Activities and interests outside the Group

Daniel Hirschi

Member of the Board of Benninger AG, Uzwil, of Komax Holding AG, Dierikon, and of Gavazzi Holding AG, Steinhausen.

Dr. Herbert Baechler

Other board positions in non-listed companies.

Hans Hess

Chairman of the Board of Burckhardt Compression Holding AG, Winterthur, of Comet Holding AG, Flamatt, and of Reichle & De-Massari Holding AG, Wetzikon; member of the Board of Geberit AG, Jona.

Robert F. Spoerry

Member of the Board of Conzzeta Holding AG, Zurich, of Sonova Holding AG, Stäfa, of Holcim Ltd., Jona, and of Geberit AG, Jona.

Dr. Markus Zenhausern

Member of the Board of Swiss Post International Holding AG, Berne, and of Post Liechtenstein AG.

3.3 Board elections and terms

The members of the Board of Directors are elected individually by the General Meeting, for a term of up to three years. The term of each member is determined at the time of election. Schaffner uses a staggered-board system, which means that in a given year of Board elections, only part of the Board retires and submits itself for re-election.

For the Board members elected or re-elected before the 2009 Annual General Meeting, the term is four years.

The Articles of Association specify an upper age limit of 70 years for Board members. The Board of Directors constitutes itself. It appoints its Chairman and the Secretary of the Board. The Secretary need not be a Board member.

3.4 Internal organization

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. The tasks of the Board and the division of powers between the Board and the Executive Committee are defined in the Swiss Code of Obligations (Swiss corporation law), the Articles of Association of Schaffner Holding AG and its Organizational Regulations.

3.4.1 Division of responsibilities within the Board of Directors

Daniel Hirschi has been the Chairman of the Board since the 2010 Annual General Meeting. The Audit Committee is chaired by Markus Zenhausern; the Nomination & Compensation Committee is chaired by Daniel Hirschi. The Board has no other standing committees or designated positions.

3.4.2 Composition, purpose and responsibilities of Board committees

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

The Board committees are made up exclusively of non-executive members of the Board. They meet as often as necessary and inform the Board of their findings and proposals at the ordinary Board meetings. They may also inform the Chairman of the Board or the Chief Executive Officer at any time on matters requiring urgent attention. 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). The term of office of committee members normally coincides with their term as Board members. If required, new committees may at any time be created or existing committees newly staffed or dissolved.

Audit Committee	Tenure
Markus Zenhausern, Committee chairman	2008-2012
Hans Hess	2006-2013

The Audit Committee acts solely in an advisory capacity. It assists the Executive Committee in dealing with financial matters. At the same time, on behalf of the Board of Directors, the Audit Committee monitors especially the following areas of responsibility of the Executive Committee:

- The appropriateness and validity of the Group accounts
- The financial portion of the annual budget
- The consolidated annual financial statements
- Other major responsibilities of the finance department.

The Audit Committee, on behalf of the Board, receives the audit reports of the external independent auditors and presents them to the Board for review and comment.

Nomination & Compensation Committee	Tenure
Daniel Hirschi, Committee chairman	2010-2013
Robert F. Spoerry	2002-2013

The Nomination & Compensation Committee acts solely in an advisory capacity. It has the following responsibilities:

- At the beginning of each term of office it submits proposals to the Board concerning the nature and amount of Board members' annual remuneration.
- It also annually submits recommendations to the Board concerning the remuneration of each member of the Executive Committee
- It develops incentive plans
- It sets the targets for the Executive Committee in consultation with the Board of Directors
- It assesses the performance of the Executive Committee against targets and submits a proposal to the Board for the variable compensation of the Executive Committee.

The Nomination & Compensation Committee also submits recommendations to the Board regarding:

- Requests for the promotion of employees to the Executive Committee
- Requests for the new hiring or removal of Executive Committee members.

In the case of new hiring, members of the Nomination & Compensation Committee participate in the evaluation of prospective staff as required.

3.4.3 Procedures of the Board and of Board committees

The Board of Directors meets at the invitation of its Chairman or the member representing the Chairman, or at the request of one of the other Board members. Board meetings are called at least ten days before the meeting date. From among its members, the Board appoints the Chairman. It also appoints the Secretary of the Board, who need not be a Board member. The deliberations and decisions of the Board are recorded in the meeting minutes, which are signed by the meeting chairman and the Secretary.

The Board convenes at least four times per year, usually once in every quarter, for a meeting that is about four hours in length.

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

	BD	AC	NCC
Number of meetings in 2009/10	7	2	3
Daniel Hirschi	6 ¹	1	3
Herbert Baechler	7	-	-
Hans Hess	7	2	-
Robert F. Spoerry	7	-	3
Markus Zenhausern	6	2	-
Average meeting length in hours	4	2	2

¹ Already participated in meetings before his election

BD Board of Directors
AC Audit Committee
NCC Nomination & Compensation Committee

Urgent business was discussed by telephone conference call. The Chief Executive Officer and Chief Financial Officer attend the ordinary meetings of the Board. For the discussion of specific matters, the Board requests 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. In a timely manner before the meetings, the Board receives written information on the agenda items, which are set by the Chairman or at the request of the Executive Committee. The Board Chairman and the Chief Executive Officer of the Schaffner Group work closely together.

In addition to its inalienable statutory duties set out in section 716a of the Swiss Code of Obligations, the Board of Directors of Schaffner Holding AG has, in particular, the following responsibilities and areas of authority:

- Strategic direction, organization and leadership of the Group
- Structuring of finance and accounting and provision of financial planning and control
- Appointment and removal of Executive Committee and authorized signatories
- Regular review of business activities
- Decisions on matters not reserved for or transferred to another body by law, by the Articles of Association or the Organizational Regulations
- Formulation and preparation of resolutions for consideration by the General 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 a tie, the meeting chairman (this is normally the Board Chairman) has the casting vote. For the purpose of resolutions concerning capital increases, the Board has a quorum irrespective of the number of members present. The Board may also adopt resolutions by written ballot, unless a member requests an oral discussion. In a vote by written ballot, passage of a resolution requires the support of the majority of all Board members.

The Audit Committee is composed of two non-executive members of the Board of Directors. The Committee chairman should have experience in finance and accounting. The Board appoints the chairman of the Audit Committee. The Committee's current members are Markus Zenhausern (Committee chairman) and Hans Hess. The Chairman of the Board may attend the Audit Committee's meetings on a non-voting basis. The Audit Committee convenes as often as business requires, and not less than two times per year. It invites the Chief Executive Officer and Chief Financial Officer of the Schaffner Group to its meetings and, as required, calls in other staff members of the finance department. The external independent auditors are present at all meetings for the relevant agenda items. The roles and responsibilities of the Audit Committee are specified in the Organizational Regulations of Schaffner Holding AG. The Audit Committee supports the Board of Directors in the supervision of finance and accounting. It oversees the internal and external financial reporting by management and evaluates the effectiveness of the system of internal control. The Committee reviews the performance, effectiveness and independence of the external auditors. It reviews the fees for the external audit activities and the compatibility of these activities with other, advisory mandates. The Audit Committee also assesses compliance with legal requirements. The Committee reports to the Board of Directors.

The Nomination & Compensation Committee is composed of two non-executive members of the Board. It currently consists of Daniel Hirschi (Committee chairman) and Robert F. Spoerry. The Committee as a rule convenes three times per year. The roles and responsibilities of the Nomination & Compensation Committee are specified in the Organizational Regulations of Schaffner Holding AG. The Nomination & Compensation Committee supports and advises the Board of Directors in matters of the appointment, terms of service or employment, and compensation, of Board members, Executive Committee members and other key staff in the Group. In particular, the Committee recommends the principles relating to performance-based compensation.

3.5 Delineation of areas of authority

The Board of Directors of Schaffner Holding AG is the highest-level management and supervisory body of the Company and Group. It provides overall direction, supervision and control of the Group's executive management (the Executive Committee). The Board is responsible primarily for decisions on

Group strategy and organizational structure and for setting corporate policy. The Board's role includes the appointment and removal of members of the Executive Committee, determination of the structure of finance and accounting, and the approval of multi-year plans and of annual and investment budgets.

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 Executive Committee is responsible for implementing the Group's strategy within the framework set by the Board of Directors. The responsibilities and powers of the Executive Committee are specified in the Organizational Regulations. Its main responsibilities are:

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

The Chief Executive Officer has primary responsibility for developing Group strategy for the approval of the Board of Directors, for the operational management of the Group, its overall financial results and the implementation of the strategy and plans of action adopted by the Board. 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 creating transparency regarding the financial results and ensuring high-quality, timely financial reporting.

3.6 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 and cash flow statement. The data are compared against the prior-year results and budgeted figures. The Board of Directors regularly discusses the monthly reports at its meetings. The 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. General risks are analyzed and evaluated. Monitoring-and-control points and processes are defined based on the risk assessment and 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 reporting of the Executive Committee's forecasts of revenue and key earnings and financial position data
- Annual strategic analytical reviews of the Group and the segments, and a rolling multi-year plan updated by the Executive Committee
- Special reports by the Executive Committee on significant investments, acquisitions and partnerships.

The Chief Executive Officer briefs the Chairman of the Board on significant events.

Chairman of the Board

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

Audit Committee

The Audit Committee provides regular and comprehensive reports to the Board of Directors on matters of finance and accounting, financial reporting standards, compliance (with laws, regulations and procedures) and external audit activities. It focuses especially on auditing the financial reporting processes.

Internal audit

In view of its size, the Schaffner Group chooses not to maintain a dedicated internal audit function.

4 Executive Committee

The Executive Committee is the Group's highest-level executive management team. Led by the Chief Executive Officer, it also consists of the Chief Financial Officer and five Vice Presidents for Business Development Asia, Manufacturing, Research & Development, Sales Europe and Supply Chain Management. The Global Marketing function is headed by the Chief Executive Officer. The Executive Committee is responsible for implementing Group strategy within the framework set by the Board, and in particular for achieving the annual targets and medium- and long-term objectives. It is also responsible for process planning, controllership functions and the implementation of Group-wide standards.

The Chief Executive Officer formulates Group strategy for the approval of the Board of Directors and is responsible for implementation of the strategy. He sets the business targets for all units of the Group. 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. The Vice Presidents are accountable for achieving the objectives set for 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

On 30 September 2010 the Executive Committee of the Schaffner Group had the following members:

Alexander Hagemann, 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 with the Schott Group, including Executive Vice President, Optics for Devices; earlier, worked in management roles in production and logistics at BMW.

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 Chief Financial Officer on 1 June 2008.

Previous roles include 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.

Fabian Beck, born 1969, Swiss citizen

MSEE Degree in Electrical Engineering, Federal Institute of Technology, Zurich; Executive Master of Business and Engineering.

With the Schaffner Group since 1994; Vice President, Research & Development since 1 March 2007.

Previously Head of Research and Development, EMC Test Engineer, Quality Engineer and Applications Engineer.

Jean-Michel Calleri, born 1956, French citizen

Electrical Engineering Diploma ESIGELEC, Rouen; IESTO CNAM, Paris.

With the Schaffner Group since 1999; Vice President, Sales Europe since 1 July 2007. General Manager of Schaffner EMC S.A.S., Argenteuil.

Prior to that held a number of management positions in Marketing & Sales, Thomson Passive Components.

Ah Bee Goh, 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 as Vice President, Manufacturing on 1 July 2007.

Previously Managing Director at Leica Instruments; various management roles at Maxtor Peripherals, Seagate Technology and Tandon/Western Digital.

Eduard Hadorn, born 1956, Swiss citizen

Business Economist.

With the Schaffner Group since 2003; Vice President, Business Development Asia since 1 March 2007. Managing Director, Schaffner EMC Ltd., Shanghai.

Prior to this, was General Manager of Technology Division at Diethelm & Co;

Head of Marketing & Sales, Beringer Hydraulik.

Martin Koeppel, born 1960, Swiss citizen

Degree in Precision Engineering, Systems Engineering and Software Engineering.

With the Schaffner Group since 1996; Vice President, Supply Chain Management since 1 March 2007.

Previously Head of Production Components and Modules and Head of Technology and Planning with the Schaffner Group; Project Manager, Swatch Group; Project Manager, Logotrans; responsible for Robotics at Schaffner Elektronik.

4.2 Activities and interests outside the Group

The 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 position in significant interest groups or any public or political office.

