SCHWEIZER
ELECTRONIC

HIGH FREQUENCY CURRENT TEMPERATURE AND MINIATURISATION

ANNUAL REPORT 2016

CONTENTS

KEY FIGURES

	2016	2015	Change absolute	Change in %
Schweizer Group (IFRS)				
Revenues (EUR million)	116.1	115.6	0.5	0.5
Order book (EUR million)	158.4	149.1	9.3	6.2
Incoming orders (EUR million)	125.4	145.5	-20.1	-13.8
EBITDA (EUR million)	9.5	11.4	-1.9	-16.7
EBITDA ratio (%)	8.2	9.8		
EBIT (EUR million)	1.8	3.7	-1.9	-51.4
EBIT ratio (%)	1.6	3.2		
Annual result (EUR million)	0.6	1.5	-0.9	-58.4
EPS (EUR)	0.16	0.39	-0.23	-58.4
Total assets (EUR million)	117.7	119.4	-1.7	-1.4
Investments (EUR million)	9.0	4.2	4.8	114.3
Equity (EUR million)	64.8	67.4	-2.6	-3.9
Equity ratio (%)	55.1	56.5		
Net gearing ratio (%)	-1.5	-5.1		
Working capital (EUR million)	23.0	22.4	0.6	2.7
Cash flow from operating activities (EUR million)	6.5	4.9	1.6	32.7
Employees[1] (at year end)	787	774	13.0	1.7
Schweizer Electronic AG (HGB)				
Revenues (EUR million)	117.0	115.5	1.5	1.3
Annual result (EUR million)	4.7	5.5	-0.7	-13.4
Dividend (EUR)	0.65[2]	0.65		
Equity ratio (%)	59.2	58.7		
Net gearing ratio (%)	7.3	1.8		

[1] Including temporary staff.
[2] Proposal to the annual general meeting.

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

PRODUCTION AND TECHNOLOGY LOCATION, SCHRAMBERG

A LOOK INSIDE THE SCHRAMBERG PLANT

LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders and Business Partners, dear Employees,

in the past business year, the commercial environment for PCB manufacturers was once again characterised by slowing growth and increasing market consolidation. Although the global PCB market declined again, Schweizer was able to improve its sales by 0.5 percent and reach an EBITDA ratio of 8.2 percent. It is particularly noteworthy that the share of sales represented by our innovative high-tech products rose again and now accounts for 55 percent of total sales. Moreover, the Aviation division made its first contributions to earnings. With that, we have achieved our strategic targets to expand our portfolio with respect to high-tech products and at the same time broaden our customer base.

In the past business year, too, we have invested comprehensively in new technologies and in expanding our capacities at the Schramberg location. As a result, we were able to put a new product line from the high-tech sector into series production and already achieved two-digit improvements in production output during start-up.

In the current business year, additional growth in sales is expected through our partner WUS in Kunshan. Following the successful customer audits and release sample phases over the last two years, the first batches of high-frequency PCBs for an important European customer in the automotive sector will be manufactured by our partner WUS in Kunshan. As a result, Schweizer remains competitive compared to our Asian counterparts, while also creating new capacities at the high-tech Schramberg location.

How does our core business look? The greatest potential for us continues to lie in the automotive sector. According to forecasts of the N.T. Information Ltd. institute (NTI), the PCB market for the automotive industry will grow steadily by 5 – 6%, and the entire automotive electronics sector, thanks to advanced driver assistance systems (ADAS) and electric and hybrid vehicles, will grow further by 11 – 12% annually in the coming years. In terms of automated driving, the large brand manufacturers are aiming to bring numerous models to the test tracks in the current business year.

With a share of 76% of total sales, the automotive industry is an engine of innovation and sales for Schweizer too. Progressing miniaturisation, high frequencies, power electronics with increasing current densities and rising thermal requirements are all among the current problems that we can resolve with our tailor-made solutions. In the interim, many tier-one customers have relied on our high-quality PCB solutions for the radar and camera systems required for ADAS and automated driving. To reduce CO_2 emissions, we offer a broad portfolio of power electronic printed circuit boards, which are already being used by our customers in the implementation of their electromobility projects and are also contributing to the optimisation of fuel efficiency in conventional combustion engines. In this context, we must also mention the very successful IMS boards for LED headlights, which have been increasingly used by the premium manufacturers over the past two years and which contribute to reductions in emissions.

We are proud of what we, together with our employees and partners, have achieved in the past business year, and we thank our employees who through their great commitment and ingenuity are the basis for our success. Without their tireless efforts, we would not be as successful as we are today nor would we be able to look to the future with so much confidence. It is important that our employees should share in our financial success. Last year, we once again awarded a bonus for the 2015 business year, and Schweizer will distribute a profit share at the same level for 2016.

Nicolas-Fabian Schweizer, Marc Bunz

We would also like to thank the management and staff of our partners WUS, Infineon, Meiko Electronics and Elekonta for their confidence in Schweizer.

As a medium-sized family company with a 168-year history, our strength lies in always responding flexibly and quickly to market requirements. Thanks to our talent for innovation, our modern, high-tech plant and proximity to our customers, we are developing solutions with them that will help them to deal with the challenges of their market. This will also point the way for our actions into the future.

We expect a positive development for our company with technologically sophisticated products focused on reducing system costs and on power electronics for applications in the automotive industry. In addition, we expect further growth through sales increases with customers from the aviation segment, thanks to the competition being squeezed out of the market.

For 2017, Schweizer is therefore expecting sales growth, which at 2 to 4% is slightly above the previous year's figure. We expect a stable result and are aiming for an EBITDA ratio of 8 to 9 percent of sales. We are therefore assuming that the ratio between sales arising from production in Schramberg and those arising from production by our Asian partners, will not shift significantly.

We have reason to look confidently to the future and would be delighted if you would join us on our journey.

Sincerely yours,

Nicolas-Fabian Schweizer   Marc Bunz

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

the excellent positioning of Schweizer Electronic AG in the area of high-tech printed circuit boards for the automotive industry once again provided moderate sales growth in the 2016 business year. In addition to the automotive industry segment, Schweizer also achieved sales in the aviation industry segment in the past business year; like the automotive industry, aviation poses very high requirements in terms of quality and reliability. Due to the long qualification periods, the barriers to entry in this segment are indeed high, but the sales are correspondingly sustained. Schweizer's differentiation strategy is thus yielding initial successes. Schweizer will continue to rely on its technological strengths in the area of automotive electronics and to place the topics of electromobility, functional safety through driver assistance systems and sustainability through system-optimised weight reduction at the heart of the strategic further development of the company.

Due to the increasingly complex applications and the associated, growing technological requirements placed on the products of Schweizer, there were however process-determined bottlenecks in production in the past business year that could not be resolved in the short term. The thus restricted capacity of the plant in Schramberg, which specialises in high-tech PCBs, hampered a stronger growth in sales given the still strongly growing demand in the automotive industry for this product. For Schweizer, progressing miniaturisation and the associated challenges in mechanical and process technologies means that it is time to embark on the next phase of the strategic and operative development of the company. The Management Board and the Supervisory Board have paved the way for this and are tackling this development systematically.

REPORTS AND MEETINGS

The Supervisory Board performed its duties as required by law, the Articles of Association, the German Corporate Governance Code and the rules of procedure in the 2016 business year. The Supervisory Board advised the Management Board on the leadership of the company extensively and on a regular basis, and supervised the management of the company.

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

The Supervisory Board, particularly the Chairman of the Supervisory Board and his deputy, provided intensive support and advice to the Management Board on all strategic issues and discussed various matters in detail, both at meetings and in the context of a series of informal discussions.

Decisions or measures by the management requiring the approval of the Supervisory Board due to law, the Articles of Association or rules of procedure were presented in good time, inspected and the relevant judgements made. Where necessary, urgent decisions of the Supervisory Board were taken by a circular resolution.

In the 2016 business year, five regular and two extraordinary meetings of the Supervisory Board as well as two regular meetings of the personnel and finance committee took place. All members took part in the meetings of the personnel and finance committee. One member of the Supervisory Board was unable to attend six meetings of the total of eleven meetings of the Supervisory Board, due to ill health. Otherwise, the members of the body all took a full part in the Supervisory Board meetings. In some instances, the option to participate via video link was utilised.

IMPORTANT ISSUES DISCUSSED AT MEETINGS

In the regular meetings, the Supervisory Board discussed the Management Board's reports on the general business performance, the performance of the divisions, the performance of sales and earnings, the financial and risk situation and the performance of the partner network.

The strategic development of the company and the resulting opportunities and risks for the company were also recurring subjects of the meetings. The Management Board always involved the Supervisory Board in all key decisions affecting the company.

In the past business year, the following topics were the focus of committee work for the Supervisory Board and for the personnel and finance committee: 1. The strategic and operative development of the company; 2. The conversion of the consolidated financial statements to the International Financial Reporting Standards (IFRS) and 3. Specific questions relating to organisational design.

The extraordinary meeting of 8 February 2016, the ordinary meeting of 21 March 2016 and the extraordinary meeting of 25 April 2016 focussed on the explanations of and discussions relating to the first-time preparation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the additional commercial law provisions to be complied with in accordance with Section 315a(1) German Commercial Code (Handelsgesetzbuch; HGB). Specifically, on 8 February 2016, the Management Board presented to the Supervisory Board plenum the financial statements of the Asian subsidiaries, discussed them with them and made the required resolutions to assume the losses accumulated there.

On 21 March 2016, the Management Board reported on the targets achieved in the 2015 business year and on the current business performance. In addition, the separate financial statement, status report and appropriation of balance-sheet profit of Schweizer Electronic AG were discussed with the Management Board and the auditor's representatives. The Management Board's proposal concerning the appropriation of profit was unanimously adopted, the financial statement and status report of the Management Board were approved and verified, and the corporate governance report was approved. Regarding other topics, the agenda for the annual general meeting, which included, inter alia, proposals for capital measures, the amendment to the Articles of Association regarding the Supervisory Board remuneration, and the upcoming Supervisory Board election, was dealt with. In the interests of greater transparency, the Supervisory Board and Management Board agreed that in future both the Supervisory Board and the Management Board remuneration would be published individually.

In the extraordinary meeting of 12 April 2016 the members of the Supervisory Board dealt predominantly with a concept elaborated by the Management Board to extend the Asian strategy and to expand the company's own market position primarily in the automotive segment, but also in other PCB application segments.

In the extraordinary Supervisory Board meeting of 22 April 2016, the Supervisory Board dealt with organisational issues and, as part of this, appointed Mr Nicolas Schweizer as Deputy Chairman of the Management Board.

The object of the extraordinary Supervisory Board meeting held on 25 April 2016 was the approval of the consolidated financial statements which had been prepared for the first time. Representatives from the auditing firm Ernst & Young GmbH took part in the meeting and were available to provide explanations and answer questions.

In the meeting of 17 June 2016, the Board of Management informed the committee about the market abuse regulation that came into effect on 3 July 2016 and about the compliance management system, in addition to the regular report on the current business and financial situation and the performance of the partner network. Another item on the agenda was the Management Board targets for 2016. These were discussed and approved.

Following the annual general meeting on 1 July 2016, the re-elected Supervisory Board member Mr Christoph Schweizer was confirmed in his position as deputy chairman of the Supervisory Board and deputy chairman of the personnel and finance committee.

In the meeting of 26 September 2016, the focus was on both the Management Board report on the current business and financial situation and on organisational issues that were discussed further in the extraordinary meeting of 3 November 2016.

The focus of the meeting of 28 November 2016 was the presentation of the Management Board on the strategic further development of the company and the discussion of the actual targets and measures, which was continued in the extraordinary meeting of the Supervisory Board of 14 December 2016. In addition, the Supervisory Board approved the budget for 2017 and took note of the plan for 2018 and 2019 during this meeting. The result of the efficiency review performed on the activities of the Supervisory Board was presented and discussed in detail.

CHANGES TO THE SUPERVISORY BOARD AND MANAGEMENT BOARD

By resolution of the annual general meeting of 1 July 2016, Mr Christoph Schweizer was re-elected to the Supervisory Board and Ms Karin Sonnenmoster was elected as his substitute member until the annual general meeting in 2017. Dr Stephan Zizala was elected for the remaining term of office of the vacant seat on the Supervisory Board up to the annual general meeting in 2019. In this way all positions on the Supervisory Board were filled again when the annual general meeting adjourned.

Since the withdrawal of Dr Maren Schweizer from the Management Board on 1 February 2017, the Management Board has comprised only two members.

Michael Kowalski, Chairman of the Supervisory Board

SUPERVISORY BOARD COMMITTEES

The Supervisory Board has set up a personnel and finance committee with the goal of improving efficiency. For a company of our size and orientation, we do not believe that it is either advisable or necessary to set up any further committees. Duties assigned to other committees can be readily dealt with by this body, provided they are not required to be dealt with by the Supervisory Board plenum. Furthermore, the full Supervisory Board is informed of the outcome of the committee's deliberations.

WORK OF THE PERSONNEL AND FINANCE COMMITTEE

In the two regular meetings of 25 February 2016 and 26 September 2016, the members of the committee dealt specifically with the topic of the individual and consolidated financial statements and strategic topics. The full Supervisory Board was informed of the results of the consultations in each case. In addition to the meetings, the regular tasks of the committee include conducting annual target and review discussions with the Management Board and arranging for the Management Board remuneration system to be reviewed at least every two years by external consultants. The committee also reports on this to the full Supervisory Board and makes corresponding recommendations. In the past fiscal year, the committee was additionally tasked with finding a suitable substitute member of the Supervisory Board for Mr Christoph Schweizer.

GERMAN CORPORATE GOVERNANCE CODE

In the Supervisory Board meeting of 21 March 2016, the Supervisory Board dealt with the German Corporate Governance Code and adopted the Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz; AktG). The Declaration of Compliance was made permanently accessible on the company website and is also reproduced in the Corporate Governance report.

ADOPTION OF THE ANNUAL FINANCIAL STATEMENT AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENT

The annual financial statement and the consolidated financial statement as well as the summarised status report prepared by the Management Board for Schweizer Electronic AG and the Group for the year 2016 were audited by the auditing company Ernst & Young GmbH chosen at the 2016 annual general meeting. Mr Oliver Pfeifer has been signing as the auditor since the 2016 business year, while Dr Eckart Wetzel has been signing as the auditor responsible for the audit since the 2014 business year.

The audits of the annual financial statement, consolidated financial statement and the summarised status report did not give rise to any objections. As a result of these audits, unqualified audit opinions were issued on 21 April 2017. The documents to be audited and the audit reports of the auditor were made available to every Supervisory Board member at the meeting on 25 April 2017 and were sent to every Supervisory Board member in sufficient time to enable them to prepare. The auditor took part in the discussion of the annual financial statement and the consolidated financial statement, during which he reported on the main audit findings and provided additional information on request. According to the final result of the audits, no objections are to be raised by the Supervisory Board. The Supervisory Board agrees with the result of the audit of both financial statements by the auditor, concurs with the Management Board's assessment of the position of the Group and of Schweizer Electronic AG and approves the annual financial statement and the consolidated financial statement as at 31 December 2016. The annual financial statement is thus adopted.

The Supervisory Board supports the proposal of the Management Board concerning the appropriation of profit, which envisages a dividend of EUR 0.65 per share.

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

Schramberg, 25 April 2017

The Supervisory Board

Michael Kowalski
Chairman

High-frequency, high currents, high temperatures and the trend towards miniaturisation are determining the PCB business in the automotive industry.

The engine of innovation and sales at Schweizer Electronic AG remains the automotive industry; this division now accounts for more than 75% of sales.

Automated driving and the reduction of CO_2 emissions are the big challenges for the future of the automotive industry. Progressing miniaturisation, high frequencies, power electronics with increasing current densities and rising thermal requirements as well as optimisations in the manufacturing processes are among the current problems in applications, which SCHWEIZER was able to respond to in the last business year with its tailor-made product portfolio.

High-frequency PCBs for advanced driver assistance systems (ADAS) and automated driving, as well as PCBs that can conduct high currents and display efficient heat management, are the engines driving innovation, and increasingly also sales, within the company.

Modern applications require that more and more functionalities be accommodated in the smallest of space on a PCB. Miniaturisation is therefore becoming a decisive factor in the automotive sector too. Here, customer demands for the highest of quality and sophisticated technology must be catered to, which SCHWEIZER can do with its PCBs.

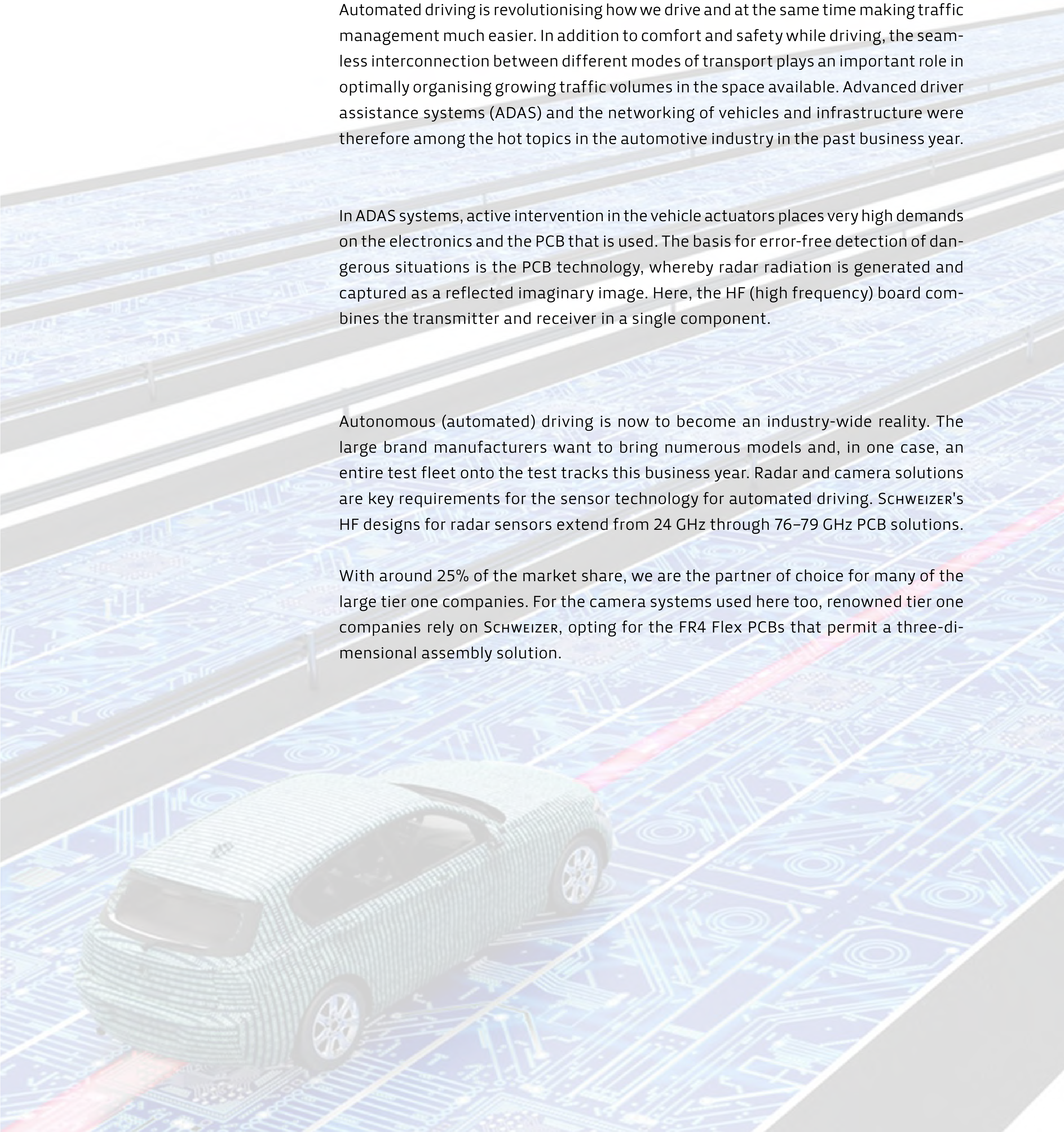
AUTOMATED DRIVING

Automated driving is revolutionising how we drive and at the same time making traffic management much easier. In addition to comfort and safety while driving, the seamless interconnection between different modes of transport plays an important role in optimally organising growing traffic volumes in the space available. Advanced driver assistance systems (ADAS) and the networking of vehicles and infrastructure were therefore among the hot topics in the automotive industry in the past business year.

In ADAS systems, active intervention in the vehicle actuators places very high demands on the electronics and the PCB that is used. The basis for error-free detection of dangerous situations is the PCB technology, whereby radar radiation is generated and captured as a reflected imaginary image. Here, the HF (high frequency) board combines the transmitter and receiver in a single component.

Autonomous (automated) driving is now to become an industry-wide reality. The large brand manufacturers want to bring numerous models and, in one case, an entire test fleet onto the test tracks this business year. Radar and camera solutions are key requirements for the sensor technology for automated driving. Schweizer's HF designs for radar sensors extend from 24 GHz through 76–79 GHz PCB solutions.

With around 25% of the market share, we are the partner of choice for many of the large tier one companies. For the camera systems used here too, renowned tier one companies rely on Schweizer, opting for the FR4 Flex PCBs that permit a three-dimensional assembly solution.



SCHWEIZERS RADAR COMPETENCE – SAMPLE APPLICATIONS

Source: Hella

Source: Valeo

Source: Continental

Source: Bosch

FR4 FLEX – SAMPLE APPLICATIONS

Source: Continental

REDUCTION OF CO_2 EMISSIONS

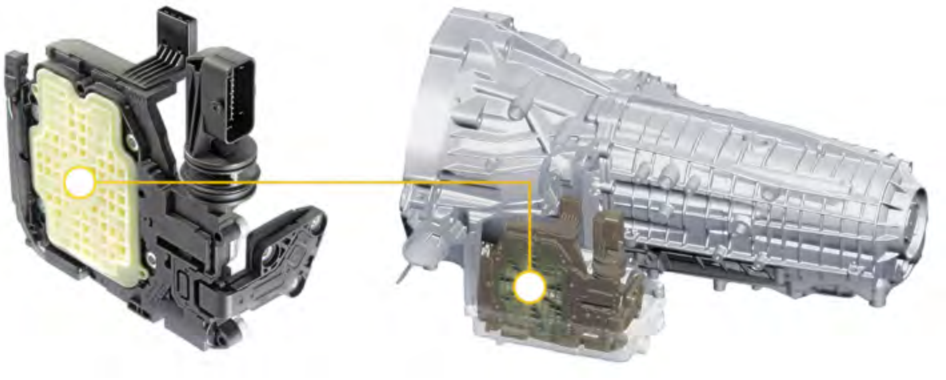
Increasingly stringent legal requirements for fuel efficiency are presenting the global automotive industry with huge challenges. With a maximum permitted CO_2 emission of 95 g per kilometre as of 2021, corresponding to consumption of 3.6 l diesel (4 l petrol/100 km), European countries must satisfy the most stringent of requirements. According to the Verband der Automobilindustrie (German Association of the Automotive Industry; VDA) the German automotive industry is pursuing an offensive strategy here that encompasses several sectors. Firstly, German manufacturers are currently planning to more than triple their offering of electric car models by 2020 – from a current figure of 30 to nearly 100 models. By 2020 alone, the German automotive industry aims to invest more than Euro 40 billion in alternative drives.

As this considerable expenditure however must be generated from ongoing business, i.e. from the sale of cars with combustion engines, modern diesel and petrol engines will also continue to be used. For this reason, the companies are also continuing – in tandem with electromobility – to develop traditional drives, which offer further potential for fuel efficiency and thus for the reduction of CO_2 emissions.

SCHWEIZER PRODUCT SOLUTIONS SUPPORT THE AUTOMOTIVE INDUSTRY IN ACHIEVING ITS EMISSIONS TARGETS

Conventional engines are constantly being further developed to reduce CO_2 emissions. The view prevailing among the experts, however, is that emissions values of less than 100 g CO_2/km are only possible with additional electrification as a hybrid. Schweizer Electronic AG, with its PCB solutions, is contributing to the constant optimisation of conventional combustion engines. Examples include the "BOND PCBs", in which chips without housings are mounted on the printed circuit board and connected using bonding wires, and the ENEPAG PCB solutions, which are used in transmissions for example.

Integrated transmission control device from Continental for the new generation of the Audi 7-gear S tronic Source: Continental



Using ENEPAG PCBs, the cost-intensive ceramic material can be replaced with PCBs even in high-current motors and converters/inverters. Moreover, they help to use the available installation space efficiently and thus not only support cost reduction but also the trend towards miniaturisation. This is particularly important in hybrid vehicles in which an electric drive must also be housed under the bonnet with the combustion engine.

Bare Die HDI PCB with ENEPAG surface

Heavy copper 48/12V DC/DC converter in cooperation with Infineon

Demonstrator for a 48V motor controller in cooperation with Infineon

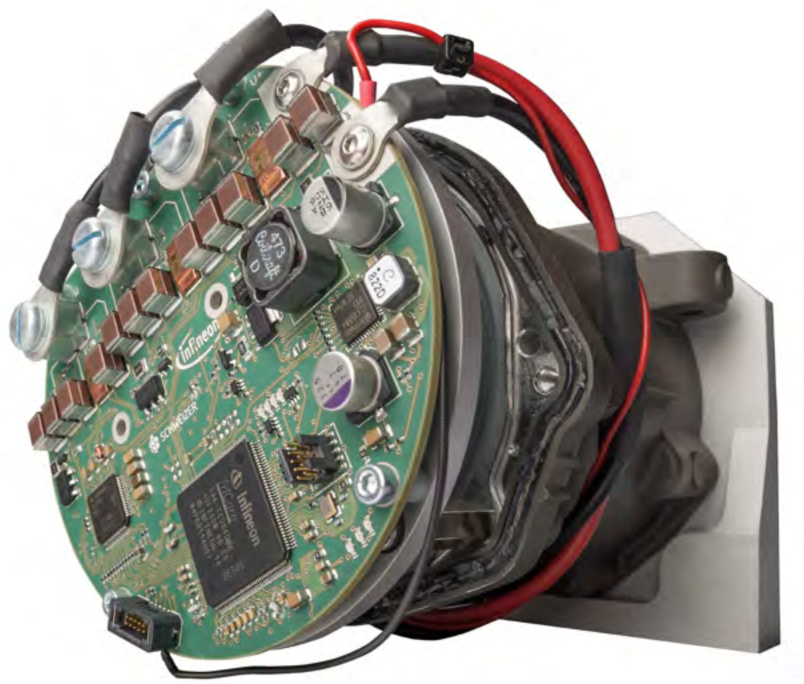
With its power electronics printed circuit boards, Schweizer offers a broad portfolio for 48 V or high-voltage drives and the corresponding DC/DC or AC/DC converters for hybrid and electric vehicles. As a result, the company is a reliable partner, capable of supporting its customers right now in the implementation of electromobility.

As many systems for current and future applications are getting ever smaller while simultaneously having to offer additional functionalities, the next logical step is embedding active components in the PCB.

Source: Continental

CHIP EMBEDDING

With chip embedding, components that are usually mounted on the front or back of a PCB are embedded inside the board. This makes the PCB smaller, which benefits systems in the vehicle for which limited space is available, such as the electric power steering, air conditioning compressors, electric turbochargers or starter-alternators. It also improves the chip cooling, because the heat produced when the chips are working is discharged directly via the PCB. SCHWEIZER is cooperating closely with Infineon in the field of chip embedding, to elaborate the optimal solution for customers.



