

Corporate governance

2015 16

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1 Basis of the corporate governance report

This corporate governance report describes the principles for leadership and control at the top organizational levels of the Schaffner Group, in accordance with the Directive on Information Relating to Corporate Governance (DCG) issued by SIX Swiss Exchange AG. Unless indicated otherwise, the information in this report for fiscal year 2015/16 is as at 30 September 2016 or for the year then ended. The corporate governance of the Schaffner Group substantially follows the guidelines and recommendations of the Swiss Code of Best Practice for Corporate Governance (first published in 2002 and updated in 2007, 2014 and 2016).

The Schaffner Group's corporate governance principles and regulations are set out in its Articles of Association¹ and in its Management Organization Regulations (in German: Organisationsreglement).

All relevant corporate governance documents are available at the following web address:
www.schaffner-ir.com

As an active participant in the UN Global Compact, the Schaffner Group is committed to honoring the principles of the Compact regarding human rights, labor, the environment and the prevention of corruption. Schaffner expects its employees to be accountable for their actions, to respect people, society and the environment, to follow applicable rules and act with integrity. The Group's current relevant report (Communication on Progress) is available at:

www.unglobalcompact.org/participation/report/cop/create-and-submit/active/231041

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

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

2 Governance-related events in fiscal year 2015/16

2.1 Resolutions of the General Meeting

On 12 January 2016 at the 20th Annual General Meeting (AGM) of Schaffner Holding AG, shareholders re-elected the existing Board members Herbert Bächler, Daniel Hirschi, Gerhard Pegam, Suzanne Thoma and Georg Wechsler for a further term of one year. The shareholders returned Daniel Hirschi as Chairman of the Board of Directors for the term ending at the conclusion of the next AGM. For the same term, shareholders appointed Herbert Bächler, Daniel Hirschi and Suzanne Thoma as members of the Compensation Committee and Wolfgang Salzmann as the independent proxy. As Schaffner had re-tendered the audit firm appointment in 2015, the shareholders elected BDO AG, Solothurn, as the external auditors for fiscal year 2015/16. The shareholders also decided to distribute CHF 6.50 per share entitled to dividends, or about 65% of net profit for the year 2014/15. The AGM resolved to reduce the unissued authorized capital for equity-based compensation (in German: bedingtes Aktienkapital) by CHF 449,150 to a new total of CHF 590,850 and to create, for a period of one year, authorized capital for purposes other than equity-based compensation (genehmigtes Aktienkapital) in the amount of CHF 2,066,805, or 10% of existing issued capital, to support the growth targeted under the Strategy 2020. The compensation report was adopted in a consultative vote and the compensation of the Board of Directors and Executive Committee for fiscal year 2016/17 was approved. The shareholders endorsed

¹ The Articles of Association are published on the Schaffner investor relations website at:
www.schaffner-ir.com/corporate-governance/articles-of-association-management-organization-regulations

both compensation proposals of the Board of Directors by setting a maximum aggregate amount for fiscal year 2016/17 of CHF 600,000 for the Board and of CHF 4,000,000 for the Executive Committee. The minutes of the 20th Annual General Meeting of Schaffner Holding AG can be accessed under the Annual General Meeting tab at the following web address: www.schaffner-ir.com/annual-general-meeting/documentation

2.2 Changes in Executive Committee membership

On 10 March 2016 the Schaffner Group announced that Eduard Hadorn, Executive Vice President and Head of the Power Magnetics division, would step down from the Executive Committee effective 31 March 2016 and assume the leadership of the strategic project of developing Schaffner's presence in the Indian market. He was not replaced as a member of the Executive Committee.

On 15 July 2016 the Schaffner Group announced that Alexander Hagemann, Chief Executive Officer since 2007, was leaving Schaffner to take on new challenges outside the Group. The CEO responsibilities were assumed on an interim basis by the Group's Chief Financial Officer, Kurt Ledermann. In his role as CFO he is supported by his deputy of many years, Christian Herren. Until the definitive resolution of the succession, the Executive Committee of the Schaffner Group consists of Kurt Ledermann, CEO (interim) and CFO; Ah Bee Goh, Chief Operating Officer; and Guido Schlegelmilch, Executive Vice President and Head of the EMC division.