4.3 Management contracts

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

5 Compensation report

5.1 Guiding principles

The success of the Schaffner Group depends very much on the quality and commitment of its people. The goal of the Group's compensation strategy is to attract, motivate and retain staff of a high calibre. Performance-related compensation is additionally intended as an incentive to encourage entrepreneurial thinking and action. The most important principles underlying the remuneration system are the following:

- Compensation includes a performance-related element and is competitive with market levels
- Financial and business success of the Group
- Fairness and transparency in decisions on compensation
- Balance of short-term and long-term compensation.

The information set out below follows the guidelines of the SIX Swiss Exchange on compensation policy and on remuneration of boards of directors and executive management. It is disclosed in compliance with the transparency provisions of sections 663 b bis and 663c of the Swiss Code of Obligations.

5.2 Responsibility and procedures for determining compensation

The Board of Directors maintains a Nomination & Compensation Committee consisting of two independent members of the Board.

Members of the Nomination & Compensation Committee at 30 September 2010:

- Daniel Hirschi, Chairman of the Board of Directors, Committee chairman
- Robert F. Spoerry, Member of the Board of Directors

The Nomination & Compensation Committee:

- Discharges its responsibilities generally without involving external advisors
- At the beginning of each term of office, recommends to the Board the nature and amount of the Board members' annual remuneration
- Annually recommends to the Board the remuneration of each member of the Executive Committee
- Determines incentive plans
- Sets the targets for the Executive Committee in consultation with the Board of Directors
- Assesses the performance of the Executive Committee against targets and submits a proposal to the Board for the variable compensation of the Executive Committee.

The Board of Directors:

- Annually determines the fixed remuneration of each member of the Board based on recommendations of the Nomination & Compensation Committee
- Annually determines the variable compensation under the Schaffner share option plans for the individual members of the Board of Directors and executive management of the Schaffner Group; for further information on the Schaffner share option plans, see page 39 of this report in the notes to the consolidated financial statements
- Annually determines the fixed and variable cash compensation of the Chief Executive Officer based on a recommendation of the Nomination & Compensation Committee
- Annually, together with the Chief Executive Officer, determines the fixed and variable cash compensation of the other members of the Executive Committee based on recommendations of the Nomination & Compensation Committee
- Approves the compensation system
- Sets the performance targets for the Executive Committee, in consultation with the Nomination & Compensation Committee
- Approves the actual award of variable compensation to the members of the Executive Committee according to performance against targets, based on recommendations of the Nomination & Compensation Committee
- Approves the introduction of new incentive systems, based on recommendations of the Nomination & Compensation Committee.

The compensation system for the members of the Board of Directors and Executive Committee is explained every year at the Annual General Meeting.

5.3 Compensation system

5.3.1 Board of Directors

5.3.1.1 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 Board's non-executive members receive a fixed annual fee, a flat expense allowance, and (on a variable basis) options over shares of Schaffner Holding AG under the Schaffner share option plans. The amount of the fixed fee and variable share award for each individual is set by the Board of Directors in its discretion, based on 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. In determining compensation levels, the Board also considers publicly available information on remuneration at Swiss peer companies of similar size listed on the SIX Swiss Exchange that are manufacturers and have an international production and marketing organization. Detailed information on the compensation paid in the Schaffner Group in the year under review and the prior

year is provided on page 52 of this report in the notes to the consolidated financial statements.

5.3.1.2 Executive members of the Board

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

5.3.2 Executive Committee

The compensation of the members of the Executive Committee consists of a fixed portion, a variable cash component related to individual and corporate performance, and options under the Schaffner share option plan.

The fixed component consists of the monthly salary, the extra month's salary paid in most years at the end of the year, and flat expense allowances. A fixed contribution is also paid to the management pension plan. In individual cases, Executive Committee members receive additional benefits in kind and other fringe benefits, which are disclosed when they individually exceed CHF 50,000.

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 for the respective country, based on the latest Mercer compensation study.

The variable performance-related cash compensation is determined on the basis of personal performance against individual targets and of the Group's financial and business performance against the corporate targets set by the Board of Directors. At the beginning of the fiscal year, measurable personal performance targets are agreed between the Chairman of the Board and the Chief Executive Officer, and between the Chief Executive Officer and the members of the Executive Committee. Performance relative to these targets is evaluated after the end of the fiscal year. The variable compensation depends largely on the financial results of the Schaffner Group and ranges from 24% to 40% of base salaries.

For Executive Committee members, 70% to 80% of variable compensation is determined by the achievement of the budget targets for the business area for which they have responsibility, and 20% to 30% is dependent on personal (qualitative and quantitative) targets.

The financial and business success of the Group is measured by the following financial value drivers:

- Organic growth
- Operating profit (EBIT),
- Free cash flow
- Net profit for the period
- Efficiency metrics related to net working capital and production

- Various metrics regarding production, development and marketing/selling.

The allotment of options over shares of Schaffner Holding AG under the Schaffner share option plans is variable and is performed annually based on the recommendation of the Nomination & Compensation Committee, at the discretion of the Board of Directors.

Detailed information on the compensation paid in the year under review and the prior year is provided on page 52 of this report in the notes to the consolidated financial statements.

5.3.3 Share ownership plans

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

Since 1 October 1998, options with a value of CHF 500,000 to CHF 900,000 to purchase shares of Schaffner Holding AG have been granted annually under the Schaffner share option plans to executive management and members of the Board of Directors. The awarding of such options is based on the Schaffner Holding AG Employee Share Option Plan 1998 (ESOP) – before and after the changes to the ESOP on 13 November 2006 – and on the Schaffner Holding AG Performance Option Plan (POP). The shares reserved to satisfy the obligations under the ESOP and POP comprise both (i) authorized unissued share capital of CHF 693,550, consisting of 21,340 shares of Schaffner Holding AG with a nominal value of CHF 32.50 per share, and (ii) treasury shares.

Detailed information on the individual plans can be found on page 39 of this report in the notes to the consolidated financial statements.

5.3.3.1 Employee Share Option Plan (ESOP) options issued before the plan amendment of 13 November 2006

Equity-settled share options granted under the pre-amendment ESOP ordinarily vested in five annual installments of 20%, beginning one year after the grant date. After five years from the grant date, all granted options are 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.

5.3.3.2 ESOP options issued after the plan amendment of 13 November 2006

Equity-settled share options granted after the plan amendment become vested ordinarily in four annual installments of 25% each, beginning one year after the grant date. After four years from the grant date, all granted options are thus ordinarily vested. Unexercised options expire seven years after the grant date.

5.3.3.3 Performance Option Plan (POP)

100% of equity-settled POP share options ordinarily vest (provided that the non-vesting conditions are satisfied) if the performance target is reached at 30 September 2013. Under the non-vesting conditions, plan participants must, over the life of the plan, acquire a specified number of shares in Schaffner Holding AG that is proportionate to the number of options which they hold; restricted shares are counted towards the required number of shares. The performance target is a clearly defined corporate financial target set by the Board of Directors. Participation in the Performance Option Plan is reserved for members of the Executive Committee. Unexercised options expire ten years after the grant date.

5.3.3.4 Restricted shares

The members of the Executive Committee and other senior executive management are ordinarily entitled to subscribe for restricted shares, in a quantity determined by the Board of Directors, at a discount of 20% to the quoted market price of the Company's shares. These shares are subject to a holding period of three to four years; however, the grantee has the dividend rights and voting rights from the grant date.

5.3.4 Employment contracts and special benefits

There are no employment contracts with notice periods of more than twelve months. Members of the Board or Executive Committee do not have a contractual entitlement to termination benefits.

In the year under review, no termination benefits were 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.

5.4 Compensation for the year under review

By decision of the Board of Directors, options over shares of Schaffner Holding AG were awarded for the year under review under the Schaffner share option plans. The Board decided at its meeting on 30 November 2009 to award 10,300 options over shares of Schaffner Holding AG at an exercise price of CHF 159.90, and decided at its meeting on 13 January 2010 to award 1,000 options at an exercise price of CHF 157.00. The basis for the exercise price was the closing price on the date of the grant.

The Enhanced American Model used to estimate the fair value of the granted share options (a sophisticated binomial model) is explained in detail on page 39 of this report in the notes to the consolidated financial statements.

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
- 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 Board of Directors or 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 Board of Directors, compensation is paid until and including the month of departure. 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 in the case of postings to other countries (i.e., for expatriates). The value of any company car privileges and out-of-country allowances is reported under expense allowances.

All payments to pension plans, contributions to management pension plans and contributions in the form of premium reductions for insurance are reported within 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 individual 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 sureties (guarantees) on behalf of members of the Board of Directors or Executive Committee. Neither Schaffner Holding AG nor another 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 other compensation for any additional services rendered to Schaffner Holding AG or another Group company.

The increase in compensation from the prior year is attributable to transitional double staffing of positions, the base effect of the waiving of 10% of compensation in the second half of the prior year, and an actual per-person increase resulting from the positive trend in the Group's financial and business performance.

5.4.1 Members of the Board of Directors and Executive Committee of Schaffner Holding AG

A detailed analysis of the total compensation of the Board members and Executive Committee members including shares, share options and conversion rights, as well as their holdings of shares and share options, is provided on page 52 of this report in the notes to the consolidated financial statements.

5.4.2 Members of the Executive Committee of Schaffner Holding AG

In the fiscal year 2009/10 the variable portion of the compensation to the Executive Committee members on average represented 39% (prior year: 16%) of their total compensation, with cash making up 63%-points of this (prior year: 0%-points) and share options making up 37%-points (prior year: 100%-points).

5.4.3 Former members of management

Leo Steiner, who was Chairman of the Board of Directors until 13 January 2010, received total compensation of CHF 27,333 in the fiscal year 2009/10.

Peter E. Rued, who was a member of the Board until 13 January 2010, received total compensation of CHF 14,000 in the fiscal year 2009/10.

5.4.4 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.

5.5 Loans

5.5.1 Current or former members of management

Neither Schaffner Holding AG nor other Group companies made loans to current or former members of the Board of Directors or of the Executive Committee, and no such loans were outstanding at 30 September 2010.

5.5.2 Related parties

Schaffner did not make loans to parties related to current or former members of the Board of Directors or of the Executive Committee, and no such loans were outstanding at 30 September 2010.

6 Shareholders' participation rights

6.1 Voting rights restrictions and proxy voting

At 30 September 2010 the Company had 1,223 shareholders of record, i.e., shareholders registered in the share register. Most of these shareholders are domiciled or resident in Switzerland. Each share of Schaffner Holding AG, with the exception of treasury shares held by the Company, carries one vote at the General Meeting of shareholders. Voting rights are not restricted in any way. As well, any shareholder may have their shares represented at the General Meeting by a third party on the basis of a written proxy. In the invitation to the General Meeting, the Board of Directors announces the record date by which registration in the share register is required for participation in and voting at the 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 conducts its elections by a majority of the valid votes represented. 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. 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 day of the meeting by issuing a notice in the Company's official gazette for statutory notices. In addition, notice of the meeting may be sent in a letter to all shareholders registered in the share register. In addition to the meeting date, time 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 not announced in this manner, except for motions to call an Extraordinary General Meeting or conduct a special audit.

Shareholders representing at least one-tenth of the share capital may submit a binding request 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 at least 45 days before the General Meeting.

6.5 Registration in the share register

In the invitation to 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.

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 clause nor an opting-up clause. This means that any person or entity acquiring one-third (33⅓%) or more of the share capital of Schaffner Holding AG is obliged under section 32 of the Swiss Federal Act on Stock Exchanges and Securities Trading (SESTA, or Stock Exchange Act) to make a public tender offer to purchase the remaining shares.

7.2 Provisions on changes in control

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

- 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
- 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 Date of beginning of current audit engagement

Ernst & Young AG, Berne, is appointed for one year at a time. Ernst & Young AG, Berne, has been the external independent auditor of Schaffner Holding AG since the fiscal year 2002/03.

8.1.2 Date of first appointment of lead audit partner of current external audit engagement

The external auditor's lead audit partner (the person in charge of the audit engagement), Ms. Bernadette Koch, has held this position since the fiscal year 2009/10. The lead audit partner is rotated at least every seven years.

8.2 Audit fees

In the fiscal year 2009/10, Ernst & Young AG charged the Schaffner Group fees totaling CHF 413,000 (prior year: CHF 499,000) 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.