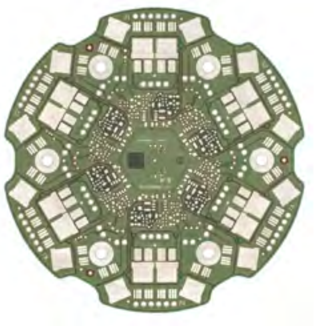
Auxiliary unit demonstrator in cooperation with Infineon. The Smart p² Pack – with embedded MOSFETs.

Smart p² Pack technology from SCHWEIZER leverages the potential of embedding components in PCB substrates and the company's tried and trusted inlay technology, thus offering numerous advantages for the user. Not only is reliability increased, for example, but installation space and system costs are also saved. For applications involving high currents, which require rapid switching and for which the size of the installation space is material, Smart p² Pack is a reliable, cost-optimising solution. First applications have already been realised for the new 48 V board of the Automotive Board network and are set to go into mass production as of 2019/2020.

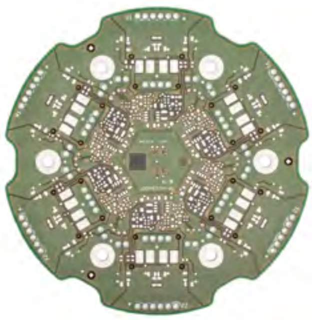
The objective is to use the p² Pack technology to reduce power losses by 30% compared to conventional PCB equipping or alternatively to increase the power by 50% in the future.

The p^2 Pack offers new, interesting growth opportunities, which Infineon and Schweizer want to exploit together. The companies have already jointly developed various demonstrators for tailor-made customer solutions.

RSG (belt-driven starter alternator) demonstrator in cooperation with Continental and Infineon



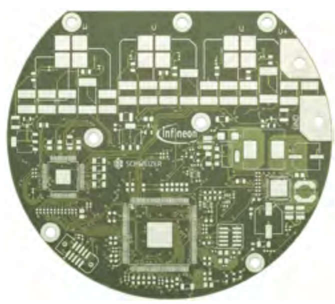
Previous solution:
Inlay board + logic circuit board,
MOSFETs are fitted on the PCB



Schweizer innovation:
Smart p^2 Pack
p^2 Pack with embedded MOSFETs.

Auxiliary unit demonstrator in cooperation with Infineon.

Previous solution:
Heavy copper solution,
MOSFETs are fitted on the PCB



Schweizer innovation:
Smart p^2 Pack
p^2 Pack with embedded MOSFETs.

LEDs – STRONG, ENERGY-EFFICIENT LIGHT SOURCES

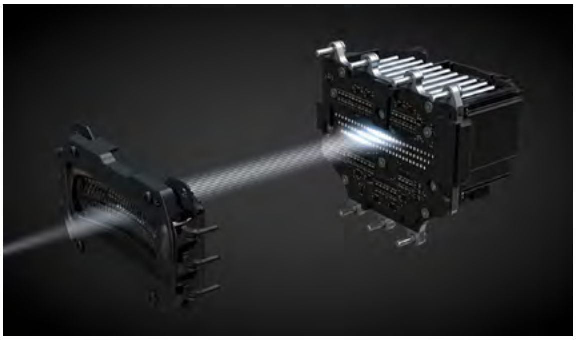
The reduction of CO_2 emissions can be assisted by various PCB solutions in the Schweizer product portfolio. But the potential for fuel savings is not restricted to the drive technology alone. LED headlights, for example, not only provide enhanced safety and comfort while driving, they also help to reduce CO_2 emissions. According to expert estimates, using LED headlights can bring about emissions savings of up to 2 g CO_2/km. LED headlights are far superior to conventional lighting technology in terms of brightness, service life and power consumption. In contrast to conventional lights, light in LEDs is created not by friction in a coiled filament but through electron transfer in various layers of a semi-conductor. That makes them more flexible, in terms of brightness and light distribution. LEDs last for 10,000 operating hours without visible deterioration and convert energy more productively into light. At Schweizer customers will find the right solution, not just for standard LED headlights but also for matrix headlights.

In the design of LED headlights, quick and efficient heat dissipation is particularly important to prevent the formation of "hotspots". Thanks to its special constituent materials, the Schweizer IMS PCB offers excellent thermal heat management properties and has since its launch become the first choice for premium manufacturers. Following the start of series production in May 2015, significant orders for copper IMS PCBs have already been delivered for the LED headlights of the updated BMW 3-series/4-series to our customer Hella.

The premium equipment variant of the BMW 3-series has light-based driver assistance systems with adaptive cornering light, variable city and autobahn light distribution and glare-free high beam. (Source: HELLA)

The new IMS PCB generation offers space for 84 LEDs and is used in the current Daimler matrix LED headlights. The number of LEDs optimises the resolution of the lighting and hence the illumination of the road for drivers. In addition, they allow a glare-free high beam. There is no longer any need for manual switching between dims and high beams, allowing the driver to concentrate fully on the driving situation.

Source: Mercedes-Benz



On the new IMS PCB with black solder mask, 84 LEDs ensure that the road is optimally illuminated for the driver. Source: Hella

INNOVATIONS FROM SCHWEIZER AND INFINEON MAKE THE MATRIX LED HEADLIGHT MORE COMPACT AND AFFORDABLE

In the future, the matrix LED headlight will be even more compact and at the same time more affordable thanks to the joint innovations of Schweizer and Infineon. In November of last year, both partners presented innovations at the electronica fair in Munich, which contribute to saving space and costs and thus support greater market penetration of the ADB (Advanced Driving Beam) headlights in the automotive market.

Inlay board technology enables integration of LEDs and their controls in a PCB

Matrix LED demonstrator in cooperation with Infineon. Source: Infineon

SCHWEIZER'S INNOVATIVE TECHNOLOGIES OFFER FURTHER MARKET POTENTIAL

Schweizer's strengths lie in the areas of high frequencies, high temperatures, high currents and miniaturisation. These core competencies are needed not just in the automotive sector but also in many industrial and aviation applications. It is therefore to be assumed that Schweizer will gain market shares continuously in these markets too. One example of this is the successful entry into the aviation segment with highly innovative PCB solutions in the past business year, 2016.

HIGH POWER
AUTONOMOUS CARS
ROBOTICS PCBs E-MOBILITY
AVIATION INDUSTRY 4.0
ELECTRICITY STORAGE
SMART SENSORS

The automotive sector is only one sub-sector. The digital revolution and the associated changes will impact on all sectors and open up new market potential for us. E-mobility, autonomous driving, robotics, storage technology, aviation, high power, smart sensors and Industry 4.0 are the trends which we can serve with our PCBs.

Industries grow together but the core competencies remain. Schweizer already has the PCB solutions required to take an active part in shaping the digital revolution.

Source: Internet

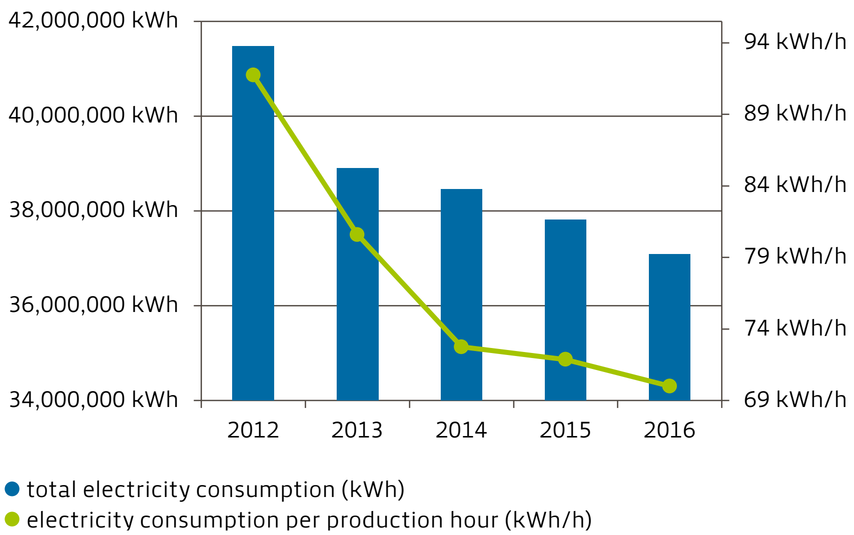
SUSTAINABILITY

As a family business with a long history and heritage, Schweizer Electronic AG takes its corporate responsibility very seriously and has made its contribution to sustainability a fundamental part of the company's mission statement. Measures to ensure sustainability can therefore be found in all areas of the company; they are monitored regularly via an annual, internal environmental impact report. With the release of the annual report on the current business year 2017, Schweizer will publish the sustainability key performance indicators that are material for its business activity and business environment, within the statutorily prescribed scope.

When measuring the sustainability KPIs relevant to financial reporting in the future, Schweizer Electronic AG always refers to the production hour, to take account of the growing complexity of PCB production.

ENERGY MANAGEMENT AT SCHWEIZER

Absolute electrical energy consumption at Schweizer has continued to develop positively. Despite high capacity utilisation of the production facilities and some new plant, total consumption in 2016 was reduced by close to 2% (corresponding to 730,000 kWh) compared to 2015. In the past five years (since 2012), total consumption has thus fallen by 4.4 million kWh. The specific power consumption fell in the same period by nearly 24%.



ENERGY-EFFICIENCY MEASURES IN PRODUCTION

The exhaust system in the PINLAM press centre was converted to a load-dependent controller. The motor's performance is now regulated steplessly, a process already familiar from the drilling and milling exhaust systems. Implementation of this measure reduced the original energy consumption by 70%.

In the second half of the year, the cooling system was successfully optimised. By removing unnecessary and non-vulnerable components, it was possible to reduce the networked pump output in plants S1 and S5 by approx. 50%. Overall, these measures will bring about future savings of approximately EUR 70,000 per annum.

Combined heat and power unit

The Schweizer combined heat and power unit (CHP) finished its first year of operation with a positive balance. Approximately 4.4 million kWh of electricity have been produced here since mid-April. With that, the company covered some 12% of its electrical energy consumption from in-house production in the first eight months already. In 2017, the first complete calendar year, this value should rise to at least 15%.

It was possible to lower total electricity costs significantly in 2016. This is primarily due to savings made by increasing efficiency and to the CHP unit.

The calculation basis for the individual years is the relevant valid, mean electricity price.

SHARES

GENERAL STOCK MARKET PERFORMANCE

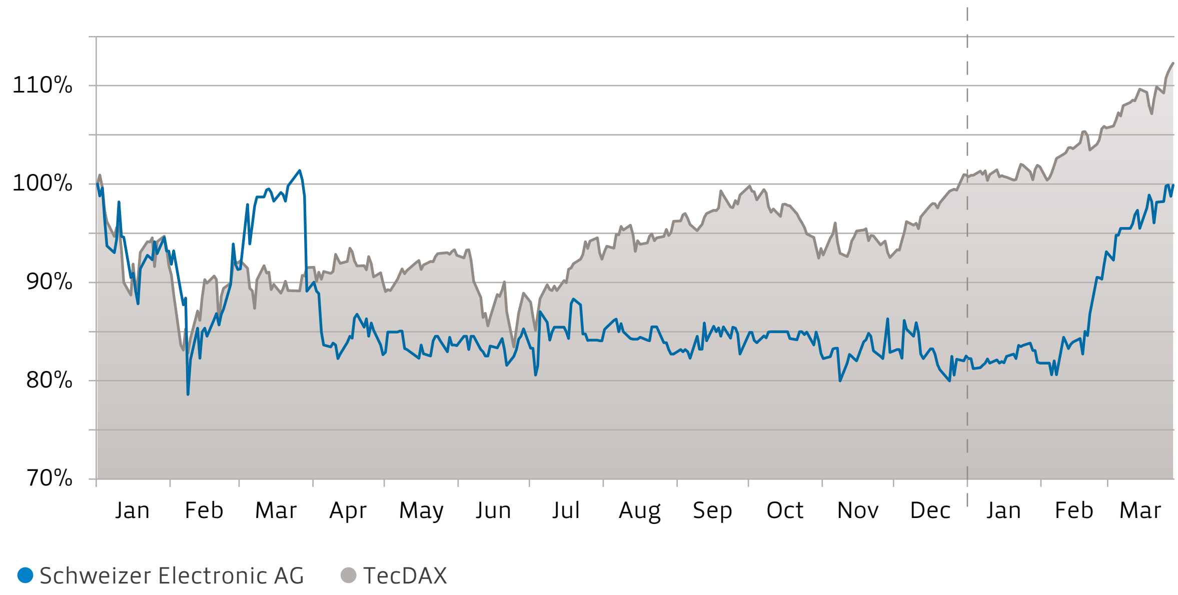
For the fifth year in a row Germany's leading index, the DAX finished with a gain, closing at 11,481 points, an increase of nearly 7%. The performance of the markets in 2016 was particularly defined by four events. After starting 2016 at 10,743 points, the index fell in February below the 9,000 point mark, thus suffering a loss of almost 20%. The decline in the price of oil and concerns about China's economy were cited as stress factors. The counter-movement that set in around the middle of February was already impeded in advance by concerns regarding a possible Brexit. Consequently, at the end of June when the British public actually decided, by a narrow margin, in favour of leaving the EU, the markets responded in the subsequent trading days with a further short-term drop of around 17%. The next political surprise of the year was the outcome of the elections in the United States and the positive reaction of the stock markets. This upward trend had a tailwind in the form of the continued, relaxed monetary policy of the European Central Bank.

Our benchmark index, the TecDAX closed the year practically unchanged at 1,812 points or a minus of 1% point. While its price performance was almost identical to the DAX, the somewhat more pronounced downward movements could only just about be offset by the positive development at the end of the year.

SCHWEIZER SHARE

After starting 2016 with a price of EUR 21.90, the Schweizer Electronic AG share suffered initially at the start of the year, in line with developments on the markets generally. At the start of February, the share marked its year low of EUR 17.20, but had recovered to a level of EUR 22.19 by the end of March. With the publication of the provisional consolidated figures at the start of April, which were prepared in accordance with the International Financial Reporting Standards (IFRS) for the first time, the share price fell to EUR 19.50. Despite announcing and distributing a stable dividend in the amount of EUR 0.65 per share in July, there followed a slightly falling, sidewards movement. This sidewards movement continued in the second half of the year after forecasts for sales and the EBITDA ratio were the subject of a slight downwards correction. The Schweizer Electronic AG share ended the year with a price of EUR 17.99, or a loss of 18%.

Share price 1 January 2016 – 31 March 2017



DIVIDEND REMAINS UNCHANGED AT EUR 0.65 PER SHARE

SCHWEIZER aims to continue its cash flow-oriented dividend policy. Under this policy, the company pursues a strategy of sharing the company's success with all stakeholders as well as building up cash reserves.

The Management Board and Supervisory Board will propose a dividend of EUR 0.65 per share at the annual general meeting. Based on the price at year-end, this corresponds to a return on investment of 3.6 percent.

Dividend in EUR

Dividend for business year	Dividend per share
2012	EUR 0.55
2013	EUR 0.60
2014	EUR 0.65
2015	EUR 0.65
2016	EUR 0.65 *

*Proposal to the annual general meeting.

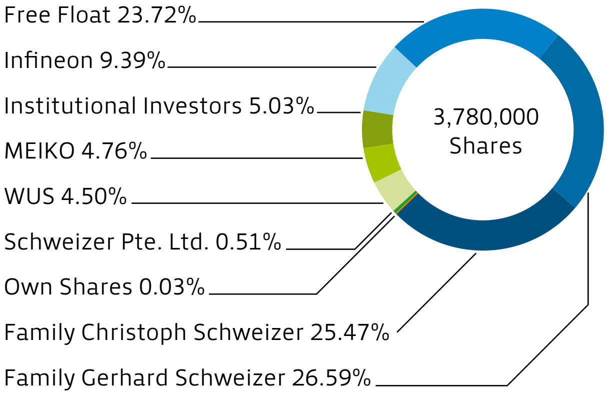
INVESTOR RELATIONS

In 2016, as part of its financial reporting, SCHWEIZER kept all interested capital market participants comprehensively informed through capital market conferences, teleconferences and investor events. This allowed them at all times to make a reasonable evaluation of the current business situation and assess the company's prospects. In the interest of long-lasting and trust-based relations with all stakeholders, in addition to the legally required documents, we also published a great deal of other corporate information on our website. Extensive numerical data, various presentations and an analyst's assessment are published at *www.schweizer.ag/en/investor-relations*.

SHAREHOLDER STRUCTURE

The shareholder structure of Schweizer Electronic AG was virtually unchanged at the end of 2016. The Schweizer families continued to hold 52.1 percent of the shares at year-end. The shareholdings of our cooperation partners Meiko, WUS and Infineon Technologies were also unchanged.

Shareholder structure as at 31/12/2016



SHARE DATA

	2016	2015
Year-end closing price	EUR 17.99	EUR 21.90
Year high	EUR 22.19	EUR 26.17
Year low	EUR 17.20	EUR 17.56
No. of shares	3,780,000	3,780,000
Market capitalisation at the end of business year	EUR 68.0 million	EUR 82.8 million
Dividend per share	EUR 0.65[1]	EUR 0.65
Dividend yield	3.6%[2]	3.5%[3]

[1] Proposal to the annual general meeting.
[2] Relative to share price at year-end.
[3] Relative to share price on day of the annual general meeting.

BASIC SHARE DATA

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

SUMMARISED STATUS REPORT

SUMMARISED STATUS REPORT OF THE SCHWEIZER GROUP AND OF SCHWEIZER ELECTRONIC AG AS AT 31 DECEMBER 2016

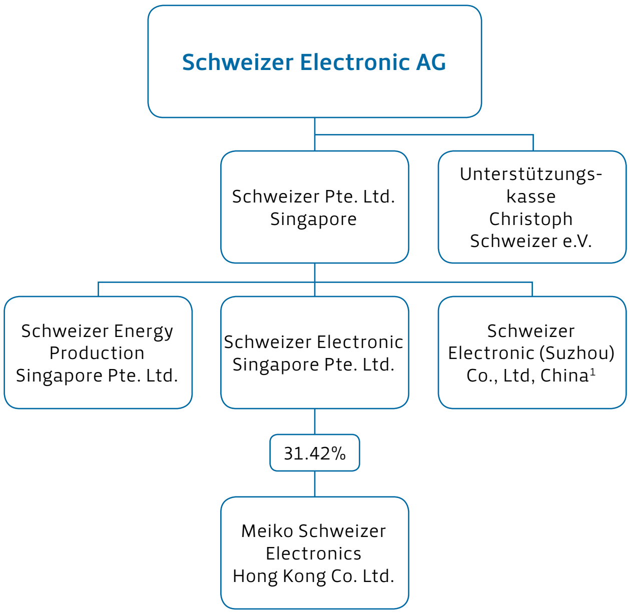
This report summarises the Group status report of the Schweizer Group ("Schweizer" or the "company"), comprising SCHWEIZER ELECTRONIC AG and its consolidated subsidiaries, with the status report of SCHWEIZER ELECTRONIC AG. It should be read in context with the audited consolidated financial statement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

GROUP BASICS

LEGAL AND ORGANISATIONAL STRUCTURE

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

GROUP STRUCTURE



[1] *In formation/raising capital 2017.*

BUSINESS MODEL

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

In the Electronic division, SCHWEIZER works with its partners Elekonta Marek GmbH & Co. KG, Meiko Electronics Co. Ltd. and WUS Printed Circuit (Kunshan) Co., Ltd. to supply cost-optimised and production-optimised solutions for small and medium batch sizes as well as for mass production. In Schramberg SCHWEIZER employs around 774 people, including temporary staff, and a total of 787 people worldwide. In future, the chip embedding market for automotive and industrial applications will be developed jointly with Infineon Technologies AG.

SCHWEIZER ELECTRONIC AG has been listed on the stock exchange since 5 July 1989. The shares (ISIN DE0005156236) are listed in Frankfurt am Main and Stuttgart.

GLOBALISATION AND DIVERSIFICATION

The global organisation is focused on the Asian growth region as a complement to its European business. SCHWEIZER also plans to take advantage increasingly of the trends in technology for energy efficiency and electromobility and the steadily growing demand for radar and camera applications for advanced driver assistance systems, and has adapted its portfolio accordingly. This approach will be realised by structuring the company into the Electronic and Systems divisions. Whilst the Electronic division has been established for many years, the Systems divisions is still undergoing development in cooperation with Infineon.

ELECTRONIC

Together with its partners Elekonta, Meiko and WUS, SCHWEIZER is the global leader for the supply of rigid PCBs to the automotive industry. Within the partnership, Elekonta is focused on the production of prototypes. Meiko is responsible for mass production at low-cost locations in China and Vietnam and also has technology plants in Japan. Moreover, through the Meiko Schweizer Electronics Hong Kong Co. Ltd. joint venture, SCHWEIZER also has access to production lines in Vietnam which have received a positive audit and cater specifically to the requirements of European customers. WUS, which has several production sites in China, is the partner for handling the constantly increasing demand for high-frequency (HF) PCBs for the automotive sector. This means that while SCHWEIZER focuses on the research and development of products and on series with technically sophisticated production techniques, WUS takes over cost-effective mass production to ensure that high-quality and attractively priced HF PCBs are available to customers in the desired quantity.

SYSTEMS

The creation and expansion of the future Systems division is the logical consequence of increasing customer demand, SCHWEIZER's experience and expertise as well as its new solutions based on embedding technologies (integration of active and passive components in the PCB). The prevailing business model, whereby customers purchase the required PCBs and components separately, will be altered in the future by the embedding approach. The integration of components in the PCB requires a new business and process model, in which both the component and the PCB manufacturers are closely involved. To enable early implementation of this new approach and complete its range of products and services, SCHWEIZER is working closely with Infineon, customers and technical institutes to ensure that the Schweizer Systems division can offer PCBs and much more besides in the future. First regular sales are expected in 2020/2021 at the earliest. No customer orders for series production had been placed as at the balance sheet date. This division is therefore currently in development.

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

BUSINESS UNITS

RESEARCH AND DEVELOPMENT

In the past business year, major projects from 2015 were transferred to serial production, where the ramp-up speed in conjunction with a rapid increase in volume rose significantly compared to the previous year. Through targeted process optimization measures, we were able to manage this dynamic ramp-up and ensure deliveries to our customers while maintaining the quality levels to which they have become accustomed.

The new PCB generation Bare Die, the series launch of which was prepared in 2015, and the 77 GHz PCBs posed particular challenges. In the Bare Die product segment, the use of a new type of handling system lead to teething difficulties when testing the PCBs, which however were quickly resolved in conjunction with the suppliers.

PCBs with high frequency properties in frequency bands up to 77 GHz require various adjustments during the manufacturing processes in which the permitted tolerances must be defined more and more narrowly. In this area, Schweizer was able to massively expand its process window, through a corresponding expansion of its LDI (Laser Direct Imaging) abilities in conjunction with optimisations in the plating processes, and to optimise the production yield likewise significantly.

In terms of the inlay circuits, the use of new contour machining technologies allows us to extend the product portfolio in the Power Electronics segment.

Quality management is integrated into all phases of the development process, making it possible to meet Schweizer's high quality demands right from the initial designs through to the delivery of qualification prototypes.

The technology portfolio and the Technology Roadmap will be reviewed regularly by Schweizer and adapted to market requirements.

Cooperation strengthens innovation capacity

As the importance of power electronics is increasing consistently, Schweizer has joined the ECPE (European Center for Power Electronics e.V.) network in 2016. The regular exchange between production and institutional research and development is essential for the further development and competitiveness of a company in a business environment as dynamic as this. Through our membership in the ECPE, Schweizer has, inter alia, quick access to the latest research projects and programmes and can further expand the regular exchange of experiences gained in the development of innovative solutions for the benefit of our customers.

The network involving universities, institutes and development partners was further maintained and expanded in 2016. In addition to the currently ongoing VoLiFa 2020 project, in which the next generation of vehicle headlights is being developed, another funding project was also secured.

Technologies developed by Schweizer for power electronics and chip embedding will flow into this project. A focal point of this project will be the use of next-generation semiconductors – "wide band gap semiconductors". Together with industrial and institutional consortium partners, new types of inverter technology will be researched within the scope of this project. The results of the company's research and development are protected by a systematic industrial property rights management system.

The Federal Ministry of Education and Research (BMBF) published another funding call in 2016. Schweizer is involved in the promotion of further projects to accelerate R&D activities in the area of electromobility.

Cooperation with Infineon in the field of chip embedding for power electronics is intensive and goal-oriented. The two companies' teams are growing ever closer in this task and are highly motivated. In the past year, more product demonstrators for the p^2 Pack technology were built and presented at trade fairs. For example, a high voltage inverter for an output of 100 kW was made available within the framework of a funded project. Through the partnership with Infineon, a complete supply chain has been created for embedding technology, with clear handoffs and responsibilities, forming the basis for industrialisation and market launch and turning the required new business and process model into reality.

In the field of initial sampling, our prototyping and small series partner Elekonta has been increasingly involved in preliminary development. This relieves pressure on series processes and production plants and at the same time increases flexibility in the earliest development phase.

In 2016, spending on research and development totalled EUR 3.5 million.

At year's end, SCHWEIZER employed 89 engineers and technical staff worldwide. With a total of 787 employees worldwide (including temporary staff), this corresponds to a ratio of approximately 11%.

PATENTS

The total number of granted patents increased to 30 patents as at 31 December 2016.

EMPLOYEES

The number of SCHWEIZER employees – based at the Schramberg site – including temporary staff increased to 774 as at the end of 2016 (31 December 2015: 761). This includes natural employee turnover of 3.2%, ten retirements, 32 new entrants, six hirings of former trainees and 29 conversions of temporary staff to a permanent employment relationship. Across the Group, SCHWEIZER employs an additional 13 employees in Asia. The increase in employee numbers was largely achieved through increased conversions of temporary staff to permanent status. Experience has shown here that many temporary staff, as career changers, can integrate quickly and successfully into the work environment using SCHWEIZER's well organised training and development programme. With that, SCHWEIZER is offering career prospects and countering the lack of specialists with in-house further qualification.

In the 2016 business year, employees, including temporary staff, of SCHWEIZER ELECTRONIC AG once again shared in the company's success. For the previous year, the company distributed part of the annual profit to employees for the sixth time in a row.

SCHWEIZER opts for flexibility and international cooperation

A flexible shift model is always a feature of successful production. In the reporting year, SCHWEIZER simulated different shift models in dialogue with the affected employees. As a result, a three-shift model was introduced in one area and for another shift model, which had been in place for quite some time, an optimisation of the shift rhythm was agreed. The results of this optimisation will be determined this business year through a pilot phase.

In the reporting year, SCHWEIZER set up "Global Supply Chain & Business Development" as a new department and in doing so brought the corresponding roles in partner management, local supply chain, project management and business development from Schramberg and Asia together in one central unit. With this strategic decision, SCHWEIZER is backing efficient processes in the production of customer products, with the participation of its partner companies.

After being named one of the best employers in Germany three times in a row, in the years 2014, 2015 and 2016, SCHWEIZER received a new award towards the end of the year. In an independent online study, Focus Money awarded SCHWEIZER the title of Top Career Opportunities 2016. This study examined more than 2,000 companies in 57 industries which have their headquarters in Germany. The evaluation is based on the analysis of more than a million social media sources and ten thousand online news items in the period from August 2015 to the end of July 2016. For SCHWEIZER, this is confirmation of a successful personnel policy which relies on long-term succession regulations, i.e. internal careers.

