SCHWEIZER
ELECTRONIC

PEOPLE CREATE INNOVATIONS

ANNUAL REPORT 2018

CONTENTS

KEY FIGURES

	2018	2017	Change absolute	Change in %
SCHWEIZER-Group (IFRS)				
Sales (EUR million)	125.3	120.9	4.4	3.7
Order book (EUR million)	171.2	181.5	-10.3	-5.7
Incoming orders (EUR million)	123.8	144.0	-20.2	-14.0
EBITDA (EUR million) (1)	9.2	8.4	0.8	9.5
EBITDA ratio (%)	7.3	7.0		
EBIT (EUR million) (2)	1.6	0.3	1.3	433.3
EBIT ratio (%)	1.3	0.3		
Annual result (EUR million)	0.5	3.5	-3.0	-85.7
EPS (EUR)	0.14	0.92	-0.78	-85.7
Total assets (EUR million)	135.3	113.6	21.7	19.1
Investments (EUR million)	7.5	3.6	3.9	108.3
Equity (EUR million)	63.0	62.3	0.7	1.1
Equity ratio (%)	46.6	54.9		
Net gearing ratio (%)	-7.2	-6.5		
Working Capital (EUR million)	25.4	22.1	3.3	14.9
Cash flow from operating activities (EUR million)	5.9	4.6	1.3	28.3
Employee (at year end) (3)	814	797	17	2.1

1) EBITDA: overall performance + other operating income ./ . cost of material ./ . personnel expenses ./ . other operating expenses
2) EBIT: EBITDA ./ . depreciation of tangible and intangible assets
3) Including temporary staff

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

CONSTRUCTION OF THE SITE IN JINTAN

First quarter 2020

The production starts*

March 3, 2019

The second upper floor has been completed

March 3, 2019

The ground floor of the administration building has been erected

December 15, 2018

The foundation has been laid

August 8, 2018

The cornerstone has been laid in a ceremony accompanied by representatives of the government

*model view

Three again on the starting blocks – The Executive Board of Schweizer Electronic AG: Nicolas-Fabian Schweizer, Dr. Rolf Merte, Marc Bunz (from left to right)

LETTER FROM THE EXECUTIVE BOARD

Dear Shareholders, Business Partners and Employees,

We have good reason to face the future confidently with our company. "Eagle", the largest project in the company history of Schweizer, our new Chinese factory under construction, was the dominant topic for our colleagues in 2018. "Eagle" will increase our international, and therefore global, footprint, optimise our supply chain on the costs side and thereby strengthen our production basis in the long term. We are well on schedule and will start up the various production lines with the first printed circuit boards produced there at the end of 2019 and prepare for series production in 2020.

In short: we will cross the finishing line in 2019 in order to be able to offer our customers high-quality, innovative printed circuit boards from China as well. Customer-specific solutions, custom-made products for technologically demanding tasks such as high-frequency applications used in the various levels of autonomous driving, or power semiconductors embedded in printed circuit boards for applications in the field of 48V hybrid technologies. Products that best position Schweizer Electronic AG in the mega trends and are needed worldwide.

2018 was a year of mixed fortunes. The first three quarters were excellent. In the last quarter, the economic environment cooled down slowly and then very abruptly. This slowdown continued in the first months of 2019. Due to our very strong focus on the automotive industry, which accounted for around 70 percent of sales in 2018, the effects of the cooling Chinese automotive market and the declining production of mid-size and luxury cars were felt very quickly and directly. A major reason for this was the replacement of the European test standard NEDC, valid since 1997 but no longer state-of-the-art, by a more dynamic and globally harmonised test cycle, known as the WLTP. The changeover created bottlenecks and delayed new registrations and thus also the production of new vehicles. Of course, our competitors who serve this market segment with us also faced this challenge. In accordance with the laws of the market, the overcapacity resulting from reduced demand led to a drop in prices, which not only resulted in a decline in revenue, but also had a negative impact on the operating result of the first three quarters. As a result, the Executive Board adjusted its forecast for 2018 in November. The ongoing discussion about emissions and trade disputes, combined with a flattening of the growth curve in the important Chinese market, continues to weigh on industry sentiment. The slowdown in the automotive market segment will therefore continue in 2019. This again confirms Schweizer's long-term strategy to build a production plant in China, especially for advanced technologies.

In the last month of the year, we defined our corporate strategy in concrete terms and adjusted it to the current situation and forecast future. We have called it "Shaping 2025". The new global corporate strategy "Shaping 2025" puts Schweizer Electronic AG on an ambitious, robust and sustainable growth path. This is achieved by a consistent customer focus, as well as a consistent alignment of the company to the four market segments: Automotive, Industry, Aero and Telecommunications, the integration of all business areas and locations in line with "One Company - One Culture - One Quality", leveraging synergies and reducing costs in order to achieve competitive prices in all target markets for all technologies and the implementation of growth options in existing and new business areas. Our ambition is to generate sales of EUR 400 million in 2025, and to further expand the innovation and quality leadership we have undoubtedly achieved today.

Dear Shareholders,
Your Schweizer Electronic AG will continue to develop positively; despite all adversities, 2018 was the year with the highest revenue in the company's history.

All our colleagues and partners can therefore be proud of what has been achieved in the past financial year. It is the people at Schweizer Electronic AG who determine the value of the company and who have achieved this. Thank you!

2019 will be more difficult and more of a year of transition; it will certainly not be a yardstick for the future. We will focus on the right, important areas: the "Eagle" project, our factory in China; the technological development of our diversification factors, our innovations, the embedded power semiconductors from our cooperation partner and anchor investor Infineon and, of course, the establishment of a healthy cost base in all our factories.

It is a great honour and delight for me personally to join Schweizer Electronic AG in this exciting and important phase of its 170-year history and to successfully shape the future of the company together with my esteemed colleagues on the Executive Board, Nicolas-Fabian Schweizer and Marc Bunz.

Dr Rolf Merte
Chair of the Executive Board

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

The measures and changes required to implement the growth strategy determined the work of the Executive Board and the Supervisory Board in the past financial year. The Supervisory Board's particular focus was on the timely monitoring and supervision of the construction project in China in conjunction with the establishment of the regional organisation and the strengthening of the company's overall management structure.

Despite temporarily adverse weather conditions, the construction of the technology plant in Jintan is on schedule and does not deviate significantly from the business plan approved by the Supervisory Board. With the construction of the new technology plant, SCHWEIZER's strong position in the high-quality PCB segment will be expanded both technologically and in the growth market of Asia, thereby strengthening it in the long term.

In order to ensure that the growth targets are also achieved in organisational terms, the Supervisory Board decided, after intensive discussion at the beginning of the financial year, to expand the Executive Board accordingly and to fill the position of Chair of the Executive Board with a new member. The Supervisory Board is convinced that, in view of the major investment in China and the forthcoming market launch of embedding technology, Dr Merte, as the new CEO, will make a very important contribution to the successful implementation of SCHWEIZER´s corporate strategy and, together with his colleagues on the Executive Board, Nicolas Schweizer and Marc Bunz, will push ahead with internationalisation and the growth course that has been set.

We are convinced of the success of the path we are taking and look forward to having you, dear shareholders, continue to follow the company on this path.

COOPERATION BETWEEN THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD

In the year under review, the Supervisory Board continuously advised, reviewed and monitored the Executive Board on the management of the company. The duties incumbent upon it under the law, the Articles of Association, the rules of procedure and the German Corporate Governance Code were decisive in this regard.

The Executive Board informed the Supervisory Board both verbally and in writing of the company's current position and of all issues relevant to the company and the Group in a regular and comprehensive manner. 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 Chair, his deputy, the personnel and finance committee and the Executive Board members.

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

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

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

MEETINGS AND RESOLUTIONS OF THE SUPERVISORY BOARD

In four regular and one extraordinary meeting of the Supervisory Board in the 2018 financial year, the Supervisory Board dealt with all the issues relevant to the company and made the relevant decisions; five resolutions were passed by circular resolution. In the year under review, there were no Supervisory Board members who attended only half or less than half of the meetings of the Supervisory Board and the committees of which they were a member. In some instances, the option to participate via video link was utilised.

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

Supervisory Board members	Meetings (including committee meetings)	Plenary meetings	Participation in plenary meetings	Finance and Personnel Committee	Participation (committee)	Participation in % (all meetings)
Michael Kowalski	7	5	5	2	2	100%
Dr Stephan Zizala	7	5	4	2	2	86%
Karin Sonnenmoser	7	5	4	2	2	86%
Chris Wu	5	5	5			100%
Carsten Brudlo	5	5	5			100%
Siegbert Maier	5	5	5			100%

FINANCE AND INVESTMENT PLANNING; CORPORATE STRATEGY

In the regular meetings, the Supervisory Board discussed the Executive Board's reports on the general business performance, the performance of the customer groups, the performance of sales and earnings, the financial and risk situation as well as the performance of the partner network. Furthermore, the Executive Board provided the Supervisory Board with information on the compliance management system in place.

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

PERSONNEL AND REMUNERATION

The Supervisory Board's activity in the financial year also focused on personnel matters. These were discussed by the Supervisory Board openly and at length. At the meeting held on 28 September 2018, it was decided to appoint Dr Rolf Merte as a member of the Executive Board and Chair of the Executive Board of Schweizer Electronic AG. Furthermore, the new allocation of duties for the members of the Executive Board was adopted in October.

In addition, the Personnel and Finance Committee was commissioned by the Supervisory Board in 2019 to develop a plan with an external consultant for the restructuring of the variable compensation component (MSTI / LTI).

LEGAL DISPUTES

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

In addition to the aforementioned core issues, the Supervisory Board dealt with the following items in particular at its meetings:

January meeting

The focus of the meeting on 26 January 2018 was the presentation by the Executive Board and the Vice President of a planned investment to optimise the production process. After a subsequent open discussion, the investment was approved by the Supervisory Board.

March meeting (meeting convened to review the accounts)

On 13 April 2018, the Supervisory Board members were informed of the discussions between the Personnel and Finance Committee and the Executive Board regarding the achievement of targets and the recommendation for its 2018 targets. The plenum followed the recommendations of the Committee and the variable remuneration components MSTI and LTI as well as the targets for 2018 were resolved. Furthermore, the Supervisory Board dealt extensively with the accounting of Schweizer Electronic AG and the consolidated accounting for the 2017 financial year, the audit conducted by the audit firm Ernst & Young GmbH and the proposal for the appropriation of profits by the Executive Board of Schweizer Electronic AG. The statutory auditor participated in the meeting convened to review the accounts. The auditor reported in detail on their audit and the audit focal points. The audit results were discussed with the Supervisory Board and questions were answered satisfactorily. The Supervisory Board approved the audit results. After the final result of its own examination, the Supervisory Board made no objections and approved the accounting and consolidated accounting for the 2017 financial year. The Executive Board's proposal for the appropriation of profits was approved. The members of the Supervisory Board concurred with the audit result of the Personnel and Finance Committee on the Non-Financial Statement and the Supervisory Board's report on its activities in 2017 was adopted.

June meeting

On 29 June 2018, the Supervisory Board was informed of organisational changes in the reporting lines. The Executive Board reported on the status of the investments planned for 2018 and provided an overview of current financing issues.

September meeting

In addition to the previously reported personnel issue, the key points for updating the investment guideline requiring the approval of the Supervisory Board were discussed together with the Executive Board on 28 September 2018.

December meeting

The Executive Board presented its budget for 2019, 2020 and 2021 at the meeting held on 7 December 2018. The Supervisory Board approved the budget for 2019 and took note of the planned budget for 2020 and 2021. Furthermore, the new investment guideline and the Declaration of Compliance were adopted. An outlook on the ARUGII, which will come into force in 2019, and the GCGC, which is expected to come into force, was given. The presentation of the adapted strategic goals of the Executive Board for the Group was discussed at length. In the subsequent discussion, it was possible to present these convincingly.

EFFICIENCY REVIEW OF THE SUPERVISORY BOARD'S ACTIVITY

The Supervisory Board reviews the efficiency of its activities every year. Members of the Supervisory Board are requested to give comprehensive feedback on the work of the Supervisory Board and its co-operation with the Executive Board in a questionnaire. The result of the efficiency review was explained and discussed in detail on 28 September 2018. No significant deficits were found.

SUPERVISORY BOARD COMMITTEES

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

WORK OF THE PERSONNEL AND FINANCE COMMITTEE

At the meeting on 29 March 2018, the members of the Committee dealt with the individual and consolidated financial statements as at 31 December 2017. The financial statements, together with a separate Non-Financial Statement, were explained by the Executive Board and reviewed by the members of the Committee. The Supervisory Board's report to the annual general meeting was also discussed by the body. Financing topics were presented by the Executive Board and discussed by the body. The focus of the meeting on 28 September 2018 was the organisation of management and a discussion on the adaptation of the Executive Board's investment guidelines.

In addition to the meetings, the regular tasks of the Committee include conducting annual target and review discussions with the Executive Board and arranging for the Executive Board remuneration system to be reviewed at least every two years by external consultants. The Committee reports on the result to the full Supervisory Board and makes relevant recommendations.

CORPORATE GOVERNANCE

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

Declaration of Compliance 2018

At its meeting on 7 December 2018 in particular, 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 Declarations of Compliance have been made permanently available on the company website and have also been published in the corporate governance report.

Examination of possible conflicts of interest

There were no conflicts of interest of Executive Board and Supervisory Board members that should have been disclosed to the Supervisory Board pursuant to sections 4.3.3 and 5.5.2 of the GCGC. Two members of the Supervisory Board, currently or in the year under review, have business relationships with Schweizer and companies in which they hold a high-ranking position. Schweizer's business transactions with these companies are or were conducted under arms' length conditions. In its target composition, the Supervisory Board already takes the avoidance of potential conflicts of interest into account. Details of the Supervisory Board's target composition are presented in the corporate governance report.