2.3 Conversion of the consolidated financial statements to Swiss GAAP FER

On 26 August 2016, Schaffner Holding AG announced that it was converting the consolidated financial statements from International Financial Reporting Standards (IFRS) to Swiss GAAP FER with retrospective effect from the beginning of fiscal year 2015/16, i.e., from 1 October 2015. In connection with this conversion, the regulations of the SIX Swiss Exchange also required a change of listing standard. Since Monday, 3 October 2016 the Schaffner shares are therefore listed under the Swiss Reporting Standard. They remain a constituent of the Swiss Performance Index (SPI) and also of the SPI Extra, SPI ex SLI and Swiss All Share indices.

3 Governance-related events in fiscal year 2015/16

3.1 Group structure

3.1.1 Group operating structure

The Schaffner Group has a divisional organizational structure, with the three segments EMC, Power Magnetics and Automotive. The reporting to the Executive Committee follows this structure.

The chart below shows the Group's operating structure at 30 September 2016:

Annual General Meeting
Board of Directors
Risk and Audit Committee – Compensation Committee – Nomination Committee
Executive Committee
Group functions
EMC division – Power Magnetics division – Automotive division

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

The division of responsibilities between the Board, the Chief Executive Officer and the Executive Committee is described in this corporate governance report on page 26 in section 5.5, on page 29 in section 5.6 and on page 31 in section 6.

The Executive Committee had the following structure at 30 September 2016:

Executive Committee	
Kurt Ledermann	Interim Chief Executive Officer
Kurt Ledermann , Finance & IT	Chief Financial Officer
Ah Bee Goh , Manufacturing	Chief Operating Officer
Guido Schlegelmilch , EMC division	Executive Vice President

More information about the Executive Committee is provided on page 31 of this corporate governance report, in section 6.

3.1.2 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 2016 the share capital consisted of 635,940 ordinary registered shares with a total nominal value of CHF 20,668,050.

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

Key share data for Schaffner Holding AG is provided on page 4 of this annual report.

3.1.3 Non-listed Group companies

The directly and indirectly held companies consolidated in the Group accounts of Schaffner Holding AG are shown on page 87 of this report in the notes to the consolidated financial statements.

3.2 Significant shareholders

At the balance sheet date of 30 September 2016 there were 1,300 shareholders registered with voting rights in the share register of Schaffner Holding AG (prior year: 1,377). Of the issued shares, 100% represented free float (prior year: 99.8%). Schaffner Holding AG held 0.0% of the shares as treasury shares (prior year: 0.2%). At 30 September 2016, shares of unregistered owners amounted to 16.6% of the issued shares (prior year: 21.2%).

The following table shows the shareholder structure of Schaffner Holding AG at the balance sheet date, in terms of those shareholders who reported holding 3% or more of the voting rights of Schaffner Holding AG.

Shareholder	Equity interest
Shareholder group Buru Holding AG	20%
Credit Suisse	3%
J. Safra Sarasin Investmentfonds AG	10%
UBS AG	9%

In connection with the disclosure obligations under stock exchange law for shareholders whose share of voting rights reaches, rises above or falls below certain thresholds, the following shareholders filed notifications with Schaffner Holding AG and SIX Swiss Exchange AG in fiscal year 2015/16.

20 May 2016	UBS AG: Exceeding 5% of voting rights through the fund RoPAS (CH) Institutional Fund-Equities Switzerland
7 June 2016	Shareholder group Buru Holding AG: Purchase of shares and change in composition of a group

Further information on significant shareholders is provided on page 97 in the notes to the company financial statements of Schaffner Holding AG. As well, a current list of significant shareholders is available on the website of the SIX Swiss Exchange at: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html?companyId=SCHAFFNER

3.3 Cross-shareholdings

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

4 Capital structure

4.1 Issued share capital

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

4.2 Authorized unissued capital

4.2.1 Authorized capital for equity-based compensation

Schaffner Holding AG has unissued authorized capital of CHF 590,850 to satisfy obligations under equity incentive plans. This capital (in German: bedingtes Aktienkapital) consists of up to 18,180 fully payable registered shares with a nominal value of CHF 32.50 per share. Detailed information can be found on page 84 of this annual report 2015/16 of the Schaffner Group, in section 15 of the notes to the consolidated financial statements.

4.2.2 Other authorized capital

The Annual General Meeting on 12 January 2016 created unissued authorized capital for purposes other than equity compensation (genehmigtes Aktienkapital); it authorized the Board of Directors to increase the issued share capital at any time until 13 January 2017 by up to a maximum of CHF 2,066,805 by issuing up to 63,594 fully payable registered shares with a nominal

value of CHF 32.50 per share. Issues of less than this maximum are also permitted. The subscription for and purchase of the new shares and any subsequent transfer of the shares are subject to the restrictions under section 6 of the Bylaws. The amount and date of the respective issue, the date when entitlement to dividend commences and the nature of the contributions are determined by the Board of Directors. The Board may also issue shares by firm commitment underwriting or in another manner through one or more banks and by subsequent offer to shareholders or third parties. The Board may allow unexercised pre-emptive rights to lapse. Alternatively, it may place them, or shares for which pre-emptive rights are granted but not exercised, at market prices, or may use them differently in the interest of the Company.