SCHWEIZER has followed up on the positive experiences from the 2015 quality initiative and continues to count on the ideas and suggestions of its employees with respect to improving their everyday work experience and the work processes. With the newly established Ideas management@Schweizer, six ideas were rewarded in 2016, which brought about a significant annual benefit in the form of major savings.

CUSTOMER RELATIONS

The automotive industry remains the engine of innovation and sales for SCHWEIZER; this is clearly shown by the share of sales represented by the automotive sector, which was around 75% in the past business year. SCHWEIZER has good customer relationships with all the major European tier one companies and OEMs and is consistently expanding its network, particularly also in the growth markets in Asia.

Automated driving is one of the greatest challenges facing the future of the automotive industry. For the sensor systems involved here, radar and camera solutions are required. SCHWEIZER is the partner of choice for many large tier ones when it comes to radar sensors, thanks to its 24- and 76-79 GHz PCB solutions and around 25% of the market share. Likewise for the camera systems, renowned tier ones opt for the Schweizer FR4 Flex PCBs, which permit a three-dimensional assembly solution.

In the field of electromobility too, i.e. in the area of hybrid and electric vehicles, which will grow constantly in the coming years, SCHWEIZER is recognised as an innovative and reliable partner for its customers. With its broad and varied power electronics offering, the company has the right solution for practically every application both for 48 Volt and also for HV drives and the corresponding DC/DC or AC/DC converters.

SCHWEIZER uses and invests in the personal presentation opportunities offered by the large, international trade fairs, such as the annual PCIM in Nuremberg or the Electronica trade fair in Munich, which takes place every two years, was held last in November 2016 and always enjoys brisk visitor numbers, mostly qualified specialists. Moreover, SCHWEIZER is regularly invited to supplier conferences by its largest customers, in order to present its innovative product portfolio to their Group companies.

SCHWEIZER's strengths lie in the application areas of high frequencies, high temperatures, high currents and miniaturisation. These core competencies are needed not just in the automotive sector but also in many industrial and aviation applications. It is therefore to be assumed that SCHWEIZER will gain market shares continuously in these markets too. One example of this is the successful entry into the aviation segment with highly innovative PCB solutions in 2016.

SCHWEIZER's excellent customer relationships are reflected in a constant increase in the order book. It rose as at the end of 2016 to EUR 158.4 million (previous year: EUR 149.1 million).

SUPPLIER RELATIONSHIPS

Purchasing activities in 2016 focused on achieving additional price reductions and process optimisations. By successfully switching to alternative suppliers and materials, SCHWEIZER was able to achieve various cost reductions. This meant it was possible to further reduce the prices of a number of product groups and materials.

Coordination with the Asian partners as part of joint purchasing agreements is contributing to increased competitivity in the long term and offers better access to Asian suppliers. In 2016, numerous strategic discussions and regular coordination meetings were held in Asia and via teleconferences. During these, additional suppliers were defined in order to achieve better conditions by bundling the global volume.

However, due to the weak euro, the relocation of procurement volumes to Asia was not stepped up disproportionately in 2016 either.

Furthermore in 2016, preparations were made for the process and costs optimisation in the area of C-articles. The target is to reduce the number of suppliers, simplify the procurement processes and reduce prices by bundling volumes. As of January 2017, SCHWEIZER has, with its new procurement platform, the basis for a streamlined procurement process for C-articles at its disposal.

QUALITY MANAGEMENT AND SUSTAINABILITY

2016 was defined by a consolidation of the various quality management systems. The interlinking that was started in 2015 was further extended; the focus remained on effectiveness and efficiency. On the customer side, these efforts and activities were very positively received, a fact expressed in various customer evaluations and customer audits.

Quality management

In this year, our automotive management system, which was re-certified in 2015, was up for review to ISO/TS 16949. The system in place passed the review with flying colours, leaving no doubt as to the continued readiness for certification or the certificate itself. The company achieved ISO 9100 certification (the certifiable management system of the aviation industry) for the first time in 2013, and the system was up for re-certification in the past business year. This system too was once again given the green light by the auditors. During the inspections, it was possible to review the system conformity using various customer orders for the aviation industry; the further development of the system is in full swing.

The continued movement away from standard products to more complex, new developments is supported by our systems. The number of new products and the speed of ramp-ups has increased hugely. Nonetheless, we succeeded in manufacturing even the most complex of products and of ensuring that customers could not perceive a difference between standard and new developments.

Environmental and energy management

Although the products and thus the processes and work practices required for their manufacture are becoming increasingly complex and multifaceted, we have again succeeded in staying focussed on our "green" technologies and processes through suitable product and process development and by limiting the environmental impact of the increasing complexity. Naturally, all environmental aspects continue to be highlighted so that mitigation measures can be initiated in good time, where required, or to reduce any negative consequences. This is also part of our mission statement. By doing so, Schweizer continues to opt, even in a difficult business environment, to maintain the living standards of the company's neighbours and the community. Naturally, through the consistent application of corresponding environmental and also hazard analyses, the protection of our employees and of our business partners, who are involved in manufacturing and using our products, is our top priority. The efficacy of these systems is regularly reviewed through, inter alia, internal audits and was once again assessed as effective for 2016 by the certification organisation within the framework of ISO 14001 and ISO 50001 certification.

ECONOMIC REPORT

According to a panel of experts, the moderate growth in the global economy is set to continue. In the expert report 2016/2017 published in November, growth in global GDP of 2.5% for 2016 and of 2.8% in total for 2017 is forecast. Further development is however exposed to a number of risks. These include geopolitical risks and the political uncertainty in Europe, not least due to Brexit. Added to these are potential turbulence in the international finance markets and the transformation process in China, which however despite the turmoil at the start of the year has so far succeeded without major slumps in growth.

The upturn in Germany and in the euro area is set to continue. For the euro area, the panel of experts assumed real growth of 1.6% in 2016 and forecast growth of 1.4% for 2017 in its November report. For Europe as a whole, the growth expectations were 1.6% both for 2016 and 2017.

For Germany, growth rates in real gross domestic product (GDP) of 1.9% in 2016 and 1.3% in 2017 are expected. The forecast decline in the growth rate in 2017 is due largely to a calendar effect. The underlying growth momentum will remain essentially the same, and we must assume from this that the utilisation of production capacities will increase further. However, the performance of exports will remain moderate, as important German trading partners are recovering at a slower pace and global trade is only growing weakly.

Automobile market 2016: USA and China at record levels – Western Europe continues to gain momentum

The three major markets, China, USA and Western Europe have decisively shaped the automobile market in 2016. According to the Verband der Deutschen Automobilindustrie (German Association of the Automotive Industry; VDA) the USA and China once again achieved new highs, and Western Europe also increased strongly achieving its best level since 2007. Overall, the number of new registrations in Western Europe rose by 6% to 14 million cars. Except for the Netherlands and Switzerland, all 18 Western European countries recorded growth; the top 5 markets were: Italy (+16%), Spain (+11%), France and Germany (+5% each) and the United Kingdom (+2%). In the new EU countries, a total of 1.2 million cars were newly registered, corresponding to growth of 16%. The increases in the three largest individual markets reached double-digits: Poland (+17%), the Czech Republic (+12%) and Hungary (+25%). For Germany too, the past business year was a strong one for automotive sales. With growth of 5%, new registrations increased for a third year in a row and reached the highest market volume so far this decade with 3.4 million new registrations. At 4.4 million cars, exports were on a par with the volume of the previous year. The position of the German Group brands is strong; in Western Europe for example they have a market share of around 50%, in China, the world's largest car market, their share is around 20%.

With respect to electromobility, the German automotive industry is on the offensive, according to the VDA: by 2020, the German manufacturers want to more than triple their offering of electric car models, from a current figure of 30 to nearly 100 models. In this period, more than EUR 40 billion will be invested in alternative drives within the German automotive industry.

PCB markets

According to the September forecast of the N.T. Information Ltd. (NTI) institute, the global PCB market shrank again in 2016. Following a decline of 2.7% in 2015, a drop of 0.3% to USD 58.37 billion is expected for the end of 2016. For 2017, NTI expects slight growth worldwide of 1.7% to USD 59.37 billion. The European PCB market grew in 2016 by 2.2% to USD 1.5 billion and is set to practically stagnate in 2017 with expected growth of just 0.7% to USD 1.51 billion. PCB manufacturers are increasingly focussed on the automotive market, as following the long-standing boom in smartphones, it is this market segment that is now expected to offer the highest growth rates. According to NTI, the PCB market for the automotive industry will grow steadily by 5 – 6%, and the entire automotive electronics sector, thanks to advanced driver assistance systems (ADAS), and electric and hybrid vehicles will grow further by 11 – 12% annually in the coming years.

FINANCIAL KEY PERFORMANCE INDICATORS

The SCHWEIZER Group is managed on the basis of financial key performance indicators. SCHWEIZER orients itself around four focus points that have a decisive influence on the value of the company. The most significant financial KPIs are presented below.

1 PROFITABILITY

This focus point is measured by two key figures:

- **EBITDA** (Earnings Before Interest, Taxes, Depreciation and Amortization): EBITDA represents the operating results before taxes, depreciation and amortization. It thus represents a central parameter for internal controlling and also serves as a basis for comparison with peer-group companies as part of benchmarking. In addition this KPI is a good indication of the operating cash flow of the company.
- **EBITDA ratio:** This measures the ratio of EBITDA to sales. This KPI monitors whether additional sales were also achieved with the desired returns. SCHWEIZER pursues a clear price-before-quantity strategy for in-house production.

2 GROWTH AND INVESTMENT

Technological progress in customer solutions requires a clear technological alignment of production and the IT systems. Continuous investment in the latest production procedures is a key component in the continued success of the company. SCHWEIZER measures two main key performance indicators in this category:

- **Growth ratio:** This parameter is calculated from the change in revenue compared to the previous period. As part of the planning and budgeting process, the target values of the expected growth rates of the overall market are derived and corresponding market share gains are planned. A particular limiting factor is the available production capacity. Growth can be achieved both through a greater quantity and through a higher added value per unit of quantity.

- **Investment ratio:** To calculate the investment ratio, the investments made in the year under review are compared with the generated EBITDA. Investments related to replacement, technology and expansion are considered for this parameter.

3 CAPITAL COMMITMENT

The company's principle strategy is to maintain the amount of working capital at an optimal level commensurate with the business situation, by means of production measures, purchasing and sales. Particular attention is paid to how strong growth is, what financing structures and cash equivalents are present and what the impact on the profitability of the company is. To determine the **working capital**, inventories and trade receivables from operating activities are netted against short-term vendor liabilities.

4 FINANCING

SCHWEIZER's financing strategy aims to use conservative and period-based financing to provide the company with a secure foundation in the long term to withstand all economic cycles. The parameters for this strategy are equity ratio and gearing.

- **Equity ratio:** The ratio of equity capital to total capital provides information on the financial stability of the company. As a target figure, SCHWEIZER defines a minimum ratio that must not be fallen short of. It may however be exceeded and is oriented to the actual situation (investment programme, interest rate levels, credit rating factors). Strategically, SCHWEIZER aims to achieve an equity ratio of at least 35%.
- **Gearing:** Gearing is derived from the ratio between borrowed capital and equity capital. SCHWEIZER focuses on the development of the net gearing ratio. Net gearing is calculated from interest-bearing liabilities less the liquidity portfolio. Strategically, SCHWEIZER aims to achieve a gearing of max. 150%.

GOAL ATTAINMENT OF THE SCHWEIZER GROUP

	2015 actual	**2016 target** (Forecast April 2016)	**2016 actual**
Revenues	EUR 115.6 million	approx. +2%	EUR 116.1 million
EBITDA ratio	9.8%	10 – 11%	8.2%
Investment ratio	37.3%	Just under 50%	94.9%
Net gearing ratio	-5.1%	Low single digits	-1.5%
Equity ratio	56.5%	55 – 60%	55.1%
Working capital	EUR 22.4 million	Stable Depending on sales	EUR 23.0 million

BUSINESS PERFORMANCE OF THE GROUP

EARNINGS POSITION

SCHWEIZER achieved sales of EUR 116.1 million in the reporting year (2015: EUR 115.6 million), slightly exceeding the previous year's figure by 0.5%. The performance is characterised by further successes on the part of products from the SCHWEIZER technology portfolio, the share of which in the total volume rose to 55% (2015: 52%).

Automotive suppliers were also the largest customer group for SCHWEIZER in 2016. Sales amounted to EUR 87.8 million (2015: EUR 84.7 million) and thus represented more than 75% of the total sales volume. The growing success is based on a clear focus on particular growth areas in the automotive industry. SCHWEIZER's PCBs make possible the realisation of solutions for CO_2 reduction and automated driving with a focus on sensor systems. The prerequisite for this is very specific expertise in the areas of power electronics and high-frequency applications, which SCHWEIZER has acquired in the last ten years.

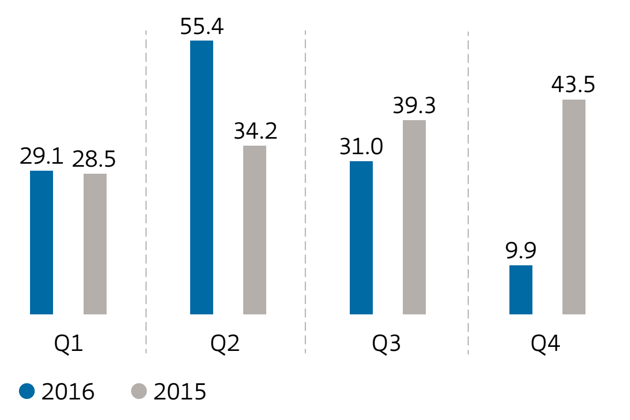
2016 saw the first deliveries to customers in the aviation industry. The volume was still low at EUR 0.3 million due to the ramp-up phase. For the coming years, however, a significant expansion of the aviation business is expected, as above-average market growth rates are anticipated in this segment overall. The solar electronics business is performing well; once again our PCBs are being widely used in innovative inverters. Despite these successes, the total volume with customers from the industrial area was down 8.7% compared to the previous year, due among other things to capacity issues. Sales amounted to EUR 21.0 million (2015: EUR 23.0 million).

In the assessment of sales regions, there is a slight shift from Europe to Asia. Whereas 90.6% of Group sales was still realised in Europe in 2014 and that figure was 85.7% in 2015, this share fell in the reporting year to 81.7%. The gradually increasing internationalisation of the sales markets reflects, on the one hand, the successes of broader sales activities, and on the other, the result of the constantly increasing production base of our customers outside Europe. The expansion of sales in Asia was achieved in particular in China, South Korea and the Philippines. Sales to American customers are also rising. Since 2014, sales on the American continent have almost tripled, reaching EUR 12.6 million in the reporting year.

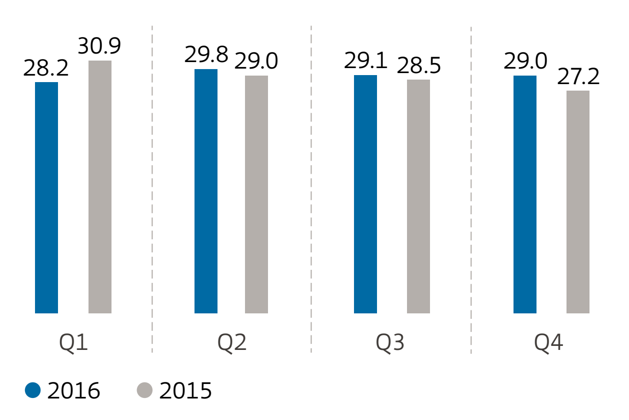
In addition to expanding the SCHWEIZER sales basis, the share of sales achieved via our Asian cooperation partners also increased. The volume from production in Schramberg reduced slightly to EUR 103.2 million (2015: EUR 104.2 million), while sales from trade goods of partners rose to EUR 12.7 million.

The order book increased on the previous year by 6.2% to EUR 158.4 million. The book-to-bill ratio was 1.08. The increase in the order book was attributable, inter alia, to a longer material planning time on the part of the customers. The sum total of orders to be delivered in 2017 already amounted to EUR 108.2 million as at the balance sheet date.

Order intake by quarters (EUR million)



Sales by quarters (EUR million)



The gross margin of the Group reached EUR 17.5 million. Due, inter alia, to the increased share of trade goods, this meant a decline on the previous year's figure by EUR 2.8 million. The gross margin in the group was thus 15.1% (2015: 17.5%).

SCHWEIZER produces progressively more complex products. The share of more simple standard products is shrinking more and more. 2016 was characterised by larger product ramp-ups, which due to their great degree of complexity in the ramp-up phase required particularly intensive support and only achieved low contribution margins during the ramp-up. Within the framework of internationalisation, additional capacities were added in China in the area of production planning and supply chain, which are of critical importance for the anticipated expansion of business with our Chinese partner WUS and for the effective support of German production. Furthermore, the sales costs rose due to the somewhat increased sales volume produced by our Asian partner, and the higher personnel costs. Finally, under-utilised capacities at non-European competitors lead to more intensive price pressure on the customer side. Also, business with automotive customers recorded the highest growth potential for PCB manufacturers globally. Consequently, new, in particular Asian, manufacturers increasingly gained ground in this market segment and stepped up the competitive pressure.

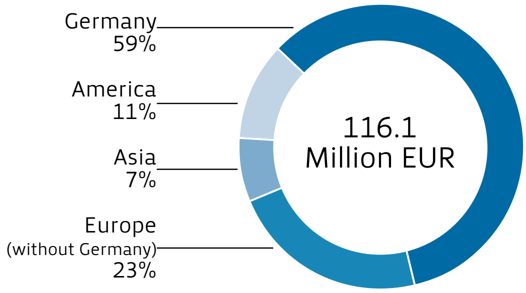
In the area of sales and administrative overheads, there were only minor changes compared to the previous year. In this respect, the sales and marketing expenses rose by EUR 0.2 million. This was due largely to higher expenses for trade fairs. At EUR 13.2 million, administration expenses were down EUR 0.6 million on the previous year.

Other operating expenses totalled EUR 1.0 million (2015: EUR 1.5 million). Other operating income remained constant at EUR 2.8 million.

In summary, the operating result/EBIT in 2016 was thus EUR 1.8 million. The EBIT ratio was 1.6%. Depreciation of tangible assets and software was hardly changed and amounted to EUR 7.7 million (2015: EUR 7.6 million). Thus

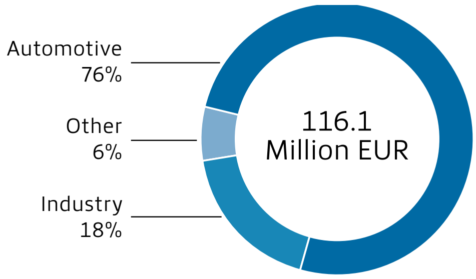
Sales by region

EUR million	2016	2015
Germany	68.6	70.5
Europe (excl. Germany)	26.2	28.6
Asia	8.4	5.2
America	12.6	11.0
Other countries	0.3	0.3
	116.1	**115.6**



Sales according to customer group

EUR million	2016	2015
Automotive	87.8	84.7
Industry	21.0	23.0
Other	7.3	7.9
	116.1	**115.6**



earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 9.5 million. This corresponds to an EBITDA ratio of 8.2%, which was below our target range of 9 to 10%. The result was impacted by larger product ramp-ups, the returns of which were weaker in the ramp-up phase, and through disproportionately higher personnel costs for additional development capacities and special shifts in production.

The financial result amounted to EUR -756 thousand (2015: EUR -924 thousand). Consequently, the earnings before tax (EBT) totalled EUR 1.1 million (2015: EUR 2.8 million).

Income taxes fell to EUR 446 thousand (2015: EUR 1,273 thousand). Thus annual net income fell to EUR 0.6 million (2015: EUR 1.5 million).

NET ASSETS AND FINANCIAL POSITION

At the end of the reporting year, SCHWEIZER's assets amounted to EUR 117.7 million. Compared to the previous year, that represents a slight change of EUR 1.7 million or 1.4% of the balance sheet total.

The non-current assets changed only slightly compared to the previous year and amounted to EUR 68.5 million (2015: EUR 67.2 million). The value of the fixed assets and intangible assets rose by EUR 1.2 million to EUR 64.6 million. The higher valuation of the shares in Meiko Electronics Co. Ltd. caused the value of our participating interests to rise to EUR 2.3 million. The shares in Meiko Schweizer Electronics Hong Kong were reduced to EUR 1.4 million. Current assets fell EUR 2.9 million to EUR 49.2 million. While cash and cash equivalents still amounted to EUR 9.5 million (2015: EUR 13.3 million, trade and other receivables or assets remained almost constant at EUR 23.4 million (2015: EUR 23.3 million). Inventories increased by 4.9% to EUR 16.2 million. Larger maintenance works on the machinery at the end of the year were cushioned by pre-production, in order to be able to guarantee delivery capability without interruption. In the process, working capital increased slightly to EUR 23.0 million (2015: EUR 22.4 million).

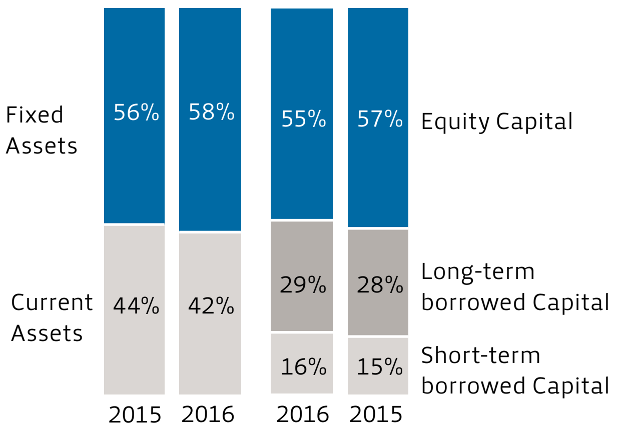
Bank loans reduced – equity at a high level

Debts rose in the reporting year by EUR 0.9 million to EUR 52.8 million. Interest-bearing loans were reduced to EUR 8.6 million (2015: EUR 9.9 million). While the deferred tax liabilities fell to EUR 4.2 million, provisions for defined benefit pension plans rose, due to contractual increases and a further reduction of actuarial interest, by EUR 2.0 million to EUR 21.6 million. Trade payables fell slightly by EUR 0.2 million to EUR 7.4 million.

The net gearing ratio stood at -1.5% at the end of the reporting year. Consequently, the interest-bearing bank balances were higher than the interest-bearing liabilities.

The equity base remains at a high level and speaks for the financial stability of the Group. Equity amounted to EUR 64.8 million and thus corresponds to an equity ratio of 55.1%.

Balance sheet structure



High investments financed from operating cash flow

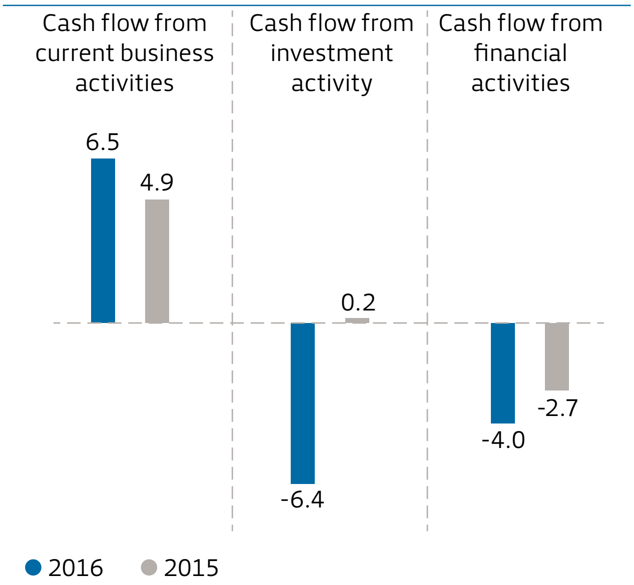
In the past fiscal year, investments were made in fixed assets and software in the amount of EUR 7.3 million (2015: EUR 4.2 million). The investments were focussed on eliminating the bottlenecks that had occurred due to the increasing technological requirements of the product portfolio. Furthermore, a combined heat and power unit and a telecommunications system were installed in the reporting year. The investment sums amounted to EUR 1.5 million and EUR 0.2 million respectively, and were financed through leasing. Overall, investment in the Schramberg plant amounted to EUR 9.0 million, which corresponds to an investment ratio of 94.9%. The company disinvested from the joint venture with Meiko Electronics Co. Ltd., i.e. Meiko Schweizer Electronics Hong Kong Co. Ltd. resulting in a cash inflow of EUR 949 thousand. In total, cash flow from investment activity amounted to EUR -6.4 million (2015: EUR 0.2 million). This does not include the leased investment goods.

The necessary funds were largely covered from operating cash flow. Cash flow from operating activities was EUR 6.5 million (2015: EUR 4.9 million). Starting from earnings before tax of EUR 1.1 million, the most important non-cash movements were the depreciation of EUR 7.7 million and interest expenses of EUR 1.0 million. Income tax paid amounted to EUR 3.2 million.

Cash flow from financing activities totalled EUR -4.0 million. The largest individual items were the dividend payment of EUR 2.4 million. SCHWEIZER paid out a dividend of EUR 0.65 per share in the previous year. No additional loans were taken out. During the year, money market loans were availed of at times, but these were all paid back in full at the year's end. Repayments for current loans amounted to EUR 1.4 million.

In total, therefore, the cash and cash equivalents fell EUR 3.8 million to EUR 9.5 million.

Cash flow (EUR million)



SCHWEIZER ELECTRONIC AG
Explanations according to HGB

The status report of SCHWEIZER ELECTRONIC AG is presented for the first time with the Group status report in a summarised status report.

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

Moreover, the performance of SCHWEIZER ELECTRONIC AG is influenced by the same economic framework conditions as the Group and is also subject to the same prerequisites in terms of the risks and opportunities.

The annual financial statement of SCHWEIZER ELECTRONIC AG is prepared according to the German Commercial Code (HGB). The consolidated financial statement complies with the International Financial Reporting Standards (IFRS). This results in certain differences with regard to recognition and measurement.

EARNINGS POSITION

Income statement according to HGB (condensed version)

	2016	2015
	€ thousands	€ thousands
Sales revenue	117,006	115,539
Cost of sales	-95,038	-91,362
Gross profit	**21,968**	**24,177**
Distribution costs	-4,223	-3,920
General and administration expenses	-12,384	-12,474
Other operating income	2,615	2,212
Other operating expenses	-920	-1,485
Other interest and similar income	41	12
Depreciation on financial assets		-119
Interest and similar expenses	-999	-711
Taxes on income and revenue	-1,369	-2,236
Earnings after tax/annual net income	**4,728**	**5,457**
Profit carried forward	2,958	2,945
Deposits in other profit reserves	2,300	3,000
Balance-sheet profit	**5,386**	**5,402**

SCHWEIZER ELECTRONIC AG achieved sales of EUR 117.0 million in the reporting year (2015: EUR 115.5 million). Discounting an effect in the amount of EUR 1.1 million due to the definition of sales revenues according to the German Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz; BiLRUG) that is to be applied as of business year 2016, sales increased slightly on the previous year by 0.2%.

The order book increased on the previous year by 5.9% to EUR 157.9 million.

The gross margin stood at EUR 22.0 million, which corresponds to a decline on the previous year of EUR 2.2 million. The gross margin of SCHWEIZER ELECTRONIC AG thus stood at 18.8% (2015: 20.9%). 2016 was characterised by larger product ramp-ups in the Schramberg plant, which due to their great degree of complexity in the ramp-up phase required particularly intensive support and only achieved low contribution margins during the ramp-up. Furthermore, personnel costs rose disproportionately, due to the need for additional development capacities and special shifts in production.