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

The audit firm, Ernst & Young GmbH, has audited the annual financial statements and consolidated financial statements prepared by the Executive Board as well as the combined management report for Schweizer Electronic AG and the Group for 2018. At the proposal of the Supervisory Board, Ernst & Young GmbH was chosen by the annual general meeting on 29 June 2018. Prior to the proposal by the Supervisory Board to the annual general meeting as auditors, Ernst & Young GmbH had confirmed to the Supervisory Board that there were no circumstances that could impair its independence as an auditor or give rise to doubts as to its independence. Mr 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 statements, consolidated financial statements and the combined management report did not give rise to any objections. Based on these audits, unqualified audit opinions were issued on 16 April 2019. The documents to be audited and the audit reports of the auditor were made available to every Supervisory Board member at the meeting on 16 April 2019 and were sent to every Supervisory Board member in sufficient time to enable them to prepare. The auditor took part in the discussion of the annual financial statements and the consolidated financial statements, during which he reported on the main audit findings and provided additional information on request. No objections were raised after the final result of the reviews by the Supervisory Board. The Supervisory Board agrees with the result of the audit of both financial statements by the auditor, concurs with the Executive Board's assessment of the situation of the Group and of Schweizer Electronic AG and approves the annual financial statements and the consolidated financial statements as at 31 December 2018. The annual financial statements are thus adopted. The Supervisory Board concurs with the Executive Board's proposal for the appropriation of profits, which includes a dividend omission. The Non-Financial Statement required by the CSR Directive Implementation Act was reviewed by the Supervisory Board.

The present Supervisory Board's report to the annual general meeting was also adopted by the Supervisory Board.

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

Schramberg, 16 April 2019

The Supervisory Board

Michael Kowalski
Chair

Michael Kowalski
Chairman of the Supervisory Board

170 YEARS SCHWEIZER

SWABIAN ROOTS – MULTICULTURAL TEAMS – GLOBAL NETWORKING

SCHWEIZER strives to become the leading manufacturer of sensor- and power PCB solutions for mobility and energy efficiency creating the innovations of the future on a global level. The new production facility in Jintan in Jiangsu province, China, represents a strategic investment in this context. SCHWEIZER´s long internationally-oriented company history, a solid capital structure as well as the profound technical know-how and application knowledge from a sustainable basis in order to achieve this target.

In particular, however, it is the people of the SCHWEIZER group, who jointly support the company vision and thus ensure its implementation.

»As Head of Sales Asia, I research the Asian market and am responsible for the development of solutions and the service for customers on the Asian markets. The Western and Asian cultures are totally different - Asian people value the relationship very much.

The Jintan plant will be a Chinese plant with German blood inside, which is really cool. Being familiar with both cultures, I am convinced that SCHWEIZER will be the leading company amongst the competition in China. With the p² Pack technology, we will be a game changer and will be able to lead the market.

I love the SCHWEIZER culture and the people, and I enjoy working with the team to achieve our target. With such a strong team there is no reason we cannot be successful.«

William Tseng
Head of Sales Asia

»I started my apprenticeship as industrial clerk at SCHWEIZER in autumn 2018. Being an apprentice, I am recognised and treated as an equal member of the company.

I am involved in diverse processes, and when it comes to taking decisions, my voice counts as much as the others. This is what I really appreciate.

Belonging to the so-called young generation of the company together with the other apprentices and thus representing the future of Schweizer Electronic AG fascinates me. We are being prepared to create this future as brilliant as possible. Of course, I am excited to see where the journey of SCHWEIZER is heading.«

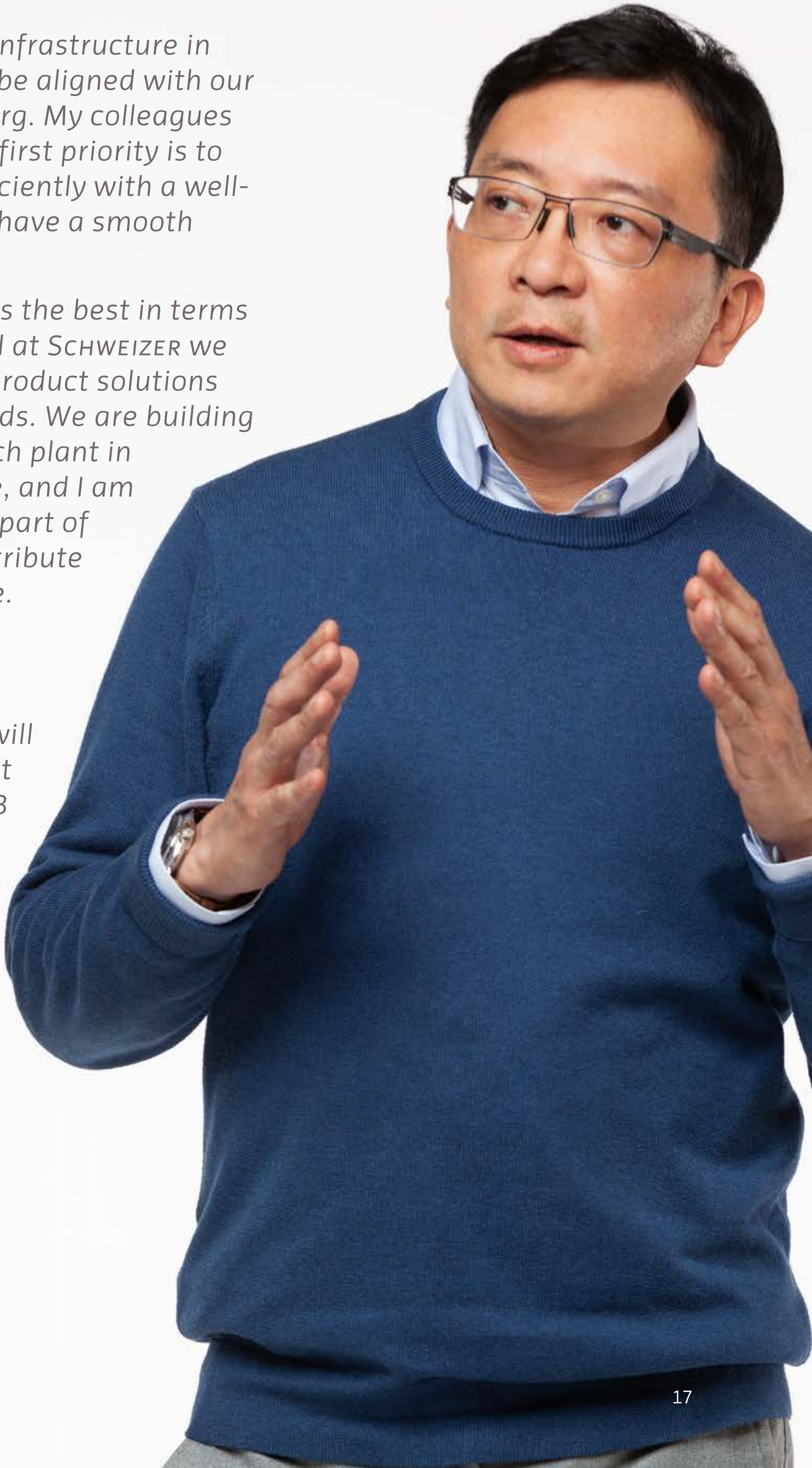
Anna Höfler
Apprentice
as industrial clerk

»I am in charge of the IT infrastructure in Asia which mostly has to be aligned with our IT landscape in Schramberg. My colleagues are my customers, so my first priority is to ensure they can work efficiently with a well-functioning IT in order to have a smooth business continuity.

The Chinese market wants the best in terms of a branded product, and at SCHWEIZER we provide state-of-the-art product solutions for the future market needs. We are building a most advanced high-tech plant in Jintan to suit this purpose, and I am particularly excited to be part of the team and able to contribute already at this early stage.

We have unique products compared to usual PCB factories, and I think we will become one of the biggest players in automotive PCB manufacturing and will successfully expand in other business sectors in future.«

Kenneth Wan
IT Manager



»As Key Account Manager I am responsible for some large key accounts in the automotive sector. Innovation, safety and security are of prior importance for our customers, and our company is definitely able to convince them. During my 34 years of working for SCHWEIZER, I have experienced this again and again. Each day again, I really enjoy the daily customer contact and the cooperation with our well-functioning expert teams.

We live and work in exciting times: On the one hand we are facing technological transformations and on the other hand our expansion in China. With our new plant in Jintan we make room for further innovations and growth and will be able to serve our mostly globally operating customers directly on their sales market in Asia. It keeps me on the move to be able to contribute to this development.«

Harald Schäfer
Key Account Manager

»I am responsible for partnership management with our Partner WUS, which includes the coordination of commercial and technical topics with the management team.

Everyone knows the Chinese market is growing fast, especially the PCB business, but maybe not everyone knows that the market also requires fast speed in terms of reaction to customers' needs. Keeping pace with China's speed is a big challenge for suppliers.

We have started the cooperation with WUS in 2014, and it makes me extremely excited to see the joint business growing fast now. I am impressed by the typical German character of preciseness and well-thinking and our technical strength regarding new PCB technology. I think with the good combination of Schramberg's strengths and Jintan's advantages, we will continue to be creative and competitive on the PCB market. I am proud of working for SCHWEIZER and of becoming part of the Jintan team.«

Betsy Xu
Partner Manager

»As department head in the production area, I am responsible for the plating process.

This involves the copper layer as well as the bonding of individual layers for electrical functionality. Our chemical processes in this section require extensive experience and know-how. I am thrilled by our products and the technological challenge we want to master with our innovations in future.

I also enjoy training my colleagues in Schramberg and sharing our knowledge and experience enabling them to transfer this to Jintan afterwards. I am convinced that in view of our technologies we will continue to grow and exceed our growth targets. We are facing a huge challenge in Europe, and we have products not everyone is able to deliver. Therefore it is even more interesting to contribute to the company development for long-term success.«

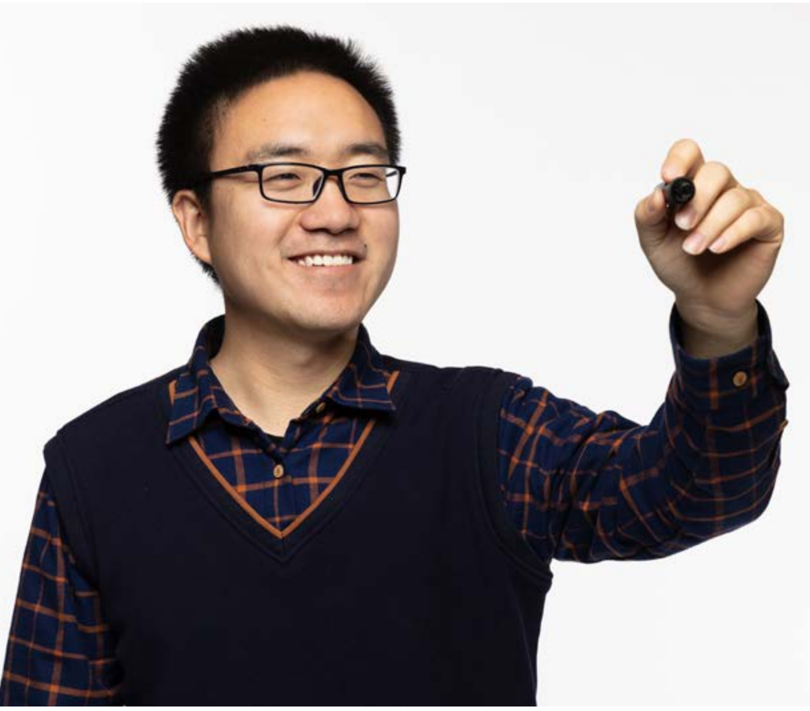
Sebastian Kunze
Head of Department
Plating Processes

»My workplace in Human Resources is at the interface between Schramberg and Jintan which means being at the interface between the two cultures. This makes my tasks and my daily routine particularly exciting.

At our site in Schramberg we train employees of different nationality and culture within the scope of an international trainee programme in order to enable them to assume key functions in our new plant in China.

It is my impression that our Black Forest and the Chinese cultures complement each other very well. You can always feel the readiness to learn from each other, and the will to jointly succeed is very strong. In addition, we have many colleagues from a variety of other nations which have been shaping the culture of SCHWEIZER for a long time already. The attitude of openness is anchored firmly in our mission statement, and my vision for SCHWEIZER is to share and merge what is best in each of our cultures.«

Genoveva Papa
HR Management



»As Quality Engineer, I am responsible for laboratory and reliability engineering. Within our team, we represent our customer's requirement on product reliability. Thus, we should always make sure every single PCB we provide is always according to highest quality standards.

The Chinese market is based on a different culture and background which leads to different logical habits sometimes. It is particularly exciting for me that we have PCB experts with many years of different experiences, from various countries and companies, and we will make a difference!