The Board is authorized to restrict or exclude the shareholders' pre-emptive rights and assign these rights to third parties, if the shares are to be used for the purpose of:

1. The acquisition of companies, company assets or equity interests, or the financing of new investment projects or, in the event of a share placement, for the financing (including debt financing) of such transactions;
2. Granting an over-allotment option (greenshoe) to one or several underwriting banks in connection with a share offering; or
3. Providing an ownership interest to strategic/industrial partners.

Further information can be found on page 64 of this annual report 2015/16 of the Schaffner Group.

4.3 Changes in equity in the last three fiscal years

The Annual General Meeting on 14 January 2014 passed a resolution to distribute CHF 4.50 per share (exempt from Swiss anticipatory tax) in the form of a repayment of excess share premium.

The Annual General Meeting on 15 January 2015 passed a resolution to distribute CHF 6.50 per share (exempt from Swiss anticipatory tax) in the form of a repayment of excess share premium.

The Annual General Meeting on 12 January 2016 passed a resolution to distribute CHF 6.50 per share (exempt from Swiss anticipatory tax) in the form of a repayment of excess share premium.

The changes in share capital, in share premium, in retained earnings and in the other components of consolidated equity are presented in detail in the consolidated financial statements, on page 64 of this annual report 2015/16. The comparative information on changes in equity for the three prior years is found in the consolidated financial statements on page 65 of the annual report 2014/15, on page 65 of the annual report 2013/14 and page 55 of the annual report 2012/13.

4.4 Shares and participation certificates

4.4.1 Shares

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

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

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

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

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

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

4.4.2 Participation certificates

There were no participation certificates of Schaffner Holding AG at 30 September 2016 (participation certificates, or Partizipationsscheine in German, essentially are a type of preference share).

4.5 Dividend right certificates

Schaffner Holding AG had not issued any dividend right certificates as of 30 September 2016 (dividend right certificates, or Genussscheine in German, essentially are preference shares for related parties).

4.6 Restrictions on transferability and nominee registration

Registered shares of Schaffner Holding AG may be acquired by all legal or natural persons. The purchase of Schaffner shares is subject to registration restrictions concerning the recognition and registration of share purchasers, and of nominees, as voting shareholders. These restrictions are specified in detail in the Share Registration Regulation of Schaffner Holding AG. The Share Registration Regulation was issued by the Board of Directors in reliance on sections 685a and 685d et seq. of the Swiss Code of Obligations and article 6 of the Articles of Association, and can be viewed under the Annual General Meeting tab of the website at: www.schaffner-ir.com

4.6.1 Recognition of share purchasers as voting shareholders

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

4.6.2 Registration of share purchasers

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

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

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

In the case of registration applications by shareholders holding the shares for their own account where the applicant has reported holding 3% or more of the voting rights of Schaffner Holding AG, the registration is not performed until the Company has received a complete disclosure notification by the applicant pursuant to section 120 of the Financial Market Infrastructure Act (also referred to in German as FinfraG). If the disclosure notification meets the legal requirements (i.e., contains the legally required information about the beneficial owner), the applicant (i.e., the acquired stock) is registered in the share register as having voting rights. If the disclosure notification is not made within the 20-day deadline specified in section 685g of the Swiss Code of Obligations, or is incomplete, the application for registration with voting rights is denied and the shareholder (i.e., the acquired stock) is registered in the share register as non-voting.

4.6.3 Registration of nominees

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

- (i) the nominee discloses the names, addresses and holdings of Company shares of the persons for whose account the nominee holds 0.5% or more of the total registered-share capital recorded in the commercial register, and
- (ii) an agreement exists between the nominee and the Company which specifies the nominee's position and the details of the nominee's notification obligations.

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

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

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

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

At 30 September 2016, 16.6% (prior year: 21.2%) of all issued shares were unregistered or were registered as non-voting shares.

4.7 Convertible bonds and options

4.7.1 Convertible bonds

There are no outstanding convertible bonds of Schaffner Holding AG.

4.7.2 Share option plan

The share option plan for upper management and members of the Board of Directors of the Schaffner Group (the Employee Share Option Plan) is described in detail on page 84 in the consolidated financial statements.