Other operating income of EUR 2.6 million includes an upward revaluation of the shares in Meiko Electronics of EUR 1.5 million. This upward revaluation corresponded to the performance of the stock market price of the Meiko Electronics share as at the year end.

The operating result/EBIT in 2016 was EUR 7.1 million (2015: EUR 8.5 million). The EBIT ratio thus stood at 6.0%. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 9.4 million (2015: EUR 12.3 million). This equates to an EBITDA ratio of 8.1%.

Income taxes fell to EUR 1.4 million (2015: EUR 2.2 million). Thus annual net income came to EUR 4.7 million (2015: EUR 5.5 million).

ASSET POSITION

Balance sheet according to HGB (condensed version)

	31/12/2016	31/12/2015
ASSETS	**€ thousands**	**€ thousands**
Fixed assets		
Intangible assets	926	1,165
Tangible assets	33,328	27,976
Financial assets	13,015	11,479
	47,270	**40,620**
Current assets		
Inventories	15,859	15,074
Receivables and other assets	19,476	19,542
Cash on hand, bank balances	7,947	12,050
	43,282	**46,666**
Prepayments and accrued income	319	340
Total assets	**90,871**	**87,626**
LIABILITIES		
Equity capital	53,750	51,452
Provisions	12,128	11,452
Payables and other liabilities	24,827	24,570
Deferred tax liabilities	166	152
Total equity and liabilities	**90,871**	**87,626**

As at 31 December 2016, the assets of SCHWEIZER ELECTRONIC AG had increased by EUR 3.2 million to EUR 90.9 million.

Non-current assets increased on the previous year's figure by EUR 6.6 million to EUR 47.3 million. The rise in fixed assets resulted primarily from investments in bottleneck areas. Overall, investment in the Schramberg plant amounted to EUR 9.0 million.

While deferred tax liabilities increased a little, provisions for pensions and similar obligations reduced slightly by EUR 41 thousand to EUR 7.0 million.

Equity had increased as at the balance sheet date by EUR 2.3 million to EUR 53.8 million. This corresponds to an equity ratio of 59.2% (31 December 2015: 58.7%).

CHANGES IN PERSONNEL

Changes in the Management Board since the end of the business year

Since the withdrawal of Dr Maren Schweizer from the Management Board on 1 February 2017, the Management Board still comprises two members.

FORECAST REPORT

The forecast report is based on the budget plan adopted in November 2016 by the Supervisory Board for the Schweizer Group. The fundamentals of the budget include a number of internal analyses and the forecasts of external institutes that focus particularly on the performance of the PCB markets. Furthermore, additional findings as at January 2017 were taken into consideration for this forecast report, insofar as they could have a significant influence on the business activity of Schweizer.

The central external premise of the budget was that the overall economic situation would remain stable and continue to grow a little, in particular the European and international automotive markets. Internally, the forecast was based on the assumption of an unchanged Group structure of the company without external growth.

In the opportunities and risks report, additional factors are listed that could cause deviations from this forecast report.

Economic trends in the most important sales markets

In 2017, the lion's share of Schweizer's sales will once again be realised in Europe. Our customers supply their end products predominantly to European end customers, but also sell certain quantities to America and Asia, particularly China.

According to the panel of experts, moderate growth in GDP of 1.4% is expected for the euro area in 2017. This growth is supported by the expectation that the expansive monetary policy of the European Central Bank (ECB) will continue in 2017. A very heterogeneous development of the different member states is expected overall. Economically mid-range countries like Spain, the Netherlands and Belgium could see above-average growth. Germany – which is the most important market for Schweizer – could on the other hand, expand a little less than average at 1.3%.

Growth in the United Kingdom should slow significantly in 2017 due to Brexit. A dramatic fall, however, is not to be expected according to the panel of experts. Growth forecasts for the United States are positive. Thus an increase in GDP of 2.3% is forecast. No potential positive or negative effects from the change in government have as yet been taken into consideration here. In China a slight deceleration in growth to 6.3% has been recorded in 2017.

Overall, Schweizer's target markets are stable with continued moderate growth, with the result that no negative influences need be assumed here.

Automobile markets

Again for 2017, Schweizer is expecting a strong sales focus on customers from the automotive segment. Here, we are focussing on future applications to reduce CO_2 emissions and on electromobility, safety applications and autonomous driving.

The Verband der Deutschen Automobilindustrie (German Association of the Automotive Industry; VDA) is forecasting market growth for 2017 of 2% worldwide in the passenger car segment. The sales markets in Europe and the USA are expected to be stable, while growth of 5% on the 2016 figure is assumed for China. As a result of Brexit, a drop of 8% in passenger vehicle sales is expected for the United Kingdom. Sales of 83.6 million units are expected worldwide.

In 2016, barely 1% of newly registered vehicles were fitted with an electronic drive system. By 2025, the VDA currently assumes that this share will range from 15 to 25%. On the basis of these forecasts, investments at the OEMs and suppliers will increase by 2020 to exceed EUR 40 billion for alternative drives. These investments are essential if the climate change targets are to be achieved.
The second major future trend, networked and automated driving, also has utmost priority in the German automotive industry. Six of the top ten places worldwide of companies with the most patents in the area of autonomous driving are occupied by German firms: Audi, BMW, Daimler, Volkswagen, Continental and Bosch.

This serves to confirm that the technological focus points and core customers remain a stable basis for the development of SCHWEIZER.

PCB markets

For 2017, slight growth of 1.7% is expected for the PCB market (source: NTI). By far the largest increases are expected in applications for the automotive industry, while for the other areas of application such as computers, communications, medical/industry and aero/defence only low growth rates are to be expected. In 2017 too, automotive will represent the fifth largest segment in the world PCB market. In Europe, the automotive segment occupies second place. For the subsequent years up to 2020, an above-average rise in the PCB market is anticipated (source: Prismark). This is attributable to the increasing wealth of consumers in the emerging-market countries and to the disproportionate rise in the amount of electronics in machines, in the transport market, in energy generation and in the health sector.

The European PCB market will also decline in the coming years. By 2020, an annual decline of 2 to 3% p.a. is assumed (source: Prismark). These expectations are based on past experiences, the increasing competitive pressure from Asia and the fluctuating supplier base in Europe.

Sales expectation and earnings trend

For 2017, SCHWEIZER is therefore expecting sales growth, which at 2 to 4% is forecast to be slightly above that of the previous year.

A positive development is largely expected in the area of technologically sophisticated products from the focus areas of system costs reduction and power electronics, which will find their way into applications for electromobility, sensors for safety systems and autonomous driving. Consequently, we expect further growth with customers from the automotive sector. Within the framework of the diversification strategy for the customer portfolio, increases in sales to customers from the aviation sector are also expected resulting from the competition being squeezed out of the market. Initial sales via the strategic partnership with WUS Printed Circuit (Kunshan) Co., Ltd., China in the field of high-frequency applications are forecast.

These expectations are already largely met through orders on hand. These can still be changed by the customers however. Currently, the situation in terms of the supply of copper foils and laminates is critical – particularly in Asia. This has come to pass because the PCB industry is competing more and more with the demands of the battery industry for copper foils and thus the threat of a global undersupply looms large. In the forecast, however, no drop-off in sales due to the lack of supplier materials is taken into consideration. SCHWEIZER's needs are currently still sufficiently covered.

The result is expected to be slightly better for 2017. The Group is still striving to achieve an EBITDA ratio of 8 to 9% of sales. With that, we are assuming that the ratio between sales arising from production in Schramberg and those arising from production by our Asian partners, will not shift significantly. This means an increase in growth will come from both areas. This assumption is important, because given the smaller internal value-added share of the products from the Asian partner production plants, the margins are also correspondingly smaller. Furthermore, this forecast does not include any unplanned special effects, which could have either a positive or a negative impact on the result.

Investments

Increasingly, the success of the Schramberg production plant must be ensured through targeted investment in the latest plant technology. Here factors such as maximum accuracy, great flexibility and profitable use play the most important role. Furthermore, the IT systems in place are also increasingly among the success factors for a high-tech plant in Europe. Significant investments in new and more intelligent software are also critical for this.

While 2016 saw a focus on eliminating bottlenecks, in 2017 SCHWEIZER will concentrate more on upgrading its technology. On the basis of plans for the different areas, we are assuming an investment ratio of a little over 50% of the EBITDA. Investments in external growth are not included in this forecast.

SCHWEIZER's financial situation also opens up the opportunity of continuing to develop through external growth in the form of acquisitions. Investments within the framework of acquisitions are not included in the forecast, but are not excluded by management should promising opportunities arise.

Liquidity and financing

On the basis of the forecast development of the operating result and the expected investment requirements in Schramberg, we anticipate continued net indebtedness in the low single-digit range. It was possible to finance most of the investment in the Schramberg location from operating cash flow.

Stability can also be assumed for the working capital. Customer payment terms are currently displaying no tendency towards significant change; likewise the overall customer structure. With increasing sales, however, a rise in receivables is also expected.

Overall, we are also thus assuming a stable development of the equity ratio, which continues to fluctuate between 55 and 60%.

Overall statement on future development

SCHWEIZER has transformed in recent years into an esteemed European partner of the automotive industry. The early focus on important megatrends such as electromobility, automotive safety and autonomous driving and sensor systems has put the company in a very promising position in one of the most interesting growth markets in the global PCB business. While the focus issue of safety including lighting concepts is already currently experiencing a boom, we believe that the other focus issues will develop increasingly positively over the coming years. Utilising a future-looking and sustained corporate strategy, SCHWEIZER should be able to grow quantitatively and qualitatively into the future and remain a preferred partner to its most important customers.

Due to the close integration and its weight within the Group, the outlook for SCHWEIZER ELECTRONIC AG is reflected in the forecast report of the Group. This means that, like the Group, we also expect a slight increase in sales and results here. The balance sheet KPIs are forecast to change only slightly.

Forecast for the SCHWEIZER Group

	2016 actual	**2017 forecast**
Sales/Growth ratio	EUR 116.1 million	+ 2 – 4%
EBITDA	EUR 9.5 million	EUR 9.5 to 10.5 million.
EBITDA ratio	8.2%	8 – 9%
Investment ratio	94.9%	A little over 50%
Net gearing ratio	-1.5%	Low single digits
Equity ratio	55.1%	55 – 60%
Working capital	EUR 23.0 million	Stable within the framework of sales growth

OPPORTUNITIES AND RISKS REPORT

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

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

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

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

The internal control and risk management system governing the financial accounting process is not formally defined by law. Schweizer therefore follows the definitions of the Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Public Auditors in Germany), based in Düsseldorf, concerning the accounting-related internal control system (IDW AS 261 subs. 19 f.) and the risk management system (IDW AS 340, subs. 4).

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

This includes the following elements in particular:

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

The effectiveness of the internal control system governing the financial accounting process is systematically evaluated. Initially, an annual risk analysis is performed and the defined controls revised, if necessary. At this stage, significant risks with regard to the financial accounting and financial reporting process are identified and updated. The controls defined for the identification of risks are documented in a standardised way across the company. To evaluate the effectiveness of controls, we carry out regular tests on the basis of spot checks. These form the basis for an internal assessment of whether the controls are fit for purpose. The results of this internal assessment are documented and reported in a standardised system. Where weaknesses in the control system are identified, these are rectified taking into account their potential effects.

EVALUATION OF EFFECTIVENESS

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

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

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

Schweizer risk management system

Strategy	Finance	Operations	Compliance
Market and competition Technology Customers	Liquidity Exchange rates/interest rates Participating interests	Procurement Processes (incl. IT) Legal risks	Patents/copyrights Personnel/employees Insurance management

OVERALL ASSESSMENT

The Management Board assesses the corporate opportunity and risk profile for the categories Strategy, Finance, Operations and Compliance once yearly. The most important information sources are the Schweizer risk management system and other internal and external analyses and reports. Finally, the Management Board uses its own assessments to arrive at a final overall evaluation.

On the basis of the current information, the following opportunity and risk assessment was determined:

	Risk	**Opportunity**
Strategy	Medium	High
Finance	Medium	Medium
Operations	Medium	Low
Compliance	Medium	Low

Strategy

Market and competition (Risk: medium – Opportunity: high)
The SCHWEIZER sales market is heavily concentrated on automotive customers in Europe. Compared internationally, the talent for innovation of European automotive suppliers is the strongest in the world. Both through technological competence and geographical proximity to the customers' development teams, SCHWEIZER has an extraordinary opportunity to increase our success as a reliable partner for this market. This trend is getting stronger due to the ongoing consolidation of the PCB industry in Europe.

Europe as a production location for the PCB industry continues to stagnate and in some cases is even in decline. This could even be exacerbated by the as yet unforeseeable consequences of Brexit. Current European PCB manufacturers can thus only achieve further growth in the European market by forcing out the competition. To ensure that this growth is not to the detriment of the price structure of the products, SCHWEIZER differentiates itself from the competition through utmost ingenuity and a thorough understanding of the systems, through high flexibility and impeccable quality.

The competitive situation in the automotive segment is gaining momentum internationally. In particular, Asian PCB companies are forcefully trying to establish themselves in this customer segment, in order to profit from the potential growth opportunities and to better diversify their customer portfolios.

Technology (Risk: medium – Opportunity: high)
For some years now, SCHWEIZER has been concentrating increasingly on the focal points of CO_2 reduction and e-mobility and on technologies relating to safety and autonomous mobility. Both are markets with significantly above-average growth rates and high innovation speed. The cooperation with Infineon Technologies AG also targets these focal points. As a result of the very long lead times for such developments in the automotive industry, SCHWEIZER occupies an excellent starting position for further growth.

Both the innovation speed and the complexity of the products are increasing constantly. This combination leads to increased challenges for product development and quality management. The growing need for innovative processes and materials poses huge challenges for the supplier base and internal process management, in order to keep product quality, flexibility and delivery reliability at the high level that customers demand.

Customers (Risk: medium – Opportunity: medium)
In recent years, SCHWEIZER has established itself well as a strong, reliable technology partner for European automotive suppliers. This opens up good opportunities to profit increasingly from the innovative talent of these customers. SCHWEIZER's most important customers are global leaders in their segments. Many of the most important customers have their development centres in southern Germany, meaning that SCHWEIZER can remain constantly in close contact with the engineers. The market entry barriers are therefore quite high for new competitors. The trend towards relocating development activities abroad that was observed in the past has levelled off.

Overall, the dependency on the automotive sector has also increased and so too has the risk of participating disproportionately in an economic weakening of the automotive sector. To expand the customer portfolio, SCHWEIZER has started to engage with aviation/aerospace customers. Both the batch sizes and the technological and qualitative requirements of aviation customers are very well suited to the technology plant in Schramberg.

Finance

Liquidity (Risk: low – Opportunity: medium)
Thanks to an appropriate investment strategy and a dividends policy based essentially on free cash flow, SCHWEIZER has for some years now had no or only insignificant net debts. This means that our liquidity has been the same as or even higher than our bank debts. Liquid assets can be accessed quickly if required. In addition, sufficiently high credit lines are available, but these were hardly utilised at all. Via a weekly liquidity forecast, potential bottlenecks are analysed early and counteracted. SCHWEIZER is classed as investment grade by its banks, so financing is possible.

Material risks involve a credit risk for large customers. In the event of an unexpected, material deterioration in credit worthiness, large-scale bad debts can arise. Overall, the credit rating of our most important customers has improved constantly over recent years. SCHWEIZER attaches particular importance to credit risk management. Internal and external information sources are evaluated for all customers at regular intervals. These analyses form the basis for internal credit limits. If internal credit limits are exceeded, a special release from the Management Board is generally required. If there are indications of a significant deterioration in credit worthiness, various escalation stages come into force depending on the circumstances, which can lead to the non-acceptance of new orders. The Management Board regularly reviews whether credit insurance policies are necessary for the most important customers.

Exchange rates/interest rates
(Risk: medium – Opportunity: medium)
The exchange rates of the most important currencies against the euro have been subject to significant fluctuations in recent years. It cannot be excluded that, due to the uncertain development of the economies in the euro area, the euro may continue to weaken against the most important global currencies, particularly the US dollar. As the most important commodities markets are quoted in US dollars, this would have a negative impact on the purchase prices of commodity-based materials such as copper foils or laminates. Likewise, the purchase prices of PCBs from the production facilities of our Asian partners could increase on a euro basis. SCHWEIZER counteracts these risks using adjusted selling prices within the framework of the offer costing. We also use derivative financial instruments to hedge risks from volatile commodity prices, particularly for gold and copper. The use of such financial instruments is subject to strict guidelines.

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

The hedging instruments used by SCHWEIZER take into account existing foreign currency receivables and payables as well as expected payment flows. Derivative financial instruments are used in order to reduce currency risks and secure the calculation basis for customer orders. Currency risks are monitored and managed centrally.

As SCHWEIZER only has a very low level of indebtedness, the risks of an increase in the general interest level are low. A further decline in the interest rate level would have a further negative impact on the result due to the required discount-factor-related transfers from pension provisions.

Participating interests (Risk: high – Opportunity: high)
SCHWEIZER holds a participating interest in Meiko Electronics Co., Ltd. The value of this financial investment is measured in accordance with the respective year-end rate on the stock market. As stock market prices are often exposed to significant fluctuations, not inconsiderable opportunities and risks arise for the result of the company in the evaluation of the holding.

Operating risks

Procurement (Risk: medium – Opportunity: low)
SCHWEIZER has for several years been pursuing the strategy of being less and less dependent on individual suppliers. In addition to this dual source strategy, procurement has experienced a stronger degree of internationalisation, in particular from Asia.

There is a risk that European suppliers who are strongly focussed on the PCB industry will, voluntarily or through insolvency, leave the market due to the ever shrinking sales potential. Without a quick substitute, SCHWEIZER's delivery capability would be put at risk.

Furthermore, there is the risk that the extremely high growth rates on the battery market will cannibalise various important supply materials for the PCB business. Copper foils are one such example. This can lead, on the one hand, to quota fixing on the part of suppliers, and on the other, to a deterioration in the payment terms (prepayments) and to further price increases.

Processes (Risk: medium – Opportunity: low)
The internal production planning and administration processes are massively supported by IT systems at SCHWEIZER. The failure of the hardware or software would materially impair the company's ability to function, such that proper operation could no longer be ensured. SCHWEIZER has a number of measures in place to reduce this risk. These include, for example, hotlines, service agreements with suppliers,

backup strategies, supervision measures and redundancies.

Cyber-criminality is also viewed as an increasing risk. This can lead to the loss of important know-how and the manipulation of data, up to and including important systems actually coming to a standstill. The company tries to counter this risk through various measures such as firewalls and security concepts.

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

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

On the other hand, the growing number of bilateral trade agreements between the EU and third states reduces the legal uncertainty.

After the balance sheet date, a lawsuit was filed against one of our foreign subsidiaries. Furthermore, there is also a risk of a legal dispute in relation to the described change of personnel of 1 February 2017. The success of one or both lawsuits would have a significant impact on the net assets, financial position and results of operations of the relevant company. In our estimation, the suits have only a small chance of success.

Compliance risks

Patents/copyrights (Risk: medium – Opportunity: low)
The number of patents and property rights in the area of electronics and PCBs is constantly increasing. An unintentional infringement of property rights in a series product gives rise to the risk that products will no longer be permitted to be manufactured or that high payments will have to be made to the owner of the property right. To avoid this risk, Schweizer has adopted the review of a potential property right infringement as an important element in the internal stage gate process during new product development. Nonetheless, a conflict cannot always be ruled out because interpreting patents is often quite difficult.

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

Personnel/employees (Risk: medium – Opportunity: low)
The knowledge and experience of our employees is one of the decisive factors in the long-term success of our Group. Schweizer is exposed to the risk of the loss of know-how due, inter alia, to fluctuations in personnel or retirements. As a result of the increasingly good employment situation in Germany, particularly also in southern Germany, it will become more and more of a challenge to win talented staff with experience for Schweizer. Schweizer actively works to counteract the loss of expertise through a system of early succession planning. Furthermore, it is ensured that acquired know-how cannot flow directly to the competition by means of anti-competition clauses and non-disclosure agreements.

Insurance management (Risk: medium – Opportunity: low)
In addition to the internal organisational measures to avoid risks or counteract those that have occurred as quickly as possible, Schweizer has a comprehensive insurance management system. As part of this, the company takes out insurance policies for material risks, where possible and reasonable. One point of focus of the insurance management system is the coverage of risks that due to unforeseen events could negatively impact on the production and business processes. This can for example be natural disasters or fires. A second point of focus is the insurance of third party damages caused by lack of product quality or damages to third parties caused by the company, such as environmental damage. As not all potential risks can be insured against or cannot reasonably be insured against, a residual risk does remain for Schweizer, which is covered through internal compliance management and defined management processes, such as for example IT data security using firewalls and recovery processes.

OVERALL ASSESSMENT

The Management Board rates the existing risks as manageable and, from today's perspective, considers the continued existence of the Group and of SCHWEIZER ELECTRONIC AG as not being at risk. The sum total of the individual risks defines the overall risk of the Group. SCHWEIZER ELECTRONIC AG is subject essentially to the same risks and opportunities as the entire SCHWEIZER Group. SCHWEIZER ELECTRONIC AG shares in the risks of its subsidiaries and affiliates in principle according to its stake in those companies.

The opportunities/risk ratio has hardly changed in comparison to the previous period. Excellent technological positioning, particularly with respect to automotive customers, and partnerships with renowned PCB producers and semiconductor manufacturers, have reinforced the high level of opportunities in the Strategy category. The competition, including particularly that from Asia, is making progress all the time in terms of technological know-how. But neither does this represent a fundamental difference with respect to the past. The success of SCHWEIZER has been, is and will be dependent on being faster than the competition. The continued healthy economic situation of the company, coupled with a trust-based cooperation with outside creditors and equity investors underpins a stable positive financial situation. Even the uncertainties in the currency and interest rate environment due to the change of government in the United States or to Brexit do not currently appear to be leading to material disruptions.

Newer risks like cybercrime exist, but are not causing any issues for SCHWEIZER and are, where possible, sufficiently covered by internal processes or external insurance policies – just like the unforeseeable risks.

SCHWEIZER is confident that through the established opportunity and risk management system within the company, it will also be possible in the future to detect opportunities and risks at an early stage and thus that the risk situation as it currently stands can be successfully countered and that potential opportunities can be utilised.

MATTERS RELEVANT TO ACQUISITIONS

(according to Section 289(4) and Section 315(4) HGB)

COMPOSITION OF THE SUBSCRIBED CAPITAL

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

RESTRICTIONS RELATING TO VOTING RIGHTS OR THE TRANSFER OF SHARES

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

DIRECT OR INDIRECT SHAREHOLDINGS IN THE COMPANY'S CAPITAL THAT EXCEED 10 PERCENT OF THE VOTING RIGHTS

The Management Board was made aware, via communications received regarding important voting interests according to Sections 21 and 22 German Securities Trading Act (Wertpapierhandelsgesetz; WpHG), as at the balance sheet date, of the existence of the following direct or indirect participating interests in the capital of the company which exceed 10% of the voting rights:

	Number of voting rights	**Share of voting rights**
Christoph Schweizer	481,800	12.75%
Bernd Schweizer	396,707	10.49%

SHARES CONFERRING SPECIAL CONTROL RIGHTS

There are no shares conferring special control rights.

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

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

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

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

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

POWERS OF THE MANAGEMENT BOARD TO ISSUE AND BUY BACK SHARES

Authorised capital

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

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

Convertible bonds, inter alia, conditional capital

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

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

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

Authorisation to acquire own shares and their use

The company is authorised, up to 30 June 2021, to acquire own shares up to a total of 10% of the share capital of EUR 9,664,053.86 existing at the time the resolution was adopted or – if this value is less – the share capital existing at the time the authorisation is exercised. At no time may more than 10% of the relevant share capital of the company be attributable to the shares acquired on the basis of this authorisation together with other shares of the company which the company had already acquired or still owns or which are assigned to it in accordance with Sections 71 ff. AktG. The authorisation may not be used by the company for the purposes of trading in own shares; otherwise the determination of the purpose of the acquisition is left to the discretion of the Management Board. The Management Board may choose to acquire shares via the stock market, via a public purchase offer aimed at all shareholders of the company or via a public invitation to the shareholders to submit offers to sell. Further information can be found in the publicly available invitation to the annual general meeting 2016 at *www.schweizer.ag/en/investor-relations/shareholders-meeting.html*.

Essential agreements for the event of a change in control

The conditions for the event of a change in control are variously set out in individual credit agreements. Agreements with an overall volume of EUR 6 million provide an extraordinary right of termination, if one or more people, who act jointly in the meaning of Section 2(5) of the Wertpapiererwerbs- und Übernahmegesetz (German Securities and Takeover Act; WpÜG), at any time in the future purchase or hold directly or indirectly more than 50 percent of the voting rights.

Compensation agreements concluded by the company

In the event of the premature loss of a position on the Management Board due to a change of control and the exercise of the special termination right to which they are entitled in this case, two members of the Management Board were and are entitled to a severance payment and a compensation payment as a result of their employment contract. If the employment contract of the Management Board member ends within six months of the change of control as a result of exercising the special termination right, then the Management Board member is due severance payments of 1.25 times the amount of his total annual remuneration earned on average over the past three business years for the residual term of his employment contract. If the residual term of the employment contract comes to more than three years, then the severance payments for the additional period shall be subject to a flat-rate reduction of 25% in order to take into account the discounting and deduction of additional benefits.

In addition, the Management Board member shall receive compensation in the amount of twice his total annual remuneration, or triple his total annual remuneration, in the event that he has been an active member of the company's Management Board for more than ten years.

The total of the severance and compensation payments shall be limited to an amount equal to six times the total annual remuneration of the Management Board member.

CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH SECTIONS 289A AND 315(5) OF THE GERMAN COMMERCIAL CODE (HGB) AND CORPORATE GOVERNANCE

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

REMUNERATION REPORT

Management Board remuneration system

The remuneration of the Management Board comprises a fixed and a variable remuneration element. The latter is divided into a component geared towards the achievement of defined targets for the respective business year (Medium & Short Term Incentive; "MSTI") as well as a component with a long-term incentive effect and a proportion of risk (Long Term Incentive; "LTI"). Where defined targets are achieved in full, the amount of the variable remuneration element MSTI is 55 – 65% of the gross annual fixed salary and the variable remuneration element LTI is 15 – 20% (previous year 10 – 20%) of the gross annual fixed salary. No changes were made to the remuneration system in the year under review.

Components of the remuneration system

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

The variable income component, which relates to the targets for a business year (MSTI), is geared towards the attainment of certain quantitative targets (EVA, working capital, EBITDA). This remuneration component is paid following adoption of the annual financial statement by the Supervisory Board. The amount is determined by the level of goal attainment and is capped at an amount of maximum 110% or 130% of the fixed remuneration.

In addition to these two board remuneration components, there is also a Long Term Incentive Plan ("LTIP") for Management Board members. The LTIP is a remuneration component that offers a long-term incentive effect and a proportion of risk in the form of a "share matching" plan with a four-year ban on sale. Market capitalisation and the company rating are the performance measurement criteria. The amount is determined by the level of goal attainment and is capped at an amount of maximum 30% or 40% (previous year maximum 20% or 40%) of the fixed remuneration.

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

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

Remuneration for the 2016 business year

In the 2016 business year, the remuneration of the entire Management Board at Group level amounted to EUR 1,701 thousand (fixed) and EUR 907 thousand (variable). The variable remuneration component includes 4,084 shares for long-term targets.