The working concept and the company culture fascinate me most about SCHWEIZER. With our reputation for high quality and innovation, we are going to be one of the most competitive global companies. Quality will definitely on our name card, we are quality guys.«

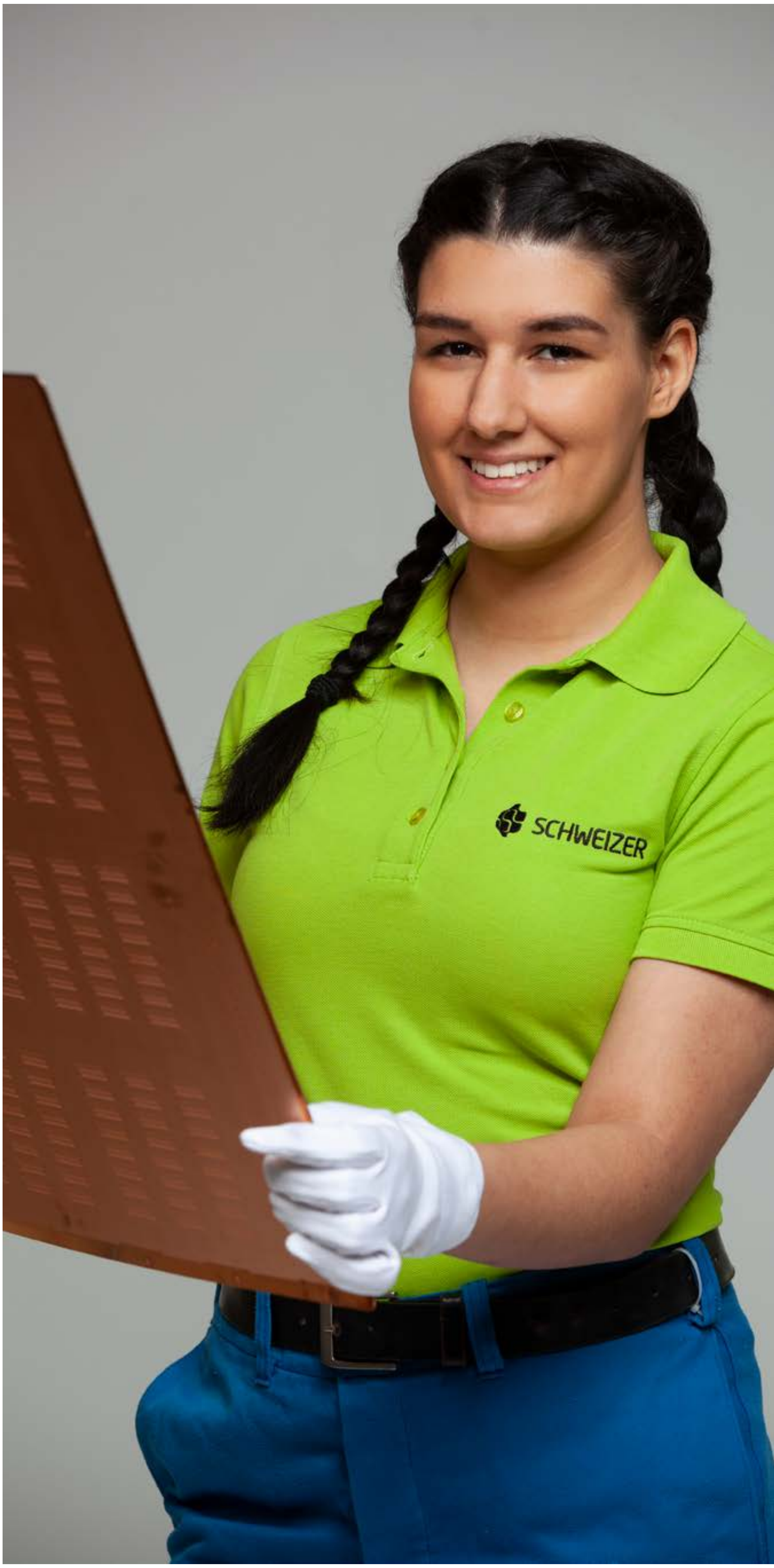
Colin Yuan
Quality Engineer

»Last year I successfully finished my apprenticeship as surface coater and subsequently got a permanent employment contract with SCHWEIZER. I am now responsible for the surface finishing e.g. electroless nickel-gold in the production area.

We enjoy a pleasant working climate at SCHWEIZER with good cooperation and appreciation within the team. We are all very different and bring various different skills with us, but we pursue the same target.

I think it is really cool that we are represented internationally. It fascinates me that from next year onwards, we will also be producing printed circuit boards in a further, much larger production site in Jintan, thus becoming even more important on a global level. Being part of a world-wide operating company fills me with pride and inspires me.«

Meryem Altunpinar
Surface Coater



»Since the beginning of 2017, I have been Head of the Project Management Office at SCHWEIZER. From this position I have a holistic view on our project landscape in particular with regard to its alignment with the company strategy and economic efficiency. In case of inefficiencies, my task is to adjust.

I fills me with pleasure to ensure that the objective which has been set is achieved despite all adversities. The more challenging and complex the starting position, so much the better. The organisational project management for setting up our new production site in Jintan is particularly exciting, because in addition to the factual challenges we are faced with many different mentalities in the team. However, with consistency and diplomacy we continuously manage the successful transfer of the requirements from our German mother company to the Team in China and vice versa.

Like a symbol, this project reflects the company SCHWEIZER and its culture: We are open to new ideas and ways of thinking as well as clever and consistent in their realisation. We are passionate about our work, and we don't let ourselves be discouraged by difficulties.«

Irina Geiger
Head of Project Management Office

»I am responsible for sales and business development in the Japan and Korea region. Maintaining a close contact with the customers and continue making them fascinated with our innovation and support to solve their problems with our products is particular important in my job. I am excited and proud of the state-of-the art technologies we can always offer to our customers.

The Japanese market has some specialities such as the business culture and mind-set, and being familiar with the different cultures helps a lot to overcome such challenges.

My vision for SCHWEIZER is that we become one of the companies who have a strong influence on and contribution to electronics innovation. My role is to share our technologies with the worldwide customers and industries to create new values in the world.«

Shinjiro Naito
Key Account Manager
Japan / Korea

»Front End is a challenging section in the PCB production. It demands a high level of concentration, sharp vision, and careful detailing, to ensure all customer requirements are understood and the plant capabilities are considered. I am full of enthusiasm and excitement in spearing ahead with our SCHWEIZER team towards the successful set up of our plant in Jintan.

The growing automotive market in China and the upcoming 5G provides great market potential for PCB demands. SCHWEIZER has good engineering knowledge, and we are well-received in the market. Many of our staff have been serving in the company for a long period and are very experienced. We hope to inculcate such similar good culture in Jintan, and we will all strive together to bring good value to SCHWEIZER as a whole.«

Mabel Tay
Head of Asia Office
Head of Front End Asia

»For eight years I have been working for Schweizer in the Controlling Department, being responsible for planning, reporting and sales controlling. In this position I enjoy delivering the data to create the necessary transparency in order to support company decisions.

Since this is only possible with integrated systems, we closely coordinate the future group controlling in mutual workshops with our colleagues from China. Our target is to implement the same high standard from Schramberg at the site in Jintan.

What I find most fascinating about Schweizer is the long company history of 170 years. The company has always been able to re-invent itself. I enjoy being part of the team which now lays down the track for the global growth. «

Christoph Schmitz
Controlling

SHARES

GENERAL STOCK MARKET PERFORMANCE

The gloomy economic outlook and global political uncertainties have also left their mark on the DAX, Germany's leading index. After a promising start and a record 13,597 points, the DAX experienced a disappointing year in 2018. The leading German index fell to 10,559 points at the end of the year, which corresponds to a drop of approximately 18 percent. This is the first annual loss for the index since 2011. On the other hand, our comparative index, the TecDax technology index, fared much better. Compared to its high in September 2018 (3,039 points), it had lost around 21 percent by the end of the year, but for 2018 as a whole the loss was reduced to approximately 3 percent or a close of 2,450 points.

SCHWEIZER SHARE

The Schweizer Electronic AG share started 2018 at a price of EUR 21.29 and already reached its high of EUR 21.70 on 10 January. In line with the overall market, the share price fell by around 8 percent (to EUR 19.50) at the beginning of February. This was followed by a slightly falling sideways movement which was interrupted by a short-term high of EUR 21.10 at the beginning of April. The share price trend in the second half of the year was largely similar to that of our largest customer group, the Automotive division. Reports from German vehicle manufacturers about restrictions in their production due to the changeover to the new WLTP exhaust emissions test procedure, news about punitive duties on their cars, profit warnings from automotive suppliers and generally uncertain economic prospects led to a downward trend which the share price of Schweizer Electronic AG was unable to escape. In the second half of the year, the share price fell by 30 percent and closed 2018 at EUR 13.00.

DIVIDEND

At the end of 2017, the company took a strategic decision to build a high-tech plant in China. With this strategic decision, management expects to participate more strongly in the opportunities arising in the growing market segments such as e-mobility and autonomous driving. Against this background, the Executive Board and Supervisory Board propose to suspend a dividend for the 2018 financial year in order to invest the freed-up funds in future growth. In the medium term, management expects its strategic realignment to result in a disproportionately high increase in the value of the company.

Dividend

Dividend for financial year	Dividend per share
2014	EUR 0.65
2015	EUR 0.65
2016	EUR 0.65
2017	EUR 0.30
2018	EUR 0.00 *

* Proposal to the annual general meeting.

Share price 1 January 2018 – 31 March 2019

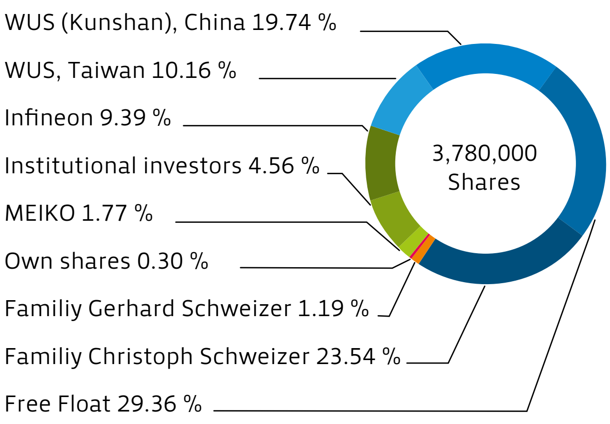
INVESTOR RELATIONS

Our goal is openness and transparency in continuous dialogue with our shareholders and capital market participants. Our investor relations work focuses on strengthening confidence in our shares in the long term and achieving a fair valuation on the capital market. In 2018, SCHWEIZER again provided all interested capital market participants with comprehensive information through financial reporting, capital market and telephone conferences, road shows and numerous one-on-one meetings. This allowed them at all times to make a reasonable evaluation of the current business situation and assess the company's prospects. The annual general meeting is the key forum for our private shareholders. In an effort to establish a sustainable and trusting relationship with all stakeholders, we have published additional company information on our website besides the documents required by law. Extensive numerical data, various presentations and an assessment by analysts are published at *www.schweizer.ag/en/investor-relations.html*.

SHAREHOLDER STRUCTURE

The shareholder structure of Schweizer Electronic AG was as follows at the end of 2018:

Shareholder structure as at 31/12/2018



SHARE DATA

	2018	2017
Year-end closing price	EUR 13.00	EUR 21.29
Year high	EUR 21.70	EUR 23.45
Year low	EUR 12.75	EUR 17.64
No. of shares	3,780,000	3,780,000
Market capitalisation at the end of the financial year	EUR 49.1 million	EUR 80.5 million
Dividend per share	EUR 0.00 [1]	EUR 0.30
Dividend yield	-	1.6 % [2]

[1] Proposal to the annual general meeting
[2] Relative to share price on the 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 2018

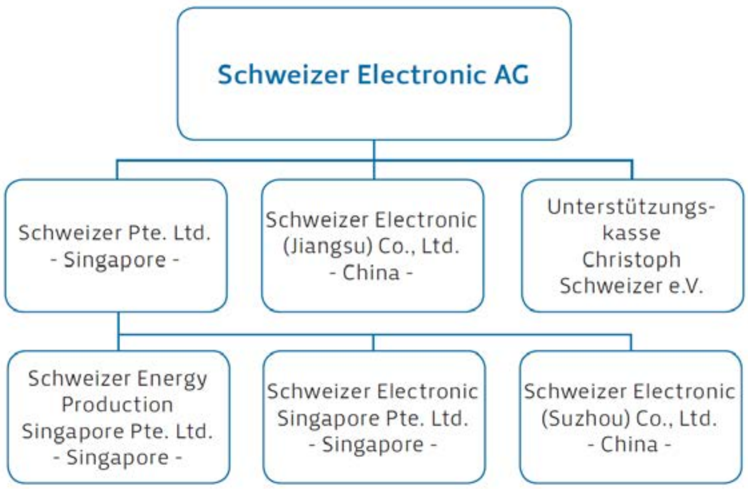
This report summarises the Group status report of the Schweizer Group ("Schweizer" or the "company"), comprising Schweizer Electronic AG and its consolidated subsidiaries, and the status report of Schweizer Electronic AG. It should be read in context with the audited consolidated financial statement including the notes thereto, which are presented elsewhere in this report. The audited consolidated financial statement is based on a series of assumptions and on accounting and valuation methods that are presented in detail in the notes to the consolidated financial statement. In addition, passages designated as such should be read in the context of the audited individual financial statements, including the notes. The summarised status report contains forward-looking statements regarding the performance of the business, the financial development and the income of Schweizer. These statements are based on assumptions and forecasts which 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.

BASIC PRINCIPLES OF THE GROUP

LEGAL AND ORGANISATIONAL STRUCTURE

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

GROUP STRUCTURE



Effective 2 November 2018, the 31.42 percent stake in Meiko Schweizer Electronics Hong Kong Co. Ltd (Hong Kong) was sold to the joint venture partner, Meiko Electronics Co. Ltd, Ayase/Japan.

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.

SCHWEIZER, together with its partners WUS Printed Circuit (Kunshan) Co., Ltd., Kunshan, China, Meiko Electronics Co. Ltd., Ayase, Japan, and Elekonta Marek GmbH & Co. KG, Gerlingen, offers cost and production-optimised solutions for small, medium and large series. SCHWEIZER employed a total of 814 staff worldwide as at the reporting date. In future, the chip embedding market for automotive and industrial applications will be developed with Infineon Technologies AG, Munich. The jointly developed p² Pack technology is now about to be launched on the market.

Schweizer Electronic AG has been listed on the stock exchange in the regulated market segment 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 increasingly take advantage of the trends in technology for energy efficiency and electromobility and the steadily growing demand for radar and camera applications for intelligent driver assistance systems, and has adapted part of its portfolio accordingly. This approach will be realised by structuring the company into the Electronic and Systems divisions. While the Electronic division has been established for many years, the Systems divisions is still undergoing development in cooperation with Infineon. In addition, we are working intensively to significantly expand our portfolio in the industrial and aviation sectors and to attract additional customers with our innovative solutions.

In August 2018, in the presence of government representatives, SCHWEIZER laid the foundation for its new high-tech production facility in Jintan, Jiangsu Province (China). Power electronics and embedding applications will be manufactured in Jintan on a total production area of 90,000 square metres. After completion of the construction phase which is scheduled to last 18 months, the new production capacities will be set up in three production start-up phases, each with a capacity of 1,200 square metres of printed circuit boards per day. SCHWEIZER will thereby continue to exploit the global market potential for power electronics and chip embedding applications for its customers through innovative, high-quality printed circuit boards and embedding solutions and will, in particular, target the fast-growing Chinese market.