5 Board of Directors

5.1 Members of the Board

The Articles of Association require the Board of Directors of Schaffner Holding AG to have between three and seven members.

On 30 September 2016 the Board of Directors consisted of five, non-executive members. In the three years prior to the reporting period (fiscal years 2012/13, 2013/14 and 2014/15), none of these Board members were members of Schaffner's Executive Committee or of the management of a subsidiary, and none had or have material business relationships with the Schaffner Group. The members of the Board of Schaffner Holding AG are thus independent within the meaning of the Swiss Code of Best Practice for Corporate Governance issued by Economiesuisse, the Swiss business federation.

In fiscal year 2015/16 the Board of Directors of Schaffner Holding AG had the following members:

Daniel Hirschi, Chairman, born 1956

Degree in Engineering, Berne University of Applied Sciences, Biel

From 2006 to 2009 was CEO 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 CEO from 2001 and Designated Representative of the Board from 2003.

Herbert Bächler, born 1950

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

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

Gerhard Pegam, born 1962

Electrical Engineer, Klagenfurt Technical College, Austria

From 2001 to beginning of 2012 was CEO of EPCOS AG. From 2009 to 2012 was a member of the Board of Directors of EPCOS parent company TDK-EPC Corp. From middle of 2011 to mid-2012 was a Corporate Officer of TDK Corporation, Japan, and from 2004 to 2012 was a member of the Board of ZVEI, the German Electrical and Electronic Manufacturers' Association. From 1999 to 2001 was COO of EPCOS AG. Between 1982 and 1999 held various management positions at EPCOS, Siemens and Philips.

Suzanne Thoma, born 1962

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

From 1 January 2013: CEO of BKW AG, Berne. Previously member of the Group Executive Committee of BKW AG, Berne (formerly BKW FMB Energie AG) in charge of the Networks division. From 2007 to 2009 was head of the international automotive supply business of the WICOR Group, Rapperswil-Jona. Before that, was CEO of Rolic Technologies, Allschwil. Also held management positions at CIBA Spezialitätenchemie AG in Switzerland and abroad.

Georg Wechsler, born 1956

Degree in Business Administration; Swiss Certified Accountant

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

The Secretary of the Board, since June 2008, is Kurt Ledermann, interim CEO and CFO of the Schaffner Group. The Secretary is not a member of the Board.

5.2 External activities and interests**Herbert Bächler**

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

Daniel Hirschi

Daniel Hirschi is a member of the Board, member of the Audit committee, and Chairman of the Compensation Committee, of Carlo Gavazzi Holding AG, Steinhausen; Vice Chairman of the Board and Chairman of the Compensation Committee of Komax Holding AG, Dierikon; and member of the Board of the privately held Benninger AG, Uzwil.

Gerhard Pegam

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

Suzanne Thoma

Suzanne Thoma is a member of the Board of UPM-Kymmene Oy, Helsinki, and of the Beckers Group, Berlin.

Georg Wechsler

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

5.3 Restrictions on positions outside the Group

Outside the Schaffner Group, a member of the Board of Directors may hold a maximum of five positions as a member of the highest-level governing or administrative body of other listed companies and a maximum of five positions as a member of such a body in non-listed legal entities within the meaning of section 12 para. 1 (1) OAEC.

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

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

5.4 Board elections and terms

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

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

5.5 Internal organization

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

5.5.1 Division of responsibilities within the Board

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

5.5.2 Composition, purpose and responsibilities of Board committees

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

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

The term of office of committee members normally coincides with their term as Board members.

5.5.2.1 Compensation Committee

The Compensation Committee has the following general responsibilities:

- › Establishment and periodic review of the Schaffner Group's compensation policy and principles, performance criteria and performance targets. Periodic review of the implementation of the foregoing items and submission of proposals and recommendations to the Board of Directors

- › Preparation of all relevant decisions of the Board of Directors with respect to compensation of the members of the Board of Directors and the Executive Committee, submission of proposals to the Board regarding the nature and amount of the annual compensation of the members of the Board of Directors and Executive Committee, and preparation of the proposal for the respective maximum aggregate amount
- › Submission of proposals to the Board for identifying the list of potential recipients of performance-related compensation and setting the annual performance targets for this compensation
- › Submission of proposals to the Board for identifying the list of potential recipients of performance-related compensation and setting the annual performance targets for this compensation
- › Development of equity incentive plans, and submission of proposals to the Board with respect to the selection of plan participants and the allocation of shares (issue price and vesting or holding periods) under equity incentive plans
- › Decision-making or decision support in accordance with legal requirements or provisions of the Articles of Association

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

Membership of the Compensation Committee

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

Members at 30 September 2016	Since
Daniel Hirschi , committee chairman	2010
Herbert Bächler	2012
Suzanne Thoma	2012

The Compensation Committee convenes as often as business requires and not less than twice per year. The committee may invite other Board members, Executive Committee members and specialists to its meetings as required. Generally the meetings are attended by the Chief Executive Officer and Chief Financial Officer as well as the Head of Corporate Human Resources, who is not a member of the Executive Committee.