Of this, the remuneration of members of the Management Board of SCHWEIZER ELECTRONIC AG amounted to EUR 1,029 thousand (fixed) and EUR 682 thousand (variable) in the 2016 business year. The variable remuneration component includes 2,233 no-par-value shares for long-term targets. Financial benefits from activities for subsidiaries are in principle credited against the financial benefits arising from the Management Board employment contract with the company.

The Management Board remuneration for the business year 2016 is disclosed in accordance with the applicable reporting principles (DRS 17) and the recommendations of the German Corporate Governance Code in the edition of 5 May 2015.

The Management Board remuneration for the business year 2015 is not disclosed separately due to the annual general meeting resolution of 1 July 2011, which stated that these details did not have to be disclosed for the business years from 2011 through to 2015.

Remuneration of members of the Management Board for the business year 2016 according to DRS 17

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

In € thousands	Performance-unrelated remuneration		Performance-related remuneration		Total remuneration
	Fixed remuneration	Other remunerations	Remuneration with short- and medium-term incentive effect (MSTI)	Remuneration with long-term incentive effect (LTI)	
Dr Maren Schweizer[1)]	431	309	243	36	1,019
Nicolas-Fabian Schweizer	270	118[2)]	207	22	617
Marc Bunz	240	118[2)]	180	19	557
Total	**941**	**545**	**630**	**77**	**2,193**

[1)] The Group remunerations of Dr Maren Schweizer comprise the remunerations of a subsidiary and of SCHWEIZER ELECTRONIC AG. The total remuneration of SCHWEIZER ELECTRONIC AG amounted to: Fixed remuneration EUR 68 thousand, MSTI EUR 46 thousand and LTI EUR 9 thousand.

[2)] This includes one-off special incentives in the amount of EUR 100 thousand each, due to organisational measures that are restricted in time.

Pensions of the Management Board members for the business year 2016

The Management Board members receive retirement benefits (old-age benefits, disability benefits and survivors' benefits) in accordance with a pension commitment. The pension commitment refers to a pension that starts being paid out at 65 years of age and amounts to 48%, 67% or 75% of the base salary. In the event of a premature departure, the benefit entitlement is reduced accordingly. These benefits are outsourced to external retirement funds in the form of reinsurance-funded pension plans and are based on the company contributions contractually promised to the Management Board members and paid to the pension fund.

The following table lists the allocations paid by the company for 2016 to the pension fund and the annual pension entitlements already earned by the Management Board members.

Pensions of the Management Board members

In € thousands	**Annual pension entitlement earned as at 31 December 2016**	**Allocations paid to pension funds**
Dr Maren Schweizer	89	157
Nicolas-Fabian Schweizer	35	140
Marc Bunz	43	118
Total	**167**	**415**

Remuneration of members of the Management Board for the business year 2016 according to GCGC

The following disclosure of the remuneration granted and received for the 2016 business year takes into consideration the recommendations of the German Corporate Governance Code in the edition of 5 May 2015. The sample tables recommended by the Code are used to present the information. The benefit expense corresponds to the allocation to the pension funds.

Benefits granted	Dr Maren Schweizer Chairperson of the Management Board			Nicolas-Fabian Schweizer Deputy Chairperson of the Management Board			Marc Bunz		
In € thousands	2016	2016 (Min)	2016 (Max)	2016	2016 (Min)	2016 (Max)	2016	2016 (Min)	2016 (Max)
Fixed remuneration	431	431	431	270	270	270	240	240	240
Ancillary benefits	309	309	309	118	118	118	118	118	118
Total	740	740	740	388	388	388	358	358	358
Annual variable remuneration[1)]	280	0	560	149	0	297	132	0	264
Multi-year variable remuneration									
LTI plan	86	0	172	41	0	81	36	0	72
Total	366	0	732	190	0	378	168	0	336
Benefit expense	157	157	157	140	140	140	118	118	118
Total remuneration	**1,263**	**897**	**1,629**	**718**	**528**	**906**	**644**	**476**	**812**

1) Values refer to the Medium & Short Term Incentive ("MSTI") remuneration component.

Inflow	Dr Maren Schweizer Chairperson of the Management Board	Nicolas-Fabian Schweizer Deputy Chairperson of the Management Board	Marc Bunz
In € thousands	2016	2016	2016
Fixed remuneration	431	270	240
Ancillary benefits	309	118	118
Total	740	388	358
Annual variable remuneration	243	207	180
(of which for previous years)	(37)	(71)	(63)
Multi-year variable remuneration			
LTI plan	36	22	19
Total	279	229	199
Benefit expense	157	140	118
Total remuneration	**1,176**	**757**	**675**

Benefits in the event of the premature termination of duties

Dr Maren Schweizer and Mr Nicolas-Fabian Schweizer were and are entitled to a special termination right in the event of a change of control. In the event of the permissible exercising of the special termination right, the Management Board member is entitled to a severance payment and a compensation payment. If the employment contract of the Management Board member ends within six months of the change of control as a result of exercising the special termination right, then the Management Board member is due severance payments of 1.25 times the amount of his total annual remuneration earned on average over the past three business years for the residual term of his employment contract. If the residual term of the employment contract comes to more than three years, then the severance payments for the additional period shall be subject to a flat-rate reduction of 25% in order to take into account the discounting and deduction of additional benefits. In addition, the Management Board member shall receive compensation in the amount of twice his total annual remuneration, or triple his total annual remuneration, in the event that he has been an active member of the company's Management Board for more than ten years. The total of the severance and compensation payments shall be limited to an amount equal to six times the total annual remuneration of the Management Board member.

Supervisory Board remuneration system

The remuneration of the Supervisory Board is regulated in Section 13 of the Articles of Association. The version of the Articles of Association applicable before the change to the Articles of Association adopted by the annual general meeting on 1 July 2016 took effect is binding for the 2016 business year. In addition to the reimbursement of expenses, each member receives a fixed remuneration component of EUR 8 thousand per business year as well as a variable remuneration of EUR 400 for each EUR 0.01 by which the dividend declared at the annual general meeting exceeds a dividend of EUR 0.10 per share with full dividend entitlement distributed to the shareholders. The chairman is paid double and his deputy one and a half times this amount. Members of Supervisory Board committees also receive a fixed annual remuneration of EUR 2 thousand. The total remuneration of the Supervisory Board in 2016 came to EUR 62 thousand (fixed) and EUR 154 thousand (variable), i.e. a total of EUR 216 thousand.

The individualised disclosure of the remuneration of the members of the Supervisory Board regulated in the company's Articles of Association was not made in the notes or the status report until and including the 2015 business year, because no additional information that in the opinion of the Management Board and the Supervisory Board is relevant to the capital market was involved. The Management Board and the Supervisory Board decided in March 2016 that the remuneration of the Supervisory Board members will be disclosed individually for business years as of 2016.

Remuneration of the Supervisory Board (excluding VAT) for the business year 2016

In € thousands	**Fixed remuneration**	**Remuneration for committee work**	**Variable remuneration[1)]**	**Total**
Michael Kowalski[2)]	16	2	44	62
Christoph Schweizer[3)]	12	2	33	47
Christian Schmid[4)]	8	2	22	32
Dr Stephan Zizala[5)]	4	-	11	15
Carsten Brudlo	8	-	22	30
Siegbert Maier	8	-	22	30
Total	**56**	**6**	**154**	**216**

1) Based on the dividend proposal of EUR 0.65.
2) Chairperson of the Supervisory Board and member of the finance committee.
3) Deputy Chairperson of the Supervisory Board and member of the finance committee.
4) Member of the finance committee.
5) Member of the Supervisory Board since 1 July 2016.

Schramberg, 20 April 2017

SCHWEIZER ELECTRONIC AG

The Management Board

N. F. Schweizer M. Bunz

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED INCOME STATEMENT

	No. in the notes	2016 € thousands	2015 € thousands
Sales revenue	3.1	116,079	115,550
Cost of sales | Manufacturing costs of goods and services			
produced/performed to generate the sales revenue		-98,553	-95,274
Gross profit		**17,526**	**20,276**
Other operating income	3.2	2,756	2,809
Distribution costs		-4,244	-4,077
Administration expenses		-13,216	-13,786
Other operating expenses	3.3	-1,001	-1,536
Operating result		**1,821**	**3,686**
Financial income	3.4	250	25
Financial expenses	3.5	-1,023	-1,022
Earnings from participating interests accounted for using the equity method		17	73
Earnings before taxes on income and revenue		**1,065**	**2,762**
Taxes on income and revenue	3.8	-446	-1,273
Annual net income/period result		**619**	**1,489**
Of which attributable to:			
Shareholders of the parent company		615	1,448
Non-controlling interests		4	41
Earnings per share			
Undiluted (= diluted) shareholding		3,757,548	3,748,826
Undiluted, based on the profit attributable to holders of ordinary shares of the parent company		0.16	0.39

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2016	2015
	No. in the notes	**€ thousands**	**€ thousands**
Annual net income/period result		**619**	**1,489**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (after taxes):		**729**	**740**
Currency translation of foreign operations	4.7	-784	740
Net (loss) gain from available-for-sale financial assets	4.2	1,513	0
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (after taxes):		**-1,576**	**-52**
Gains (losses) on the revaluation of defined benefit pension plans	4.11	-2,187	-72
Taxes on income and revenue	3.8	611	20
Other earnings after tax		**-847**	**688**
Overall result after taxes		**-228**	**2,177**
Of which attributable to:			
Shareholders of the parent company		-101	2,144
Non-controlling interests		-127	33

CONSOLIDATED BALANCE SHEET

ASSETS	No. in the notes	31 December 2016 € thousands	31 December 2015 € thousands
Non-current assets		**68,495**	**67,239**
Tangible assets	4.1	63,672	62,200
Intangible assets	4.1	927	1,165
Participating interest in companies accounted for using the equity method		1,357	2,782
Participating interests	4.2	2,266	730
Other financial assets	4.3	5	56
Tax receivables	3.8	0	41
Deferred tax assets	3.8	268	265
Short-term assets		**49,186**	**52,111**
Inventories	4.4	16,244	15,492
Trade receivables	4.5	17,543	17,608
Tax receivables	3.8	1,200	684
Other financial assets	4.3	3,263	3,340
Other assets		1,428	1,659
Cash and cash equivalents	4.6	9,508	13,328
Balance sheet total		**117,681**	**119,350**
LIABILITIES			
Equity capital	4.7	**64,843**	**67,374**
Subscribed capital		9,664	9,664
Own shares		-52	-71
Capital reserves		21,941	21,971
Profit reserves/balance-sheet profit		32,683	34,378
Equity attributable to shareholders of the parent company		64,236	65,942
Non-controlling interests		607	1,432
Non-current liabilities		**33,898**	**33,542**
Financial liabilities	4.9	7,209	8,743
Other financial liabilities	4.10	1,306	0
Provision for defined benefit pension plans	4.11	20,694	18,716
Other provisions	4.13	474	348
Deferred tax liabilities	3.8	4,215	5,735
Current liabilities		**18,940**	**18,434**
Financial liabilities	4.9	1,347	1,177
Other financial liabilities	4.10	393	176
Provision for defined benefit pension plans	4.11	880	838
Trade payables		7,355	7,582
Other liabilities	4.12	4,537	4,498
Grants from public authorities		0	314
Other provisions	4.13	4,429	3,848
Total liabilities		**52,838**	**51,976**
Balance sheet total		**117,681**	**119,350**

CONSOLIDATED CASH FLOW STATEMENT

	No. in the notes	2016 € thousands	2015 € thousands
Operating activities			
Earnings before tax		**1,065**	**2,762**
Adjustments to reconcile earnings before taxes to net cash flows:			
Depreciation and impairment of tangible assets	4.1	7,271	7,218
Amortisation and impairment of intangible assets	4.1	415	385
Expenses for share-based remuneration	4.16	77	275
Exchange differences, net		300	-199
Losses from sale of tangible assets		107	1
Interest income	3.4	-41	-25
Interest expenses	3.5	1,023	903
Profit from sale of financial assets	3.4	-206	0
Depreciation and impairment of financial assets		0	119
Share in earnings from participating interests accounted for using the equity method		-17	-73
Changes in the provision for defined benefit pension plans (excluding changes not recognised in income)	4.11	444	-155
Change in other provisions	4.13	707	-648
Change in tax provisions		0	-136
Change in tax receivables	3.8	-476	-225
Change in liabilities arising from government grants		-314	20
Change in net current assets:			
Change in trade and other receivables and advance payments		425	-6,784
Change in inventories	4.4	-752	127
Change in trade and other payables		-32	4,441
Interest received		41	25
Interest paid		-297	-392
Paid taxes on income and revenue		-3,236	-2,752
Cash flow from operating activities		**6,504**	**4,887**
Investment activities			
Proceeds from the sale of tangible assets		4	3,352
Purchase of tangible assets		-7,148	-3,875
Purchase of intangible assets		-172	-341
Proceeds from the disposal of financial assets		949	1,055
Cash flow from investment activities		**-6,367**	**191**
Financing activities			
Payments from equity reductions to other shareholders		0	-903
Incoming payments from the take-up of loans		0	3,000
Repayment of loans		-1,364	-2,238
Repayment of finance lease		-168	-81
Dividends paid to shareholders of the parent company		-2,444	-2,439
Cash flow from financing activities		**-3,976**	**-2,661**
Net change in cash and cash equivalents		-3,839	2,417
Changes in cash and cash equivalents owing to exchange rates		19	88
Cash and cash equivalents as at 1 January		**13,328**	**10,823**
Cash and cash equivalents as at 31 December		**9,508**	**13,328**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

In € thousands	Notes, no. 4.7	Subscribed capital	Own shares	Capital reserves	Profit reserves/ balance-sheet profit
Status as at 1 January 2015		**9,664**	**-96**	**22,031**	**34,444**
Consolidated result					1,448
Other comprehensive income					696
Overall result					**2,144**
Change in minority interests					58
Change in own shares			26	9	170
Long-term incentives for Management Board members				-69	
Dividend payout					-2,439
Allocation to reserves					
Status as at 31 December 2015		**9,664**	**-70**	**21,971**	**34,377**
Status as at 1 January 2016		**9,664**	**-70**	**21,971**	**34,377**
Consolidated result					615
Other comprehensive income					-716
Overall result					**-101**
Change in minority interests					689
Change in own shares			18		162
Long-term incentives for Management Board members				-30	
Dividend payout					-2,444
Allocation to reserves					
Status as at 31 December 2016		**9,664**	**-52**	**21,941**	**32,683**

Included in profit reserves/balance-sheet profit:						
Actuarial losses Pension commitment	Change in the value of available-for-sale financial assets	Currency translation difference	Consolidated result (attributable to shareholders of SEAG)	Equity attributable to shareholders of the parent company	Non-controlling interests	Equity capital
-1,985	**0**	**1,056**	**-2,458**	**66,043**	**2,360**	**68,403**
			1,448	1,448	41	1,489
-52		748		696	-8	688
-52		**748**	**1,448**	**2,144**	**33**	**2,177**
				58	-961	-903
				205		205
				-69		-69
			-2,439	-2,439		-2,439
			-3,000			
-2,037	**0**	**1,804**	**-6,449**	**65,942**	**1,432**	**67,374**
-2,037	**0**	**1,804**	**-6,449**	**65,942**	**1,432**	**67,374**
			615	615	4	619
-1,576	1,513	-654		-716	-131	-847
-1,576	**1,513**	**-654**	**615**	**-101**	**-127**	**-228**
				689	-698	-9
				180		180
				-30		-30
			-2,444	-2,444		-2,444
			-2,300			
-3,612	**1,513**	**1,150**	**-10,578**	**64,236**	**607**	**64,843**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1. PRINCIPLES UNDERLYING THE CONSOLIDATED FINANCIAL STATEMENT

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

The parent company of the SCHWEIZER Group is SCHWEIZER ELECTRONIC AG (hereafter referred to as the company or SCHWEIZER). SCHWEIZER's registered office is located at Einsteinstrasse 10, 78713 Schramberg, Germany. The company is entered in the commercial register at the District Court of Stuttgart under commercial register number HRB 480540. SCHWEIZER ELECTRONIC AG has been listed on the stock exchange since 5 July 1989. The shares (ISIN DE0005156236) are listed in Frankfurt am Main and Stuttgart. The consolidated financial statement of the SCHWEIZER Group for the business year ending 31 December 2016 was prepared and approved by the Management Board on 20 April 2017.

The consolidated financial statement was prepared in accordance with Section 315a HGB in line with the International Financial Reporting Standards (IFRS) and the relevant interpretations of the International Accounting Standards Board (IASB), as they are to be applied in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the European Union. In addition, the supplementary provisions of Section 315a HGB were complied with.

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

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

ACCOUNTING PRINCIPLES APPLIED FOR THE FIRST TIME

The application of the following pronouncements of the International Accounting Standards Board (IASB) is mandatory for business year 2016:

Standards/Interpretations		**Consequences for the consolidated financial statement**
IAS 1	Amendments to IAS 1 – Presentation of Financial Statements – Disclosure Initiative	Insignificant
IAS 19	Amendments to IAS 19 – Employee Benefits – Employee Contributions	Insignificant
IAS 16 and IAS 38	Amendment to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation	None
IAS 16 and IAS 41	Amendment to IAS 16 and IAS 41 – Bearer Plants	None
IAS 27	Amendment to IAS 27 – Equity Method in Separate Financial Statements	None
IFRS 11	Amendment to IFRS 11 – Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations	None
Miscellaneous standards	Annual improvements to the International Financial Reporting Standards, cycle 2010 to 2012	Insignificant
Miscellaneous standards	Annual improvements to the International Financial Reporting Standards, cycle 2012 to 2014	Insignificant

Due to changes to IAS 1 as part of the IASB Disclosure Initiative, individual items and explanatory notes were presented differently to the previous year.

ACCOUNTING PRINCIPLES THAT HAVE BEEN PUBLISHED BUT NOT YET APPLIED

The IASB pronouncements listed below have already been published but their application is not yet mandatory and their applicability, in some cases, still requires adoption into EU law ("endorsement"). Early, voluntary application is currently not intended, even where individual pronouncements permit this.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 renews the accounting principles for revenue recognition. The consequences for the SCHWEIZER Group arising from the amended accounting principles are currently being analysed within the framework of a project. It is planned that the modified, retrospective transition methods will be applied, according to which the cumulative effects of the changeover are to be recognised in the opening balance sheet 2018. Furthermore, the explanatory notes will be significantly more comprehensive.

IFRS 16 - LEASES

IFRS 16 replaces the previous standard IAS 17 and the associated interpretations on lease accounting. The classification into operating and finance leases no longer

Standards/Interpretations		Mandatory application[1]	Adoption into EU law	Anticipated consequences for the consolidated financial statement
IFRS 9	Financial Instruments	1 January 2018	Yes	Insignificant
IFRS 15	Revenue from Contracts with Customers	1 January 2018	Yes	Consequences are still being analysed
IFRS 16	Leases	1 January 2019	No	Consequences are still being analysed
IAS 7	Amendments to IAS 7 – Transparency Initiative	1 January 2017	No	Insignificant
IAS 12	Amendments to IAS 12 – Recognition of Deferred Tax Assets for As Yet Unrealised Losses	1 January 2017	No	None
IFRS 15	Clarifications re IFRS 15 – Revenue from Contracts with Customers	1 January 2018	No	The consequences of IFRS 15 are still being analysed.
IFRS 2	Amendments to IFRS 2 – Classification and measurement of share-based payment agreements	1 January 2018	No	None
IFRS 4	Amendments to IFRS 4 – Application of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts	1 January 2018	No	None
IFRS 40	Amendments to IFRS 40 – Classification of as yet incomplete real estate	1 January 2018	No	None
Miscellaneous standards	Annual improvements to the International Financial Reporting Standards, cycle 2014 to 2016	1 January 2017/1 January 2018	No	Insignificant
IFRIC 22	Currency translation for advance payments	1 January 2018	No	Insignificant

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

applies to the lessee. Instead, lessees must, in future and for all leases, recognise in the balance sheet an asset for the rights of use to the leased items and a lease liability for the payment obligations entered into. The only exceptions are for short-term leases and where the underlying asset has a low value. For lessors, the accounting standard remains largely unchanged. Lessors must continue to classify leases as operating or finance. The consequences of IFRS 16 are currently being analysed. Given the limited number of operating leases where the SCHWEIZER Group is the lessee however, no significant effects are anticipated from the application of IFRS 16.

2. SUMMARY OF MATERIAL ACCOUNTING PRINCIPLES

SCOPE OF CONSOLIDATION

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

The consolidated financial statement is based on the annual financial statements of SCHWEIZER ELECTRONIC AG and its subsidiaries. All financial statements are prepared as at the 31 December 2016 reporting date. The annual financial statements of the individual companies included in the consolidated financial statement have been prepared in accordance with uniform accounting and valuation methods.

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

In addition to SCHWEIZER ELECTRONIC AG as parent company, the consolidated group is comprised as follows:

	31 December 2015	Included for the first time in business year 2016	Left in business year 2016	31 December 2016
Number of fully consolidated companies				
National	1	0	0	1
International	4	0	-1	3
Total	**5**	**0**	**-1**	**4**
Number of companies accounted for using the equity method				
International	1	0	0	1

A complete overview of the participating interests of SCHWEIZER ELECTRONIC AG is provided in the list of shareholdings in section 6.5.

Changes within the scope of consolidation of the SCHWEIZER Group resulted in business year 2016 from the liquidation of Schweizer Energy Nantong Co. Ltd. at year's end 2016 and the corresponding deconsolidation. Furthermore, a capital reduction of 18.5% of the shares in the joint venture Meiko Schweizer Electronics Hong Kong Co., Limited was performed in business year 2016. SCHWEIZER ELECTRONIC AG thus holds 31.4% of the shares indirectly. After the capital reduction, the company continued to be managed jointly and was included in accordance with the equity method.

CURRENCY TRANSLATION

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

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

Exchange rates	**Year-end rate**		**Average rate**	
EUR	**31 December 2016**	**31 December 2015**	**2016**	**2015**
USD USA	1.0541	1.0887	1.1066	1.1095
CNY China	7.3202	7.0608	7.3496	6.9733
SGD Singapore	1.5234	1.5417	1.5277	1.5251

ACCOUNTING AND VALUATION PRINCIPLES

INTANGIBLE ASSETS

The intangible assets comprise exclusively acquired intangible assets, primarily software. The acquired intangible assets are recognised at cost and depreciated on a straight-line, scheduled basis over their useful life. When depreciating software, a useful life of three to eight years is used as the basis.

There are no intangible assets with an indefinite useful life.

TANGIBLE ASSETS

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

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

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

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

Scheduled depreciation takes place in accordance with the linear method.

LEASING

The SCHWEIZER Group is the lessee in leasing arrangements for tangible assets. At the inception of the lease, leases are classified as finance and operating leases in accordance with IAS 17. For finance leases, the leasing arrangement is recognised as an asset and the lease liability as a liability. In the case of an operating lease, on the other hand, the lease instalments are recognised as an expense on a straight-line basis over the term of the lease.

PARTICIPATING INTERESTS IN COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

The SCHWEIZER Group has, at the balance sheet date, a participating interest in one joint venture (previous year: 1). With the equity method, the shares in the associated company are initially recognised at cost. Subsequently, the carrying amount of the shares is adjusted annually for the pro-rata earnings, distributions received and other changes in the equity of the associated company, where these are attributable to the share of the SCHWEIZER Group.

The share of the SCHWEIZER Group in the profit or loss of the associated company accounted for using the equity method is recognised in the income statement and disclosed separately. Changes in the other comprehensive income of this associated company are recognised in the other comprehensive income of the Group. In addition, the expenses and income recognised directly in the equity of the associated company are taken into consideration directly in the other comprehensive income of the Group in accordance with the amount of the share.

INTRINSIC VALUE OF NON-CURRENT ASSETS

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

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

FINANCIAL INSTRUMENTS

The term financial instrument refers to any contract that gives rise both to a financial asset of one enterprise and to a financial liability or equity instrument of another enterprise.

Financial assets are divided into the following categories in accordance with IAS 39:

- Loans and receivables
- Financial assets to be held to maturity
- Financial assets that are available for sale
- Financial assets measured through profit or loss at fair value

Financial liabilities are divided into the following categories:

- Financial liabilities measured at amortised cost
- Financial liabilities measured through profit or loss at fair value

The SCHWEIZER Group has not made use of the "fair value option" under IAS 39, whereby any financial asset or financial liability can be measured at fair value, with value changes recognised in profit or loss.

Primary financial instruments

Primary financial instruments are recognised on the transaction date of the market-standard purchase or sale, this means on delivery of an asset. On initial recognition, primary financial instruments are recorded at their fair value. The transaction costs are included, if the financial instrument is not measured at its fair value. After initial recognition, the primary financial instruments are measured in accordance with the category to which they belong, either at their fair value or amortised cost.

Loans and receivables are measured at amortised cost. Within the SCHWEIZER Group, this category encompasses, in particular, trade and other receivables with the exception of derivatives and cash and cash equivalents. The default risk of financial assets from the category Loans and receivables is taken into consideration through the formation of individual valuation allowances. Valuation allowances on receivables are recorded to a separate valuation allowance account.

Financial assets that are available for sale are measured directly at fair value, unless the shares are not traded on an active market and the fair value cannot be reliably determined. In this case they are measured at the cost of acquisition. Shares in other participating interests of the Schweizer Group are to be assigned to this category. Valuation allowances are recognised through profit or loss in the consolidated income statement.

Derivative financial instruments

In the Schweizer Group, derivative financial instruments are used to counteract currency and commodity price risks. As at 31 December 2016, derivative financial instruments were in place, as in the previous year, to hedge the Euro/USD exchange rate and the price of gold. Likewise as in the previous year, no derivatives were used to hedge interest rates. Section 4.14 contains further information on the measurement of the fair value.

Derivative financial instruments are recognised, in principle, on the trading date. The prerequisites of IAS 39 with respect to the application of hedge accounting are not met for any derivatives, such that measurement takes place through profit or loss at fair value.

DETERMINING FAIR VALUES

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

Level 1: Use of quoted (not corrected) prices for identical assets or liabilities in active markets accessible on the valuation date.

Level 2: Fair value calculated using valuation methods based on observable input factors for similar assets and liabilities in active markets or for identical assets and liabilities in inactive markets.

Level 3: Assets and liabilities measured using valuation methods based on developed, non-observable input factors, because insufficient observable market data is available to determine the fair value.

INVENTORIES

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

CASH AND CASH EQUIVALENTS

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

PROVISION FOR DEFINED BENEFIT PENSION PLANS

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

DEFERRED TAXES

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

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

OTHER PROVISIONS

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

LIABILITIES

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

RECOGNISING INCOME AND EXPENSES

Revenue from the company's own products, goods purchased for resale and services is recognised at the fair value of the consideration received or receivable in the period in which ownership of the products or goods passes to the customer or the service was provided. Agreed discounts or rebates are taken into account in the appropriate reporting period in the recognition of sales revenues. In line with revenues, the costs of goods and products sold are recognised through profit or loss in the same period. Other income is recognised at fair value at the time the legal claim came into being. Operating expenses are recognised in profit or loss at the time the service is used or at the time they are caused. Interest income and interest expenses are recorded for the relevant period and other financial income is recognised at the time the legal claim came into being.