8.3 Additional fees

In addition, Ernst & Young AG charged the Schaffner Group CHF 35,000 for other services, which had the following composition:

Tax consulting	CHF 10,000
IT consulting	CHF 23,000
Other	CHF 2,000

8.4 Monitoring the external independent auditors

The Audit Committee, on behalf of the Board of Directors, annually evaluates the performance, fees and independence of the external auditors and recommends to the Board which external auditors to propose for election by the General Meeting. The external auditors in the course of their audit activities regularly communicate to the Audit Committee their findings and any suggestions for improvement. After the audit of the annual financial statements, the results are reported on the basis of the management letter to the Board of Directors and the reports of the external auditors to the General Meeting.

The 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 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 attend the Committee's meetings with the external auditors. The Board of Directors is kept informed by the Audit Committee.

9 Communication policy

Schaffner Holding AG is committed to a policy of open communication and provides its shareholders, the capital market, its staff and all other stakeholders with information in a candid, transparent and timely manner. 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) and Swiss corporation law. As a company listed on the SIX Swiss Exchange, Schaffner also publishes information relevant to the share price in accordance with section 72 of the Listing Rules (so-called „ad-hoc“ disclosures). In the course of its communications the Schaffner Group makes forward-looking statements. These statements are always based on management's judgment, at the time of the statement, regarding the current and future position and performance of the company. Schaffner Holding AG does not update information published in the past.

Schaffner Holding AG 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 Interim Report is published on the Company's website and printed on request. The Company also publishes regular media releases and ad-hoc announcements. Ad-hoc announcements remain available on the Schaffner website for at least two years and can be accessed via the following link:

[http://www.schaffner.ch/corporate/en/corporate/media/medieninformationen.asp?language_id=12&level=1\\$4\\$1](http://www.schaffner.ch/corporate/en/corporate/media/medieninformationen.asp?language_id=12&level=1$4$1)

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

- Annual General Meeting
- Presentation of the full-year results
- Conference calls focusing on the publication of the half-year results or other news
- Meetings with shareholders, investors and analysts during road shows
- Themed investor days for shareholders, investors and analysts.

Annual and interim 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.

Annual and interim reports remain available on the website for at least five years and are displayed at [http://www.schaffner.ch/corporate/en/corporate/investor/reports.asp?language_id=12&level=1\\$3\\$3](http://www.schaffner.ch/corporate/en/corporate/investor/reports.asp?language_id=12&level=1$3$3)

The corporate governance report and compensation report can be found at the following link:

[http://www.schaffner.ch/corporate/en/corporate/governance/index.asp?language_id=12&level=1\\$2](http://www.schaffner.ch/corporate/en/corporate/governance/index.asp?language_id=12&level=1$2)

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, specifically at

[http://www.schaffner.com/corporate/en/corporate/media/newsservice.asp?level=1\\$4\\$3&language_id=12](http://www.schaffner.com/corporate/en/corporate/media/newsservice.asp?level=1$4$3&language_id=12)

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

The Company's official gazette for the publication of statutory 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-swiss-exchange.com.

A current source of information is Schaffner's corporate website at www.schaffner.com with detailed information on the Group, products and contacts.

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

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

12 January 2011	15th Annual General Meeting of Schaffner Holding AG
12 May 2011	Publication of half-year results 2010/11
6 December 2011	Publication of full-year results 2010/11
12 January 2012	16th Annual General Meeting of Schaffner Holding AG

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Consolidated financial statements of the Schaffner Group

Consolidated balance sheet

In CHF '000	Note	30.9.2010	30.9.2009
Intangible assets	2	14,773	15,835
Property, plant and equipment	3	14,916	13,922
Other non-current assets	4, 21	12,202	13,130
Deferred tax assets	16	2,196	626
Non-current assets		44,087	43,513
Inventories	5	31,134	25,368
Trade receivables	6, 21	36,885	21,371
Income tax receivables		761	1,099
Other receivables, prepaid expenses and accrued income	7, 21	5,715	4,907
Cash and cash equivalents	21	8,061	30,625
Current assets		82,556	83,370
Total assets		126,643	126,883
Equity attributable to equity holders of Schaffner Holding AG		55,985	47,305
Shareholders' equity		55,985	47,305
Non-current provisions	8	7,080	6,305
Deferred tax liabilities	16	2,664	3,653
Non-current borrowings	10, 21	18,137	0
Non-current liabilities		27,881	9,958
Current provisions	8	4,882	5,034
Current borrowings	10, 21	1,749	42,493
Income tax payables		1,867	754
Trade and other payables	11, 21	34,279	21,339
Current liabilities		42,777	69,620
Total liabilities		70,658	79,578
Total liabilities and shareholders' equity		126,643	126,883

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

Consolidated income statement

In CHF '000	Note	2009/10	2008/09
Net sales	17	188,939	133,363
Cost of sales		-129,669	-98,477
Gross profit		59,270	34,886
Other income	8	469	0
Marketing and selling expense		-15,934	-15,080
Research, development and application expense		-12,582	-11,645
General and administrative expense		-14,662	-12,034
Restructuring costs	8, 9	-949	-4,669
Operating profit/(loss) before amortization of customer relationships		15,612	-8,542
Amortization of customer relationships ¹	2	-612	-651
Operating profit/(loss) [EBIT]		15,000	-9,193
Finance income	15	1,100	2,515
Finance expense	15	-4,087	-4,897
Profit/(loss) before tax [EBT]		12,013	-11,575
Income tax	16	-30	640
Net profit/(loss) for the period		11,983	-10,935
Earnings per share in CHF	19		
Basic		18.87	-18.04
Diluted		18.68	-18.04

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

In CHF '000	2009/10	2008/09
Net profit/(loss) for the period	11,983	-10,935
Exchange differences	-3,213	-4,168
Movement in cash flow hedges	-115	0
Income tax	0	0
Total comprehensive income/(loss) for the period	8,655	-15,103

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

Consolidated cash flow statement

In CHF '000	Note	2009/10	2008/09
Net profit/(loss) for the period		11,983	-10,935
Depreciation and impairment of property, plant and equipment	3	3,468	3,386
Amortization and impairment of intangible assets	2	1,937	1,932
Gain on disposal of property, plant and equipment and intangible assets		96	54
Change in provisions	8	2,099	2,580
Change in inventories		-7,986	3,887
Change in receivables		-19,739	18,912
Change in current liabilities		15,860	-5,268
Change in deferred tax	16	-2,456	-391
Finance expense for convertible bond		223	841
Share-based payments expense		820	863
Exchange differences on intra-Group items		1,508	-246
Change in deferred consideration payable	8	-469	0
Other non-cash income/(expense)		-30	189
Cash flow from operating activities		7,314	15,804
Purchase of property, plant and equipment	3	-5,306	-2,982
Disposal of property, plant and equipment		164	120
Purchase of intangible assets	2	-1,423	-2,251
Acquisition of subsidiaries or businesses, net of cash acquired		0	-2,347
Change in loan receivables and non-current financial assets		594	148
Cash flow from investing activities		-5,971	-7,312
Purchase of treasury shares	20	-1,094	-282
Disposal of treasury shares	20	0	4,339
Proceeds from exercise of share options and purchase of restricted shares by staff	20	219	0
Transaction costs of purchase or disposal of treasury shares	20	0	-216
Share capital reduction through partial repayment of nominal value		0	-2,114
Proceeds from borrowings		19,771	0
Repayment of borrowings		-42,716	-6,408
Cash flow from financing activities		-23,820	-4,681
Effect of exchange rates on cash and cash equivalents		-87	-114
Change in cash and cash equivalents		-22,564	3,697
Cash and cash equivalents at 1 October		30,625	26,928
Cash and cash equivalents at 30 September		8,061	30,625
Free cash flow¹		749	10,691
Included in cash flow from operating activities:			
Interest paid		-1,789	-1,275
Interest received		71	214
Income tax paid		-16	-85

¹ Cash flow from operating activities minus 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

	Share capital	Share premium	Translation reserve	Retained earnings	Treasury shares	Hedging reserve	Total shareholders' equity
In CHF '000							
At 1 October 2008	22,894	58,441	-4,686	-9,651	-8,849	0	58,149
Exchange differences			-4,168				-4,168
Net loss for the period				-10,935			-10,935
Total comprehensive income	0	0	-4,168	-10,935	0	0	-15,103
Treasury shares				-3,197	7,038		3,841
Share capital reduction through partial repayment of nominal value ¹	-2,226			112			-2,114
Issue of restricted shares				-89	270		181
Share option plans		863					863
Conversion and redemption of convertible bond		22			1,466		1,488
At 30 September 2009	20,668	59,326	-8,854	-23,760	-75	0	47,305
Exchange differences			-3,213				-3,213
Movement in cash flow hedges						-115	-115
Net profit for the period				11,983			11,983
Total comprehensive income	0	0	-3,213	11,983	0	-115	8,655
Treasury shares				-47	-924		-971
Issue of restricted shares					120		120
Share option plans		820					820
Redemption of convertible bond		56					56
At 30 September 2010	20,668	60,202	-12,067	-11,824	-879	-115	55,985

¹ By CHF 3.50 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 share capital is fully paid. Each share carries one vote at the General Meeting. All shares not held by the Company or one of its subsidiaries attract dividends.

There is also authorized unissued capital of 21,340 shares with a total nominal value of CHF 693,550. This is reserved for the Schaffner share option plans (see note 18 on page 39).

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 increase in share premium in the year under review resulted from the granting of conversion rights under the Employee Share Option Plan (see note 18 on page 39) and the redemption of parts of the convertible bond.

Translation reserve

Shareholders' equity is carried at historical exchange rates. The resulting foreign exchange differences are recognized directly in shareholders' equity as a separate line item until the disposal of the subsidiary in question.

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

Notes to the consolidated financial statements

Accounting policies

Basis of preparation

The consolidated financial statements are based on 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, 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) 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 their interpretations (IFRIC) issued by the International Accounting Standards Board (IASB). 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 applied the same accounting policies as in the prior year, except as modified by newly issued and changed standards and interpretations. The Group thus adopted the following accounting changes with effect from 1 October 2009:

A) Standards, amendments and interpretations effective and adopted from 1 October 2009:

IFRS 7 – Amendment – Improving Disclosures About Financial Instruments

The amendment requires enhanced disclosures on fair value measurement and liquidity risk. In particular, it requires each fair value measurement to be classified to a level in the fair value hierarchy. As this amendment merely leads to additional disclosures, it has no effect on the Group's financial position.

IFRS 8 – Operating Segments

IFRS 8 replaces IAS 14 – Segment Reporting. The new standard requires reportable segments to be defined consistent with the delineation used for the internal reporting on the basis of which the chief operating decision maker allocates resources to these segments and assesses their profitability. The Schaffner Group has identified the Executive Committee as the chief operating decision maker.

The Group has adopted early the expansion of IFRS 8 – Operating Segments regarding the allocation of assets to the segments. In the reporting to the Executive Committee, total assets are not analyzed by segment.

IAS 1 – Revised – Presentation of Financial Statements

The principal change to IAS 1 is the new requirement that changes in equity not resulting from transactions with shareholders are to be presented either in a new section of the existing income statement or in a separate statement of comprehensive income. Schaffner has elected the presentation in a separate consolidated statement of comprehensive income.

B) Standards, amendments and interpretations effective and adopted from 1 October 2009, but having no relevance for the Group

The following amendments, revisions and interpretations of published standards are effective (i.e., their application is mandatory) beginning in the fiscal year under review, but they have no practical significance for the Schaffner Group:

- IFRS 1 and IAS 27 – Amendments
Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- IFRS 2 – Amendment
Vesting Conditions and Cancellations
- IFRS 3 – Revised
Business Combinations
- IAS 23 – Revised
Borrowing Costs
- IAS 27 – Revised
Consolidated and Separate Financial Statements
- IAS 32 and IAS 1 – Amendments
Puttable Financial Instruments and Obligations Arising on Liquidation
- IAS 39 – Amendment
Eligible Hedged Items
- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 17 – Distribution of Non-Cash Assets to Owners
- IFRIC 18 – Transfers of Assets from Customers
- Annual Improvements to IFRSs 2009

IFRS standards 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. However, based on a preliminary assessment, the expected impact of each standard and interpretation is presented in the table below.

Preliminary assessment of effects of new or changed standards and interpretations becoming effective in future periods

	Assessment	Effective date	Planned adoption by Schaffner Group
IFRS 1 – Amendments – Additional Exemptions for First-time Adopters	*	1.1.2010	2010/11
IFRS 2 – Amendments – Group Cash-settled Share-based Payment Transactions	*	1.1.2010	2010/11
IFRS 7 – Amendments – Disclosures: Transfers of Financial Assets	**	1.7.2011	2011/12
IFRS 9 – Financial Instruments	***	1.1.2013	2013/14
IAS 24 – Amendments – Related Party Disclosures	***	1.1.2011	2011/12
IAS 32 – Amendments – Classification of Rights Issues	*	1.2.2010	2010/11
IFRIC 14 – Amendments – Prepayments of a Minimum Funding Requirement	**	1.1.2011	2011/12
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	*	1.7.2010	2010/11
Annual improvements to IFRSs 2010	**	1.5.2010	2010/11

* 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 of additional disclosures or changes in presentation.