ELECTRONIC

Together with its partners WUS Printed Circuit (Kunshan) Co., Ltd., Meiko Electronics Co. Ltd. and Elekonta Marek GmbH & Co. KG, SCHWEIZER is 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. 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 PCBs). The prevailing business model, whereby customers purchase the required PCBs and components separately, will be altered in the future by the embedding approach. The integration of components in the PCB requires a new business and process model, in which both the component manufacturer and the PCB manufacturer are closely involved. To enable early implementation of this new approach and complete its range of products and services, SCHWEIZER is therefore working closely with Infineon, customers and technical institutes to ensure that it can offer PCBs and much more besides in the future in the Systems division. First regular sales are expected in 2020/2021 at the earliest. No customer orders for series production had yet been placed as at the balance sheet date.

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

BUSINESS UNITS

RESEARCH AND DEVELOPMENT

PROCESS TECHNOLOGY

In production, key core processes in the field of conductive patterns were improved through the introduction of laser direct exposure units. The results exceed the specified and expected outcomes, with the result that the concept will be continued in other areas in the 2019 financial year. In addition, a large number of measures have led to improvements in yield and quality.

In order to prepare our embedding technologies (p^2 Pack MOSFET Embedding) for series production, extensive ESD and cleanliness measures were initiated and implemented, as well as various modifications to wet-chemical plants. Furthermore, the handling of semiconductors in the printed circuit board line requires new automation technologies which are currently also being implemented.

Another focal point was to plan and define the process sequences for the new plant in Jintan (China). A team consisting of German and Asian employees was responsible for determining the necessary machines as well as the registration and planning procedures.

SERIES DEVELOPMENT

SCHWEIZER consistently worked on the further development of its innovative technologies and solutions in series development. Of particular note here is the special quality of our bond surfaces, which impresses our customers time and again. In the area of high-frequency printed circuit boards, we succeeded in expanding our portfolio by optimising process technology, the manufacturing process and the materials used, among other things. In order to be able to make inlay technology available to a broader market, solutions were worked on that could also make this technology, with all its advantages, available in large quantities.

Progress regarding diversification was made by further convincing our customers in the aerospace industry of the benefits of our high-tech printed circuit boards. The outstanding properties of SCHWEIZER's inlay circuit boards and the Power Combi board in power electronics applications were demonstrated. Due to the very positive feedback from the customer, the solutions can be mass produced.

In cooperation with Infineon, plans are now underway for the introduction of p^2 Pack technology to the automotive mass market. The investments associated with these changes at SCHWEIZER are in procurement or in intensive planning. The project teams of both companies are working to ensure error-free and smooth series production with a highly reliable technology. The prototypes produced have consistently received positive feedback from customers.

INNOVATION

In the area of pre-development, we once again focused on publicly funded projects of the Federal Ministry of Education and Research (BMBF) this year. These are:

The SiCmodul funded project

A high-voltage power embedding module was designed as a smart p² Pack that can be used in a 6-phase traction inverter (e-mobility). The complete system, from the asynchronous motor and cooling to the control board and control software, was included. Unit cells were manufactured from high-voltage MOSFETs, which were applied using a special soldering technology and used to evaluate a novel high-performance material system.

The KoRRund project

Within the framework of this project, new printed circuit board base materials were identified which are necessary for the next radar generations. While laminates are mainly used for today's assemblies, new product generations require material in the B-stage state, i.e. prepregs. Test samples were produced from these materials. The high-frequency properties were characterised by a cooperation partner in a range of up to 110 GHz. Further focal points of the project included the research of conformal antennas as well as application areas of SCHWEIZER's patented μ² Pack technology.

Smart PVI box project

This project, which will be completed shortly, focused on the further development of base materials for high-voltage applications with optimised thermal conductivity. The project identified promising materials and tested them for their suitability for embedding technologies. Furthermore, relevant manufacturing processes for high-voltage embedding applications were optimised and evaluated using prototypes with SiC semiconductors for 1,200V. The project also included national and international publications on developments in high-voltage power electronics.

In 2018, SCHWEIZER's spending on research and development totalled EUR 3.9 million. In Germany, 41 employees were assigned to this division. As of 31 December 2018, SCHWEIZER employed 157 engineers and technical staff.

PATENTS

The total number of patents granted increased to 49 patents as at 31 December 2018

HUMAN RESOURCES

EMPLOYEES

The number of SCHWEIZER employees – based at the Schramberg site and including temporary staff – amounted to 773 as at 31 December 2018. This includes natural employee turnover of 3.2 percent, nine retirements, 65 new entrants, 11 hirings of former trainees and 29 conversions of temporary staff into a permanent employment relationship. Across the Group, SCHWEIZER employs an additional 41 employees in Asia. Experience has shown 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. SCHWEIZER thus offers temporary employees career prospects and counters the lack of specialists with in-house further qualification.

MARKETING AND SALES

SCHWEIZER's innovation and sales driver continues to be the automotive industry, as evidenced by the automotive sector's share of sales which amounted to around 70 percent in the past financial year. SCHWEIZER has good customer relationships with all the major European Tier 1 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 1s when it comes to radar sensors, thanks to its 24 and 76-79 GHz PCB solutions. Likewise for the camera systems, renowned Tier 1 companies opt for the SCHWEIZER FR4 Flex PCBs which permit a three-dimensional assembly solution.

Also in the field of electromobility, i.e. in the area of hybrid and electric vehicles which will grow steadily 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 possibilities provided by the large international trade fairs, such as the annual PCIM in Nuremberg or Electronica in Munich (which takes place every two years), and last year held a customer conference with many customers, institutes and industrial partners. Technology conferences are planned in five major European cities for 2019. 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. In addition to the four main uses for power applications in the automotive 48V hybrid vehicle sector, embedded power semiconductor technology will be particularly successful in automation. A clear trend is emerging away from 380V three-phase suppliers towards more cost-effective and safer low-voltage power levels. Here, our 48V applications qualified for automotive use also offer the ideal solution for industrial drives. It is therefore to be assumed that SCHWEIZER will gain market shares continuously in these markets too.

PROCUREMENT

In 2018, purchasing activities focused primarily on further optimising processes and securing the supply of raw materials for the Schramberg production facility. At the same time, organisational measures were launched for the new production plant in Jintan (China).

In contrast to 2017, delivery times for base materials (especially copper foil) declined sharply. By reducing delivery times, it was possible to adjust scheduling accordingly and massively reduce inventories. The measures taken in 2017 to ensure a smooth supply of base materials (including qualifications) were completed in 2018, so that the company is now more broadly positioned for the future.

From January 2018, further process optimisation activities were launched, which were gradually put into production over the course of the year. In this respect, our focus was on simplifying procurement processes. The procurement organisation for the new production plant in China was established in the second quarter of 2018. The main emphasis here was on the recruitment and training of the local purchasing department and the development of processes and software. An integrated process solution for procurement has been available since the fourth quarter of 2018.

QUALITY MANAGEMENT

2018 was defined by a consolidation of the various quality management systems. Effectiveness and efficiency continued to be the focus. On the customer side, these efforts and activities were very positively received – a fact expressed in various customer evaluations and customer audits.
Among other things, the automotive management system was reviewed in accordance with IATF 16949:2016. The system in place passed the review with flying colours, leaving no doubt as to the continued readiness for certification or the certificate itself. In addition, the aerospace industry's management system EN 9100:2016 was successfully recertified. This system too was once again given the green light by the auditors. During the inspections, it was possible to review the system conformity based on various customer orders for the aviation industry; the further development 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 tremendously. Nonetheless, we succeeded in manufacturing even the most complex of products and in 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 workflows required for their manufacture are becoming increasingly complex and multifaceted, SCHWEIZER keeps its "green" technologies and processes in mind through appropriate product and process development in order to limit the environmental impact. Naturally, all environmental aspects will continue to be considered to take timely mitigation measures or reduce impacts where appropriate. This is also part of our mission statement. Through the consistent application of corresponding environmental as well as hazard analyses, the protection of our employees and business partners, who are involved in manufacturing and using our products, is our top priority as a matter of course. The effectiveness of our systems is regularly reviewed by means of internal audits, for example, and was once again confirmed for 2018 by the certification organisation within the framework of ISO 14001 and ISO 50001 certifications.

ECONOMIC REPORT

ECONOMY AND SALES MARKETS

Increasing uncertainties and a significant slowdown in the pace of growth were decisive factors in the development of the European economies. Like the previous five years, 2018 ended with positive growth. At around 1.9 percent, however, this growth is weaker than in 2017, which from today's perspective can be assumed to be the temporary peak of the growth cycle. Despite the increasing uncertainties, the very robust domestic economy with high employment rates and disproportionately high wage increases had a supporting effect on the economy in 2018. The sustained low interest rate phase in conjunction with the continued expansionary monetary policy had a positive effect on general investment activity. The uncertainties were based on the development of trade barriers, particularly between the USA and China, which are also likely to have negative effects on the European economy, or the fear of negative effects arising from an unregulated Brexit. At 2.9 percent and 6.6 percent respectively, growth rates in the USA and China were once again higher than in Europe. Growth of 3.7 percent is expected worldwide. (Source: European Economic Forecast Autumn 2018).

2018 was marked by two very different half-years for our most important customer group – the automotive industry which accounts for around 70 percent of Schweizer's sales. With growth of 3.5 percent, the first half of the year was stronger than expected. Higher vehicle sales in China and the USA contributed significantly to this. (Source: LBBW Credit Outlook Automotive). This unexpectedly strong positive trend reversed in the second half of the year. Vehicle sales in the second half of the year were down on the previous year. In China, for example, sales figures fell below the previous year's level from June onwards. This trend gathered momentum through to November. The situation in many other markets was similar. In November, for example, sales figures for passenger vehicles in China were 16.2 percent down on the previous year, in Europe 8.1 percent and in the USA 0.7 percent (source: VDA, NTI). In the first 11 months of 2018, vehicle sales in China were 2.4 percent below that of the previous year, while all other important markets still recorded slight growth. The increasingly severe trade barriers between China and the USA are largely responsible for the trend reversal, especially in China. In Europe, the forthcoming Brexit, the introduction of the new WLTP emissions standard for all new registrations from 1 September, and the bans on the use of diesel vehicles in Germany led to restraint due to a loss of confidence on the part of buyers.

Sales figures for plug-in electric vehicles also developed strongly against the trend in 2018. Sales in this market are expected to increase by 50 percent to 2 million units sold. By far the largest market for electric vehicles is China, where sales of 1,275,000 units are expected – over 60 percent of the global market. China is followed by the USA with 356,000 units. With 68,000 units, Germany was the world's fourth largest market. (Source: CAM, NTI)

PRINTED CIRCUIT BOARD INDUSTRY

The printed circuit board industry is dominated by Asia. In 2018, printed circuit boards worth USD 69.3 billion were produced in Asia, equivalent to over 92 percent of the worldwide market which amounted to USD 75.0 billion in 2018. The most important production site for printed circuit boards by far was China with sales of USD 40.5 billion, followed by Taiwan with USD 7.9 billion. With sales of USD 3.2 billion, America still accounted for 4.2 percent of the global volume, while Europe, with USD 2.4 billion, represented only around 3.2 percent of the global printed circuit board market.

Growth momentum was also higher in the Asian printed circuit board markets in 2018 than in the West. Production in Asia rose by 6.5 percent compared with 2017. China once again stood out with expected growth of 9.0 percent. Growth of 2.1 percent is expected in Europe. For Germany, the expectation of 3.5 percent growth is well above the European average.

Worldwide, growth of 5 percent is expected for printed circuit boards for automotive electronics. (Source: NTI)

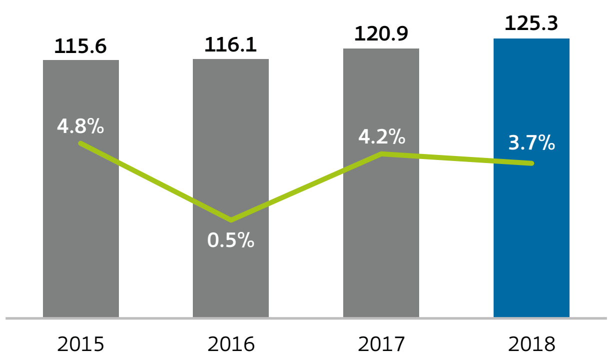
DEVELOPMENT OF EARNINGS (IFRS)

In the following section, we report on the Group's results of operations in accordance with International Financial Reporting Standards (IFRS). Schweizer Electronic (Jiangsu) Co., Ltd. in China, which is currently in the process of being set up, was fully consolidated for the first time. Business activities were broken down by region according to the destination of our deliveries. Sales figures were determined in accordance with IFRS 15 for the first time. Leasing obligations are reported in accordance with the provisions of IAS 17.

SALES DEVELOPMENT AND ORDER BACKLOGS

Group sales amounted to EUR 125.3 million. This corresponds to growth of 3.7 percent compared to the previous year. The first-time application of IFRS 15 resulted in reduced revenues of EUR 52 thousand and cost of sales of EUR 192 thousand in the financial year 2018. This meant that we were able to achieve the highest sales in the company's history in the year under review, despite the challenging development of our sales markets in the second half of the year.

Sales / in EUR millions / change compared to previous year



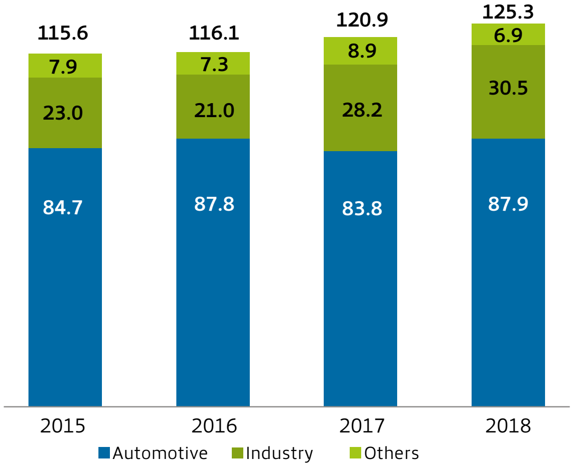
The trend towards higher-quality printed circuit boards, in particular from production in Schramberg, continued in 2018. This is reflected in a 1.6 percent increase in the average price per square metre of printed circuit board produced. Following a decline in sales to customers in the automotive industry in 2017, business in this customer segment recovered again in the year under review, reaching a new record high of EUR 87.9 million. This is equivalent to an increase of 4.9 percent.