SHARE-BASED REMUNERATION

The members of the Group's Management Board receive a variable remuneration component with long-term incentive effect and risk elements (called the Long Term Incentive Programme; hereafter: LTIP). The LTIP component depends on the LTI plan approved by the Supervisory Board. The amount of the LTIP component stands at 15% or 20% of the gross annual fixed salary multiplied by the target attainment percentage. The LTIP component is paid in the form of equity instruments on a regular basis following approval and adoption of the annual financial statement of SCHWEIZER ELECTRONIC AG.

The costs of the LTIP component settled through equity instruments are determined based on the share price at the balance sheet date, since payment is made at short notice. Valuation is not carried out using valuation models, for reasons of materiality.

The costs of the LTIP, together with a corresponding increase in equity (capital reserves), are recognised as personnel expenses. The accumulated expenses reported at the balance sheet date arising from the award of equity instruments reflect the number of equity instruments to be paid according to the Group's best possible estimate.

ASSUMPTIONS AND ESTIMATES

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

In the following areas, the assumptions and estimates made are of particular importance:

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

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

- *Valuation of the provision for defined benefit pension plans*
  Costs related to defined benefit plans and the present value of pension obligations are calculated based on actuarial calculations. An actuarial valuation is based on various assumptions which may differ from actual developments in the future. These include determination of the discount rate, future salary increases, mortality rates and future pension increases. Given the complexity of the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date (see "Provision for defined benefit pension plans" and section 4.11).

SEGMENT INFORMATION

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

In future, the chip embedding market for automotive and industrial applications will be developed jointly with Infineon Technologies AG and a new Systems division will be built up. No operational activities have as yet commenced in this division.

We refer you to section 3.1 for information on the sales revenues by geographical region and on our main customers. With the exception of minor office equipment, all the fixed assets of the SCHWEIZER Group are located in Germany.

3. NOTES TO THE CONSOLIDATED INCOME STATEMENT

3.1 SALES REVENUE

Sales revenue is divided as follows:

	2016	**2015**
	EUR million	**EUR million**
By fields of activity		
Metallised circuits	18.9	18.4
Non-metallised circuits	5.5	5.8
Multilayer/HDI	89.6	89.6
Other	2.2	1.8
	116.1	**115.6**
By regions		
National	68.6	70.5
EU countries	24.5	26.7
Rest of Europe	1.7	1.9
America	12.6	11.0
Asia	8.4	5.2
Other countries	0.3	0.3
	116.1	**115.6**

The above information on sales revenue is broken down by customer sites.

In 2016, the sales revenue with three customers (previous year: two customers) each amounted to more than 10% of overall sales. Sales revenue with these customers amounted to EUR 37.8 million (2015: EUR 33.3 million), EUR 20.0 million (2015: EUR 20.7 million), and EUR 12.1 million (2015: EUR 9.6 million).

3.2 OTHER OPERATING INCOME

Other operating income is composed as follows:

	2016	2015
	€ thou-sands	€ thou-sands
Waste revenues	1,074	1,147
Currency gains	1,055	1,321
Other income	627	341
Total	**2,756**	**2,809**

3.3 OTHER OPERATING EXPENSES

Other operating expenses are composed as follows:

	2016	2015
	€ thou-sands	€ thou-sands
Currency losses	953	1,387
Other expenses	48	149
Total	**1,001**	**1,536**

3.4 FINANCIAL INCOME

Financial income is made up as follows:

	2016	2015
	€ thou-sands	€ thou-sands
Other interest and similar income	41	25
Income from the reduction of company shares accounted for at equity	206	0
Other	3	0
Total	**250**	**25**

The income from the reduction of company shares accounted for at equity in the amount of EUR 206 thousand in the business year 2016 is attributable to the capital reduction of 18.5% of shares in the joint venture Meiko Schweizer Electronics Hong Kong Co., Limited (see section 2.).

3.5 FINANCIAL EXPENSES

Financial expenses are made up as follows:

	2016	2015
	€ thou-sands	€ thou-sands
Other interest and similar expenses	1,023	903
Depreciation from financial assets	0	119
Total	**1,023**	**1,022**

3.6 PERSONNEL EXPENSES

Personnel expenses are made up as follows:

	2016	2015
	€ thou-sands	€ thou-sands
Personnel costs		
Wages and salaries	36,265	35,271
Social security costs	5,958	5,396
Pensions	1,120	867
Total	**43,343**	**41,534**

3.7 RESEARCH AND DEVELOPMENT EXPENSES

The criteria of IAS 38 for the capitalisation of incurred development expenses were not met in the business year, as was also the case in the previous year. The expenditure for research and development recognised as an expense stood at EUR 3.5 million (2015: EUR 3.3 million).

3.8 TAXES ON INCOME AND REVENUE

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

This item also includes deferred taxes due to temporary differences between the amounts stated in the tax balance sheet and the IFRS balance sheets of the Group companies and the IFRS consolidated balance sheet.

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

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

	2016	2015
	€ thousands	€ thousands
Current taxes related to the reporting period	1,334	2,385
Taxes on income from other periods	21	-2
Deferred tax income	-909	-1,110
Total taxes on income and revenue	**446**	**1,273**

TAX RECEIVABLES

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

	2016	2015
	€ thousands	€ thousands
Corporate income tax refund 2016 + 2015	683	364
Trade tax refund 2016 + 2015	473	274
Corporate income tax credit	44	87
Total receivables relating to taxes on income and revenue	**1,200**	**725**
Non-current	0	41
Current	1,200	684

The tax refunds result from the calculated tax liability, net of tax prepayments.

No tax prepayments were made at subsidiaries, so that no tax receivables exist. Repayment of the corporate income tax credit expires completely in 2017.

DEFERRED TAXES

Deferred taxes on transactions that are recognised directly in equity increased equity in the reporting period by EUR 611 thousand (previous year: EUR 20 thousand).

As at 31 December 2016, tax loss carryforwards amounted to EUR 4,229 thousand (previous year: EUR 3,245 thousand). Deferred tax assets relating to loss carryforwards were created in the amount of only EUR 1,577 thousand (previous year: EUR 1,375 thousand). To this extent, the company plans to be able to offset the start-up losses against future taxable profits. On the remaining loss carryforwards in the amount of EUR 2,652 thousand (previous year: EUR 1,870 thousand), no deferred tax assets were created as they are not expected to be used.

The deferred taxes are made up as follows:

	Deferred tax assets 31/12/2016	Deferred tax liabilities 31/12/2016	Deferred tax assets 31/12/2015	Deferred tax liabilities 31/12/2015
Tangible assets	0	8,692	0	9,657
Inventories	0	109	0	117
Receivables	0	92	21	71
Pension provisions	4,678	0	4,058	0
Liabilities	64	64	48	17
Tax loss carryforwards	268	0	265	0
	5,010	**8,957**	**4,392**	**9,862**
Netting	4,742	4,742	4,127	4,127
Recognition of deferred taxes	**268**	**4,215**	**265**	**5,735**

RECONCILIATION OF EXPECTED AND ACTUAL TAX EXPENSE

The results of SCHWEIZER ELECTRONIC AG in Germany are subject to corporate income tax (plus solidarity surcharge) and trade tax. Results assessed abroad are taxed at the tax rates applicable in the respective country. The tax rate of 28.0% on which the expected tax expense is based (previous year: 28.0%) takes account of the company structure relevant for taxation. It is calculated as a weighted tax rate of the regions in which the main results originated.

	2016	2015
	€ thousands	€ thousands
Earnings before tax on profit	1,065	2,762
Expected income tax expense (-)/income (+)	-298	-773
Divergent tax rates	-82	-42
Tax-free income	212	67
Non-tax-deductible expenses	-77	-100
Taxes from other periods	-21	-4
Taxes on new loss carryforwards for which no deferred taxes were formed	-144	-312
Other	-36	-109
Actual tax expense	-446	-1,273
Effective tax expense in %	42%	46%

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

In the foreign subsidiaries, tax losses of EUR 845 thousand (2015: EUR 1,833 thousand) were incurred. These tax losses can be offset to an unlimited extent against future taxable profits of the companies in which the losses were incurred. No deferred tax assets were recognised for these tax losses as they may not be used to offset taxable profits of other companies of the Group. Nor will other tax planning opportunities or other ways of offsetting or use be available in the near future.

SCHWEIZER has decided that no previously undistributed profits of its subsidiaries will be distributed in the foreseeable future. Furthermore, the Group's joint venture only distributes its profits when it has received the consent of all its joint venture partners.

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

	2016	2015
	€ thousands	€ thousands
On gains (losses) resulting from actuarial gains and losses on the revaluation of defined benefit pension plans	611	20

3.9 EARNINGS PER SHARE

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

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

	2016	2015
	€ thousands	€ thousands
Earnings attributable to holders of ordinary shares of the parent company	615	1,448

	2016	2015
Weighted average number of ordinary shares*	3,757,548	3,748,826

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

In the period between the balance sheet date and approval of the consolidated financial statement for publication, no (previous year: 7,168) ordinary shares were transferred to members of the Management Board by way of share-based remuneration.

4. NOTES TO THE CONSOLIDATED BALANCE SHEET

4.1 TANGIBLE AND INTANGIBLE ASSETS

The development of tangible and intangible assets in the business years 2016 and 2015 is presented in the following overview:

Development of the consolidated fixed assets and the intangible assets 2016

	Procurement and manufacturing costs					
In € thousands	**01/01/2016**	**Acquisi-tions**	**Divest-ments**	**Transfer postings**	**Currency translation**	**31/12/2016**
Tangible assets						
Land and buildings	38,654	119	0	147	0	38,920
Technical equipment and machines	83,601	6,417	700	1,065	0	90,383
Other plant, factory and office equipment	54,918	427	236	182	1	55,292
Advance payments and plants under construction	3,812	1,886	24	-1,399	11	4,286
Total tangible assets	**180,985**	**8,849**	**960**	**-5**	**12**	**188,881**
Intangible assets						
Rights and assets acquired for valuable consideration	4,621	172	1	5	0	4,797

Development of the consolidated fixed assets and the intangible assets 2015

	Procurement and manufacturing costs					
In € thousands	**01/01/2015**	**Acquisi-tions**	**Divest-ments**	**Transfer postings**	**Currency translation**	**31/12/2015**
Tangible assets						
Land and buildings	38,643	11	0	0	0	38,654
Technical equipment and machines	81,083	2,210	1,164	1,472	0	83,601
Other plant, factory and office equipment	54,906	253	281	36	4	54,918
Advance payments and plants under construction	6,788	1,401	3,079	-1,548	250	3,812
Total tangible assets	**181,420**	**3,875**	**4,524**	**-40**	**254**	**180,985**
Intangible assets						
Rights and assets acquired for valuable consideration	4,245	341	5	40	0	4,621

Accumulated depreciations						Carrying amounts	
01/01/2016	Scheduled depreciation	Impairments	Divestments	Currency translation	31/12/2016	31/12/2016	31/12/2015
12,257	762	0	0	0	13,019	25,901	26,397
65,985	4,072	0	613	0	69,444	20,939	17,616
40,543	2,437	0	236	2	42,746	12,546	14,375
0	0	0	0	0	0	4,286	3,812
118,785	**7,271**	**0**	**849**	**2**	**125,209**	**63,672**	**62,200**
3,456	415	0	1	0	3,870	927	1,165

Accumulated depreciations						Carrying amounts	
01/01/2015	Scheduled depreciation	Impairments	Divestments	Currency translation	31/12/2015	31/12/2015	31/12/2014
11,499	758	0	0	0	12,257	26,397	27,144
63,012	3,754	114	895	0	65,985	17,616	18,071
38,227	2,592	0	276	0	40,543	14,375	16,679
0	0	0	0	0	0	3,812	6,788
112,738	**7,104**	**114**	**1,171**	**0**	**118,785**	**62,200**	**68,682**
3,076	385	0	5	0	3,456	1,165	1,169

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

Tangible assets include, within the framework of financing leases, rented technical equipment and machines in the amount of EUR 1,372 thousand (2015: EUR 155 thousand) and other plant, factory and office equipment in the amount of EUR 209 thousand (2015: EUR 0 thousand). Land and buildings with a carrying amount of EUR 2,358 thousand (previous year: EUR 2,358 thousand) serve as senior collateral for two bank loans of the Group.

4.2 PARTICIPATING INTERESTS

This item materially concerns the participating interest in Meiko Electronics Co. Ltd., Ayase, Japan. This is shown at the market value of the shares denominated in JPY (carrying amount as at 31 December 2016: EUR 2,254 thousand; previous year: EUR 718 thousand).

The shares serve the long-term strengthening of the partnership with Meiko Electronics Co. Ltd., which in turn holds 4.8% of the shares in SCHWEIZER ELECTRONIC AG. The shares are assigned to the "available for sale" category (financial investments recognised at fair value in other comprehensive income). However, due to the persistently low market value, the impairment to fair value was recognised through profit or loss in the income statement in the previous year.

Due to the positive share price development, a reversal of an impairment loss was recognised in business year 2016 in the amount of EUR 1,513 thousand directly in other comprehensive income.

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

4.3 OTHER FINANCIAL ASSETS

Other financial assets are composed as follows:

	2016	2015
	€ thousands	€ thousands
Gebrüder Schmid GmbH	3,217	3,256
Miscellaneous other financial assets	61	140
Total financial assets	**3,268**	**3,396**
Non-current	5	56
Current	3,263	3,340

Miscellaneous other financial assets include positive fair values of foreign currency derivatives in the amount of EUR 0.4 thousand (2015: EUR 11 thousand).

4.4 INVENTORIES

	2016	2015
	€ thousands	€ thousands
Raw materials and supplies	5,021	4,078
Unfinished products	4,380	4,470
Finished products	6,843	6,944
Total inventories	**16,244**	**15,492**

Write-downs on inventories, which were recognised as expenses in the reporting period, amount to EUR 1,958 thousand (previous year: EUR 1,632 thousand) and are reported under cost of sales. No write-ups were performed, as was the case in the previous year.

The carrying amount of inventories measured at net realisable value is EUR 3,908 thousand (previous year: EUR 2,553 thousand).

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

4.5 TRADE RECEIVABLES

	2016	2015
	€ thousands	€ thousands
Trade receivables	17,543	17,608

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

	Total	Not due	< 30 days	30-60 days	61-90 days	91-120 days	> 120 days
	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
31 December 2016	**17,543**	15,838	641	245	426	102	291
31 December 2015	**17,608**	15,010	1,763	280	142	111	303

As at 31 December 2016, individual valuation allowances existed in the amount of EUR 98 thousand (2015: EUR 102 thousand).

The development of valuation allowances on receivables is as follows:

	2016	2015
	€ thousands	€ thousands
Status 1 January	**102**	**102**
Utilised	8	3
Reversed	0	0
Added (charges for valuation allowances)	4	3
Status 31 December	**98**	**102**

4.6 CASH AND CASH EQUIVALENTS

	2016	2015
	€ thousands	€ thousands
Bank balances and cash on hand	4,994	6,130
Short-term deposits	3,512	3,501
Money market funds	1,002	3,697
Status 31 December	**9,508**	**13,328**

Cash at banks earns interest at variable rates for on-call deposits.

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

Money market funds exist with Union Investment in the amount of EUR 1,002 thousand (2015: EUR 998 thousand) and in the previous year additionally with Deutsche Bank in the amount of EUR 2,699 thousand. These have been classified as cash equivalents, as they can be converted into fixed amounts of cash at any time and are subject to an insignificant risk of changes in value.

As at 31 December 2016, the Group had access to firmly pledged, non-utilised credit lines in the amount of EUR 9,190 thousand (2015: EUR 9,190 thousand). Of this credit line, EUR 7,190 thousand (2015: EUR 7,190 thousand) relates to SCHWEIZER ELECTRONIC AG and EUR 2,000 thousand (2015: EUR 2,000 thousand) to the subsidiaries headquartered in Singapore.

4.7 EQUITY

SCHWEIZER ELECTRONIC AG

As at 31 December 2016, the share capital stood at EUR 9,664,054 (2015: EUR 9,664,054) and was divided into 3,780,000 (2015: 3,780,000) registered shares (no-par-value shares).

In business year 2016, 6,000 no-par-value shares of Schweizer Pte. Ltd., Singapore, were acquired at a price of EUR 19.45 per share, i.e. at a total of EUR 117 thousand. This corresponds to an amount of the share capital of EUR 15 thousand or 0.16%. Of the overall holding of 2,483 shares as at 1 January 2016 and the acquired 6,000 no-par-value shares, 7,168 shares (previous year: 9,383 shares) were granted to members of the Management Board in the 2016 business year under a Long Term Incentive Programme (LTIP) as a variable remuneration component. This corresponds to EUR 18 thousand or 0.19% of the share capital. The transfer price of EUR 130 thousand was measured on the basis of the stock market price. As at the balance-sheet date, Schweizer Electronic AG held a total of 1,315 own no-par-value shares. This corresponds to an amount of the share capital of EUR 3 thousand or 0.03%. The subscribed capital is shown net of the par value of the own shares.

Furthermore, Schweizer Pte. Ltd., Singapore holds a total of 19,100 shares (previous year: 25,100 shares) in Schweizer Electronic AG at the reporting date, as a wholly owned subsidiary. This corresponds to an amount of the share capital of EUR 49 thousand or 0.51%.

AUTHORISED CAPITAL

The Management Board was authorised, with the consent of the Supervisory Board, to increase the share capital of the company up to 30 June 2016 by up to a total of EUR 3,221,351.29 through the issue of new, registered no-par-value shares against contributions in cash and/or in kind (authorised capital). By resolution of the annual general meeting of 1 July 2016 and its entry in the commercial register, the Management Board is authorised, subject to the approval of the Supervisory Board, to increase the company's share capital until 30 June 2021 by up to EUR 4,832,026.93 in total, by issuing new, registered ordinary or preferred shares (no-par-value shares) in return for contributions in cash and/or in kind (authorised capital). This authorisation may be exercised in full or in parts, and on one or several occasion(s). A subscription right is to be granted to the shareholders in this process, which can be excluded, subject to the consent of the Supervisory Board and certain conditions being fulfilled.

CONDITIONAL CAPITAL

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

NOTIFICATIONS OF VOTING RIGHTS

The German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) obliges investors to notify the relevant company if their voting interest in listed companies reaches specified thresholds. We have been informed of the existence of the following holdings:

Dr Maren Schweizer, Schramberg, informed us on 2 April 2002 that her voting interest in SCHWEIZER ELECTRONIC AG amounted to 8.28% as per the reporting date of 1 April 2002.

Mr Nicolas Schweizer, Schramberg, informed us on 2 April 2002 that his voting interest in SCHWEIZER ELECTRONIC AG amounted to 8.28% as per the reporting date of 1 April 2002. Meiko Electronics Co. Ltd., Ayase, Japan, informed us in accordance with Section 21(1) WpHG on 13 January 2011 that its voting interest in SCHWEIZER ELECTRONIC AG fell below the threshold of 5% of the voting rights on 30 December 2010 and on that date it amounted to 4.76% (which corresponds to 180,000 voting rights).

LBBW Asset Management Investmentgesellschaft mbH, Stuttgart, Germany informed us in accordance with Section 21(1) WpHG on 6 July 2012 that its voting interest in SCHWEIZER ELECTRONIC AG, Schramberg, Germany exceeded the threshold of 5% of the voting rights on 5 July 2012 and on that date it amounted to 5.29% (which corresponds to 200,000 voting rights). 5.29% of the voting rights (corresponding to 200,000 voting rights) are to be assigned by the company in accordance with Section 22(1) Clause 1, No. 6 WpHG to the Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte (Baden-Württemberg Pension Fund Institution for Doctors, Dentists and Veterinary Surgeons).

Mr Christoph Schweizer, Germany, informed us in accordance with Section 21(1) WpHG on 18 July 2014 that his voting interest in SCHWEIZER ELECTRONIC AG, Schramberg, Germany fell below the threshold of 15% of the voting rights on 15 July 2014 and on that date it amounted to 14.43% (which corresponds to 545,600 voting rights).

WUS International Company Limited, Tsuen Wan, Hong Kong, informed us in accordance with Section 21(1) WpHG on 30 September 2014 that its voting interest in SCHWEIZER ELECTRONIC AG, Schramberg, Germany exceeded the threshold of 3% of the voting rights on 30 September 2014 and on that date it amounted to 4.5% (which corresponds to 170,100 voting rights).

WUS Printed Circuit (Kunshan) Co., Ltd., Kunshan, China, informed us in accordance with Section 21(1) WpHG on 30 September 2014 that its voting interest in SCHWEIZER ELECTRONIC AG, Schramberg, Germany exceeded the threshold of 3% of the voting rights on 30 September 2014 and on that date it amounted to 4.5% (which corresponds to 170,100 voting rights). 4.5% of the voting rights (corresponding to 170,100 voting rights) are to be assigned by the company in accordance with Section 22(1) Clause 1, No. 1 WpHG. Attributable voting rights are held via the following controlled companies, whose voting interest in SCHWEIZER ELECTRONIC AG is 3% or more: WUS International Company Limited.

Infineon Technologies AG, Neubiberg, Germany, informed us in accordance with Section 21(1) WpHG on 28 November 2014 that its voting interest in SCHWEIZER ELECTRONIC AG, Schramberg, Germany exceeded the threshold of 3% and 5% of the voting rights on 28 November 2014 and on that date it amounted to 9.39% (which corresponds to 355,000 voting rights).

Ms Kristina Schweizer, Germany, informed us in accordance with Section 21(1) WpHG on 22 September 2015 that her voting interest in SCHWEIZER ELECTRONIC AG, Schramberg, Germany fell below the threshold of 15% and 10% of the voting rights on 21 September 2015 and on that date it amounted to 9.06% (which corresponds to 342,525 voting rights).

Ms Hannelore Schweizer, Germany, informed us in accordance with Section 21(1) WpHG on 22 September 2015 that her voting interest in SCHWEIZER ELECTRONIC AG, Schramberg, Germany fell below the threshold of 15% and 10% of the voting rights on 21 September 2015 and on that date it amounted to 7.62% (which corresponds to 287,920 voting rights).

Mr Bernd Schweizer, Germany, informed us in accordance with Section 21(1) WpHG on 13 May 2016 that his voting interest in SCHWEIZER ELECTRONIC AG, Schramberg, Germany exceeded the threshold of 10% of the voting rights on 13 May 2016 and on that date it amounted to 10.49% (which corresponds to 396,707 voting rights).

The Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, based in Tübingen, Germany informed us in accordance with Section 21(1) WpHG on 21 July 2016 that its voting interest in SCHWEIZER ELECTRONIC AG, Schramberg, Germany exceeded the threshold of 5% of the voting rights on 2 July 2016 and on that date it amounted to 5.03% (which corresponds to 190,000 voting rights).

Mr LK Wu informed us in accordance with Section 21(1) WpHG in conjunction with Section 25(1) WpHG on 13 April 2017 of the acquisition of instruments. On 12 April 2017 (day the threshold was exceeded), WUS International Company Limited held a 4.5% share of the voting rights and 15.24% share of instruments (conditional share purchase contract) and thus 19.74% of the total number of voting rights (this corresponds to 746,220 voting rights).

WUS Printed Circuit Co., Ltd., Taiwan, informed us in accordance with Section 21(1) WpHG in conjunction with Section 25(1) WpHG on 13 April 2017 of the acquisition of instruments. On 12 April 2017 (day the threshold was exceeded), WUS Group Holding Co., Ltd. held a 10.16% share of instruments (conditional share purchase contract) and thus 10.16% of the total number of voting rights (this corresponds to 384,000 voting rights).

Notifications of voting rights for previous years are also published on our website at *www.schweizer.ag/en/investor-relations/corporate-governance.html*.

OWN SHARES

	€ thousands
Status as at 1 January 2015	**96**
Issued 21 April 2014	-24
Issued 29 December 2015	-2
Status as at 31 December 2015	**70**
Intra-group sale/purchase on 6 April 2016	-18
Status as at 31 December 2016	**52**

Claims for share-based remuneration were met in the following year with the Group's own shares.

CAPITAL RESERVES

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

PROFIT RESERVES

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

As well as differences arising from currency translation and changes to the fair value of financial assets that are available for sale, this also includes effects of the revaluation of pension obligations less contrary effects from deferred assets. The effect of the currency translation of foreign operations recognised in other comprehensive income, which is to be reclassified in the income statement in the subsequent periods, is comprised as follows:

	2016	2015
	€ thousands	€ thousands
Currency translation of foreign operations		
Consolidation-related currency effects	-542	443
Reclassification of the currency translation of foreign operations in the income statement	-403	0
Currency translation of joint ventures valued at equity	161	297
Total	**-784**	**740**

DIVIDENDS

In the business year 2016 – as in the previous year – a cash dividend in the amount of EUR 0.65 per share, total amount of EUR 2,444 thousand (2015: EUR 2,439 thousand) was distributed to the shareholders of SCHWEIZER ELECTRONIC AG with respect to the business year 2015.

For the dividend payment for the 2016 business year, the Management Board is proposing a payment of EUR 0.65 (2015: EUR 0.65) per share and EUR 2,444 thousand (2015: EUR 2,439 thousand) in total. The dividend payment for the business year 2016 is dependent on the approval of the annual general meeting of 7 July 2017.

4.8 INFORMATION ON CAPITAL MANAGEMENT

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

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

Firstly, the Group monitors its capital based on a debt ratio which corresponds to the ratio of debt to equity. SCHWEIZER focuses on the development of the net gearing ratio. Net debts are determined from the financial liabilities less cash and cash equivalents. SCHWEIZER continues to limit the net gearing ratio to a maximum of 150%. Secondly, the equity ratio, which corresponds to the ratio of equity to total capital, is used as a control parameter. The financial strategy stipulates a minimum quota of 35%. A deviation is, however, permitted and is oriented to the actual situation (investment programme, interest rate levels, credit rating factors).

	2016	2015
Net gearing ratio as a performance indicator	**€ thousands**	**€ thousands**
Financial liabilities	8,556	9,920
Less cash and cash equivalents	-9,508	-13,328
Net financial liabilities	**-952**	**-3,408**
Equity capital	64,843	67,374
Net gearing ratio	-1.5%	-5.1%

Equity capital amounted to EUR 64.8 million (2015: EUR 67.4 million). SCHWEIZER's equity ratio reduced slightly by 1 percentage point to 55% (2015: 56%) and continues to exceed significantly the minimum equity ratio of 35%.

4.9 FINANCIAL LIABILITIES

Interest-bearing loans refer exclusively to fixed-interest bank loans with a par value of EUR 12,600 thousand (2015: EUR 12,930 thousand) and a carrying amount of EUR 8,556 thousand (2015: EUR 9,920 thousand). The bank loans involve current financial liabilities in the amount of EUR 1,347 thousand (2015: EUR 1,177 thousand) and non-current financial liabilities in the amount of EUR 7,209 thousand (2015: EUR 8,743 thousand). The term of the loan extends from 2018 to 2024. With the exception of a loan in the par value of EUR 3,000 thousand (carrying amount: EUR 3,000 thousand; 2015: EUR 3,000 thousand) collateral exists in the form of mortgages.

The agreed repayments were fixed and cash outflows are not expected to be earlier or higher than agreed. The loan portfolio is reviewed on a weekly basis together with the regular short and medium-term financial planning for the SCHWEIZER Group. The loan exposure is adjusted where necessary.