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

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 largest effects on the consolidated financial statements:

- Intangible assets: For acquisitions, the fair value of the acquired net assets (including acquired intangible assets) is estimated. Any amount paid in excess of this estimate represents goodwill. Intangible assets with a finite life are amortized over the expected period of use; those with an indefinite life (primarily goodwill) are not amortized, but are tested annually for impairment. The valuation of goodwill and other intangibles and the estimation of useful life have an effect on the consolidated financial statements.
- Provisions: Provisions are recognized only if the specific criteria under IFRS for doing so are met. Provisions represent probable obligations arising from a past event and are recognized only if their amount can be estimated reliably. Nevertheless, provisions are based on assumptions, which may later prove incorrect.
- Income tax: The Schaffner Group is subject to income tax in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the

ultimate effective tax assessment is uncertain at the time of preparation of these financial statements.

Definitions

A subsidiary is a company over which Schaffner Holding AG, Luterbach, directly or indirectly exercises control. An associated company, or associate, is a company over which Schaffner Holding AG directly or indirectly exercises significant influence.

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, by full consolidation, the financial statements of Schaffner Holding AG and of its subsidiaries. Their assets, liabilities, income and expenses are fully included, and the interests of minority shareholders in subsidiaries ("non-controlling interests", previously known as minority interests) are reported separately in the balance sheet and income statement. The purchase or sale of non-controlling interests by the Group is recognized directly in equity.

All intra-Group balances, income and expenses are eliminated on consolidation. 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 effective completion of the transaction.

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). Expenses, income and cash flows are translated into Swiss francs at 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 in shareholders' equity in the translation reserve.

Foreign currency transactions

Foreign currency transactions of subsidiaries are translated at exchange rates prevailing at the date of the transactions (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 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 aggregate of the consideration transferred – measured at fair value at the acquisition date – and the amount of any non-controlling interest in the acquired company. For each business combination, the non-controlling interest in the acquired entity is measured either at fair value or at the proportionate share of the acquired entity's identifiable net assets. Acquisition costs incurred are recognized as an expense.

Any contingent consideration payable is recognized at the acquisition date at fair value. Subsequent changes to the fair value of a contingent consideration which is deemed to be an

asset or liability are recognized either in the consolidated income statement or in the consolidated statement of comprehensive income. If the contingent consideration is classified as equity, it is not remeasured and its eventual settlement will be recognized in equity.

Goodwill is assessed for impairment annually and any impairment is charged to the consolidated income statement. When a subsidiary is sold, the difference between its sale price and its net assets, plus cumulative exchange differences, is reported as operating income or expense in the consolidated income statement.

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 and ability to complete its development and either use it or sell it.

Intangible assets recognized for development costs of software are amortized on a straight-line basis over their estimated useful life. The capitalized costs are tested for impairment annually for as long as 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 the lessee has substantially all the benefits and risks of ownership are classified as finance leases. Where a Group company is a lessee under a finance lease, the leased asset is capitalized at the lower of its fair value or the present value of the lease payments; 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 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, while 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 are measured at market prices where possible, or otherwise 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 as well as 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. 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. Depending on the product and the agreed shipment terms, this occurs at the time of shipment or of the products' arrival at the agreed delivery address.

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 unless the claim to the interest is in doubt.

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 as 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 plans, the future pension costs are assessed using the projected unit credit method. Under this method, the cost of providing future pensions is charged to the income statement in such a way as to spread the regular cost over the expected service lives of employees. The amount of these costs and their distribution over employees' service lives are determined in accordance with the advice of independent qualified actuaries.

The Schaffner Group's contributions to its pension plans are charged to the income statement in the year to which they

relate. Accumulated unrecognized actuarial gains or losses exceeding the 10% "corridor" (10% of the greater of the present value of the defined benefit obligation or the fair value of the plan's assets) are amortized in the income statement over the average of the remaining working lives of the participating employees. This recognition begins in the year following the year in which the corridor is exceeded.

Borrowing costs

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

Segment reporting

The Schaffner Group consists of three reportable segments: Electromagnetic Compatibility, Power Quality and Automotive. This delineation of segments is consistent with the internal reporting on the basis of which the chief operating decision maker allocates resources to these segments and assesses their profitability.

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

Income tax

Current income tax is provided on the basis of reported profits, in the period in which the profits arise. Tax is calculated in conformity with the applicable tax laws 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 amount 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 when the asset is recovered or the liability settled. The change in deferred tax assets and liabilities is recognized as deferred income tax expense or benefit. Deferred tax liabilities are calculated on all taxable temporary differences. Deferred tax assets, including assets for unused tax loss carry-forwards, are only recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The determination of the amount of deferred tax assets to be recognized requires a significant degree of judgment on the part of management. It involves assumptions and estimates as to the likely timing and amounts of future taxable profits and as to future tax planning strategies.

Financial assets and liabilities

Financial assets and liabilities are classified into the following five 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)
- Financial investments held to maturity
- Loans and receivables
- Financial assets available for sale (this represents all financial instruments not assignable to one of the categories above).
- Financial liabilities mainly consist of borrowings, which are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Liabilities arising from trading activities and derivatives are measured at fair value.

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). 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. Any value changes are recorded in finance income or expense in the reporting period in which they occur.

Financial instruments held to maturity, loans and receivables are initially measured at cost and subsequently measured at amortized cost using the effective interest method.

Financial assets available for sale are subsequently measured at fair value, with changes in value (after income tax) recorded in shareholders' equity. Upon sale, impairment, or other disposal of the assets, the accumulated gains and losses recorded in shareholders' equity are reported in finance income or expense in the current period.

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.

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 derivatives 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 is no longer expected to 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 entity will assess the effectiveness of the hedge.

If the hedging instrument expires or is sold, cancelled or its designation as a hedge is revoked, amounts previously recognized in the consolidated statement of comprehensive income remain 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, adjusted to reflect actual versus expected levels of vesting.

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:

Country	Currency	Balance sheet		Income statement	
		30.9.2010 in CHF	30.9.2009 in CHF	2009/10 in CHF	2008/09 in CHF
UK	GBP 100	153.99	165.81	163.35	171.81
Japan	JPY 100	1.17	1.15	1.18	1.17
Singapore	SGD 100	74.23	73.51	75.87	75.61
Sweden	SEK 100	14.51	14.87	14.47	14.28
Thailand	THB 100	3.22	3.10	3.23	3.21
USA	USD 100	97.67	103.58	104.91	111.36
EU	EUR 100	133.36	151.63	141.77	150.71
China	CNY 100	14.60	15.17	15.41	16.30
Hungary	HUF 100	0.48	0.56	0.52	0.54
Taiwan	TWD 100	3.13	3.23	3.28	3.35

2 Intangible assets

In CHF '000	Trademarks, technology and rights	Software	Goodwill	Customer relationships	Intangible assets under construction	Total
Cost at 1 October 2008	958	4,150	4,817	6,816	1,970	18,711
Additions purchased separately		354			1,096	1,450
Additions acquired through business combinations	2,354	22				2,376
Additions developed internally					801	801
Disposals		-51				-51
Reclassifications		3,862			-3,862	0
Exchange differences	-40	-24		-284		-348
Cost at 30 September 2009	3,272	8,313	4,817	6,532	5	22,939
Additions purchased separately	23	332			539	894
Additions developed internally					529	529
Disposals	-298	-796				-1,094
Exchange differences	-111	-33		-787		-931
Cost at 30 September 2010	2,886	7,816	4,817	5,745	1,073	22,337
Accumulated amortization and impairment at 1 October 2008	-686	-3,314	0	-1,309	0	-5,309
Amortization	-326	-954		-651		-1,931
Disposals		45				45
Exchange differences	28	13		50		91
Accumulated amortization and impairment at 30 September 2009	-984	-4,210	0	-1,910	0	-7,104
Amortization	-234	-845		-612		-1,691
Impairment	-246					-246
Disposals	298	796				1,094
Exchange differences	97	20		266		383
Accumulated amortization and impairment at 30 September 2010	-1,069	-4,239	0	-2,256	0	-7,564
Net book value at 30 September 2009	2,288	4,103	4,817	4,622	5	15,835
Net book value at 30 September 2010	1,817	3,577	4,817	3,489	1,073	14,773

Goodwill acquired through business combinations was allocated to the Electromagnetic Compatibility (EMC) operating segment. The recoverable amount was determined based on a value-in-use calculation using cash flow projections covering a five-year period, based on financial budgets approved by the Executive Committee and Board of Directors for the fiscal year 2010/11 and on a multi-year forecast. Cash flows beyond the five-year period are extrapolated using a growth rate of 0%. The pre-tax discount rate applied is 14.5% and is based on a risk-free ten-year bond, adjusted for risk. The sensitivity analysis conducted showed that no reasonably possible changes in the material assumptions would cause the recoverable amount to fall below the carrying amount.

Technology was capitalized for the first time at 5 January 2009, using the relief-from-royalty method to value the "active harmonic filter" technology acquired with BETEC-Engineering. The technology is amortized on a straight-line basis over an estimated useful life of ten years. At 30 September 2010 its residual carrying amount was CHF 1,706,000 (prior year: CHF 1,902,000) and its remaining useful life was eight years and three months.

In the year under review the management decided to discontinue the use of the Bluewave trademark. The trademark's remaining carrying amount of CHF 246,000 was therefore derecognized through an impairment charge. This impairment is attributable to the Power Quality segment. Henceforth the active harmonic filter technology associated with the brand will thus be marketed solely under Schaffner's "EcoSine Active" brand. Customer relationships were capitalized for

the first time at 3 November 2006, using the excess earnings method for the valuation of the existing customers at the acquisition date of what was then Schaffner Jacke GmbH (now Schaffner Deutschland GmbH). Customer relationships are amortized on a straight-line basis over an estimated useful life of ten years. At 30 September 2010 the remaining carrying amount for customer relationships was CHF 3,489,000 (prior year: CHF 4,622,000) and their remaining useful life was 6 years and 1 months.

In the 2007/08 fiscal year a project was launched with the goal of implementing a Group-wide SAP system. Until the commissioning (the going live) of a given phase of the system, the external investment and internal development costs related to that phase are capitalized as intangible assets under construction and are not amortized. The first phase was commissioned in the 2008/09 fiscal year. The useful life of the core system is estimated at five years and that of the country-specific programming at eight years. In the 2009/10 fiscal year no additional phase of the project was commissioned.

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.

3 Property, plant and equipment

	Land and buildings	Plant and machinery	Information technology hardware	Furniture and fixtures	Vehicles	Assets under construction	Total
In CHF '000							
Cost at 1 October 2008	7,879	28,428	4,529	2,487	1,907	84	45,314
Additions purchased separately	429	1,929	68	117	134	305	2,982
Additions acquired through business combinations		295		9			304
Disposals		-491	-197	-21	-164	-60	-933
Reclassifications	10	65			8	-83	0
Exchange differences	-488	-1,429	-104	-142	-114	-3	-2,280
Cost at 30 September 2009	7,830	28,797	4,296	2,450	1,771	243	45,387
Additions purchased separately	325	4,081	254	142	218	286	5,306
Disposals	-2	-916	-194	-20	-464	-50	-1,646
Reclassifications	8	243	8			-259	0
Exchange differences	-230	-698	-66	-191	-107	-2	-1,294
Cost at 30 September 2010	7,931	31,507	4,298	2,381	1,418	218	47,753
Accumulated depreciation and impairment at 1 October 2008	-4,783	-18,790	-3,709	-2,076	-888	0	-30,246
Depreciation	-498	-2,045	-276	-156	-217		-3,192
Disposals		445	191	18	114		768
Impairment		-194					-194
Exchange differences	328	829	79	116	47		1,399
Accumulated depreciation and impairment at 30 September 2009	-4,953	-19,755	-3,715	-2,098	-944	0	-31,465
Depreciation	-398	-2,499	-238	-112	-221		-3,468
Disposals		865	194	18	312		1,389
Exchange differences	154	286	52	180	35		707
Accumulated depreciation and impairment at 30 September 2010	-5,197	-21,103	-3,707	-2,012	-818	0	-32,837
Net book value at 30 September 2009	2,877	9,042	581	352	827	243	13,922
Net book value at 30 September 2010	2,734	10,404	591	369	600	218	14,916

Property, plant and equipment are covered by a Group-wide insurance policy. The maximum insured amount is CHF 70 million per claim.