After a euphoric first half of the year, sentiment became increasingly gloomy among automotive customers from late summer onwards. This was largely due to the introduction of the new WLTP exhaust test procedure in September 2018, the sharp decline in sales of diesel vehicles due to the implementation of diesel driving bans in some inner cities, and the surprising decline in sales figures in China, the world's largest automobile market.

Business with industrial electronics customers was pleasing. Detection, sensor technology and system controls are typical areas of application for this customer group. Sales in this segment amounted to EUR 30.5 million, an increase of 8.2 percent compared to 2017. Industrial customers thus accounted for 24.3 percent of Group sales.

By contrast, other customers in the fields of communication, consumers and computers decreased to EUR 6.9 million (2017: EUR 8.9 million).

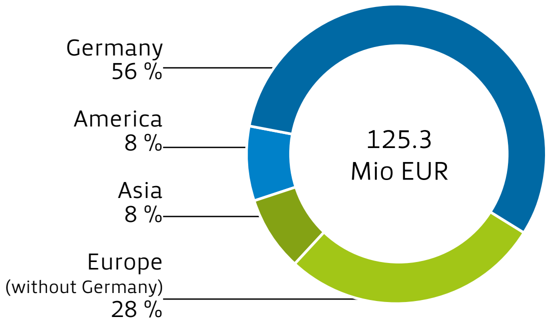
Sales by customer group (in EUR millions)



There were no significant changes in the sales regions in which our products are sold in the year under review. The export share increased from 40.2 percent to 43.7 percent in 2018.

Germany remained the most important sales region by far in 2018. Despite a slight decline, sales in Germany amounted to EUR 70.5 million (2017: EUR 72.3 million), which represents 56.3 percent of consolidated sales. The decline in Germany was more than made up for by the increase in Europe of EUR 6.7 million to EUR 35.1 million. As a result, the share of sales from Europe, including Germany, rose again to 84.3 percent. In the Asia region, sales were almost constant at EUR 9.6 million and in America at EUR 9.9 million. More pronounced shifts were seen in the generation of sales revenue by production location. We distinguish between in-house production in our plant in Schramberg and production at our partners, WUS and Meiko, in China and Vietnam. While the production volume in Schramberg fell by 8.8 percent, that of our partners rose by 117 percent. This positive development was made possible by important project start-ups in the area of high-frequency printed circuit boards and at Meiko in Vietnam with standard printed circuit boards. As a result, almost 20 percent of sales were generated by our partners in 2018.

Sales by region (in EUR millions)



EUR million	2018	2017
Germany	70.5	72.3
Europe (excl. Germany)	35.1	28.4
Asia	9.6	9.5
America	9.9	10.3
Other countries	0.2	0.4
	125.3	**120.9**

The trend towards technologically sophisticated printed circuit boards from the power electronics sector and system cost reductions continued unabated last year. Sales in this technology segment rose by 19 percent, while volumes in the standard segment fell by just under 18 percent. There were no significant sales from the embedding product portfolio in the year under review.
At the end of the year under review, orders on hand totalled

EUR 171.2 million (2017: EUR 181.5 million). Of this order book, around EUR 113.1 million will be delivered in 2019. 2018 can thus be divided in two parts. Until July, order backlogs were stable to slightly higher, reaching just under EUR 190 million. From August onwards, the trend reversed. The book-to-bill ratio deteriorated to below 1.0 in the last five months of the year under review, while this ratio was still above 1.0 in the first seven months. The weakening order volume in the second half of the year particularly affected products intended for production in Schramberg, while order momentum for products intended for our strategic partners in China and Vietnam remained stable to slightly rising. Overall, incoming orders in the year under review totalled EUR 123.8 million, which corresponds to a book-to-bill ratio of 1.0.

OPERATING MARGIN AND OPERATING RESULT

Gross profit amounted to EUR 18.6 million (2017: EUR 19.0 million). As a result, the gross margin therefore decreased to 14.8 percent. The main reasons for the decline were the sharp rise in the proportion of merchandise, products manufactured by our partners in Asia of 117 percent and a simultaneous decline in in-house production of 8 percent. Owing to the business model, gross margins in the trading business are lower than those for in-house production. In the case of in-house production, profitability in the fourth quarter was adversely affected in particular by weak capacity utilisation. The regulation on partial retirement introduced in 2018 led to an addition to provisions of EUR 1.0 million, which is mainly allocated to cost of sales due to the number of employees in production.

Expenses for administrative and selling expenses as well as other operating income decreased by EUR 1.7 million to EUR 17.0 million. The main reason for the decline is the EUR 2.5 million provision for litigation risks created in 2017. This was a one-off effect that was no longer manifested in 2018. In addition, other operating income increased primarily due to the release of short and medium-term compensation components from previous years. On the other hand, costs in the sales division rose due to additional expenses for trade fairs and customer events. The increase in administrative expenses is mainly attributable to start-up losses for the construction of the plant in China.

As a result, the operating result (EBIT) increased to EUR 1.6 million. This represents a five-fold increase compared to the previous year, when EBIT amounted to EUR 0.3 million. Depreciation amounted to EUR 7.5 million. This enabled us to improve the EBITDA to EUR 9.2 million. This is equivalent to an improvement of 10.7 percent compared to the previous year. At 7.3 percent, the EBITDA ratio was thus at a slightly higher level than in 2017. Excluding the start-up losses incurred in connection with the China project, the EBITDA would have amounted to EUR 10.4 million and the EBITDA ratio to 8.3 percent. The EBITDA ratio was diluted not only by project costs in China but also by the higher proportion of revenue generated via our strategic partners in Asia. The margins of the trading business were 30-40 percent lower than those of in-house produced printed circuit boards.

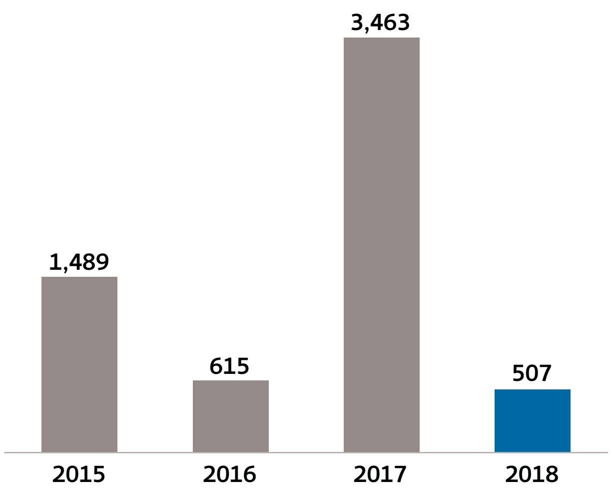
FINANCIAL RESULT

The financial result amounted to EUR -0.9 million (2017: EUR +3.9 million). The comparative year 2017 was positively influenced by a special gain of EUR 4.0 million from the sale of the majority stake in Meiko Electronics. In the year under review, the 31.42 percent stake in Meiko Schweizer Electronics Hong Kong Co. Ltd. was sold to the joint venture partner, Meiko Electronics Co. Ltd., Ayase/Japan. This resulted in an accounting loss of EUR 0.1 million. Interest expenses for current and non-current liabilities amounted to EUR 338 thousand. The long-term loans were not drawn down until December and therefore had no material impact on interest expenses.

INCOME TAXES

Income taxes amounted to EUR 351 thousand. This represents an effective tax expense of 41 percent. No deferred taxes were recognised for the start-up losses incurred in connection with the construction of the production site in China. At the German unit, taxable profits amounted to EUR 6.1 million, which led to a local tax liability of EUR 1.7 million. The tax rate in Germany was 28 percent.

Consolidated result after taxes (in EUR thousands)

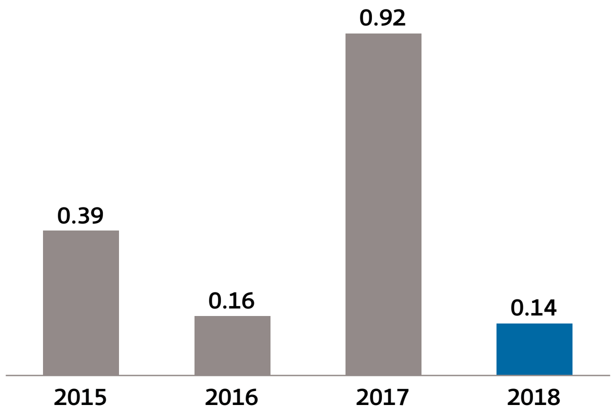


EARNINGS AFTER TAXES AND EARNINGS PER SHARE

The after-tax result thus amounted to EUR 0.5 million (2017: EUR 3.5 million). Excluding the most important special effects in the amount of EUR 1.5 million from 2017 – the creation of a provision for litigation costs of EUR 2.5 million and the profit from the sale of shares of EUR 4.0 million – a deterioration in the result of EUR 1.5 million remains, which is mainly attributable to the start-up losses from the construction of the site in China.

Earnings per share for the past financial year amounted to EUR 0.14 per share.

Earnings per share (in EUR)



DIVIDEND

SCHWEIZER intends to grow dynamically in the global market for power electronics and chip embedding applications in the future. The new high-tech plant under construction in China is expected to start production at the beginning of 2020. In view of the high investment funds required for this, the Executive Board proposes to the Supervisory Board to suspend dividend payments for the 2018 financial year and to invest the freed-up funds in the investment for growth in China.

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

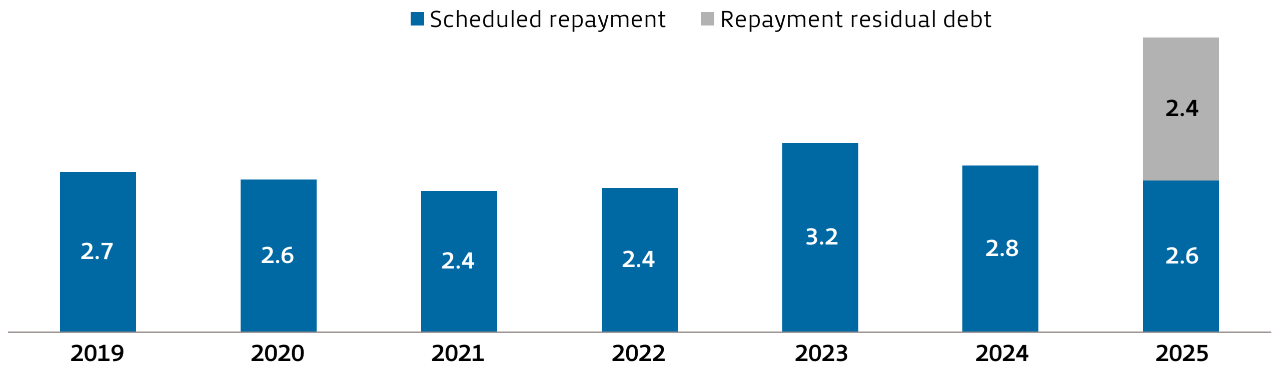
DEVELOPMENT OF THE FINANCIAL POSITION (IFRS)

As at the balance sheet date, Schweizer had liabilities to banks in the amount of EUR 25.4 million (2017: EUR 7.2 million).

Long-term financing amounted to EUR 18.3 million, representing an increase of EUR 12.3 million compared with 2017. A sum of EUR 15 million was raised in the form of a senior loan for the purpose of constructing the plant in China and paid into Schweizer Electronic (Jiangsu) Co. Ltd. as equity in addition to equity capital of EUR 5.9 million. The total available credit line from this tranche amounts to EUR 34 million. The loans have a term of 10 years and a variable EURIBOR interest rate with a margin grid that depends on the current debt-equity ratio of Schweizer Electronic AG. There are currently no interest rate hedges. No local loans have yet been taken out in China.

At the end of 2018, the credit lines amounted to EUR 8.2 million (2017: EUR 9.2 million). The decline of EUR 1.0 million is of a temporary nature due to a change of bank at our second-tier subsidiary Schweizer Electronic Singapore Pte., which is our trading company for the products of our Asian production partners. All short-term credit lines are unsecured and open-ended. No working capital lines are yet available in China. These are not expected to be made available until operations commence. Current financial liabilities amounted to EUR 7.1 million as of the balance sheet date (2017: EUR 1.2 million).

Maturity profile of financial liabilities* (in EUR millions)



* without repayment/utilisation of short-term credit lines

DEVELOPMENT OF LIQUIDITY

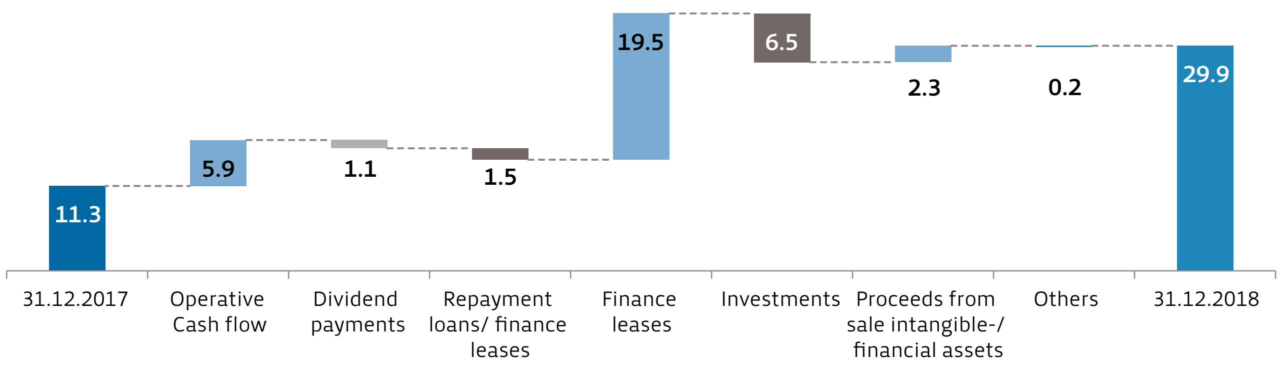
Liquid funds amounted to EUR 30.0 million. This represents an increase of EUR 18.7 million compared with the previous year.