In the fiscal year the Compensation Committee performed its duties without involving external advisors.

5.5.2.2 Risk and Audit Committee

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

- › Appropriateness and validity of the Group's accounting
- › Consolidated annual financial statements
- › Analysis of the various risks to which the Schaffner Group is exposed
- › Organization and processes of the system of internal control
- › Organization and processes of risk management
- › Tax planning
- › Financial part of the rolling forecast
- › Other major responsibilities of the finance department

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

Membership of the Risk and Audit Committee

The Risk and Audit Committee consists of two or more Board members elected to the committee by the General Meeting. The Board of Directors elects the chairperson of the committee. The majority of the committee's members, and especially the chairman, should have experience in finance and accounting and be independent.

Members at 30 September 2016	Since
Georg Wechsler , committee chairman	2012
Daniel Hirschi	2010
Gerhard Pegam	2013

The Risk and Audit Committee meets as often as business requires, and generally at least twice per year. Every member may request a meeting. The Chief Executive Officer and Chief Financial Officer usually attend the meetings. Additional persons may be asked to attend (particularly representatives of the auditors), at the discretion of the committee chairman.

5.5.2.3 Nomination Committee

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

- › Staff promotions to the Executive Committee
- › New hiring or dismissal of Executive Committee members; in the case of new hiring, members of the Nomination Committee participate in the evaluation of prospective staff

Membership of the Nomination Committee

Members at 30 September 2016	Since
Herbert Bächler , committee chairman	2012
Daniel Hirschi	2010
Suzanne Thoma	2012

The Nomination Committee meets as often as business requires, and generally at least once per year. Every member may request a meeting. The Chief Executive Officer and Chief Financial Officer usually attend the meetings. Additional persons may be asked to attend, at the discretion of the committee chairman.

5.5.3 Procedures of the Board and of its committees

Meetings of the Board of Directors are called by the Chairman or Vice Chairman or, if both are unavailable, by another Board member. The Board convenes as often as business requires or when a Board member requests it, but not less than once per quarter. Board meetings are normally called in writing, stating the agenda items. The agenda is set by the Chairman, who also includes items proposed by the Executive Committee. Board meetings are called at least ten days before the meeting date. In case of urgency, the requirement for written notice and/or for ten days' notice can be waived. When this occurs, it must be noted in the minutes of the meeting.

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

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

In the reporting period the Board met twelve times. The following overview shows the individual Board members’ attendance at Board and Board committee meetings:

Number of meetings	BD	RAC	CC	NC
Daniel Hirschi	12	4	3	3
Herbert Bächler	12	–	3	3
Gerhard Pegam	10	4	–	–
Suzanne Thoma	11	–	3	3
Georg Wechsler	11	4	–	–

BD Board of Directors

RAC Risk and Audit Committee

CC Compensation Committee

NC Nomination Committee

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

5.6 Division of authority

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

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

- › Overall management of the Schaffner Group
- › Setting and approving the strategy and business planning of the Schaffner Group and supervising their implementation
- › Ensuring the efficiency (as necessary for implementation assurance) of accounting, financial controls, risk management and reporting