At 30 September 2010 there were commitments to purchase property, plant and equipment in the amount of CHF 414,000 (prior year: CHF 916,000).

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:

	30.9.2010	30.9.2009
In CHF '000		
Operating leases		
Minimum lease payments due:		
Within 1 year	3,221	3,753
In more than 1 year and not more than 5 years	8,671	10,321
Thereafter	4,276	4,212
Total minimum payments	16,168	18,286
Subleases		
Total future minimum sublease income	1,251	267
Total minimum income	1,251	267

In the fiscal 2009/10, total operating lease expenses were CHF 4,733,000 (prior year: CHF 4,217,000).

Total sublease income in 2009/10 was CHF 221,000 (prior year: CHF 45,000).

4 Other non-current assets

In CHF '000	30.9.2010	30.9.2009
Present value of defined benefit assets and IFRIC 14 asset ¹	10,647	10,806
Rental/utility security deposits and guarantees	1,555	2,324
Total other non-current assets	12,202	13,130

¹ See note 14 on page 34

5 Inventories

In CHF '000	30.9.2010	30.9.2009
Raw materials	16,518	14,688
Work in process and semi-finished goods	3,532	3,035
Finished goods	11,084	7,645
Total inventories	31,134	25,368

Inventory provisions

In CHF '000	2009/10	2008/09
At 1 October	3,885	3,719
Additions	1,405	1,085
Amounts used	-436	-430
Reversal of unused amounts	-1,041	-306
Exchange differences	-266	-183
At 30 September	3,547	3,885

6 Trade receivables

In CHF '000	30.9.2010	30.9.2009
Trade receivables, gross	37,051	21,678
Provision for doubtful debts	-166	-307
Total trade receivables	36,885	21,371

7 Other receivables, prepaid expenses and accrued income

In CHF '000	30.9.2010	30.9.2009
Other receivables	5,125	3,981
Prepaid expenses and accrued income	590	926
Total other receivables, prepaid expenses and accrued income	5,715	4,907

8 Provisions

In CHF '000	Warranty provisions	Provisions for employee benefits ¹	Restructuring provisions	Other provisions	Total
At 1 October 2008	311	3,998	0	3,223	7,532
Additions	564	546	4,076	898	6,084
Amounts acquired through business combinations				1,483	1,483
Amounts used	-66	-400	-1,936	-316	-2,718
Reversal of unused amounts	-92	-76		-618	-786
Exchange differences	-17	-162		-77	-256
At 30 September 2009	700	3,906	2,140	4,593	11,339
Additions	1,571	286	949	1,612	4,418
Amounts used		-217	-1,334	-385	-1,936
Reversal of unused amounts	-116	-66	-40	-718	-940
Unwinding of discount				88	88
Transfer	268			-268	0
Exchange differences	-123	-407		-477	-1,007
At 30 September 2010	2,300	3,502	1,715	4,445	11,962
Non-current provisions at 30 September 2009	134	3,871	717	1,583	6,305
Current provisions at 30 September 2009	566	35	1,423	3,010	5,034
Total provisions at 30 September 2009	700	3,906	2,140	4,593	11,339
Non-current provisions at 30 September 2010	1,583	3,490	1,298	709	7,080
Current provisions at 30 September 2010	717	12	417	3,736	4,882
Total provisions at 30 September 2010	2,300	3,502	1,715	4,445	11,962

¹ See note 14 on page 34

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

The purchase price for Schaffner's acquisition in the prior year of staff, technology and assets of Germany's BETEC-Engineering included deferred consideration. These deferred payments are set at 10% of the net sales of harmonic filters manufactured in-house by Schaffner in the three calendar years following the acquisition (2009, 2010 and 2011). As a result of the unexpectedly strong and rapid business recovery, there were less resources available to invest in internal production than planned, thus necessitating higher outsourcing. This led to a lower deferred consideration and a total reduction of CHF 469,000 (before unwinding of discount and exchange rate effects) in the estimated required provision for the subsequent years. After this adjustment, and taking into account the payments already made as well as the effects of foreign exchange and unwinding of discount, a provision of CHF 906,000 for the deferred consideration remained in other provisions.

Other provisions also included provisions for customs risks (CHF 1,592,000) and for possible tax arrears. The cash outflows relating to these customs and tax risks and to the current portion (CHF 197,000) of the deferred consideration are expected to occur within twelve months. The cash outflows under other provisions are expected to be incurred principally within three years. The expansion of the Power Quality segment led to an in-

crease in warranty risks, which is inherent in the nature of this business activity. In the year under review the warranty provisions were therefore specifically further expanded in this segment. To date no outflows of funds under these provisions have occurred. The warranty provisions relate to outflows expected to occur within one to three years.

The expected cash outflows under restructuring provisions are projected to occur in more than one year and within six years (see note 9 on page 32).

9 Restructuring

At 30 September 2009 a restructuring provision of CHF 2.1 million was created for the reduction of human resource capacity and discontinuation of production at the Luterbach site, as well as for resulting unused leased factory space that is not sublet. By 30 September 2010, CHF 1.3 million of this provision was used.

The remaining amount of CHF 0.8 million for unused leased, non-sublet factory space had to be increased by CHF 0.9 million to reflect a change to the estimated requirement. The main reason for this change in estimate was a variance between sublease expectations and actual developments. If these expenses in the income statement were not presented under restructuring costs, they would fall under cost of sales.

10 Borrowings

The average interest rate payable on borrowings in the fiscal year 2009/10 was 3.8% (prior year: 4.3%).

The composition of borrowings is shown in the following table:

In CHF '000	Effective interest rate	30.9.2010	30.9.2009
Bank loans	LIBOR + 1.45%	18,000	0
Bank overdrafts	5.00% to 5.75%	1,749	0
Interest rate swap	1.1575%	137	0
Convertible bond	2.25%	0	42,493
Total borrowings		19,886	42,493
Of which:			
Current borrowings		1,749	42,493
Non-current borrowings		18,137	0

On the maturity date on 28 January 2010, in accordance with the terms and conditions of the issue prospectus, Schaffner Holding AG completed the redemption of the six-year, 2.25% convertible bond issued in 2004. In the first half of 2009/10, in the course of the redemption process, Schaffner repurchased convertible bonds in a principal amount of CHF 12.1 million for redemption.

The follow-up financing for the convertible bond has been arranged in the form of credit lines with four banks, with a credit limit of CHF 10 million per facility.

These credit agreements are tied to covenants.

The maturities of the Group's individual bank borrowings at the balance sheet date ranged from three months to repayable on demand. Under the credit agreements, they can be rolled over continuously until at least 29 February 2012. At the balance sheet date these borrowings were classified as non-current liabilities, as no principal payments are expected to be made within the subsequent twelve months.

11 Trade and other payables

In CHF '000	30.9.2010	30.9.2009
Trade payables	18,856	11,570
Other payables	4,911	3,432
Accrued expenses	10,512	6,337
Total	34,279	21,339

12 Contingent liabilities and pledged assets

In respect of its German subsidiary, the Group has an outstanding bank guarantee of CHF 348,000 that serves to secure prepayments received from a customer

The Group operates internationally and therefore inherently incurs tax risks (such as from transfer prices). As these tax risks currently cannot be estimated, no provision has been recognized for them.

Assets of CHF 161,000 (prior year: CHF 0) were pledged as collateral for Group obligations in respect of transport services and electricity procured. There are no other terms and conditions associated with the use of collateral.

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 confirmed by independent expert opinion.

13 Staff costs and number of employees

In CHF '000	2009/10	2008/09
Wages and salaries	41,232	38,345
Termination benefits	0	367
Share-based payments	820	863
Social security and other costs	10,027	8,323
Pension costs for defined benefit plans	964	1,744
Total staff costs	53,043	49,642
Number of employees in full-time equivalents (average for the year)	2,393	1,808

14 Post-employment and other long-term employee benefits

In addition to the statutory social insurance plans (which include pension plans), the Group maintains employee benefit plans that are defined benefit plans under IAS 19. The plan assets and defined benefit obligations were valued by an independent actuary at 30 September 2010 and undergo a renewed valuation every year. Accumulated unrecognized actuarial gains or losses exceeding the 10% "corridor" (10% of the greater of the present value of the defined benefit obligation or the fair value of the plan's assets) are amortized in the income statement over the average of the remaining working lives of the participating employees. A pension plan

surplus is capitalized when there is an economic benefit to the Group from the overfunding of a pension plan under IAS 19. This economic benefit is calculated on the basis of future reductions in contributions, in accordance with IFRIC 14. The plan assets are largely held in separate funds external to the Group. To the extent that plans are not held in such segregated funds, the plan assets and liabilities are recognized in the balance sheet.

The plan curtailment and disposal shown in the year under review are related to the discontinuation of manufacturing in Switzerland.

In CHF '000	30.9.2010	30.9.2009
Funded plans		
Fair value of defined benefit assets	31,777	33,634
Present value of defined benefit obligations	-29,833	-28,910
Unrecognized actuarial loss	6,617	4,176
Impairment resulting from restructuring	0	-503
Net defined benefit plan assets	8,561	8,397
Unfunded plans and employee benefits		
Provisions for pensions	-3,081	-3,469
Present value of pension obligations recognized in the balance sheet	-3,081	-3,469
Other		
Provisions for other employee benefits	-421	-437
Present value of other pension obligations recognized in the balance sheet	-421	-437

In CHF '000	2009/10	2008/09
Movement in present value of defined benefit obligations		
At 1 October	-32,816	-39,494
Current service cost of employer	-1,082	-1,540
Employee contributions	-564	-705
Interest cost	-1,010	-1,336
Actuarial loss	-3,031	-999
Effect of curtailment/disposal	3,580	9,722
Benefits paid	560	1,376
Exchange differences	402	160
At 30 September	-33,961	-32,816

In CHF '000	2009/10	2008/09
Movement in fair value of defined benefit assets		
At 1 October	33,634	40,066
Expected return on plan assets	1,160	1,570
Actuarial loss	-571	-156
Employer contributions	959	1,198
Employee contributions	564	705
Effect of curtailment/disposal	-3,580	-8,493
Benefits paid	-389	-1,256
At 30 September	31,777	33,634

In CHF '000	2009/10	2008/09
Amounts recognized in the balance sheet		
Present value of defined benefit assets	2,086	2,409
Net defined benefit plan assets	8,561	8,397
Provisions for pensions	-3,081	-3,469
Other employee benefits	-421	-437

In CHF '000	2009/10	2008/09
Amounts recognized in the income statement		
Current service cost of employer	-1,082	-1,540
Interest cost	-1,010	-1,336
Expected return on plan assets	1,160	1,570
Effect of curtailment/disposal	0	84
Recognized actuarial loss	-32	-19
Impairment resulting from restructuring	0	-503
Pension cost	-964	-1,744

	2009/10	2008/09
Return on plan assets and actuarial assumptions		
Actual rate of return on plan assets	1.9%	4.2%
Discount rate	2.5%	3.5%
Expected rate of return on plan assets	3.4%	3.6%
Expected rate of salary increases	1.4%	1.4%
Expected rate of increase in future pensions	0.5%	0.5%
Rate of experience gain on defined benefit obligations	1.9%	1.2%

In CHF '000	2009/10	2008/09
Allocation of plan assets		
Equities	9,104	9,831
Bonds	13,254	14,796
Property	4,589	4,174
Other assets	4,830	4,833
Fair value of defined benefit assets	31,777	33,634

The expected return on plan assets is based on the asset allocation at the beginning of the year and the following expected rates of return for each asset class: liquid assets 0.75%, Swiss bonds 1.50%, foreign currency bonds 1.80%, mortgages 2.25%, property 3.50%, Swiss equities 6.60%, for-

eign equities 6.30%, alternative investments 3.75%. Returns in the subsequent year are expected to be in line with those of the year under review.

History of defined benefit plans and experience adjustments

In CHF '000	2009/10	2008/09	2007/08	2006/07	2005/06
Fair value of defined benefit assets	31,777	33,634	40,066	45,969	46,560
Present value of defined benefit obligations	-33,961	-32,816	-39,494	-40,269	-38,804
Plan (deficit)/surplus	-2,184	818	572	5,700	7,756
Experience (loss)/gain on plan assets	-1.8%	-0.5%	-17.0%	2.0%	4.6%
Experience gain/(loss) on defined benefit obligations	1.9%	1.2%	3.5%	-2.2%	0.3%

In total, the Group expects to contribute CHF 1.3 million to all post-employment benefit plans in the subsequent year (year under review: CHF 1.5 million).