Operating cash flow increased by EUR 1.3 million to EUR 5.9 million (2017: EUR 4.6 million). Earnings before taxes fell by EUR 3.0 million, with pre-tax profit in 2017 benefiting from a gain of EUR 4.0 million on the disposal of financial assets.

The cash flow from investing activities totalled EUR -4.2 million in the reporting year (2017: EUR +1.4 million). Cash investments in tangible and intangible assets increased by EUR 3.2 million to EUR 6.5 million. The Group received EUR 2.3 million from the sale of financial assets and property, plant and equipment. In the year under review, free cash flow amounted to EUR 1.7 million.

The main factor for the higher liquidity was the raising of a long-term loan of EUR 15 million, which was transferred to the project in China for the construction of a production facility. The funds will be used for investments to be made in 2019. In addition, dividend payments decreased to EUR 1.1 million (2017: EUR 2.4 million). The annual general meeting resolved to reduce the dividend so that investments in the growth project in China could be made. Overall, cash flow from financing activities amounted to EUR 16.8 million.

Group liquidity (in EUR millions)



Cash flow (in EUR millions)

	2018	2017
Cash flow from current business activities	5.9	4.6
Cash flow from investment activities	-4.2	1.4
Cash flow from financing activities	16.8	-4.0

DEVELOPMENT OF NET ASSETS (IFRS)

The total assets of Schweizer amounted to EUR 135.3 million in the year under review (2017: EUR 113.6 million). Of this amount, 44 percent consisted of non-current assets and 56 percent of current assets. Compared to the previous year, this is a significant shift towards current assets, which increased by EUR 24.8 million to EUR 76.2 million, while non-current assets decreased by EUR 3.1 million to EUR 59.1 million.

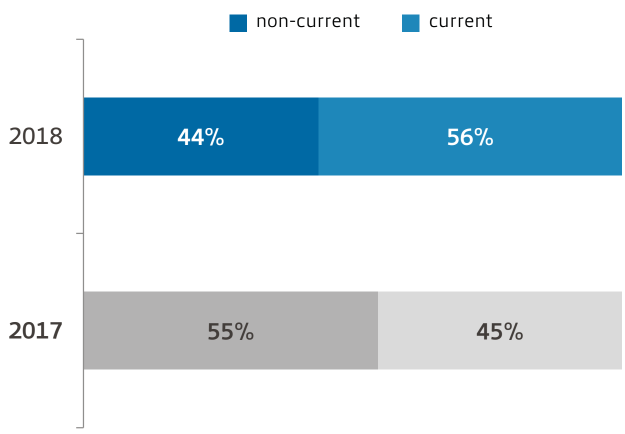
The value of property, plant and equipment and intangible assets decreased to EUR 58.4 million. The decrease of EUR 1.8 million is attributable to scheduled depreciation, which was higher than the additions. The second major factor was the sale of the shares in Meiko Schweizer Electronics in Hong Kong, which resulted in a reduction of EUR 1.2 million in investments in companies accounted for using the equity method. The first-time application of IFRS 9 led to a slight reduction in financial assets in the amount of EUR 20 thousand. The main reason for the sharp increase in current assets was the EUR 18.7 million increase in cash and cash equivalents to EUR 30.0 million. In addition to free cash flow, the main reason for this was a long-term loan of EUR 15.0 million to finance the construction of our new production facility in China. The funds are currently available to Schweizer Electronic (Jiangsu) as equity capital. In addition, the first-time application of IFRS 15 resulted in the recognition of contract assets of EUR 8.7 million.

The above-mentioned inflow of funds through the raising of a long-term loan of EUR 15 million also resulted in a change in structures on the liabilities side. As a result, the equity ratio fell from 55 percent to 47 percent in the year under review. The lower ratio was due to the balance sheet extension. Equity rose slightly to EUR 63.0 million (2017: EUR 62.3 million), which is mainly due to the positive annual result. Profit reserves increased by EUR 0.8 million. Profit reserves increased by EUR 1.4 million as a result of the new IFRS 15 accounting standards to be applied with effect from the financial year.

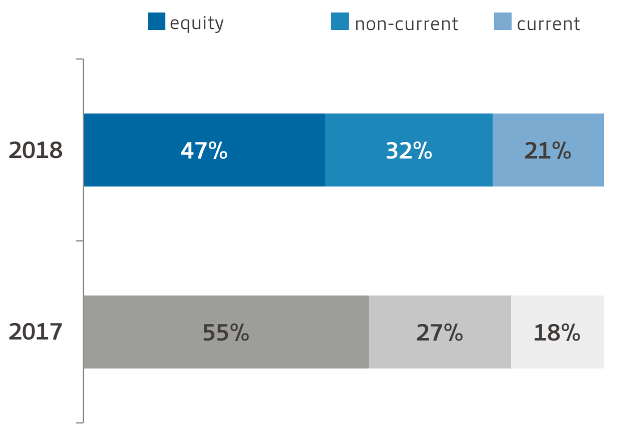
Non-current liabilities rose to EUR 43.7 million (2017: EUR 31.1 million). This increase is mainly due to the raising of the long-term loan of EUR 15 million, which increased non-current financial liabilities to EUR 18.3 million. Current liabilities increased to EUR 28.6 million (2017: EUR 20.2 million). Essentially, current financial liabilities increased by EUR 5.9 million and trade payables by EUR 3.3 million. Both items increased due to reporting date effects and, in the case of current financial liabilities, additionally due to the higher repayment obligations in 2019 due to the raising of the loan in Schramberg for the financing of the investment in China. A total of EUR 20.9 million in equity was paid into Schweizer Electronic (Jiangsu) in 2018.

The Group's net debt amounted to -7.2 percent.

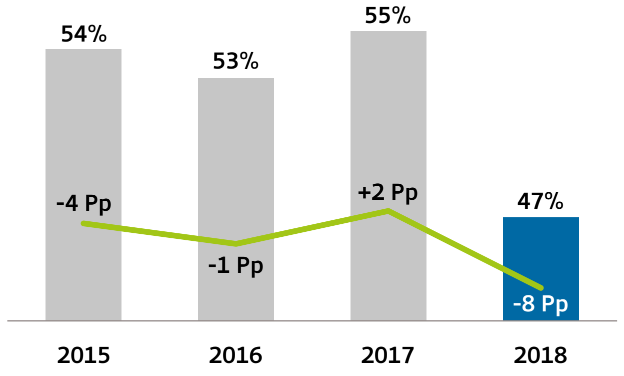
Assets (in percent)



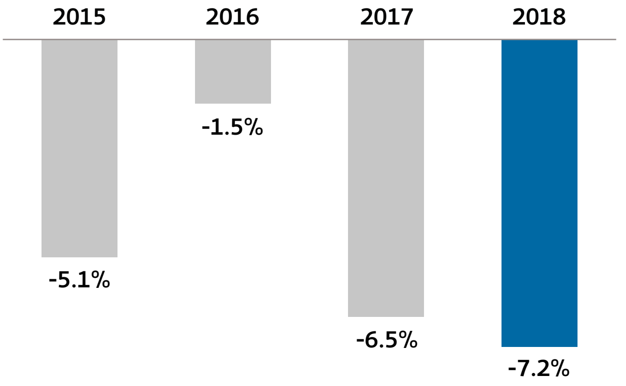
Equity and liabilities (in percent)



Equity ratio percentage / change on prior year



Net debt percentage



KEY FIGURES FOR CORPORATE MANAGEMENT

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

- Profitability
- Growth and investment
- Capital commitment
- Financing

The achievement of the category targets is measured on the basis of various key figures and compared against the targets set. The following comparison relates to the achievement of targets compared to the April 2018 target as presented in the 2017 Annual Report. Depending on the company's situation, it is possible and meaningful to adjust the objectives so that the respective strategy of the entire company can be achieved as effectively as possible.

1. PROFITABILITY

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

Schweizer set itself the target of an EBITDA ratio of 7 to 9 percent for the 2018 financial year. With target sales of just under EUR 130 million, this corresponded to a target EBITDA of around EUR 10 million. The EBITDA actually achieved amounted to EUR 9.2 million, which represents an EBITDA ratio of 7.3 percent.

2. GROWTH AND INVESTMENT

Schweizer measures the category "growth and investment" on the basis of the key figures of growth rate and investment rate. The growth rate shows the percentage change in sales compared to the previous period. After generating sales of EUR 120.9 million in 2017, Schweizer set itself a growth target of a further 6 to 8 percent in 2018. In mathematical terms, the target turnover was therefore forecast at between EUR 128 million and EUR 130 million. Sales of EUR 125 million were actually generated last year; this corresponds to a growth rate of 3.7 percent. Postponements of call-offs in the fourth quarter to the following year led to a reduction in sales expectations. In November 2018, the forecast for sales growth of between two and three percent was communicated to the capital market (ad-hoc release of 6 November 2018). The ratio of cash flow from investing activities (excluding divestments) to the EBITDA in EUR represents the investment ratio. We set ourselves the goal of achieving an investment ratio of 300–400 percent. With an investment ratio of 81 percent, this target was not achieved, as the investment activity in China will only start in full in 2019.

3. CAPITAL COMMITMENT

An important factor in liquidity management is the optimisation of capital commitment. We measure capital commitment on the basis of working capital. Working capital is the difference between current assets and current liabilities. This is calculated by deducting current liabilities from current assets (excluding cash and cash equivalents). On the part of customers, the pressure is growing towards longer payment terms and the establishment of consignment stocks. Longer payment terms combined with a higher sales volume will lead to an increase in receivables and thus in pre-financing requirements. Another important factor is inventory management. As part of working capital management, the aim is to reduce inventories of raw materials, consumables and supplies, semi-finished goods and finished goods. For this purpose, Schweizer applies a continuous, SAP-supported scheduling process from purchasing and production planning to sales. It is ultimately the task of working capital management to optimise supplier liabilities by managing payment terms and setting up consignment warehouses. SCHWEIZER has, however, pursued a strategy of consistently exploiting potential cash discount income in recent years. This is an attractive alternative, especially given the current low-interest rate phase combined with high liquidity holdings, even if it does not minimise working capital. SCHWEIZER has set itself a stable level of working capital for 2018, which may change due to volume growth or a reduction in sales. Working capital in fact amounted to EUR 25.4 million. This represents an increase of 14.9 percent compared to 2017. As the increase in sales amounted to 3.7 percent, this target was not achieved. The disproportionately high increase is mainly attributable to longer payment terms for sales of products manufactured by our strategic partners in Asia.

4. FINANCING

In recent years, SCHWEIZER has concentrated on very stable balance sheet structures, high equity ratios and very low debt. The key figures used to measure the target category of "'financing" are the equity ratio and net gearing ratio. An equity ratio of between 45 and 50 percent was targeted for 2018. At 46.6 percent, this target was achieved.

The net gearing ratio is calculated as interest-bearing liabilities less liquidity in relation to equity. For 2018, we have set ourselves the target of a net gearing ratio in the low double-digit percentage range. With a net gearing ratio of -7.2 percent, liquidity holdings in the year under review were higher than interest-bearing liabilities. This exceeded the target set for the year as a whole.

TARGET ATTAINMENT OF THE SCHWEIZER GROUP

The following table shows the achievement of the target values in the financial year 2018. The forecast is from April 2018, as presented in the 2017 Annual Report.

	2017 actual	**2018 target (forecast April 2018)**	**2018 actual**
Sales/Growth ratio	EUR 120.9 millions	+ 6 – 8 %	EUR 125.3 millions
EBITDA	EUR 8.4 millions	EUR 10 millions	EUR 9.2 millions
EBITDA ratio	7.0 %	7 – 9 %	7.3 %
Investment ratio	42.9 %	300 - 400 %	81 %
Net gearing ratio	-6.5 %	low double digits	-7.2 %
Equity ratio	54.9 %	45 – 50 %	46.6 %
Working Capital	EUR 22.1 millions	slightly up in line with higher sales	EUR 25.4 millions

The continuing uncertainty about Brexit and the international trade conflicts had an overall negative impact on the sentiment of end customers, which affected the business situation of SCHWEIZER in the fourth quarter.

SCHWEIZER ELECTRONIC AG

Explanations according to HGB

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

DEVELOPMENT OF EARNINGS

Income statement according to HGB (condensed version)

	2018	2017
	EUR thousands	EUR thousands
Sales revenue	117,542	119,994
Cost of sales	-95,186	-96,440
Gross profit	**22,356**	**23,554**
Distribution costs	-4,510	-4,436
General and administration expenses	-13,469	-12,396
Other operating income	2,169	4,098
Other operating expenses	-1,450	-3,622
Income from holdings	6	45
Other interest and similar income	27	8
Depreciation on financial assets	-33	0
Interest and similar expenditure	-701	-654
Taxes on income and revenue	-1,304	-1,489
Earnings after tax/ annual net income	**3,093**	**5,109**
Profit carried forward	4,419	2,940
Deposits in other profit reserves	-1,500	-2,500
Balance-sheet profit	**6,012**	**5,549**

Schweizer Electronic AG achieved sales of EUR 117.5 million in the reporting year (2017: EUR 120.0 million), which represents a decrease of 2.0 percent.

The order book as of 31 December 2018 decreased by 21.1 percent to EUR 139.3 million compared to the previous year. Of this total stock, PCBs worth EUR 93.3 million are scheduled for delivery in 2019.

The gross margin amounted to EUR 22.4 million, EUR 1.2 million lower than in the previous year. The gross margin of Schweizer Electronic AG thus stood at 19.0 percent (2017: 19.6 percent).