- › Appointment and removal of the Executive Committee and authorized signatories
- › Regular review of business activities
- › Approval of the decisions of the Executive Committee on the filing, defending or handling of lawsuits, administrative or arbitration proceedings, and on the settlement of litigation where the amount in dispute exceeds CHF 1,000 thousand
- › Decisions on matters not reserved for or transferred to another body by law, by the Articles of Association or by the Management Organization Regulations
- › Formulation and preparation of resolutions for consideration by the General Meeting
- › Presentation to the General Meeting of nominations for the election of the Chairman and Vice Chairman of the Board, the members and chairman of the Compensation Committee, the independent proxy and the external auditors
- › Proposal to the General Meeting regarding the approval of compensation, that is, the respective maximum aggregate compensation of the whole Board of Directors and whole Executive Committee for the fiscal year following the AGM, in accordance with articles 24 and 25 of the Articles of Association
- › Setting the compensation of the individual Board members and Executive Committee members within the respective approved maximum aggregate amount
- › Approval of compensation of Executive Committee members appointed after the approval of the maximum aggregate amount, for a fiscal year for which the General Meeting has already approved the individual compensation amounts or the maximum aggregate amount, in reliance on and within the limits of article 26 of the Articles of Association (“additional amount”)
- › Decisions on fixed compensation of the Board of Directors and Executive Committee, variable cash compensation and other compensation of the Executive Committee, and awards of shares of Schaffner Holding AG to the individual members of the Board and of the Executive Committee, subject to the provisions of the law, the Articles of Association and applicable regulations, and except inasmuch as decisions are reserved for the General Meeting
- › Approval of the acceptance by Executive Committee members of additional positions within the meaning of article 23 of the Articles of Association
- › Founding of subsidiaries, corporate mergers, and acquisition of business interests or their sale or their pledging as collateral or liquidation
- › Entry by the Company into fundamentally new business activities, and material changes to the existing portfolio of businesses
- › Acquisition, mortgaging and sale of real estate
- › Establishment and closing of branch offices
- › Approval of the decisions of the Executive Committee in all matters outside the scope of day-to-day business (i.e., those not covered by the Authorization Policy) that could give rise to one-time obligations or commitments of more than CHF 500 thousand or to recurring obligations or commitments in an annual amount of more than CHF 250 thousand

To an extent consistent with the applicable legal provisions and the 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 Chief Executive Officer is responsible for the overall operational management of the Company. He has responsibility for the long-term success of the Group in terms of the strategy set by the Board of Directors. The Chief Financial Officer has responsibility for financial, tax and capital management and for ensuring the development and implementation of risk control principles, rules and limits. He is also responsible for the transparency of the financial results and for ensuring high-quality, timely financial reporting.

5.7 Monitoring and control in respect of the Executive Committee

Board of Directors

The Executive Committee provides the Board with a monthly written report on the Group's financial results. The reporting consists of the consolidated balance sheet, income statement, statement of changes in equity, a statement of changes in provisions, and the cash flow statement. The data are compared against the prior-year results. The Board of Directors regularly discusses the monthly

reports at its meetings. The Chief Executive Officer and Chief Financial Officer attend the meetings. The Executive Committee carries out a risk assessment at least once per year and reports the findings to the Board. In this assessment, the general risks are analyzed and rated. Monitoring-and-control points and processes are defined based on the risk assessment and are implemented by the respective process owner. The Board of Directors monitors the assessment of the Group's risks and verifies the implementation of risk management. Other tools for the monitoring and control of the Executive Committee are the following:

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

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

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

Chairman of the Board

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

Committees

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

Internal audit

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

6 Executive Committee

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

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

Under the Articles of Association, the employment contracts of Executive Committee members must either have a fixed term of not more than one year, or be of indefinite duration with a notice period of not more than twelve months.

In the year under review the Schaffner Executive Committee had from three to five members. On 31 March 2016 the Executive Vice President / Head of the Power Magnetics division stepped down from the Executive Committee, and on 15 July 2016 the CEO left the Schaffner Group. The CEO function is being performed on an interim basis by the Chief Financial Officer.

Chief Executive Officer

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

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

Chief Financial Officer

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

Chief Operating Officer

The Chief Operating Officer (COO) is responsible for the achievement of the Group's productivity, efficiency and quality targets.

Executive Vice President

The Executive Vice President is accountable for achieving the objectives within his area of responsibility. These targets and goals include, in particular, achieving a leading market position as well as continuous innovation to support lasting competitiveness.

6.1 Responsibilities and members of the Executive Committee

The Executive Committee, the Group's highest-ranking operational management body, supports the Chief Executive Officer in fulfilling his responsibility for managing the Group's activities. It consists of the executives named in the list below and has the following responsibilities and accountabilities within the parameters set by the Board of Directors:

- › Active participation in the process of planning and implementation of Board-approved strategy
- › Efficient and effective fulfilment of the Executive Committee's main duties, with close cooperation between its members
- › Proposal and execution of strategic plans
- › Management of the Group functions of the individual Executive Committee members
- › All matters outside the scope of day-to-day business (i.e., those not covered by the Authorization Policy) that do not give rise to one-time obligations or commitments of more than CHF 500 thousand or to recurring obligations or commitments in an annual amount of more than CHF 250 thousand
- › Keeping of the accounting records in accordance with the law, the specific provisions of the accounting standards adopted by Schaffner Holding AG, and the Listing Rules of the SIX Swiss Exchange
- › Human resources policy, HR management and labor relations

The members of the Executive Committee are actively involved in its consensus-oriented decision process. Decisions are made by consensus or, where no consensus can be reached, are made by the Chief Executive Officer with due regard to the opinions expressed by the Executive Committee's members.