15 Finance income and expense

Finance income

In CHF '000	2009/10	2008/09
Interest income	69	214
Foreign exchange gains	1,031	2,301
Total finance income	1,100	2,515

Finance expense

In CHF '000	2009/10	2008/09
Interest expense	-1,170	-1,979
Foreign exchange losses	-2,165	-2,626
Other finance expense	-752	-292
Total finance expense	-4,087	-4,897

16 Income tax

In CHF '000	2009/10	2008/09
Current tax in respect of the current year	-2,541	- 443
Adjustments in respect of prior years	55	692
Current tax	-2,486	249
Current tax	-2,486	249
Deferred tax	2,456	391
Income tax	-30	640

Deferred tax consisted of a deferred tax liability and a deferred tax asset. The deferred tax liability of CHF 2,150,000 (prior year: CHF 450,000) arose from the origination and reversal of temporary differences and the resulting recognition of tax loss carryforwards. The deferred tax asset of CHF 306,000 (prior year: deferred tax liability of CHF 59,000) arose from changes in tax rates. Deferred tax of CHF 957,000 for temporary differences in connection with undistributed profits of

subsidiaries was not recognized at the end of the fiscal year, as the Group is able to control the timing of reversal of these differences.

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

In CHF '000	2009/10	2008/09
Expiry in 1 year	0	0
Expiry in 2 years	0	141
Expiry in 3 years	0	56
Expiry in 4 years	32	257
Expiry in 5 years	634	1,542
Expiry in more than 5 years	22,386	30,496
Total unused tax loss carryforwards	23,052	32,492

Reconciliation of earnings before tax to income tax expense:

In CHF '000	2009/10	2008/09
Profit/(loss) before tax reported in the income statement	12,013	-11,575
Nominal tax rate	13%	19%
Expected income tax at nominal tax rate	-1,592	2,237
Effect of non-recognition of tax loss carryforwards	-367	-2,310
Effect of tax rates other than nominal tax rate	-755	167
Effect of expenses not deductible for tax purposes	-305	-361
Effect of non-taxable income	649	391
Utilization of previously unrecognized tax losses or gains	1,385	82
Adjustments in respect of prior periods	27	692
Non-refundable withholding taxes	-282	-293
Change in recognition of tax loss carryforwards	669	0
Effect of changes in tax rates or of new taxes	207	13
Other	334	22
Income tax expense reported in the income statement	-30	640

The Group's nominal tax rate for 2009/10 is 13.25% (prior year: 19.33%). This is calculated as the weighted average of the products of the multiplication of each Group company's

earnings before tax with 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	30.9.2010	30.9.2009
Intangible assets	-1,054	-1,604
Property, plant and equipment	-326	-525
Other non-current assets	-1,542	-1,662
Inventories	1,005	376
Trade receivables	6	-20
Provisions	539	306
Trade and other payables	235	102
Tax loss carryforwards	669	0
Net deferred tax liabilities	-468	-3,027
Of which:		
Reported in the balance sheet as deferred tax liabilities	-2,664	-3,653
Reported in the balance sheet as deferred tax assets	2,196	626

17 Operating segments

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

Segment operating profit includes all operating income and expenses incurred directly in the respective segment.

Electromagnetic Compatibility (EMC) segment

The EMC segment develops and manufactures standard and custom-made components designed to ensure the electromagnetic compatibility of electrical and electronic equipment and systems.

Power Quality (PQ) segment

The Power Quality segment develops and manufactures magnetic components and harmonic filters designed to ensure power quality in electric grids and the reliable operation of energy-efficient equipment and systems.

Automotive (AM) segment

The Automotive segment develops and manufactures components for safety and convenience features in automobiles, and EMC filters for hybrid and electric vehicles.

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.

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

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

	EMC	PQ	AM	Corporate	Group
In CHF '000	2009/10	2009/10	2009/10	2009/10	2009/10
Net sales	111,467	60,922	16,550	0	188,939
Segment operating profit/(loss)	18,255	3,066	1,548	-6,777	16,092
Other income					469
Restructuring costs					-949
Amortization of customer relationships					-612
Operating profit (EBIT)					15,000
Finance income					1,100
Finance expense					-4,087
Profit before tax (EBT)					12,013
Income tax					-30
Net profit for the period					11,983

	EMC	PQ	AM	Corporate	Group
In CHF '000	2008/09	2008/09	2008/09	2008/09	2008/09
Net sales	82,338	42,690	8,335	0	133,363
Segment operating profit/(loss)	48	-6	759	-4,674	-3,873
Restructuring costs					-4,669
Amortization of customer relationships					-651
Operating loss (EBIT)					-9,193
Finance income					2,515
Finance expense					-4,897
Loss before tax (EBT)					-11,575
Income tax					640
Net loss for the period					-10,935

Information by region

In the analysis below, net sales with external customers are allocated to regions according to the domicile of the Schaff-

ner company which generated the revenue. The non-current assets consist of property, plant and equipment and intangible assets in the respective countries.

	Switzerland	Rest of Europe	Europe	Asia	North America	2009/10 Group
In CHF '000						
Net sales	6,770	118,000	124,770	51,256	12,912	188,939
Non-current assets	7,322	12,117	19,439	10,230	20	29,689

	Switzerland	Rest of Europe	Europe	Asia	North America	2008/09 Group
In CHF '000						
Net sales	4,506	92,426	96,932	28,288	8,143	133,363
Non-current assets	7,965	18,538	26,503	3,254	0	29,757

Information by customer

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

18 Share option plans

Since 1 October 1998, the Group has been granting 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 is based on the Schaffner Holding AG Employee Share Option Plan 1998 (ESOP) – before and after the changes to the ESOP on 13 November 2006 – and on the Schaffner Holding AG Performance Option Plan (POP). The shares designated for satisfying the obligation under the ESOP and POP comprise both (i) authorized unissued share capital of CHF 693,550, consisting of 21,340 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: Equity-settled share options granted under the pre-amendment ESOP ordinarily vested in five annual installments of 20%, beginning one year after the grant date. After five years from the grant date, all granted options are 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: Equity-settled share options granted after the plan amendment become vested ordinarily in four annual installments of 25% each, beginning one year after the grant date. After four years from 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 equity-settled POP share options ordinarily vest (when the non-vesting conditions are satisfied) provided that the performance target is reached at 30 September 2013. Unexercised options expire ten years after the grant date.

	30.9.2010		30.9.2009	
	Number of share options outstanding	Average exercise price in CHF	Number of share options outstanding	Average exercise price in CHF
At 1 October	87,201	217	52,924	260
Granted in the year	11,300	160	36,350	154
Exercised in the year	-800	154	0	0
Expired/cancelled in the year	-9,588	214	-2,073	211
At 30 September	88,113	211	87,201	217
Of which:				
Vested	38,929	271	40,289	270
Covered by authorized unissued share capital	21,340		21,340	
Covered by treasury shares	4,391		323	
Uncovered	62,382		65,538	

At the balance sheet date, 23,240 of the vested share options were in the money (prior year: 3,982). The number of treasury shares required to satisfy obligations under share options is monitored on an ongoing basis and the number of shares held available is adjusted accordingly.

In the year under review, share options with an exercise price of CHF 159.90 were granted on 30 November 2009 and share options with an exercise price of CHF 157.00 were granted on 13 January 2010 (prior year: CHF 153.50). The earlier of these two installments of option grants made in the year under review will vest on 30 November 2010. The expiry dates of the options issued in the year under review are 30 November

2016 and 13 January 2017.

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

	30.9.2010		30.9.2009	
Expiry date	Number of share options	Exercise price in CHF	Number of share options	Exercise price in CHF
25.11.2009	0	212.50	4,813	212.50
01.12.2010	600	465.00	600	465.00
15.12.2010	5,600	543.00	5,600	543.00
25.06.2011	600	472.00	600	472.00
04.12.2011	7,500	295.50	7,500	295.50
20.11.2012	3,982	159.00	3,982	159.00
14.11.2013	3,462	212.00	5,150	212.00
24.11.2013	5,407	192.00	5,407	192.00
17.04.2014	500	250.00	500	250.00
09.11.2014	5,525	260.00	6,987	260.00
29.11.2014	5,618	180.00	5,618	180.00
11.11.2015	4,594	180.00	4,594	180.00
14.11.2015	8,425	153.50	10,850	153.50
30.11.2016	10,300	159.90		
13.01.2017	1,000	157.00		
14.11.2018	25,000	153.50	25,000	153.50
Total share options outstanding	88,113		87,201	

The Enhanced American Model (a sophisticated binomial model) used to determine the fair value of the options granted is based on the following parameters:

	2009/10		2008/09	
	ESOP grant date 13.1.2010	ESOP grant date 30.11.2009	ESOP grant date 14.11.2008	POP grant date 14.11.2008
Share price at grant date in CHF	157.00	159.90	153.5	153.5
Expected volatility ¹	32.85%	32.85%	37.51%	37.51%
Expected dividend yield	0.47%	0.47%	0.58%	0.58%
Risk-free interest rate	1.64%	1.64%	2.36%	2.68%
Expected life of option	5.07 years	5.07 years	5.07 years	7.85 years
Expected staff departure rate per year after vesting period	5.00%	5.00%	5.00%	5.00%
Exercise price in CHF	157.00	159.90	153.50	153.50
Fair value in CHF	47.12	47.12	52.28	64.11

¹ The expected volatility is calculated from historical long-term volatilities. These volatilities are based on daily returns from Schaffner's IPO (June 1998) to the respective grant date. The annualization of the volatility assumes 252 trading days.

In the year under review, CHF 748,000 (prior year: CHF 771,000) was charged to the income statement for share option plans.

Restricted share plans

At 8 April 2008, key staff members in the ongoing SAP project were granted 850 restricted shares. This award will vest on the condition that, at 30 June 2011, the beneficiaries are still employed at Schaffner and have worked successfully on the SAP project during the intervening period. As two of the employees had left the Group in the 2008/09 fiscal year, 742 restricted shares remained at the balance sheet date.

The fair value of these restricted shares of CHF 248.70 per share is charged to the income statement over the term of 39 months. In the year under review, CHF 50,000 (prior year: CHF 75,000) was charged to the income statement.

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. The award will vest provided that the grantees are still employed at Schaffner after four years.

The market 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, CHF 22,000 (prior year: CHF 17,000) was charged to the income statement.

The members of the Executive Committee and other senior executive management are ordinarily entitled to subscribe for restricted shares, in a quantity determined by the Board of Directors, at a discount of 20% to the quoted market price of the Company's shares. These shares are subject to a four-year holding period.

The difference between the fair value at the grant date and the amount paid by the staff member is recorded immediately in staff costs.

In the reporting period the participants purchased 771 such shares (prior year: 1,288), at an aggregate discount of CHF 24,000 (prior year: CHF 36,000).

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 Schaff-

ner Holding AG by the weighted average number of shares outstanding during the reporting period, excluding shares purchased by the Group and held as treasury shares.

	2009/10	2008/09
Basic earnings per share		
Net profit/(loss) for the period attributable to equity holders of the Company, in CHF '000	11,983	-10,935
Weighted average number of shares outstanding entitled to dividend	635,131	606,124
Basic earnings per share in CHF	18.87	-18.04

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 shares

outstanding during the reporting period, including all shares that would result from the exercise of all potentially dilutive outstanding share options.

	2009/10	2008/09
Diluted earnings per share		
Net profit for the period attributable to equity holders of the Company, in CHF '000	11,983	-10,935
Relevant share options outstanding, in number of shares	6,379	0
Weighted average number of shares outstanding used in calculation of diluted earnings per share	641,510	606,124
Diluted earnings per share in CHF	18.68	-18.04

20 Treasury shares

	Number of shares	Average share price in CHF	At average price in CHF '000
At 1 October 2008	38,251	231	8,849
+ Purchase ¹	1,280		282
- Disposal ¹	-30,984		-4,339
- Shares utilized for restricted share plans ¹	-1,908		-270
- Shares utilized for conversion of convertible bond ¹	-6,316		-1,466
Valuation differences			-3,197
Transaction costs recognized directly in equity			216
At 30 September 2009	323	231	75
+ Purchase ¹	5,639		1,094
- Shares utilized for Employee Share Option Plan ²	-800		-123
- Shares utilized for restricted share plans ¹	-771		-120
Valuation differences			-47
At 30 September 2010	4,391	200	879

¹ At share prices quoted at transaction date

² At exercise price

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 from their carrying amounts.