The changes in other operating income and expenses are primarily attributable to the absence of the special effects of the previous year. Other operating income in 2017 was still positively influenced by the EUR 2.6 million from the partial sale of the shares in Meiko Electronics Co. Ltd. Other operating income decreased by EUR 1.9 million to EUR 2.2 million in the year under review (2017: EUR 4.1 million). Other operating expenses, which were burdened by the special effect of the provision for litigation risks in the amount of EUR 2.5 million in 2017, decreased by EUR 2.1 million and amounted to EUR 1.5 million (2017: EUR 3.6 million).

The operating result / EBIT in 2018 was EUR 5.1 million (2017: EUR 7.3 million). The EBIT ratio thus amounted to 4.3 percent (2017: 6.1 percent). Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to EUR 9.0 million (2017: EUR 11.4 million). This equates to an EBITDA ratio of 7.7 percent (2017: 9.5 percent).

Income taxes fell to EUR 1.3 million (2017: EUR 1.5 million). The net annual income thus amounted to EUR 3.1 million (2017: EUR 5.1 million).

DEVELOPMENT OF NET ASSETS AND FINANCIAL POSITION

Balance sheet according to HGB (condensed version)

Assets	31.12.2018	31.12.2017
	EUR thousands	EUR thousands
Fixed assets		
Intangible assets	1,052	690
Tangible assets	33,768	34,004
Financial assets	32,090	11,223
	66,910	**45,918**
Current assets		
Inventories	15,814	17,307
Receivables and other assets	23,192	20,577
Cash on hand, bank balances	9,751	9,888
	48,758	**47,772**
Prepayments and accrued income	186	176
Deferred tax assets	321	0
Total assets	**116,174**	**93,866**
Liabilities		
Equity	58,159	56,375
Provisions	14,997	14,353
Liabilities	43,018	23,035
Deferred tax liabilities	0	103
Total equity and liabilities	**116,174**	**93,866**

As at 31 December 2018, the assets of Schweizer Electronic AG increased by EUR 22.3 million to EUR 116.2 million.

Fixed assets increased by EUR 21.0 million to EUR 66.9 million compared to the previous year. This increase is mainly due to the equity contribution of Schweizer Electronic AG to the subsidiary Schweizer Electronic (Jiangsu) Co., Ltd (China).

Current assets increased slightly by EUR 1.0 million to EUR 48.8 million. The successful reduction in inventories of EUR 1.5 million was offset by an increase in receivables and other assets of EUR 2.6 million.

Equity increased by EUR 1.8 million to EUR 58.2 million as of the balance sheet date. This is equivalent to an equity ratio of 50.0 percent (31 December 2017: 60.1 percent). The percentage reduction in the equity ratio is attributable to the increase in liabilities of EUR 20.0 million to EUR 43.0 million, primarily due to the raising of loans in favour of the first equity contribution at the subsidiary Schweizer Electronic (Jiangsu) Co., Ltd.

Due to the close integration and its weight within the Group, Schweizer Electronic AG's target attainment is reflected in the forecast report of the Group. However, the sales growth of around 5 percent forecast in April 2018 could not be achieved for the individual company. This was due to the lower production volume at the Schramberg plant of EUR 103.6 million (previous year: EUR 111.2 million). On the other hand, trading volumes with our Asian partner network developed on a very positive note. The trading volume increased by almost 58 percent to EUR 13.9 million. The EBITDA of Schweizer Electronic AG amounted to EUR 9.0 million, which is equivalent to an EBITDA ratio of 7.7 percent (forecast: 9-10 percent). Debt rose by EUR 20 million (forecast: EUR 5-10 million). The main reason for this was the aforementioned equity contribution of EUR 15 million to the subsidiary Schweizer Electronic (Jiangsu) Co., Ltd. Due to the investment project in China, the key balance sheet figures for both equity and debt have changed accordingly.

CHANGES IN PERSONNEL

Effective 8 October 2018, Dr Rolf Merte was appointed as a member of the Executive Board for a period of five years and as Chair of the Executive Board. The Executive Board thus again consists of three members on the same date.

FORECAST REPORT

The expectations for the current financial year are based on the budget planning for the Group drawn up in autumn 2018. Adjustments have been made in the meantime to reflect significant changes in the assumptions still valid at the time of the budget. The forecast is based on expectations regarding economic developments, changes on the automotive markets and current forecasts for the printed circuit board industry. The margin and cost situation is largely determined by the product programmes to be anticipated, the development of personnel costs and the raw material and supplier parts markets. For Schweizer, there will also be influences from the site project in China for 2019, which will have an effect on the forecast figures.

The opportunities and risks report lists further factors that may lead to positive or negative deviations from the forecast figures.

Macroeconomic development

Over the past six years, Europe has experienced steady growth. 2017 has been the highlight of this phase so far. In 2018, this momentum slowed, which was characterised by reduced global growth as well as trade conflicts. Growth is also expected for 2019 on the basis of the still stable fundamental data of the EU countries. This growth is supported by rising employment, increased purchasing power due to high wage increases, continued expansionary fiscal policy and low interest rates. Growth of 1.9 percent is forecast for the EU in 2019. The expected growth rates range from 4.5 percent for Ireland to 1.2 percent for Italy. For Germany, our most important sales market, the EU forecast growth of 1.8 percent in its autumn report. In its January 2019 forecast, the German government even lowered its growth expectations for Germany to 1.0 percent. (Annual Economic Report 2019 of the BMWI, 30 January 2019) Overall, the growth trend remains intact, but the figures are below those of the last two years.
This also applies to the forecasts of the other major economies. An increase in economic performance of 6.2 percent is expected in China and 2.6 percent in the USA. Growth of 3.5 percent is expected to be achieved worldwide (2018: 3.7 percent).

Overall, the EU expects that there will be a very high level of uncertainty about future developments. Global disruptive factors include the unpredictable economic and trade policy of the USA and rising interest rates worldwide. At the European Union level, additional uncertainties are to be expected from Italy, Turkey and an uncontrolled Brexit. (Source: European Economic Forecast, Autumn 2018, European Union).

Automotive industry

The most important customer group for Schweizer is the automotive industry. In this group, our customers comprise Tier 1 automotive suppliers. In a global comparison, China produces the most cars, followed by India. This structure is also reflected in the customers of Schweizer, the automotive supplier of the first category. Automotive manufacturers are increasingly focusing on intense localisation, i.e. the increasing use of supply sources in the respective region. As a result, Schweizer is currently selling most of its products to European automotive suppliers. According to a forecast by FERI 2018, German automotive suppliers are expected to grow by around 3.2 percent in 2019 and by 1.2 percent in the following year. Foreign sales are expected to grow faster than domestic sales. The sales forecast for 2019 of German automotive suppliers with more than 50 employees is EUR 86.8 billion (2018: EUR 84.1 billion). For German automobile manufacturers, sales are expected to grow by 1.6 percent to EUR 346.7 billion in 2019. While German suppliers generate around 40 percent of their sales abroad, automotive manufacturers already generate almost 70 percent of their sales abroad. This is leading to increasing internationalisation pressure for the industries, including for Schweizer.

As with the overall economic development, the forecast for the development of the automotive industry is also associated with a high degree of uncertainty. Growth is expected to continue, albeit at a significantly slower pace. The fundamental trend remains intact, as the most important industrialised countries have excellent purchasing power thanks to high wage increases and a high employment rate. The growing prosperity of the emerging markets will continue to lead to an increase in the motorisation of the population.

The PCB market

According to the expectations of N.T. Information, the global printed circuit board industry remains on course for growth. However, a slowdown in this trend is anticipated. According to initial estimates, the global production volume in 2018 amounted to EUR 66 billion. This means growth of 6.2 percent compared to the previous year. For 2019, N.T.I. is currently forecasting slowed production growth of 3.0 percent. China continues to lead the field with an increase of 5.8 percent, followed by Vietnam with growth expectations of 4.5 percent. At the bottom of the league are Taiwan and Japan with a decrease of 1.2 percent and South Korea with a decline of 3.0 percent. For German printed circuit board manufacturers, the situation is expected to stagnate. As the trend towards an increasing number of electronic components in automobiles continues, positive growth is expected for both electronics suppliers and printed circuit boards for the automotive industry, despite stagnation in vehicle sales. Growth of 4.0 percent and 3.1 percent respectively is expected for the technology segments multilayer and HDI printed circuit boards, which are the main focus of Schweizer. (Source: Prismark).

The total production volume worldwide is expected to rise to EUR 67.8 billion. China remains the most important location, with a world market share of around 56 percent. With a share of 1.2 percent, Germany ranks in the lower midfield of printed circuit board production.

Growth and earnings expectations

In our forecast for 2019, we must take appropriate account of the significant macroeconomic and industry-specific uncertainties caused by trade conflicts and Brexit. We therefore expect Group sales to change by between minus 5 percent and plus 5 percent compared with 2018. This corresponds to a turnover margin of between EUR 119 and EUR 132 million. We expect sales growth from product ramp-ups for automotive customers at our strategic partners Meiko in Vietnam and WUS in China. On the other hand, we expect a weaker trend for products from Schramberg, which may affect all customer groups. The order backlog for 2019 amounted to around EUR 108.1 million at the end of 2018. Around 75 percent of these products are produced in Schramberg, while 25 percent are manufactured in Asia. Schweizer's new production plant in Jintan, China, is not yet expected to contribute to sales in 2019. The plant will be completed in 2019 and production is expected to start at the beginning of 2020. We do not expect any significant shifts in the regional distribution of sales.

Two factors play an important role in the earnings expectations. Firstly, the increasing proportion of sales accounted for by printed circuit boards produced by our partners has an impact on the percentage profit margin. Due to the business model, merchandise does not generate as high margins as products manufactured in-house. However, the increasing trading business has a positive effect on the absolute margin of Schweizer. Furthermore, we expect the construction and commissioning of the plant in China to make an increasingly negative contribution to earnings from this unit in 2019. All the important administrative functions for opening up the market and establishing the unit will be gradually filled there. Both effects will have a negative impact on the earnings margin.

The effects described above will be partially offset by additional measures to optimise the product portfolio and reduce costs.

On this basis, we currently expect an EBITDA ratio of between 4 and 6 percent. This corresponds to an EBITDA of between EUR 5 and 7 million. Excluding the negative earnings contribution from the ramp-up of the plant in China, the EBITDA ratio is expected to be between 7 and 9 percent.

Investments

The year 2019 will be marked by intensive investment activity in China in the construction of the plant. In 2019, we expect a total investment of between EUR 45 and 50 million in China, which will be used to purchase machinery, IT and building infrastructure measures. Overall, we confirm the level of total investment for the plant in China, which amounts to around EUR 150 million (USD 180 million) for all three phases. At present, we are concentrating on phases 1 and 2, which will account for a total of around EUR 120 million in investments.

Further investments are also being made at the Schramberg site. The investment focus here is on completing preparations for the manufacture of the chip embedding product (p2 Pack) and further investments in measures to improve quality and efficiency.

Overall investments thus amount to around EUR 50 to EUR 55 million for the 2019 financial year. Based on the expected EBITDA, the investment ratio will be 1,000 percent.

Liquidity and financing

The Group's indebtedness will increase significantly in connection with the construction of the plant in China. Interest-bearing liabilities will rise to around EUR 70 million by the end of 2019, with approximately 50 percent attributable to the new unit in China and 50 percent to Schweizer Electronic AG. Taking into account the expected cash and cash equivalents of EUR 10 million and consolidated equity of around EUR 75 million, we expect net gearing to be in the high double-digit percentage range. The equity ratio is expected to be around 40 percent. Working capital should return to normal again. The prerequisite for this is a more uniform acceptance behaviour on the part of the customers. We therefore anticipate that working capital will remain stable at the 2018 level despite rising sales.

Overall statement on future development

With our focus on technology, we are committed to the intact mega trends in the automotive industry – the electrification of the powertrain and other consumers in the vehicle to reduce CO_2 emissions, as well as autonomous driving. In the coming years, our investment in China will also enable us to supply our product solutions locally to one of the world's most important growth regions in the automotive sector, especially in the field of electromobility. The increasing regionalisation of the automotive supply chain serves to underscore this opportunity. In the years to come, we therefore expect Schweizer to grow at a rate well above the market average. We expect this growth in Asia, initially through our strategic partners Meiko and WUS, and later in particular at our plant in China, which will contribute significant sales to the Group from 2021 onwards.

The EBITDA ratio will be burdened in the next two years by the construction of the production plant in China and the growing share of merchandise. We therefore expect the Group to achieve an EBITDA ratio of 4 to 6 percent in 2019. After the start-up phase, we expect the new plant in China to generate a higher margin than the main plant, which will result in an overall increase in the Group margin over the past in the medium term.

We expect the business activities of Schweizer Electronic AG at the Schramberg site to remain stable over the next few years. The Schramberg production site in particular felt the contraction in the European and, especially, the German automotive industry. We do not expect a significant recovery here in the first half of 2019. For the Schramberg site, management will concentrate on improving cost efficiency and increasing flexibility. Due to the weaker capacity utilisation situation at the Schramberg plant, short-time work was introduced from March 2019.

Effects from the first-time application of IFRS 16 in the financial year 2019 were taken into account in the Group's forecast.

Forecast for the SCHWEIZER Group

	2018 actual	2019 forecast
Sales/Growth ratio	EUR 125.3 Mio. million	-5 % to +5 %
EBITDA EBITDA without China project costs	EUR 9.2 million EUR 10.4 million	EUR 5 – 7 million EUR 8 – 11 million
EBITDA ratio EBITDA ratio without China project costs	7.3 % 8.3 %	4 – 6 % 7 – 9 %
Investment ratio	81 %	about 1000 %
Net gearing ratio	-7 %	100 – 140 %
Equity ratio	46.6 %	25 – 30 %
Working Capital	EUR 25.4 million	stabil

OPPORTUNITIES AND RISKS REPORT

For SCHWEIZER, as a 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 Executive Board. In this context, the Executive 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 Executive Board and the management staff. Risks are evaluated on the basis of all the information that the management has available. The internal control system with respect to the accounting system (ICS) is another element in this respect.