In fiscal year 2015/16 the Executive Committee of the Schaffner Group had the following members:

Alexander Hagemann¹, CEO, born 1962

Degree in Mechanical Engineering, RWTH Aachen University

With the Schaffner Group from 1 March 2007 to 15 July 2016 as CEO. Previously held a number of management positions at the Schott Group, including Executive VP, Optics for Devices. Earlier, worked in management roles in production and logistics at BMW.

Kurt Ledermann², CFO, born 1968

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

Joined the Schaffner Group as CFO on 1 June 2008. Since 15 July 2016 is also interim CEO. Previous roles included Executive VP, Finance & IT, RUAG Aerospace; Head of Finance & Accounting, Schaffner Group; CFO, Medivision; Group Controller and Head of Investor Relations, Sika Group.

Ah Bee Goh, COO, 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

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

¹ To 15 July 2016.

² Interim CEO from 15 July 2016, and CFO.

Eduard Hadorn³, Executive VP, born 1956

Degree in Business Administration

With the Schaffner Group since 2003; VP, Business Development Asia from 1 March 2007. Managing Director, Schaffner EMC Ltd., Shanghai. Executive VP and Head of Power Magnetics division from 1 October 2011 to 31 March 2016. Previously was General Manager, Technology division at Diethelm & Co., and Head of Marketing & Sales at Beringer Hydraulik.

Guido Schlegelmilch, Executive VP, born 1964

Degree in Business Engineering and PhD, Darmstadt University of Technology

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

6.2 External activities and interests**Alexander Hagemann**

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

Kurt Ledermann

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

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

6.3 Restrictions on positions outside the Group

Outside the Schaffner Group, a member of the Executive Committee may hold a maximum of two positions as a member of the highest-level governing or administrative body of other listed companies and of non-listed legal entities within the meaning of section 12 para. 1 (1) OAEC; this restriction is set out in section 2.4 para. 8 of the Management Organization Regulations of Schaffner Holding AG.

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

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

Executive Committee members require the approval of the Board of Directors to accept positions/employment outside the Schaffner Group.

6.4 Management contracts

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

³ To 31 March 2016.

7 Compensation, share ownership and loans

Information on compensation, shareholdings and loans of the Board of Directors and Executive Committee is provided in the compensation report of the Schaffner Group on pages 42 to 58 of this annual report.

8 Shareholder participation rights

8.1 Voting rights restrictions and proxy voting

At 30 September 2016 there were 1,300 shareholders registered in the share register. Each share of Schaffner Holding AG, with the exception of any shares held by the Company (treasury shares), carries one vote at the General Meeting of shareholders. There are no restrictions on voting rights.

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

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

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

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

8.2 Quorums under the Articles of Association

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

8.3 Calling of the General Meeting

The General Meeting is called by the Board of Directors no later than 20 days before the meeting date by issuing a notice in the Company's official gazette for statutory notices. Notice of the meeting may additionally be sent by letter to all shareholders registered in the share register. In addition to the meeting date, 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 that have not been announced in this manner, except for motions to call an Extraordinary General Meeting or to conduct a special audit.

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

8.4 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; the request must state the proposed resolutions. Such a request must be received by the Company no later than 45 days before the General Meeting.

8.5 Registration in the share register

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

The Share Registration Regulation of Schaffner Holding AG sets out the details of the rules governing registration in the share register, including particularly the related authority structure, the maintenance of the share register, and the monitoring of the shareholdings recorded in it. The Share Registration Regulation was issued by the Board of Directors in reliance on sections 685a and 685d et seq. of the Swiss Code of Obligations and article 6 of the Articles of Association. The Share Registration Regulation can be viewed in the Annual General Meeting section of the website at www.schaffner-ir.com

Further information regarding restrictions on transferability and nominee registrations is given from page 22 of this corporate governance report in section 4.6.