Financial assets

	Carrying amount		Fair value	
	30.9.2010	30.9.2009	30.9.2010	30.9.2009
In CHF '000				
Cash and cash equivalents ²	8,061	30,625	8,061	30,625
Receivables, prepaid expenses and accrued income ²	42,600	26,278	42,600	26,278
Other non-current assets ^{1, 2}	1,555	2,324	1,555	2,324
Total financial assets	52,216	59,227	52,216	59,227

¹ Excluding defined benefit assets and IFRIC 14 asset

² Attributable to the loans and receivables category

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 as a rule do not differ from their carrying amounts.

At 30 September 2010 Schaffner also had an open interest rate swap position with a negative fair value of CHF 137,000. The swap was designated as a cash flow hedge of future variable interest payments.

The hedge was contracted on the following terms:

- Notional principal amount: CHF 12 Mio.
- 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 to which the hedge relates will remain drawn in the amount of CHF 12 million. In view of this fact, at the balance sheet date the Schaffner Group assesses this hedge as highly effective (using the critical terms match approach).

The variable interest rate payments are due every quarter; the final such payment under this hedge is expected to occur in July 2015. As the hedge relationship is deemed highly effective, no portion of the movement in the value of the hedging instrument was taken to profit or loss in the reporting period.

Financial liabilities (including derivatives)

	Carrying amount		Fair value	
	30.9.2010	30.9.2009	30.9.2010	30.9.2009
In CHF '000				
Non-current borrowings ¹	18,000	0	18,000	0
Current borrowings ¹	1,749	42,493	1,749	42,363
Trade and other payables ¹	34,279	21,339	34,279	21,339
Derivative financial instruments ²	137	0	137	0
Total financial liabilities, including derivatives	54,165	63,832	54,165	63,702

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

In CHF '000	Level 2	Total
Liabilities measured at fair value		
Derivative financial instruments	137	137
Total liabilities measured at fair value	137	137

In the reporting period the Group had no financial assets or liabilities that were classified as Level 1 or Level 3 in the fair

value hierarchy. There were also no reclassifications between Levels.

Financial instruments in 2009/10

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 2010	52,216	54,028	137	
Interest income/(expense)	69	-1,148	-22	-1,101
Foreign exchange losses	-1,134			-1,134
Net other finance expense		-664		-664
Change in provision for doubtful debts	141			141
Net loss recognized in the income statement	-924	-1,812	-22	-2,758
Net loss recognized in equity ¹	-448			-448
Total net loss in 2009/10	-1,372	-1,812	-22	-3,206
Carrying amount at 30 September 2009	59,227	63,832	0	
Interest income/(expense)	214	-1,979		-1,765
Foreign exchange losses	-325			-325
Net other finance expense	-292			-292
Change in provision for doubtful debts	265			265
Net loss recognized in the income statement	-138	-1,979	0	-2,117
Net loss recognized in equity ¹	-804			-804
Total net loss in 2008/09	-942	-1,979	0	-2,921

¹ From valuation of equity-like loans

The most significant risks in connection with the Group's financial instruments are interest rate, foreign exchange, credit and liquidity risk. The 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 short-term interest-bearing financial assets and non-current financial assets 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 in basis points is based on the actual range of fluctuation observed during the respective reporting period.

	2009/10		2008/09	
	Decrease in basis points	Effect on EBT In CHF '000	Decrease in basis points	Effect on EBT In CHF '000
CHF	12	7	80	-173
EUR	43	-12	115	-57
USD	26	-5	85	-16

An increase in interest rates by the same number of basis points as that shown in the preceding table produces an effect equal and opposite to that shown above.

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 arising from business operations can be reduced by buying and selling primarily in

the subsidiary's own foreign currency (natural hedging). As well, on a monthly basis, Schaffner analyzes and quantifies the foreign exchange risks and assesses the need for tax 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 bath against the Swiss franc, when all other variables are held constant.

	Increase in %	2009/10		Increase in %	2008/09	
		Effect on EBT In CHF '000	Effect on equity In CHF '000		Effect on EBT In CHF '000	Effect on equity In CHF '000
EUR/CHF	7	719	180	4	-297	572
USD/CHF	12	431	76	10	270	67
THB/CHF	8	-234	0	8	-347	0

A decrease in exchange rates by the same percentage amounts shown in the preceding table produces an equal, opposite effect on EBT and equity.

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

riod. The calculation of foreign exchange 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 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 num-

ber 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 counterparties at the balance sheet date.

Creditworthiness of key counterparties

In CHF '000	30.9.2010		30.9.2009	
	Rating	Balance	Rating	Balance
Bank A	A	1,413	A	7,582
Bank B	A	1,214	A	6,429
Bank C	AA-	565	AAA	6,061
Other counterparties		4,831		10,491
Total cash and cash equivalents (other than cash in hand)		8,023		30,563

Trade receivables

The Schaffner Group produces 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 for collectively on the basis of historical experience, and through individual impairment provisions. 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	2009/10	2008/09
At 1 October	307	572
Additions	41	40
Amounts used	0	0
Reversal of unused amounts	-150	-274
Exchange differences	-32	-31
At 30 September	166	307

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

In CHF '000	Total	Not overdue	Overdue			
			less than 30 days	30 to 60 days	61 to 90 days	more than 90 days
Trade receivables at 30 September 2010	36,885	28,646	4,947	2,377	549	366
Trade receivables at 30 September 2009	21,371	16,987	2,761	587	248	788

The Schaffner Group's maximum exposure to credit risk at 30 September 2010 amounted to CHF 52.2 million (prior year: CHF 59.2 million), which represented all financial assets.

liquidity shortages through prudent liquidity management. In addition, six-month bottom-up rolling liquidity and cash flow forecasts are generated monthly.

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

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).

In CHF '000	Carrying amount	Total	Cash outflows due in			
			Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years
Non-current financial liabilities	18,137	18,934	102	0	261	18,571
- of which hedged ¹	12,137	12,816	78	0	203	12,535
- Interest rate swap	137	580	29	0	87	464
- of which not hedged ¹	6,000	6,118	24	0	58	6,036
Current financial liabilities	36,028	36,028	19,538	7,579	8,911	0
Total financial liabilities at 30 September 2010	54,165	54,962	19,640	7,579	9,172	18,571
Non-current financial liabilities	0	0	0	0	0	0
Current financial liabilities	63,832	64,428	9,010	7,701	47,717	0
Total financial liabilities at 30 September 2009	63,832	64,428	9,010	7,701	47,717	0

¹ including interest margin

Capital management

The primary objectives of capital management in the Schaffner Group are to safeguard 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 to be maintained such that there is sufficient equity to cover the business risks and to safeguard the Group's financial flexibility. In the medium term, the Group must have the ability to repay all borrowings out of free cash flows.

In CHF '000	30.9.2010	30.9.2009
Non-current borrowings	18,137	0
Current borrowings	1,749	42,493
Cash and cash equivalents	-8,061	-30,625
Net debt	11,825	11,868
Shareholders' equity	55,985	47,305
Gearing ratio	21%	25%

23 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 members of the Executive Committee:

In CHF '000	2009/10	2008/09
Short-term compensation (base salaries, variable cash compensation and benefits in kind)	3,305	2,123
Termination benefits	0	128
Share-based payments expense ¹	460	452
Contributions to pension plan	193	172
Total compensation of Executive Committee	3,958	2,875

¹ The expense for the share options granted is spread over the vesting period (see note 18 on page 39). The market value of the 4,950 options granted in the year under review, at an exercise price of CHF 159.90 (prior year: 29,350 options at an exercise price of CHF 153.50) was CHF 233,000 (prior year: CHF 1,830,000).

In the year under review, members of the Board of Directors were paid fees and expense allowances (including flat expense allowances) of CHF 354,000 (prior year: CHF 268,000) and were granted 1,000 share options at an exercise price of CHF 157.00 and 2,000 options at an exercise price of CHF 159.90 (prior year: 3,000 options at an exercise price of CHF 153.50). The increase in compensation from the prior year is attributable to transitional double staffing of positions, the base effect of the waiving of 10% of compensation in the se-

cond half of the prior year, and an actual per-person increase resulting from the positive trend in the Group's financial and business performance. Disclosures under the Swiss Code of Obligations on compensation of the Executive Committee and Board of Directors are set out on page 52 in the notes to the financial statements of Schaffner Holding AG.

Swiss pension funds

The Group's pensions in Switzerland are administered by legally separate funds in the form of foundations. In the year under review a total of CHF 1.5 million was paid to these foundations (prior year: CHF 1.9 million). At the balance sheet date the Group had a net receivables balance of CHF 86,619 with the foundations (prior year: CHF 69,367). As in the prior year, at the balance sheet date the pension fund held no ownership interests in Schaffner Holding AG.

24 Risk assessment

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

25 Release of the consolidated financial statements for publication

The consolidated financial statements were released for publication by the Board of Directors of Schaffner Holding AG on 6 December 2010 and will be presented to shareholders for adoption at the Annual General Meeting on 12 January 2011..

26 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.

27 Companies of the Schaffner Group

The following companies' results were included in the Schaffner Group's consolidated financial statements at 30 September 2010:

Company	Registered office	Capital in 1,000	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 EMC Systems Ltd.	Capel, UK	GBP 1,300	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, N.J., USA	USD 1,030	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

Schaffner Deutschland GmbH was formed with retroactive effect from 30 September 2008 through the merger of Schaffner Jacke GmbH, Schaffner EMV GmbH, Schaffner Deutschland

Holding GmbH & Co. KG, and Schaffner Deutschland Holding GmbH. Schaffner Electrotest GmbH was liquidated in the year under review.

Report of the statutory auditors on the consolidated financial statements

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 18 to 48) for the year ended September 30, 2010.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the 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 and fair presentation 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 (ISA). 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 and fair presentation 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 September 30, 2010, 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 on 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 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, 6 December 2010

Ernst & Young AG

Bernadette Koch

Licensed audit expert
(Auditor-in-charge)

Marc Christen

Licensed audit expert

Company Financial Statements of Schaffner Holding AG

Balance sheet

In CHF '000	30.9.2010	30.9.2009
Loan to Schaffner EMV AG	9,000	48,050
Investments in subsidiaries	85,251	85,251
Non-current assets	94,251	133,301
Receivables from subsidiaries	804	250
Other receivables, and prepaid expenses with non-Group entities	116	198
Securities and term deposits	716	49
Cash and cash equivalents	118	5,861
Current assets	1,754	6,358
Total assets	96,005	139,659
Share capital	20,668	20,668
General legal reserve	339	339
Reserve for treasury shares	879	75
Share premium	50,357	50,357
Retained earnings	17,153	19,021
Net profit/(loss) for the period	1,263	-1,062
Shareholders' equity	90,659	89,398
Liabilities to subsidiaries	3,493	6,301
Non-current borrowings	12	12
Convertible bond	0	42,709
Current borrowings	321	0
Other liabilities to non-Group entities	415	230
Accrued expenses	1,105	1,009
Total liabilities	5,346	50,261
Total liabilities and shareholders' equity	96,005	139,659

Income statement

In CHF '000	2009/10	2008/09
Other income	6,494	4,210
Total income	6,494	4,210
Staff costs	-3,287	-2,274
Operating expenses	-2,266	-2,130
Interest expense	-301	-1,019
Other finance expense	-757	-1,977
Interest income	1,429	2,129
Foreign exchange losses on financing, net	-49	-1
Net profit/(loss) for the period	1,263	-1,062

Notes to the Company Financial Statements

Guarantees and pledged assets

In CHF '000	30.9.2010	30.9.2009
Guarantees	33,348	33,000
Of which utilized in subsidiaries in respect of credit obligations	19,749	0

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

Under a Group-wide agreement with Commerzbank, 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 share capital is fully paid. Each share carries one vote at the General Meeting. All shares not held by the Company or 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 693,550 (21,340 ordinary registered shares at CHF 32.50 per share). This capital is allocated to satisfying obligations under the share option plans. At 30 September 2010 there were 88,113 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 0.25 million.

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 for publication by the Board of Directors of Schaffner Holding AG on 6 December 2010 and will be presented to shareholders for adoption at the Annual General Meeting on 12 January 2011.