4.10 OTHER FINANCIAL LIABILITIES

	2016	2015
	€ thousands	**€ thousands**
Liabilities under finance leases	1,541	7
Derivative financial instruments with negative market value	72	132
Miscellaneous other financial liabilities	86	37
Total other financial liabilities	**1,699**	**176**
Non-current	1,306	0
Current	393	176

4.11 PROVISION FOR DEFINED BENEFIT PENSION PLANS

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

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

The carrying amount of the defined benefit obligations is determined according to the projected unit credit method using actuarial techniques. For the German companies, the following actuarial assumptions and the 2005 G guideline tables of Prof. Dr. Klaus Heubeck have been applied:

		2016	2015
Financial assumptions			
Discount rate as at 31 December	%	1.73	2.33
Future pay increases	%	-	-
Future pension increases, executive employees	%	2.50	2.50
Future pension increases, others	%	1.00	1.00
Demographic assumptions			
Age to be expected		RT 2005 G	RT 2005 G
Assumed retirement age, individual commitments	Years	60	60
Assumed retirement age, others	Years	Statutory	Statutory
Fluctuation p.a.	%	2.00	2.00

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

The net obligations are disclosed in the balance sheet in the amount of EUR 21.6 million (previous year: EUR 19.6 million) and are derived as follows:

	2016	2015
	€ thousands	€ thousands
Changes in present value of defined benefit obligations		
Liability from defined benefit obligation as at 1 January	**19,554**	**19,637**
Expenses recognised in profit and loss		
Interest expense	446	443
Current service cost	218	223
Retirement benefits paid	-831	-817
Amounts recognised in other comprehensive income		
Actuarial gains and losses		
Changes in demographic assumptions	0	0
Changes in financial assumptions	1,823	-86
Experience adjustments to gains/ losses	364	158
Employee contributions	0	0
Currency translation differences	0	0
Liability from defined benefit obligation as at 31 December	**21,574**	**19,554**
Benefit commitment amounts recognised in the balance sheet		
Present value of defined benefit obligations	21,574	19,554
Provisions for pensions and similar obligations	**21,574**	**19,554**

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

	2016	2015
	€ thousands	€ thousands
Effects, statement of comprehensive income		
Current service cost	218	223
Interest expense for defined benefit obligation	446	443
Amounts recognised in the income statement	**664**	**666**
Actuarial gains (-) and losses (+)		
from changes in demographic assumptions	0	0
from changes in financial assumptions	1,823	-86
due to experience-based adjustments	364	158
Amounts recognised in other comprehensive income	**2,187**	**72**
Total (amounts recognised in the statement of comprehensive income)	**2,851**	**738**

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

		2016	2015
		€ thousands	€ thousands
Sensitivity			
Discount rate	+0.5%	-1,532	-1,354
Discount rate	-0.5%	1,728	1,524

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

	2016	2015
	€ thousands	€ thousands
Within the next 12 months (next business year)	880	838
between two and five years	3,565	3,403
between six and ten years	4,688	4,501

The weighted average maturity of the defined benefit pension plans at the end of the reporting period is 15.3 years (previous year: 15.0 years).

In the case of defined contribution plans for members of the Management Board, no further obligations exist beyond remittance of the contributions to the pension fund. The contribution payments are recognised as a personnel expense and for the reporting year amount to EUR 415 thousand (previous year: EUR 649 thousand).

Contributions to statutory pension insurance in the 2016 business year came to EUR 2,790 thousand (previous year: EUR 2,568 thousand).

4.12 OTHER LIABILITIES

	2016	2015
	€ thousands	€ thousands
Liabilities from salary and wage accounting	1,733	1,664
Liabilities from other taxes	1,174	1,272
Liabilities relating to social security	848	514
Miscellaneous other liabilities	782	1,048
Total other liabilities	**4,537**	**4,498**
Non-current	0	0
Current	4,537	4,498

4.13 OTHER PROVISIONS

The current and non-current other provisions are divided into the following provision types and developed as follows in the business year 2016:

In € thousands	**Status 1 Jan.**	**Acquisitions**	**Utilised**	**Reversals**	**Interest effect**	**Status 31 Dec.**
Obligations vis-à-vis employees	2,622	1,492	1,092	31	1	2,992
Guarantees	280	5	-	-	-	285
Insurance premiums	91	187	3	15	-	260
Additional provisions	1,203	1,113	958	24	32	1,366
Total	**4,196**	**2,797**	**2,053**	**70**	**33**	**4,903**
Of which current	3,848					4,429
Of which non-current	348					474

The obligations vis-à-vis employees include costs for time credit entitlements, profit participations, outstanding holidays and other personnel expenses.

The other provisions include costs of the annual financial statement and outstanding supplier invoices.

4.14 ADDITIONAL INFORMATION CONCERNING FINANCIAL INSTRUMENTS

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

		2016		2015	
In € thousands	**Measurement category according to IAS 39**	**Carrying amounts**	**Fair value**	**Carrying amounts**	**Fair value**
Assets					
Participating interests	Available for sale	2,266	2,266	730	730
Trade receivables	Loans and receivables	17,543	17,543	17,608	17,608
Other financial assets					
Derivative financial assets (no hedge relationship)	Held for trading	0.4	0.4	11	11
Other non-derivative financial assets	Loans and receivables	3,267	3,267	3,385	3,385
Cash and cash equivalents	Loans and receivables	9,508	9,508	13,328	13,328
Liabilities					
Financial liabilities	Financial liabilities at amortised cost	8,556	8,556	9,920	9,920
Trade payables	Financial liabilities at amortised cost	7,355	7,355	7,582	7,582
Other financial liabilities					
Derivatives with negative market value	Held for trading	72	72	132	132
Leasing liabilities	Non IFRS 7	1,541	1,541	7	7
Other non-derivative financial liabilities	Financial liabilities at amortised cost	86	86	37	37

The carrying amounts of the financial instruments, aggregated according to the measurement categories of IAS 39 are as follows:

	2016	2015
Category	**€ thousands**	**€ thousands**
Available for sale	2,266	730
Loans and receivables	30,318	34,322
Financial assets held for trading	.	11
Financial liabilities at amortised cost	15,997	17,539
Financial liabilities held for trading	72	132

The following table shows the net earnings resulting from financial instruments (including interest income and interest expenses):

	2016	2015
Category	**€ thousands**	**€ thousands**
Available for sale		
Recognised in other comprehensive income	1,513	0
Recognised in the income statement	0	-119
of which: Reclassification from equity into profit or loss	0	0
Loans and receivables	-211	-744
Financial assets and liabilities held for trading	123	-163
Financial liabilities at amortised cost	-304	-286

The net earnings from financial assets that are available for sale primarily comprises profits or losses from participating interests and impairments on participating interests recognised in the previous year. The net earnings from loans and receivables primarily includes effects from the currency translation and changes in the valuation allowances. The net earnings from financial assets and liabilities held for trading include the effects from the valuation of derivatives at fair value and realised gains and losses of derivative financial instruments. The net earnings from financial liabilities valued at amortised cost predominantly comprise the effects of currency translation and interest expenses.

The interest income achieved on financial instruments accounted for at amortised cost amounted to EUR 41 thousand in the 2016 business year (previous year: EUR 25 thousand). Interest expenses from such financial instruments amounted to EUR 228 thousand (previous year: EUR 373 thousand).

INFORMATION ON MEASURING THE FAIR VALUE

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

	31 December 2016			31 December 2015		
In € thousands	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Derivative financial instruments with positive market value		0.4			11	
Financial assets that are available for sale	2,254			718		
Assets	**2,254**	**0.4**		**718**	**11**	
Derivative financial instruments with negative market value		72			132	
Liabilities		**72**			**132**	

As at 31 December 2016, the derivative financial instruments comprise currency derivatives and raw material hedges. The currency-related transactions relate to target forwards on EUR/USD exchange rates. The raw material hedges involve commodity derivatives (gold swaps) whereby a fixed price is paid for gold and the bank pays variable amounts. Measurement of the derivatives was based on level 2 input factors using values from active markets for identical assets.

The interest in Meiko Electronics Co. Ltd., Ayase, Japan, is reported on the basis of level 1 in the amount of the market value of the shares and the JPY/EUR exchange rate at the reporting date.

In the case of trade receivables, other non-derivative financial assets and cash and cash equivalents, the carrying amounts correspond to the fair value, due to the predominantly short maturities of these instruments.

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

The liabilities from finance leases result from lease contracts concluded in business year 2016. Due to insignificant deviations from the market and costing interest rate, it is assumed that the carrying amounts correspond to the fair value.

For the equity instruments measured at cost, a reliable determination of the fair value is not possible due to the lack of active markets. This relates to participating interests. It is assumed that the carrying amounts on the balance sheet date correspond to the fair values.

No reclassifications between level 1 and level 2 of the measurement hierarchy took place in the business year.

RISKS IN RELATION TO FINANCIAL INSTRUMENTS

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

The risks which are hedged are chiefly as follows:

Commodity price risk:
Derivatives designated as hedging instruments also reflect the change in the fair value of the concluded commodity futures contracts. The Group is exposed to the risk of price fluctuations in its projected purchases of gold salt and raw materials containing gold. The futures contracts do not result in physical delivery of gold, but are designed as cash flow hedges to offset the effects of changes in the gold-price-related raw material prices. The Group therefore hedges the purchase of 50 troy ounces of gold per month.

If the price of gold were to rise (fall) by 10 percent as at 31 December 2016, earnings before tax would rise by EUR 93 thousand (previous year EUR 58 thousand) or fall by EUR 93 thousand (previous year EUR 58 thousand).

Interest rate risks:
In the case of fixed-interest loans or investments, there is a risk that changes in the market interest rate will affect the market value of the item concerned (interest-related price risk). By contrast, variable interest loans and investments are not subject to this risk as the interest rate is adjusted to reflect changes in the market situation with a very short delay. However, the fluctuation of the short-term rate presents a risk in respect of the future interest payment (interest-related cash flow risk).

As a general principle, external borrowings are repaid when due. Therefore, an interest rate risk only exists in the case of a variable-rate borrowing. No variable-rate loans existed as at the balance sheet date.

Currency risks:
Primary financial instruments are held essentially in the functional currency.

Exchange rate differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

If the euro were to rise (fall) against the important currencies (USD, SGP and CNY) as at 31 December 2016 by 10 percent, earnings before tax would fall by EUR 423 thousand (previous year: EUR 856 thousand) or rise by EUR 512 thousand (previous year: EUR 876 thousand) respectively.

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

In addition, SCHWEIZERholds a liquidity reserve of EUR 7.2 million (2015: EUR 7.2 million), which is covered by part of the deposits and funds and may be used only with the approval of the Supervisory Board and with the bank mandates of the Management Board.

The financial liabilities have the following maturities:

2016		**up to 3**	**3 to 12**	**1 to 5**	**More than 5**	
	31/12/2016	**Months**	**Months**	**Years**	**Years**	**Total**
	€ thousands	**€ thousands**	**€ thousands**	**€ thousands**	**€ thousands**	**€ thousands**
Financial liabilities						
Repayment	8,556	-337	-1,009	-4,210	-3,000	-8,556
Interest		-47	-129	-456	-156	-788
Balance	**8,556**	**-384**	**-1,138**	**-4,666**	**-3,156**	**-9,344**
Trade payables	**7,355**	**-3,844**	**-3,511**	**0**	**0**	**-7,355**
Other financial liabilities	**1,699**	**-137**	**-256**	**-1,306**	**0**	**-1,699**
Derivatives						
Inflow		112	0	0	0	112
Outflow		-144	-38	0	0	-182
Balance		**-32**	**-38**	**0**	**0**	**-70**
Total	**17,610**	**-4,397**	**-4,943**	**-5,972**	**-3,156**	**-18,468**

2015		**up to 3**	**3 to 12**	**1 to 5**	**More than 5**	
	31/12/2015	**Months**	**Months**	**Years**	**Years**	**Total**
	€ thousands	**€ thousands**	**€ thousands**	**€ thousands**	**€ thousands**	**€ thousands**
Financial liabilities						
Repayment	9,920	-261	-916	-5,743	-3,000	-9,920
Interest		-151	-476	-1,950	-156	-2,733
Balance	**9,920**	**-412**	**-1,392**	**-7,693**	**-3,156**	**-12,653**
Payables from deliveries	**7,582**	**-4,433**	**-3,149**	**0**	**0**	**-7,582**
Other financial liabilities	**176**	**-176**	**0**	**0**	**0**	**-176**
Repayment						
Interest						
Balance						
Grants from public authorities	**314**	**0**	**-314**	**0**	**0**	**-314**
Derivatives						
Inflow		1,729	3,720	621	0	6,070
Outflow		-1,775	-4,045	-675	0	-6,495
Balance		**-46**	**-325**	**-54**	**0**	**-425**
Total	**17,992**	**-5,067**	**-5,180**	**-7,747**	**-3,156**	**-21,150**

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

Collateral:
Collateral is provided to banks exclusively in the form of mortgages totalling EUR 17.1 million, of which EUR 5.5 million (2015: EUR 9.9 million) was utilised as at the balance sheet date. No further collateral was provided.

4.15 CONTINGENT LIABILITIES AND OTHER FINANCIAL LIABILITIES

CONTINGENT LIABILITIES

Guarantees and other commitments
As at 31 December 2016, there are guaranteed amounts from cooperative shares of SCHWEIZER ELECTRONIC AG in the amount of EUR 5 thousand (previous year: EUR 5 thousand).

In the 2015 business year, a letter of comfort was issued to a supplier of Schweizer Electronic Singapore Pte. Ltd. As at 31 December 2016, there were liabilities between Schweizer Electronic Singapore Pte. Ltd. and the supplier in the amount of EUR 5 thousand.

SCHWEIZER ELECTRONIC AG continues to undertake to meet the obligation arising from a local employment contract between Schweizer Electronic Singapore Pte. Ltd. and the CEO, if the company is unable to fulfil it punctually and in good time.

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

SCHWEIZER ELECTRONIC AG also undertakes to meet the obligation arising from a local loan agreement contract between Schweizer Electronic Singapore Pte. Ltd., Schweizer Pte. Ltd. and a bank in the amount of EUR 1,000 thousand, if the companies are unable to fulfil it punctually and in good time.

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

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

Legal disputes
After unsuccessful arbitration proceedings in 2016, a lawsuit was filed in March 2017 against Schweizer Energy Production Singapore Pte. Ltd. The counterparty, the minority shareholder Darcet Pte. Ltd., is making a payment claim in the amount of USD 2.25 million and of RMB 27.7 million on the basis of losses suffered up to 31 December 2016, which the plaintiff believes were caused by false representations and the breach of verbal agreements with respect to the project to produce solar cells in China. Should the claims asserted be upheld, this could have significant consequences for the Group's net assets, financial position and results of operations. The Schweizer Group does not believe that the lawsuit will be successful.

Other contingent liabilities
No further contingent liabilities exist, as in the previous year.

OTHER FINANCIAL LIABILITIES

Obligations arising from operating leases
The Schweizer Group is the lessee within the framework of operating leases for various vehicles and e-bikes. The terms of the leases are between three and five years. Under some leases, the lessee has the option to renew the lease for another three to five year period.

As at 31 December, the following, non-discounted, future minimum lease payment obligations exist under non-cancellable operating leases:

	2016	2015
	€ thousands	€ thousands
Up to one year	322	239
More than one year and up to five years	635	385
Total	**957**	**625**

Obligations arising from finance leases

The Group has concluded a finance lease contract for a combined heat and power unit (CHP) and for a telephone system. The Group's obligations under finance leases are secured by the lessor's ownership of the leased assets. The future minimum lease payments under finance leases can be reconciled with their present value as follows:

	2016			2015		
In € thousands	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
Up to one year	237	22	215	7	0	7
More than one year and up to five years	736	65	671	0	0	0
Over 5 years	680	25	655	0	0	0
Total	**1,653**	**112**	**1,541**	**7**	**0**	**7**

Other obligations

As at 31 December 2016, annual payment liabilities exist as a result of concluded maintenance agreements in the amount of EUR 513 thousand in total (2015: EUR 449 thousand). The annual payment obligations from lease agreements within the framework of operating leases amounts to EUR 172 thousand (2015: EUR 166 thousand). The maintenance agreements and the lease agreements end between 2017 and 2020.

The order obligation arising from already awarded investment orders in tangible assets amounted to EUR 3,118 thousand as at 31 December 2016 (2015: EUR 2,911 thousand).

4.16 INFORMATION ABOUT RELATIONSHIPS WITH RELATED COMPANIES AND PERSONS

RELATED COMPANIES

Related companies that are controlled by SCHWEIZER ELECTRONIC AG or managed jointly with another party are presented in section 6.5. The business transactions between SCHWEIZER ELECTRONIC AG and its subsidiaries were eliminated within the framework of consolidation.

In business year 2016, there were no transactions with the joint venture, Meiko Schweizer Electronics Hong Kong Co., Limited. Consequently, no expenses or income from Group transactions with the joint venture were incurred/arose. Likewise, as at 31 December 2016, there were no outstanding balances with respect to the joint venture. In the previous year, there was a trade payable vis-à-vis the joint venture in the amount of EUR 567 thousand from the purchase of machines of the joint venture by SCHWEIZER ELECTRONIC AG.

RELATED PERSONS

The related persons of the Schweizer Group comprise the members of the Management Board and the Supervisory Board of SCHWEIZER ELECTRONIC AG (see section 6.4) and their close family relations.

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

	2016	2015
	€ thousands	**€ thousands**
Current benefits (without share-based remuneration)	2,332	2,171
Benefits after termination of employment	415	649
Benefits occasioned by the termination of employment	0	1,096
Share-based remuneration	77	275
Total	**2,824**	**4,191**

Former members of the Management Board and the Supervisory Board received a remuneration in the amount of EUR 180 thousand (2015: EUR 180 thousand). The pension provisions include a provision in the amount of EUR 6,559 thousand (2015: EUR 6,166 thousand) for the former members of the Management Board and their survivors.

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

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

Reportable business transactions by persons on the Management Board or the Supervisory Board or by persons and companies related to them did not arise in business year 2016. In the previous year, a loan granted by related persons in the amount of EUR 600 thousand was paid back and interest in the amount of EUR 27 thousand related to this loan was paid to the related persons.

5. EVENTS AFTER THE REPORTING PERIOD

There were no significant reportable events after the balance sheet date.

With regard to the two lawsuits filed against us after the balance sheet date, our legal assessment is that we need not expect any material consequences for the net assets, financial position and results of operations of the Group.

6. ADDITIONAL INFORMATION IN ACCORDANCE WITH HGB

6.1 DECLARATION IN ACCORDANCE WITH SECTION 161 AKTG WITH REGARD TO THE CORPORATE GOVERNANCE CODE

The Management Board and the Supervisory Board of SCHWEIZER ELECTRONIC AG has issued the declaration for 2016 stipulated in Section 161 AktG and has made this declaration available to shareholders on the company website *www.schweizer.ag*.

6.2 NUMBER OF EMPLOYEES

The average number of employees is:

	2016			2015		
	National	**Interna-tional**	**Total**	**National**	**Interna-tional**	**Total**
Wage-earning employees	454	-	454	438	-	438
Employees	234	13	247	227	13	240
Number of employees	**688**	**13**	**701**	**665**	**13**	**678**
Trainees	29	-	29	25	-	25
Number of employees (including trainees)	**717**	**13**	**730**	**690**	**13**	**703**

6.3 AUDIT AND CONSULTING FEES

The auditor's fee charged for this business year amounts to EUR 151 thousand for the audit of the (consolidated) financial statement (previous year: EUR 171 thousand), EUR 36 thousand for other confirmation services (previous year: EUR 24 thousand) and EUR 185 thousand for other auditing services (previous year: EUR 92 thousand).

6.4 COMPANY BODIES AND THEIR MANDATES

MANAGEMENT BOARD

The following persons were appointed as members of the Management Board during this business year:

Dr Maren Schweizer (appointed until 1 February 2017)
Chief Executive Officer
Responsible for Operations, Sales & Marketing, Global Supply Chain and the Systems Division.

Activities and mandates within the Group:
- Managing Director of Schweizer Pte. Ltd., Singapore
- Managing Director of Schweizer Energy Production Singapore Pte. Ltd., Singapore
- Managing Director of Schweizer Electronic Singapore Pte. Ltd., Singapore
- Director of Schweizer Energy (Nantong) Co., Ltd., China
- Vice President of Meiko Schweizer Electronics Co. Ltd., Hong Kong

Other activities and mandates:
- Managing Director of Schweizer Aviation GmbH, Schramberg
- Managing Director of Schweizer Air Service GmbH & Co. KG, Schramberg
- Managing Director of Schweizer Verwaltungs- und Beteiligungsgesellschaft mbH, Schramberg
- Board Member of Meiko Electronics Co. Ltd., Ayase, Japan
- Member of the General Management Board of ZVEI
- Member of the Economic Committee of the entire ZVEI
- Member of the PCB section in the PCB and Electronic Systems association of the ZVEI
- Member of the advisory board of HDI Gerling

Nicolas-Fabian Schweizer
Deputy Chairperson of the Management Board,
Chief Technology Officer
Responsible for Technology, Human Resources, Legal and Media & Communications.

Activities and mandates within the Group:
- Director of Schweizer Pte. Ltd., Singapore
- Supervisor of Schweizer Energy (Nantong) Co., Ltd., China
- Supervisor of Schweizer Electronic (Suzhou) Co., Ltd., China

Other activities and mandates:
- Member of the plenum of IHK Schwarzwald-Baar-Heuberg
- Member of Deutsche Bank's Freiburg regional advisory board

Marc Bunz
Member of the Management Board, Chief Financial Officer
Responsible for Finance & Controlling, Information Systems, Purchasing and Investor Relations.

Activities and mandates within the Group:
- Managing Director of Schweizer Pte. Ltd., Singapore
- Director of Schweizer Energy Production Singapore Pte. Ltd., Singapore
- Director of Schweizer Energy (Nantong) Co., Ltd., China

Other activities and mandates:
- Member of the Stock Exchange Council of the Baden-Württembergische Wertpapierbörse
- Member of the advisory board of HDI Gerling

SUPERVISORY BOARD

The Supervisory Board consists of the following persons:

Michael Kowalski
Chairman
Member of the finance committee
Consultant, Senior Adviser of mmc Mollenhauer Management Consulting AG, Wiesbaden

Christoph Schweizer
Deputy Chairman
Member of the finance committee
Managing Director:
- Schweizer Verwaltungs- und Beteiligungsgesellschaft mbH, Schramberg
- Schweizer Air Service GmbH & Co. KG, Schramberg

Christian Schmid
Member of the finance committee
Managing Director:
- Gebr. Schmid GmbH, Freudenstadt
- Schmid Technology Systems GmbH, Niedereschach
- Schmid Vacuum Technology GmbH, Karlstein a.M.
- Schmid Technology GmbH, St. Leon-Rot
- Schmid Technology Center GmbH, Dunningen
- Schmid Energy Systems GmbH, Freudenstadt
- Schmid Silicon Technology Holding GmbH, Freudenstadt
- Schmid Verwaltungs GmbH, Freudenstadt

Director/Member of the Board:
- Schmid Systems Inc., Watsonville, USA
- Schmid Thermal Systems Inc., Watsonville, USA
- Schmid Singapore Pte. Ltd., Singapore
- Schmid China Ltd., Hong Kong
- Schmid Shenzhen Ltd., China
- Schmid Zhuhai Ltd., China
- Schmid Asia Ltd., China

Dr Stephan Zizala (since 1 July 2016)
Vice President & General Manager Business-Line High Power, Automotive Division
Infineon Technologies AG
Other activities and mandates:
- Member of the Board of Directors of Infineon Technologies Americas Corp., El Segundo, California, USA

Carsten Brudlo*
Manager Surface Finishing, SCHWEIZER ELECTRONIC AG, Schramberg

Siegbert Maier*
Member of the Works Council, SCHWEIZER ELECTRONIC AG, Schramberg

*) Employees' representative

6.5 SHAREHOLDINGS AS AT 31 DECEMBER 2016

Name	Headquarters	Share of equity (in %)
Fully consolidated subsidiaries		
Schweizer Pte. Ltd.	Singapore	100.0
Schweizer Electronic Singapore Pte. Ltd.	Singapore	100.0
Schweizer Energy Production Singapore Pte. Ltd.	Singapore	89.1
Pension fund Christoph Schweizer e.V.	Schramberg, Germany	100.0
Joint venture, at-equity basis		
Meiko Schweizer Electronics Hong Kong Co., Limited	Hong Kong	31.4
Other participating interests		
Meiko Electronics Co. Ltd.	Ayase, Japan	4.8
SCHRAMBERGER WOHNUNGSBAU GmbH	Schramberg, Germany	1.3

Schramberg, 20 April 2017
SCHWEIZER ELECTRONIC AG

The Management Board

N. F. Schweizer M. Bunz

AUDIT OPINION

We have audited the consolidated financial statement – comprising the income statement, the statement of comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity and the notes – and the Group status report, which was summarised with the status report of SCHWEIZER ELECTRONIC AG, prepared by SCHWEIZER ELECTRONIC AG, Schramberg, for the business year from 1 January to 31 December 2016. The preparation of the consolidated financial statement and status report in accordance with IFRS as applicable in the EU and the supplementary commercial law provisions to be observed in accordance with Section 315a(1) HGB is the responsibility of the company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statement and the Group status report based on our audit.

We conducted our audit of the consolidated financial statement in accordance with Section 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit so that misstatements and violations which materially affect the presentation of the net assets, financial position and results of operations as presented in the consolidated financial statement in compliance with the applicable financial reporting framework and in the Group status report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and evidence supporting the disclosures in the consolidated financial statement and Group status report are examined primarily on the basis of random samples within the framework of the audit. The audit includes assessing the financial statements of the companies included in the consolidated financial statement, the scope of consolidation, the accounting and consolidation principles applied and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statement and the Group status report. We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statement complies with IFRS as applicable in the EU and the supplementary commercial law provisions to be observed in accordance with Section 315a (1) HGB, and gives a true and fair view of the net assets, financial position and results of operations of the Group in compliance with those provisions. The Group status report is consistent with the consolidated financial statement, it corresponds to the statutory provisions and on the whole provides an accurate picture of the Group's position and suitably presents the opportunities and risks of future development.

Villingen-Schwenningen, 21 April 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Wetzel	Pfeifer
Auditor	Auditor

DECLARATION BY THE LEGAL REPRESENTATIVES

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated annual financial statement gives a true and fair view of the net assets, financial position and results of operations of the Group, and the Group status report includes a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Schramberg, 20 April 2017

The Management Board

N.-F. Schweizer M. Bunz

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT AND STATEMENT

The principles of responsible and good corporate governance determine the activities of the management and control bodies of the Schweizer Group and Schweizer Electronic AG. In this statement, the Management Board reports on corporate governance in accordance with Section 289a(1) in conjunction with Section 315(5) HGB. At the same time, the Management Board and Supervisory Board report on the corporate governance of the company in accordance with item 3.10 of the German Corporate Governance Code.

Schweizer Electronic AG is a listed company in accordance with German law and therefore has a dual management system, comprising the Management Board and the Supervisory Board.

The Management Board of Schweizer Electronic AG and the Group subsidiaries leads the company in accordance with the statutory provisions and the rules of the Board and

the Supervisory Board monitors, advises and supports the Management Board in its activities. The rules of both Boards regulate aspects such as this cooperation. With the German Corporate Governance Code, a standard for the transparent control and management of companies was established, which is focussed particularly on the interests of the shareholders. Many of the corporate governance principles in the GCGC have been complied with for quite some time already.

The Declarations of Compliance made by Schweizer Electronic AG have been made available to all interested parties on the company web page *www.schweizer.ag/en/investor-relations/corporate-governance.html*.

The Management Board and the Supervisory Board addressed the recommendations and suggestions of the German Corporate Governance Code once again in the 2016 business year.