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

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

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

- › Registration applications for up to 5,000 shares per transaction that either clearly meet or clearly do not meet the requirements for registration as a voting shareholder or voting nominee: Approval by the registrar (the company commissioned to operate the share register)
- › Applications for registration as a nominee: Approval by the registrar
- › Registration applications for more than 5,000 shares per transaction, and all other transactions which do not clearly meet the requirements for registration as a voting shareholder or voting nominee, or in which there is uncertainty: Approval by the manager of the share register
- › All registration applications of shareholders or groups of shareholders that hold the shares for their own account and have reported holding 3% or more of the voting rights of Schaffner Holding AG: Approval by the manager of the share register

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

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

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

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

9 Change-of-control clauses and takeover defenses

9.1 Requirement to make a public tender offer

The Articles of Association of Schaffner Holding AG contain neither an opting-up nor an opting-out clause. This means that any person or entity acquiring one-third (33⅓%) or more of the voting rights of Schaffner Holding AG must, under section 135 para. 1 of the Financial Market Infrastructure Act, make a public tender offer for the remaining shares.

9.2 Clauses on changes of control

In either of the following two cases, the participants in the Schaffner Holding AG Employee Share Option Plan 1998 (ESOP) and in the Restricted Share Plan (RSP) have the right to immediately exercise some or all of their options and/or sell some or all of their restricted shares, without regard to the holding periods:

- › If any person or entity directly or indirectly acquires sufficient shares in the Company to become obligated under section 135 para. 1 Financial Market Infrastructure Act to make a tender offer for all other outstanding shares of the Company, or
- › If Schaffner Holding AG sells all or a substantial portion of the Company's assets.

10 Auditors

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

10.1.1 Starting date of current audit engagement

The external independent audit firm is elected annually by the General Meeting. From fiscal year 2015/16, BDO AG, Solothurn, is the independent auditor of Schaffner Holding AG and, as the Group's audit firm, is responsible for the auditing of the Schaffner Group.

10.1.2 Date of first appointment of lead audit partner

The lead audit partner at the external auditors (the person in charge of the audit engagement), Beat Rüfenacht, has held this position since fiscal year 2015/16. The lead audit partner's tenure is limited by law to seven years.

10.2 Audit fees

In fiscal year 2015/16, BDO AG invoiced the Schaffner Group a total of CHF 228 thousand for services in connection with the auditing of the company financial statements of Schaffner Holding AG and the consolidated financial statements of the Schaffner Group (prior year, Ernst & Young AG: CHF 313 thousand).

10.3 Additional fees

In addition, BDO AG invoiced the Schaffner Group CHF 7 thousand (prior year, Ernst & Young AG: CHF 277 thousand) for other services, which had the following composition:

In CHF '000	2015/16	2014/15 ¹
Tax consulting	2	30
M&A consulting	0	235
Miscellaneous	5	12

¹ Ernst & Young AG, Berne.

10.4 Informational instruments pertaining to external audits

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

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

11 Communication policy

Schaffner follows a policy of open and active communication with the public and the financial markets. The communication policy also adheres to the rules of the SIX Swiss Exchange and the applicable legal requirements. The Schaffner Group's financial reporting complies with Swiss GAAP FER.

As a company listed on the SIX Swiss Exchange, Schaffner also publishes information (so-called "ad-hoc" disclosures) relevant to the share price, in accordance with section 53 of the Listing Rules. In these 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. It is not the policy of Schaffner Holding AG to update previously published information.

The Schaffner Group reports on its financial and business performance on a half-yearly basis. All publications are made available in electronic format on the Company's website and mailed on request.

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

- › Annual General Meeting
- › Annual presentation of the full-year results
- › Conference calls for the publication of the half-year results and other news
- › Meetings with shareholders, investors and analysts
- › Road shows
- › Themed investor days

Media releases are available on the investor relations website of the Schaffner Group for at least two years after publication and can be accessed via the following link:

www.schaffner-ir.com/news-presentations/news

Annual and half-year-reports, corporate governance reports and compensation reports are available for at least five years on the investor relations website of the Schaffner Group at:

www.schaffner-ir.com/reports

Shareholders can receive the latest ad-hoc disclosures of the Schaffner Group by e-mail. Registration for this free service is offered on the investor relations website of the Schaffner Group at:

www.schaffner-ir.com/news-presentations/e-mail-service

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

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

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

A key source of current, in-depth information on the Group, its products and contact details are these web pages:
www.schaffner.com
www.schaffner-ir.com

Investor relations contact

Kurt Ledermann, Interim CEO, and CFO
kurt.ledermann@schaffner.com
T +41 32 681 66 08

Financial calendar

<u>12 January 2017</u>	<u>21st Annual General Meeting</u>
<u>11 May 2017</u>	<u>Publication of half-year report 2016/17</u>
<u>7 December 2017</u>	<u>Publication of annual report 2016/17</u>
<u>11 January 2018</u>	<u>22nd Annual General Meeting</u>

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