Information about treasury shares

The reserve for treasury shares was CHF 878,953. In the balance sheet at 30 September 2010, treasury shares were measured at the average exercise price of the share options (CHF 163.12). In the year under review, 800 options were exercised, at a price of CHF 153.50 each.

	Number of shares	Fair value per share ² in CHF	Average price per share in CHF	At fair value ² in CHF '000	At average price in CHF '000
At 30 September 2008	38,251	194	231	7,408	8,849
+ Purchase ¹	1,280			282	282
- Disposal ¹	-30,984			-4,339	-4,339
- Shares utilized for restricted share plan ¹	-1,908			-270	-270
- Shares utilized for conversion of convertible bond	-6,316			-1,466	-1,466
Value changes ²				-1,566	-2,981
At 30 September 2009	323	151	231	49	75
+ Purchase ¹	5,639			1,094	1,094
+ Shares utilized for Employee Share Option Plan ³	-800			-123	-123
- Shares utilized for restricted share plan ¹	-771			-120	-120
Value changes ²				-184	-47
At 30 September 2010	4,391	163	200	716	879

¹ At share prices quoted at transaction date

² Year-end closing price or average exercise price of the options, whichever was less

³ At exercise price

Significant shareholders

	30.9.2010		30.9.2009	
	Number of shares	Equity interest	Number of shares	Equity interest
Alpine Select AG ¹	156,979	24.68%	172,108	27.06%
Sarasin Investmentfonds AG "SaraSelect"	61,497	9.67%	63,255	9.95%
Buru Holding AG	47,300	7.44%	32,700	5.14%
UBS	32,103	5.05%	17,612	2.77%
Corisol Holding AG	21,439	3.37%	21,439	3.37%
Axa Swiss Institutional Fund	20,000	3.14%	20,000	3.14%
SUVA (Swiss National Accident Insurance Fund)	20,000	3.14%	25,000	3.93%
Shareholders with interests of less than 3%	272,231	42.81%	283,503	44.59%
Free float	631,549	99.31%	635,617	99.95%
Treasury shares	4,391	0.69%	323	0.05%
Total shares outstanding	635,940	100.00%	635,940	100.00%

¹ Including Sumara AG and Fabrel AG, as an organized group within the meaning of section 10 of the Ordinance of the Swiss Financial Market Supervisory Authority on Stock Exchanges and Securities Trading

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 under the share option 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 & Compensation Committee, has confirmed the extent of target achievement. The variable compensation is ordinarily allotted 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 attributable to the respective fiscal year.

The increase in compensation from the prior year is attributable to transitional double staffing of positions, the base effect of the waiving of 10% of compensation in the second half of the prior year, and an actual per-person increase resulting from the positive trend in the Group's financial and business performance.

Board of Directors in 2009/10

	Cash fees and base salaries ³	Variable compensation ²	Pension costs	Share-based payments expense ¹	Other compensation	Total
In CHF '000						
Daniel Hirschi, Chairman (appointed 13.1.2010)	96			24		120
Leo Steiner (retired 13.1.2010)	18			0		18
Herbert Baechler	45			12		57
Hans Hess	45			19		64
Peter E. Rued (retired 13.1.2010)	10			0		10
Robert F. Spoerry	45			19		64
Markus Zenhausern	45			12		57
Total compensation of the Board of Directors	304	0	0	86	0	390

Executive Committee in 2009/10

In CHF '000						
Alexander Hagemann	384	378	77	185	9	1,033
Total for all other members of the Executive Committee	1,538	725	317	275	70	2,925
Total compensation of the Executive Committee	1,922	1,103	394	460	79	3,958

¹ At market value in accordance with IFRS 2 (see note 18, page 39)

² Including, for the other members of the Executive Committee, CHF 24,000 of discounts under the restricted share plan (see note 18 on page 39).

³ Excluding flat expense allowances

Board of Directors 2008/09

	Cash fees and base salaries ²	Termination benefits	Variable compensa- tion	Pension costs	Share-based payments expense ¹	Other com- pensation	Total
In CHF '000							
Leo Steiner, Chairman	76				53		129
Hans Hess	38				26		64
Peter E. Rued	38				26		64
Herbert Baechler (appointed 1.1.2009)	28				0		28
Robert F. Spoerry	38				26		64
Markus Zenhausern	38				13		51
Total compensation of the Board of Directors	256	0	0	0	144	0	400

Executive Committee in 2008/09

In CHF '000							
Alexander Hagemann	378			83	182	12	655
Total for all other members of the Executive Committee	1,450	128		309	270	63	2,220
Total compensation of the Executive Committee	1,828	128	0	392	452	75	2,875

¹ At market value in accordance with IFRS 2 (see note 18, page 39)² Excluding flat expense allowances

Holdings of shares, options and conversion rights

	30.9.2010		30.9.2009	
	Number of shares held	Number of share options held	Number of shares held	Number of share options held
Board of Directors				
Daniel Hirschi, Chairman (appointed 13.1.2010)	120	1,000		
Leo Steiner (retired 13.1.2010)			574	3,060
Herbert Baechler	500	500	200	0
Hans Hess	1,520	1,750	1,520	1,250
Peter E. Rued (retired 13.1.2010)			50	2,150
Robert F. Spoerry	1,200	2,850	700	2,450
Markus Zenhausern	100	1,000	100	500
Total holdings of the Board of Directors	3,440	7,100	3,144	9,410

Executive Committee

Alexander Hagemann, Chief Executive Officer	395	14,725	476	13,450
Kurt Ledermann, Chief Financial Officer	565	4,608	308	3,858
Fabian Beck, Vice President, Research & Development	601	5,550	344	5,550
Jean-Michel Calleri, Vice President, Sales Europe	0	2,550	0	2,110
Ah Bee Goh, Vice President, Manufacturing	348	4,400	348	3,800
Eduard Hadorn, Vice President, Business Development Asia	247	4,950	247	4,350
Martin Koeppel, Vice President, Supply Chain Management	537	4,950	280	4,810
Total holdings of the Executive Committee	2,693	41,733	2,003	37,928

In the year under review, Schaffner did not grant any loans or other credit to current 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. On this basis, risk management measures are formulated and their implementation and results are monitored on an ongoing basis. The Group uses a risk management system which is designed for the timely detection, evaluation and mitigation of risks.

Proposal for the appropriation of retained earnings

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

In CHF '000	2009/2010	2008/2009
Net profit/(loss) for the period	1,263	-1,062
Earnings brought forward	17,957	10,245
Change in reserve for treasury shares	-804	8,774
Retained earnings available for distribution	18,416	17,957
Allocation to general legal reserve	-3,795	0
Earnings carried forward	14,621	17,957

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

In CHF '000	2009/2010	2008/2009
Reserve for additional paid-in capital brought forward	0	0
Transfer from share premium account	2 862	0
Distribution of CHF 4.50 per share entitled to dividends, exempt from Swiss anticipatory tax	-2 862	0
Reserve for additional paid-in capital carried forward	0	0
Total shares outstanding	635,940	635,940
Treasury shares	-4,391	-323
Shares entitled to dividends ¹	631,549	635,617

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

Report of the statutory auditors

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 50 to 53) for the year ended September 30, 2010.

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 incorporation. 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 September 30, 2010, comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and on 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 incorporation. We recommend that the financial statements submitted to you be approved.

Berne, 6 December 2010

Ernst & Young AG

Bernadette Koch

Licensed audit expert
(Auditor-in-charge)

Marc Christen

Licensed audit expert

Key share data

	2009/2010	2008/2009	2007/2008	2006/2007	2005/2006
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 (i.e., shares entitled to dividend)	635,131	606,124	606,317	616,198	621,882
Earnings per share	in CHF 18.87	-18.04	15.43	8.77	5.76
Shareholders' equity per share	in CHF 88.04	74.39	91.44	81.31	80.17
Share capital reduction through partial repayment of nominal value and of excess share premium, per share	in CHF 4.50 ¹	0.00	3.50	3.00	11.00
Free float	in % 99.3	99.9	94.0	96.4	95.2
Share price²					
High for the year	in CHF 220	233	271	277	195
Low for the year	in CHF 148	118	214	166	148
At end of year	in CHF 219	170	230	267	178
Market capitalization²					
High for the year	in CHF million. 140	148	172	176	124
Low for the year	in CHF million. 94	75	136	106	94
At end of year	in CHF million. 139	108	146	169	113

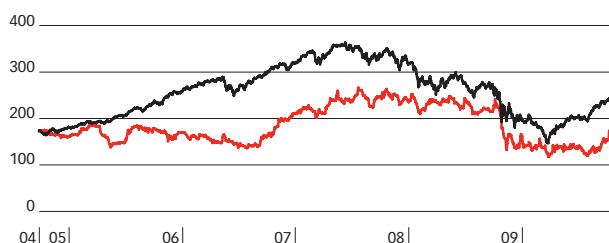
¹ Subject to approval by the Annual General Meeting on 12 January 2011.

² Fiscal year: 1 October to 30 September. Source of data: Bloomberg.

Share price performance

1 October 2005 to 30 September 2010¹

CHF



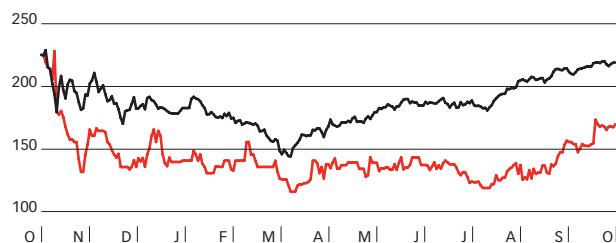
¹ Source: Thomson Datastream

■ Schaffner registered shares
■ Swiss Performance Index (adjusted)

Share price performance

1. October 2009 to 30 September 2010¹

CHF



Trading of the Company's securities

The registered shares of Schaffner Holding AG are traded on the SIX Swiss Exchange under security number 906209.

Ticker symbol

Ordinary registered shares: SAHN

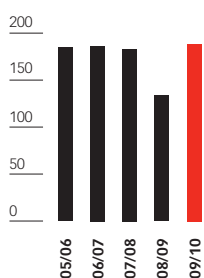
Key financials

In CHF '000	2009/2010	2008/2009	2007/2008	2006/2007 ¹	2005/2006 ¹
Net sales	188,939	133,363	182,445	186,134	184,046
Electromagnetic Compatibility segment	111,467	82,338	n/a	n/a	n/a
Power Quality segment	60,922	42,690	n/a	n/a	n/a
Automotive segment	16,550	8,335	n/a	n/a	n/a
Operating profit/(loss) [EBIT]	15,000	-9,193	13,892	9,632	7,658
In % of net sales	7.9	-6.9	7.6	5.2	4.2
Net profit/(loss) for the period	11,983	-10,935	9,355	5,403	3,580
In % of net sales	6.3	-8.2	5.1	2.9	1.9
Total assets	126,643	126,883	148,078	147,213	141,765
Shareholders' equity	55,985	47,305	58,149	51,710	50,985
In % of total assets	44.2	37.3	39.3	35.1	36.0
Number of employees	2,393	1,808	2,318	2,375	2,244

¹ Pro forma comparative data (excluding effect of IFRS 5)

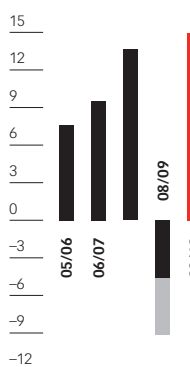
Net sales

in CHF million



Operating profit (EBIT)

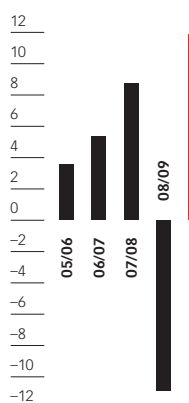
in CHF million



■ Non-recurring restructuring costs

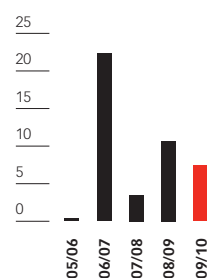
Net profit

in CHF million

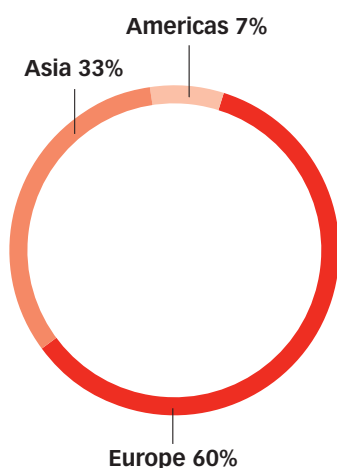


Free cash flow

in CHF million



Net sales by region



Net sales by segment