DECLARATION OF CONFORMITY IN ACCORDANCE WITH SECTION 161 AKTG

(As at May 2016)

The Management Board and Supervisory Board of Schweizer Electronic AG (hereinafter also referred to as the "company") issue the following Declaration of Compliance in accordance with Section 161 AktG with reference to the recommendations of the "German Corporate Governance Code governmental commission" and will ensure that it is published on the company's website. The Management Board and the Supervisory Board of Schweizer Electronic AG issued the last Declaration of Compliance in accordance with Section 161 AktG in May 2015 and then updated it in March 2016. The following declarations refer for the time period between May 2015 and 11 June 2015 to the recommendations of the German Corporate Governance Code ("Code") in the edition of 24 June 2014, which was published in the Federal Gazette on 30 September 2014. For the time period after 12 June 2015, the following declarations refer to the recommendations of the Code in the edition of 5 May 2015, which was published in the Federal Gazette on 12 June 2015 (2015 edition).

The Management Board and the Supervisory Board of Schweizer Electronic AG declare that, since the last Declaration of Compliance was issued in May 2015, the recommendations of the Code were and will be complied with, with the following exceptions:

Code No. 4.2.2: Code No. 4.2.2(2), clause 3, recommends that, when determining the total remuneration of the individual members of the Management Board, the Supervisory Board should consider the relationship of the Management Board remuneration to the remuneration of senior management staff and the workforce overall and its development over time.

The Supervisory Board did not fully comply with this recommendation when concluding new employment contracts with the Management Board in October 2013. When concluding the employment contracts the Supervisory Board did take steps, in accordance with the provisions of the German Stock Corporation Act (AktG), to ensure that the total remuneration awarded to Management Board members does not exceed the customary remuneration without special reason. To the extent that the Code in the new version of 13 May 2013 does specify in accordance with the German Stock Corporation Act (AktG) that the vertical appropriateness of the Management Board remuneration should be considered and to the extent that it further defines the relevant groups and the time scale for the comparison, we wish to make it clear that no claim to comply with the Code in this respect is made.

The Supervisory Board considers the requirements of the recommendation to be too vague. In particular, the Supervisory Board does not have sufficiently specific information on how the senior management staff should be distinguished from junior management and which sections of the workforce are relevant and which irrelevant in this respect. It is also unclear what time frame and perspective should be considered in terms of “development over time”. The Supervisory Board is therefore of the view that the measures already implemented for determining the remuneration of the Management Board are sufficient to ensure appropriate remuneration for members of the Management Board.

Code No. 4.2.3: Code No. 4.2.3(2), clause 8, also recommends, with respect to the variable remuneration components, that any retroactive change to performance targets or comparison parameters should be excluded.

This recommendation is not complied with. The current and future remuneration rules in the Management Board employment contracts provide, in the event of extraordinary developments within the company (e.g. change in legal form, share buyback, capital measures, acquisition and/or sale of the company and plant, disclosure of hidden reserves) that have a significant impact on the achievability of the targets subject to variable remuneration, for the Supervisory Board to unilaterally revise the contract terms and conditions and other variable remuneration parameters. The Management Board and Supervisory Board believes it is advisable and necessary to take reasonable steps to counter the impact of such extraordinary developments.

The company has not complied with and does not comply with the recommendation set forth in Section 4.2.3(4), clause 1, of the Code, which stipulates that when concluding contracts with members of the Management Board, care should be taken to ensure that payments including fringe benefits made to a member as a result of premature termination of management duties do not exceed the value of two years’ compensation (severance payment cap), and compensate no more than the remaining term of the contract. The employment contracts signed with members of the Schweizer Electronic AG Management Board do not contain such a regulation. The Management Board and the Supervisory Board do not consider it advisable to incorporate such a clause, since even in this case the board member could refuse to step down from the Board and insist on payment of his remaining entitlement under the Management Board employment contract. We also believe that the Supervisory Board would have regard to the company's interests in its negotiations with members who retire from the Board early and would not award any excessive severance payment. This means that the recommendation in Code No. 4.2.3(4), clause 3 (calculation of the severance payment cap) is not complied with.

Code No. 4.2.3, clause 5, recommends that payments promised in the event of premature termination of management duties due to a change of control should not exceed 150% of the severance payment cap amounting to two years’ compensation (i.e. total of three years’ compensation). The company has not complied with and does not comply with this recommendation. In the event of premature loss of a position on the Management Board due to a change of control, two members of the Schweizer Electronic AG Management Board are entitled to a severance payment and a compensation payment as a result of their employment contract that is not limited to three years' compensation. Incorporating such a restriction would limit Schweizer Electronic AG and its Supervisory Board in the selection of suitable candidates for a position on the board, since on occasion an undertaking may be sought for payment in the event of premature termination of management duties due to a change of control greater than that recommended in Code No. 4.2.3, clause 5. Therefore, a degree of discretion is needed to enter into such undertakings for the event of a change in control. For this reason, the Supervisory Board reserves the right to enter into undertakings for the event of a change in control in the employment contracts of members of the Management Board that do not comply with the recommended limit in Code No. 4.2.3, clause 5.

Code No. 4.2.5: According to the new Code recommendation introduced in 2013 in No. 4.2.5(3) for business years starting after 31 December 2013, the Management

Board remuneration shall be presented individually in the compensation report using model tables.

This recommendation was and is not complied with, since at the annual general meeting of Schweizer Electronic AG on 1 July 2011 it was decided not to publish the individualised remunerations of the individual members of the Management Board up to and including business year 2015. The Management Board and Supervisory Board resolved in March 2016 not to propose to this year's annual general meeting the wording of a further opt out resolution in accordance with Section 286(5) HGB. The disclosure of the Management Board remuneration for business years as of 2016 will contain the information recommended in Code No. 4.2.5(3) using the sample tables named there, with the result that the recommendation will be complied with in the future.

Code No. 5.1.2: Code No. 5.1.2(2), clause 3, recommends that an age limit is set for members of the Management Board. The company has not complied with and does not comply with this recommendation. The Management Board and the Supervisory Board do not consider it advisable to make a standard specification of an age limit for members of the Management Board. Competence, technical expertise and experience are far more relevant criteria, which should be evaluated regardless of age.

Code No. 5.3.1, 5.3.2 and 5.3.3: The Supervisory Board does not have an audit committee as recommended in Code No. 5.3.2 nor does the Supervisory Board have a nomination committee as recommended in Code No. 5.3.3. The Supervisory Board does not believe it is either advisable or necessary to set up the above committees for a company the size of Schweizer Electronic AG with only six members sitting on the Supervisory Board. The tasks designated for the audit committee and nomination committee as well as the other tasks of the Supervisory Board can easily be dealt with in plenary sessions, provided they are not delegated to the existing personnel and finance committee. The personnel and finance committee is the only committee of the Supervisory Board. Given the size of the company and the size of the Supervisory Board of Schweizer Electronic AG, the Supervisory Board believes it is neither advisable nor necessary to set up additional committees. With the composition of the personnel and finance committee, the Supervisory Board has adequately satisfied the recommendation in Code No. 5.3.1(1) (formation of professionally qualified committees depending on the specific nature of the enterprise and the number of its members). However, as an extreme precautionary measure, it is clear that no claim to comply with the Code recommendation is made.

Code No. 5.4.1: Code No. 5.4.1(2), clause 1, (version of 2015) recommends that, when stating the specific objectives to be achieved when constituting the board, the Supervisory Board should consider, inter alia, an age limit for members of the Supervisory Board and a control limit for the duration of a term of office on the Supervisory Board. The company has not complied with and does not comply with these recommendations. The Supervisory Board does not consider it advisable to make a standard specification of an age limit for members of the Supervisory Board. Competence, technical expertise and experience are far more relevant criteria, which should be evaluated regardless of age. The Supervisory Board therefore did not define such an age limit when it stated the specific objectives to be achieved when constituting the board. Neither does the Supervisory Board consider the stipulation of a control limit for the duration of a term of office on the Supervisory Board to be constructive. The Supervisory Board members who would be affected by such a limit are precisely those who have in-depth knowledge of the company and many years of experience, from which the company profits. The decision as to whether a person's term of office should be extended therefore must always be taken on the merits of the individual case.

Code No. 5.4.1(5 to 7) recommends that when proposing candidates to the annual general meeting the Supervisory Board should disclose the personal and professional relationships of each candidate to the company, the bodies of the company and to any shareholder holding a material interest in the company. The company has not complied with and does not comply with this recommendation, because the Supervisory Board believes the requirements of the Code on the duty to report are not clearly defined or delineated. In this context such notification is not considered advisable.

Code No. 5.4.6: Code No. 5.4.6(1), clause 2 recommends that chairmanship of Supervisory Board committees should be considered in the compensation of the members of the Supervisory Board. The company has not complied with and does not comply with this recommendation, because the Management Board and the Supervisory Board believe that the additional remuneration provided for in Section 13(4) of the Articles of Association adequately rewards members of the Supervisory Board for sitting on committees, as well as the duties undertaken by the committee chairperson. The Management Board and the Supervisory Board resolved in March 2016 to propose to the annual general meeting a new regulation governing Supervisory Board remuneration in Section 13 of the Articles of Association, according to which chairmanship of a Supervisory Board committee should be considered within the framework of remuneration. The new regulation should apply as of 1 January 2017. From this point in time, it is thus intended to comply with the recommendation in Code No. 5.4.6(1), clause 2. According to the Code recommendation in No. 5.4.6(2), clause 2, if one of the Supervisory Board members is promised performance-related compensation, it should be oriented toward sustainable growth of the enterprise. The company has not complied with and does not comply with this recommendation, because the performance-related compensation promised to Supervisory Board members is linked to the dividend distributed for the respective business year. The Management Board and the Supervisory Board believe that linking performance-related remuneration to the dividend adequately reflects the responsibility of the Supervisory Board for sustainable business development and that the existing compensation arrangement provides the members of the Supervisory Board with sufficient incentive to orient the exercise of their duties towards the long-term, successful development of the company. An individualised disclosure as recommended in Code No. 5.4.6(3), clause 1, of the remuneration of the members of the Supervisory Board regulated in the company's Articles of Association is not made in the notes or the status report up to and including business year 2015, because no additional information that in the opinion of the Management Board and the Supervisory Board is relevant to the capital market is involved. The Management Board and the Supervisory Board decided in March 2016 that the remuneration of the Supervisory Board members is to be disclosed individually for business years as of 2016, meaning that the recommendation will be complied with in future.

Code No. 7.1.2: In Code No. 7.1.2 Clause 4, 1st subclause, it is recommended that the consolidated financial statement should be made publicly accessible within 90 days of the end of the business year.

This recommendation was not complied with. Compliance with a term of 90 days was not possible due to the time requirement associated with preparing a consolidated financial statement for the first time. The consolidated financial statement was however published by the statutory deadline.

Schramberg, May 2016
Schweizer Electronic AG
Management Board Supervisory Board

THE STRUCTURE OF THE COMPANY MANAGEMENT AND MONITORING IS AS FOLLOWS:

Shareholders and annual general meeting

Shareholders in Schweizer Electronic AG exercise their rights at the annual general meeting of the company, which takes place in the first eight months of the business year. The Chairman of the Supervisory Board presides over the annual general meeting. The annual general meeting decides on all the tasks assigned to it by the law.

It is the goal of Schweizer to make it as easy as possible for shareholders to participate in the annual general meeting, which is why all documents necessary for participation are published online in advance. A proxy is named for the shareholders for the annual general meeting; this proxy can exercise their voting rights according to their instructions.

Supervisory Board

Under the Articles of Association the Supervisory Board of Schweizer Electronic AG is made up of six members, of whom two are chosen by the company employees in accordance with the provisions of the law with respect to the German One-Third Employee Representation Act (Drittelbeteiligungsgesetz). Five members of the Supervisory Board were chosen up until the annual general meeting in 2019 and one member was chosen up until the annual general meeting in 2017.

Based on item 5.4.1 of the German Corporate Governance Code and taking into account the company-specific situation, the size of the company and the proportion of international business activities in relation to its composition, the Supervisory Board defined the following objectives:

1. A minimum of one seat on the Supervisory Board for persons that particularly embody the criterion of internationality (for example, through foreign nationality, relevant experience abroad or relevant experience in international business);

2. no more than two seats on the Supervisory Board for persons that have an advisory or organisational role with regard to customers, suppliers, creditors or other business partners of Schweizer Electronic AG; this is intended to limit potential conflicts of interest within the Supervisory Board;

3. a minimum of three seats on the Supervisory Board for independent members of the Supervisory Board in terms of Code No. 5.4.2, i.e. a minimum of one seat on the Supervisory Board for independent shareholder representatives and a minimum of two seats on the Supervisory Board for independent employee representatives (the Supervisory Board estimates that employee representatives will in principle be independent members of the Supervisory Board);

4. a minimum of one seat on the Supervisory Board to be occupied by a woman.

The composition of the Supervisory Board complied with this target with the exception of point 4. Candidates are selected on the basis of an expertise/competence matrix which integrates the target composition of the Supervisory Board and is taken into account in future nominations to the annual general meeting.

Information on the members of the Supervisory Board, specifically regarding their working methods and the activities and mandates performed by the members, can be found in the report from the Supervisory Board and in the notes to the annual financial statement.

The Chairman of the Supervisory Board is chosen from among the members of the Supervisory Board.

The Supervisory Board appoints the members of the Management Board. It monitors and advises the Management Board in the leadership of the company. The key decisions made by the Management Board require the approval of the Supervisory Board. The Supervisory Board meets at least four times a year and meets without the Management Board if required. There is also a personnel and finance committee consisting of three members of the Supervisory Board. The committee chairperson subsequently informs the Supervisory Board plenum of the results. The Supervisory Board adopts the financial statement, approves the consolidated financial statement and appoints the auditor.

The status report shall report on the essential features of the Supervisory Board remuneration system.

D&O insurance with an excess has been concluded for the Supervisory Board.

Management Board

The Management Board leads the company under its own responsibility. The body comprised three members until 1 February 2017 and since then has had two members.

The Management Board informs the Supervisory Board regularly, promptly and comprehensively with regard to all relevant issues regarding business development, planning, finance and the business situation.

The status report describes the essential features of the Management Board remuneration system.

D&O insurance with an excess has been concluded for the Management Board.

Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector Act

The "Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector Act", which came into force on 1 May 2015, stipulates a minimum quota of 30 percent for women and men (so-called gender quota) on the supervisory boards of companies that are publicly listed and subject to parity codetermination. For companies such as Schweizer Electronic AG, which are publicly listed or subject to codetermination (including under the One-Third Employee Representation Act [Drittelbeteiligungsgesetz]), an obligation has been introduced whereby they themselves must set targets for the proportion of women on the Supervisory Board and Management Board and at the two highest management levels. The company has to observe a "no deterioration" rule.

Schweizer Electronic AG has adopted targets whereby one seat on the Supervisory Board, one seat on the Management Board and one position at the main management level below the Management Board must be occupied by a woman. At the time these targets were stipulated the main management level below the Management Board comprised employees who reported directly to the Management Board. A second management level below the Management Board is not defined as such at Schweizer Electronic AG. The stipulated targets should be achieved by 30 June 2017.

Accounting and financial statement audit

Since the 2016 business year, a consolidated financial statement is prepared in accordance with IFRS guidelines. The annual financial statement of Schweizer Electronic AG is prepared in accordance with HGB guidelines. The consolidated financial statement and the annual financial statement are produced by the Management Board, checked by the auditor and approved and adopted by the Supervisory Board. The consolidated financial statement and the annual financial statement are published within four months of the end of the business year.

It has been agreed with the auditor, Ernst & Young GmbH – a Stuttgart-based audit firm – that the Chairman of the Supervisory Board shall immediately be informed of key issues that surface during the audit. The auditor reports on all issues and occurrences that are of essential importance to the tasks of the Supervisory Board that are revealed by the financial statement audit – reporting immediately to the Chairman of the Supervisory Board. In addition, the Chairman shall be informed if the auditor identifies facts that result in inaccuracy with respect to the Declaration of Compliance submitted by the Management Board and the Supervisory Board in accordance with Section 161 AktG. The auditor participates personally in the Supervisory Board meetings at which the consolidated financial statement and the annual financial statement are approved and adopted.

Transparency

SCHWEIZER attaches particular importance to ensuring consistent, comprehensive and timely information. The business situation and the results are reported in the annual report, at the Analyst Conference, in the quarterly reports and in the half-yearly financial report.

Information is also communicated via press releases and ad hoc disclosures. All reports and disclosures are available at *www.schweizer.ag/en/investor-relations.html*. Queries are dealt with by the Investor Relations and Communications department.

Shareholding

The members of the Management Board together held 417,882 shares as at 31 December 2016. This contains 193,342 shares held by Mr Nicolas-Fabian Schweizer, and 213,225 shares held by Dr Maren Schweizer who withdrew from the Board on 1 February 2017.

The members of the Supervisory Board together held 482,050 shares. These include 481,800 shares held by Mr Christoph Schweizer.

Acquisition and sale of company shares

In accordance with Article 19 of Regulation (EU) No. 596/2014 on market abuse, members of the Management Board and the Supervisory Board are statutorily obliged to disclose the acquisition or sale of shares of Schweizer Electronic AG or related derivatives or other associated financial instruments, where the value of the transactions made by the affected member or related persons reaches a total volume of EUR 5,000 within one calendar year. The dealings reported to Schweizer Electronic AG during the last business year were duly disclosed and can be viewed on the company's web page at *www.schweizer.ag/en/investor-relations/corporate-governance/directors-dealings.html*.

Schramberg, 25 April 2017

Management Board	Supervisory Board
Nicolas-Fabian Schweizer Deputy Chairman of the Management Board	Michael Kowalski Chairman of the Supervisory Board

INFORMATION

FINANCIAL GLOSSARY

AktG
Abbreviation for the "Aktiengesetz", which is the German Stock Corporation Act.

Incoming orders
Total value of all orders (reduced by cancellations) received by the company from its customers in the corresponding accounting period.

Book-to-bill ratio
Ratio of orders taken to turnover within a specified period. A book-to-bill ratio of more than 1.0 indicates that incoming orders in the business year were higher than turnover.

Cash flow
Any excess of receipts over payments for a company, which is variably determined depending on the size of the payments under consideration.

Corporate governance
Refers to the responsible management and control of a company, aligned towards long-term value creation. The German Corporate Governance Code governmental commission compiles the relevant standards and integrates them in the Corporate Governance Code.

D&O insurance
Abbreviation for director & officers insurance. D&O insurance is professional liability insurance for bodies, such as management and supervisory boards, and executive employees.

Derivative financial instruments
Derivative financial instruments are used to insure against and minimise interest rate and/or currency risks due to fluctuations in the exchange rate or market interest rate.

EBIT
Abbreviation for earnings before interest and taxes and/or EBITDA ./. Depreciation of tangible and intangible assets.

EBITDA
Abbreviation for earnings before interest, taxes, depreciation and amortisation or operating results before financial result, taxes and depreciation.

EVA®
Abbreviation for Economic Value Added®. Indicator used in the context of a comprehensive performance measurement and value creation concept.

Equity ratio
Calculated as the ratio of total equity to total assets.

EPS
Abbreviation for earnings per share, calculated by dividing the annual net income of the company by the number of shares.

Free float
Proportion of the share capital not in the permanent possession of specific shareholders, but that are in free float.

General Standard
One of three Regulated Market transparency levels from which a company can choose for its listing on the stock exchange. Issuers in the General Standard fulfil the high transparency standard of the Regulated Market, without having a specific international orientation. The General Standard is primarily suitable for medium and large companies focused primarily on domestic investors.

HGB
Abbreviation for "Handelsgesetzbuch", which is the German Commercial Code.

Investment grade
Securities and issuers whose credit risk is considered to be relatively low fall under the category "Investment Grade".

Investment ratio
The ratio of investments made to generated EBITDA.

IFRS/IAS
Abbreviation for International Financial Reporting Standards. The internationally accepted accounting standards ensure the comparability of consolidated financial statements. The individual standards of the IFRS are referred to as IAS (International Accounting Standards), while the newer standards are referred to as IFRS.

ISIN
Abbreviation for International Security Identification Number. Used to clearly identify securities internationally.

Joint venture
Cooperation between two or more partner companies, in which the partners remain legally autonomous.

Cash flow statement
Analysis of the development of liquid funds/flow of payments under consideration of the source and use of funds.

Consolidation
Within the consolidated financial statement, it is necessary to consolidate the shareholding relationships that exist between the Group companies. Here, the carrying amount of the participating interest is offset against the proportionate equity capital amounts of the subsidiaries.

Deferred taxes
Payable or recoverable income taxes that result from the difference between the values stated in the tax and commercial balance sheets.

LTIP
Abbreviation for Long Term Incentive Programme. Remuneration components with long-term incentive component and a proportion of risk in the form of a “share matching” plan.

NOPAT
Abbreviation for Net Operating Profit After Taxes. This key figure provides the net profit based on the premise of complete equity financing.

Net gearing
Interest-bearing liabilities after allowing for liquid assets and current financial assets.

Net gearing ratio
(Interest-bearing liabilities after allowing for liquid assets and current financial assets)
/equity capital

Prepayments and accrued income
Payments that have already been made or received in advance in the reporting period, but relate to a period after the reporting date

Provisions
Payments or depreciations in value for later periods recognised as expenditure in the accounting period, the level and/or time of which is not fixed on the reporting date, but which is reasonably certain to occur.

Scorecards
Instrument for the measurement, documentation and control of a company’s activities.

Treasury
Treasury means financial management and is part of the finance area. The goal of Treasury and its management instruments is to optimise a company's liquidity and profitability.

Cost-of-sales method
Procedure for the income statement to determine the success of the relevant period, whereby expenses are split into functional areas (manufacturing, administration, sales). The sales revenue is only set against the manufacturing costs that were responsible for the sales.

WACC
Abbreviation for Weighted Average Cost of Capital.

WKN
Abbreviation for "Wertpapier-Kenn-Nummer", the German securities code, which uniquely identifies securities in Germany. In international transactions the German securities code number is replaced by the ISIN.

Working capital
The sum of the inventories and trade receivables from operating activities less current vendor liabilities.

TECHNOLOGY GLOSSARY

ACT technique
Assembly and connectivity technique

Bare die
Unhoused components, called naked chips.

Design-in cycles
Development cycles.

Embedding technology
Technology for the integration of active and passive components in PCBs.

FR4 Flex
3D PCB with a bending radius of up to 180°.

High frequency application
In this case, in the 24 GHz and 77 GHz range. These are radar applications in vehicles.

i² Board technology
Integration of semiconductors as well as passive components in PCBs.

Inlay solution
Inlay is a solid copper layer that is embedded in the PCB using a special technique. The inlay is form-fitted in a resin composite.

Power electronics
The conduction of high currents and/or heat dissipation.

Power semiconductor
Power semiconductors offer almost unlimited freedom in shaping the flow of electrical energy. Their advantage is that they can switch extremely fast – typically within a split second – between the "open" and "closed" states. By using fast on/off pulses, virtually any shape of energy flow can be produced.

PCB
Printed Circuit Board – a carrier for electronic components. PCBs are used to link active, passive and electromechanical components as well as connectors. Depending on the technological requirements, PCBs are available in a variety of formats. They offer a range of technological possibilities, which can be combined with one another in a modular manner.

NTI
NT Information Ltd. (Published by PCB expert Hayao Nakahara).

Off-grid
An off-grid system is what is known as an "island system". A photovoltaic system that is not connected to the national grid and only functions with an energy store.

p² Pack technology
Innovative technology for the manufacture of power modules.

Prepreg
Fibre glass mats that are pre-impregnated with a resin and are used to bond the individual layers in a multi-layer product.

Prismark
Market research institute

Single-board solution
Combination of two different PCBs and technologies into a single PCB.

SiP
Systems in package. Alternative to classic “Motherboard Embedding”. In this instance, modules with different functions are installed on a base PCB or substrate.

Smart battery switch
A semiconductor switch that cuts out the on-board voltage in a vehicle in a reversible manner. In the event of a fault (e.g. accident), the switch disconnects the vehicle on-board voltage from the battery to prevent potential short circuits and so avoid the risk of fire. It can also be used to disconnect the battery voltage if a vehicle is transported (e.g. sea crossing).

Stage Gate® process
The Stage Gate model is a model for optimising innovation and development processes. The Stage Gate® process divides a development project into a number of individual sections and so-called gates.

Thermo-Prepregs
Special prepregs with approx. 10-times better thermal conduction than standard prepregs.

"Wide Band Gap" semiconductor
Power semiconductors based on gallium nitride.

ZVEI
Zentralverband Elektrotechnik- und Elektronikindustrie e.V. [German Electrical and Electronic Manufacturers’ Association].

VDA
The German Association of the Automotive Industry (Verband der Automobilindustrie).

FINANCIAL CALENDAR

Date	Publication/event
28/04/2017	Annual financial report 2016
05/05/2017	Report for 1st quarter 2017
05/05/2017	Analysts' conference
07/07/2017	Annual general meeting
12/07/2017	Planned dividend payment date
09/08/2017	Half-yearly financial report as at 30/06/2017
06/11/2017	Report for 3rd quarter 2017

These dates and potential updates are also detailed on our website at *http://www.schweizer.ag/en/investor-relations/financial-calendar.html*.

IMPRINT

Schweizer Electronic AG
Einsteinstrasse 10
78713 Schramberg
Germany
Tel.: +49 (0) 7422 512-0
Fax: +49 (0) 7422 512-397
www.schweizer.ag

In this report, Schweizer Electronic AG is also referred to as SCHWEIZER.
In this report, Meiko Electronics Co., Ltd. is also referred to as MEIKO.
In this report, WUS Printed Circuit (Kunshan) Co., Ltd. is also referred to as WUS.
In this report, Elekonta Marek GmbH & Co. KG is also referred to as Elekonta.
All figures are rounded, which can lead to minor deviations when these are added up.
To aid readability, the male form is used throughout this document. However, the female form is also always implied.

Picture credits
Photographs @ Nicolas Knebel – perceptum.de
Page 16: © PantherMedia/the_lightwriter
Page 18: © wajan/Fotolia

SAFE HARBOUR STATEMENT

This communication contains forward-looking statements and information – that is statements about events that lie in the future, not the past. These forward-looking statements can be identified by formulations such as "expect", "wish to", "anticipate", "propose", "plan", "believe", "seek to", "estimate", "become" or similar terms. While such forward-looking statements represent our current expectations and particular assumptions, they are subject to various risks and uncertainties. A number of factors, many of which are outside the control of SCHWEIZER, have an impact on SCHWEIZER's business activities, strategy and results. These factors could cause the actual results and performance of the SCHWEIZER Group to differ materially from the information on results and performance made explicit or implied in these forward-looking statements. On our part these uncertainties arise in particular due to the following factors: Changes to the overall economic and business position (including margin developments in the major divisions), challenges posed by the integration of important acquisitions and the implementation of joint ventures and other major portfolio measures, changes to exchange and interest rates, the introduction of competing products or technologies by other companies, failure to find acceptance of new products and services among SCHWEIZER's target client groups, changes to the business strategy and various other factors. Should one or more of these risks or uncertainties be realised or it becomes apparent that the underlying assumptions were incorrect, this could cause the actual results to differ materially both in a positive and negative sense from the results referred to in forward-looking statements as expected, anticipated, proposed, planned, projected or estimated. SCHWEIZER does not obligate itself and does not intend to revise or correct these forward-looking statements in light of developments which differ from those anticipated.

Schweizer Electronic AG
Einsteinstraße 10
78713 Schramberg
Postfach 561
78707 Schramberg
Germany