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

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

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

This includes the following elements in particular:

- Identification of the main risk and control areas relevant to the accounting process;
- Reporting of the results of the accounting process controls at the Executive Board level;
- Preventive control measures in the finance and accounting system as well as in all operational company processes that provide salient information on the composition of the financial statement and consolidated financial statement with the status report, including a division of functions and pre-defined approval processes in relevant areas;
- Measures 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 financial statement.

EVALUATION OF EFFECTIVENESS

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

At the end of the annual cycle, we check and endorse the effectiveness of the internal control system governing the financial accounting process. The Executive 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	Liquidity	Procurement	Patents / copyrights
Technology	Exchange rates / interest rates	Processes (incl. IT)	Personnel / employees
Customers		Legal risks	Insurance management

OVERALL ASSESSMENT

The Executive Board assesses the corporate opportunity and risk profile for the categories of 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 Executive 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	High	Medium
Operations	Medium	Low
Compliance	Medium	Low

STRATEGY

Market and competition (risk: medium – opportunity: high)
The Schweizer sales market is still heavily concentrated on automotive customers in Europe. With sales and turnover in the automotive industry still on the rise in 2018, profits declined. External conditions such as the various trade conflicts, events resulting from the Brexit vote and driving bans continue to lead to general uncertainty in the market.

China's automobile market, which has grown continuously over the past 30 years, showed some signs of fatigue for the first time in 2018. The same picture can be seen on the US market as well as in Germany and Europe. Markets are narrowing and competition is becoming even fiercer.

This trend of weakening is expected to continue in 2019, but there will still be more electrification of vehicles (more electronics per vehicle) and therefore more printed circuit boards per vehicle.

This is where the opportunity lies. In an international comparison, the innovative strength of European automotive suppliers is still 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 becoming stronger due to the ongoing consolidation of the PCB industry in Europe.

It is necessary to be technologically distinct from many other suppliers. Schweizer's core competencies in high currents, temperatures and frequencies will also provide opportunities in other markets such as in the industrial, aerospace and 5G segments.

In general, Europe as a production location for the printed circuit board industry continues to stagnate or even decline. Current European PCB manufacturers can thus only achieve further growth in the European market by forcing out the competition.

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 medium-term growth opportunities and to better diversify their customer portfolios. Schweizer counters this trend with its Asian partner network and its own production facility in Jintan (China), which is currently under construction. In the medium term, this will allow significant further growth in the major trends of autonomous driving and e-mobility. With its own plant in China, already the largest automotive market and the greatest potential for e-mobility, a significant sales volume with Chinese customers will be possible in the future.

Technology (risk: medium – opportunity: high)
Schweizer has broad and long-standing expertise in the segments of high-current and high-frequency printed circuit boards and thus has an excellent starting position to participate in the mega trends in the automotive sector such as e-mobility and autonomous driving. Together with its cooperation partner Infineon Technologies, Schweizer is breaking new ground to optimise the efficiency and reliability of both the powertrain and safety-relevant assistance systems in vehicles. In addition to continuously advancing PCB technology, this also requires knowledge in the areas of semiconductors, industrial electronics and testing, as well as an increasing understanding of customer applications.

However, both the complexity of the products and the need to invest in new technologies are constantly increasing. Together with an increasingly aggressive competitive environment, this combination leads to many new challenges for product development, quality and cost management as well as to the necessity of a consistent growth path with regard to production capacities and sales.

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. The market entry barriers are generally quite high for new competitors. The trend towards relocating development activities abroad that was observed in the past has levelled off.

FINANCE

Liquidity (risk: high – opportunity: medium)
Debt increased with the start of the implementation of the major investment in the new plant in China. The higher debt ratio makes Schweizer more susceptible to economic fluctuations, which materialised at the end of the financial year.

Sufficiently substantial resources are available for development in China in the form of financing tailored to the anticipated investment requirements of the major investment. A large part of the financing was provided in the form of a local non-recourse agreement with Chinese banks. This was additionally secured by a local external guarantee against non-payment.

In terms of operations, liquidity depends on the course of business. There is a risk that the fixed costs relevant to liquidity will not develop in line with the fluctuating cash inflows. For such a case, Schweizer maintains a liquidity reserve, the use of which is subject to Supervisory Board approval. To mitigate the risk, the management has taken measures to adjust fixed costs in the short term.

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

Liquid assets can be accessed in the short term. In addition, Schweizer has access to credit facilities in the amount of approximately EUR 8 million, some of which are utilised.

A weekly liquidity forecast enables potential bottlenecks to be analysed early and counteracted. Schweizer is classified as investment grade by its banks. Despite the project financing for the investment in China, Schweizer has sufficient further financing options, such as factoring or leasing, available to it.

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

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

The exchange rates of the most important currencies against the EUR have been subject to significant fluctuations in recent years. It cannot be excluded that, due to the uncertain development of the economies in the eurozone, the EUR may continue to weaken against the most important global currencies, particularly the USD. As the most important commodities markets are quoted in USD, 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 EUR 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 competitiveness in Europe, which would benefit Europe as a production location.

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

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.

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

A further decline in the interest rate level would have a further negative impact on the result due to the required discount factor-related transfers from pension provisions.

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 2018, the procurement risk was further reduced by concluding various material qualifications in the area of base materials. In addition to this multiple-source strategy, procurement was further internationalised, particularly from Asia.

There is a risk that European suppliers who are strongly focused 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.

A further risk is the withdrawal of the United Kingdom from the European Union. A possible "hard Brexit" could endanger the security of supply. SCHWEIZER has already considered the possible consequences in the first half of 2018. Among other things, the company's own supply portfolio was analysed and measures taken to ensure the supply of relevant articles. This also includes the temporary adjustment of the company's own inventories and the increase in the inventories of the affected suppliers on the European continent.

The partnership with Meiko and WUS has a positive effect. Through close cooperation, we are able to supply each other with materials and would be able to compensate for regional supply bottlenecks.

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

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

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

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

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

COMPLIANCE RISKS

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

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

Personnel / employees (risk: medium – opportunity: low)
Qualified employees are an essential building block for the success of our company. Due to the current full employment in southern Germany, however, there is a general risk of losing qualified employees or gaining sufficient qualified personnel on the labour market.

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

Appropriate competition clauses and confidentiality agreements ensure that existing know-how is not passed on directly to competitors.

Insurance management (risk: low – opportunity: low)
In addition to the internal organisational measures to avoid risks or counteract those that have occurred as quickly as possible, Schweizer has a comprehensive insurance management system. As part of this, the company takes out insurance policies for material risks, where possible and reasonable. One point of focus of the insurance management system is the coverage of risks that, due to unforeseen events, could negatively impact on the production and business processes. This can, for example, be natural disasters or fires. A second point of focus is the insurance of third-party damages caused by a lack of product quality or damages to third parties caused by the company, such as environmental damage. 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 IT data security using firewalls and recovery processes.

OVERALL ASSESSMENT

The Executive Board rates the existing risks as manageable and, from today's perspective, considers the continued existence of the Group and 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 in principle according to its stake in those companies.

The strategic opportunity / 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. However, this does not 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 investment in the new production plant in China will increase both the company's business opportunities and financial risks.

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. The continuing uncertainties in the global economy, the financial markets and various global political factors (including the trade conflict in the USA and China, and developments resulting from the Brexit vote) could have a negative impact on the development of Schweizer. As a result, short-term operating risks have increased compared with the previous year.

Risks such as cyber-crime exist, but are not noticeable at Schweizer and are, as far as possible, adequately covered by internal processes or external insurance policies – as are unforeseeable risks.

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

MATTERS RELEVANT TO ACQUISITIONS

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

COMPOSITION OF THE SUBSCRIBED CAPITAL

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

RESTRICTIONS RELATING TO VOTING RIGHTS OR THE TRANSFER OF SHARES

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

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

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

SHARES CONFERRING SPECIAL CONTROL RIGHTS

There are no shares conferring special control rights.

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

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

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

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

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

POWERS OF THE EXECUTIVE BOARD TO ISSUE AND BUY BACK SHARES

Authorised capital

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

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

Convertible bonds, inter alia, conditional capital

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

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

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

Authorisation to acquire own shares and their use

The company is authorised, up to 30 June 2021, to acquire own shares up to a total of 10 percent of the share capital of EUR 9,664,053.86 existing at the time the resolution was adopted or – if this value is less – the share capital existing at the time the authorisation is exercised. At no time may more than 10 percent of the relevant share capital of the company be attributable to the shares acquired on the basis of this authorisation together with other shares of the company which the company had already acquired or still owns or which are assigned to it in accordance with Sections 71 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 Executive Board. The Executive Board may choose to acquire shares via the stock market, via a public purchase offer aimed at all shareholders of the company or via a public invitation to the shareholders to submit offers to sell.

Further information can be found in the publicly available invitation to the 2016 annual general meeting 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 5 million provide an extraordinary right of termination, if one or more people, who act jointly in the meaning of Section 2 (5) of the Wertpapiererwerbs- und Übernahmegesetz (German Securities and Takeover Act; WpÜG), at any time in the future purchase or hold directly or indirectly more than 50 percent of the voting rights.

Compensation agreements concluded by the company

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

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

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

NON-FINANCIAL GROUP STATEMENT

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

REMUNERATION REPORT

Executive Board remuneration system

The remuneration of the Executive Board comprises a fixed and a variable remuneration element. The latter is divided into a component geared towards the achievement of defined targets for the respective financial year (Medium & Short Term Incentive; "MSTI") as well as a component with a long-term incentive effect and a proportion of risk (Long Term Incentive; "LTI"). If one hundred percent of the target is achieved, the variable compensation component MSTI will amount to 55 percent of the gross fixed annual salary and the variable compensation component LTI to 15 percent of the gross fixed annual 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 Executive Board's remuneration is not tied to the achievement of defined targets and is paid monthly. In addition, ancillary payments such as the provision of a company car and insurance premium allowances are granted.

The variable income component, which relates to the targets for a financial year (MSTI), is geared towards the attainment of 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 target attainment and is capped at an amount of maximum 110 percent of the fixed remuneration (cap).
In addition to these two Executive Board remuneration components, there is also a Long Term Incentive Plan ("LTIP") for Executive 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 target attainment and is capped at an amount of maximum 30 percent of the fixed remuneration.

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

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

Remuneration for the 2018 financial year

The remuneration of the entire Executive Board, including pension benefits, amounted to EUR 1,103 thousand in the financial year 2018 (previous year: EUR 992 thousand) (fixed) and EUR 325 thousand (previous year: EUR 666 thousand) (variable). The variable remuneration component includes 1,666 (previous year: 3,701) shares for long-term goals.

The Executive Board remuneration for financial year 2018 is disclosed in accordance with the applicable reporting principles (DRS 17) and the recommendations of the German Corporate Governance Code in the edition of 7 February 2017.

Remuneration of members of the Executive Board for financial year 2018 according to DRS 17

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

	Performance-unrelated remuneration			Performance related remuneration		
in EUR thousands	**Business year**	**Fixed remuneration**	**other remuneration**	**Remuneration with short and medium-term incentive effect (MSTI)**	**Remuneration with long term incentive effect (LTI)**	**Total remuneration**
Dr . Rolf Merte [1]	**2018**	**83**	**4**	**46 [2])**	**12 [2]**	**146**
Nicolas-Fabian Schweizer	**2018**	**280**	**29**	**101**	**34**	**443**
	2017	280	19	209	109	617
Marc Bunz	**2018**	**270**	**19**	**97**	**36**	**421**
	2017	270	69 [3]	197	101	637
Dr . Maren Schweizer [4]	2017	36	6	0	0	42
Summe	**2018**	**633**	**52**	**244**	**82**	**1,010**
	2017	586	94	406	210	1,296

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

[1] Appointed since 8 October 2018.
[2] Due to the late commencement during the year, a flat-rate MSTI and LTI 2018 were allocated pro rata temporis on the basis of 100-percent target achievement.
[3] This includes one-off special incentives in the amount of EUR 50 thousand due to organisational measures limited in time.
[4] Appointed until 1 February 2017. The table shows the pro-rata values for the period until 1 February 2017. The Group remunerations of Dr Maren Schweizer comprise the remunerations of a subsidiary and Schweizer Electronic AG.

Pensions of Executive Board members for financial year 2018

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

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

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

The following table lists the allocations paid by the company for 2018 to the pension fund and the annual pension entitlements already earned by the Executive Board members.

Pensions of the Executive Board members

in EUR thousands	**Business year**	**Annual pension entitlement earned as at 31 December of the respective year**	**Allocations paid to pension funds**
Dr Rolf Merte	**2018**	**0**[1]	**18**[2]
Nicolas-Fabian Schweizer	**2018**	**50**	**205**
	2017	44	171
Marc Bunz	**2018**	**60**	**195**
	2017	54	176
Dr Maren Schweizer[3]	2017	91	16
Summe	**2018**	**110**	**418**
Summe	2017	189	362

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

[1] Appointed since 8 October 2018.
[2] The table shows the pro-rata expense for the period since 8 October 2018.
[3] Appointed until 1 February 2017. The table shows the pro-rata values for the period until 1 February 2017.

Remuneration of members of the Executive Board for financial year 2018 according to GCGC

The following disclosure of the compensation granted and received for financial year 2018 takes into account the recommendations of the German Corporate Governance Code as amended on 7 February 2017. The sample tables recommended by the Code are used to present the information. The benefit expense corresponds to the allocation to the pension funds.

Deviating from the presentation in accordance with DRS 17, the following table in accordance with GCGC shows the benefits granted for financial years 2017 and 2018, including fringe benefits and variable remuneration components if 100 percent of targets are achieved, as well as the minimum and maximum remuneration attainable in financial year 2018.

Benefits granted	Dr Rolf Merte			Nicolas-Fabian Schweizer				Marc Bunz				Dr Maren Schweizer
	Executive Board Chair since 08.10.2018			Deputy Chair of the Executive Board				Chief Financial Officer				Executive Board Chair until 01.02.2017 [3]
in EUR thousands	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**	**2018**	**2018 (Min)**	**2018 (Max)**	**2017**
Fixed remuneration	83	83	83	280	280	280	280	270	270	270	270	36
Ancillary benefits	4	4	4	19	29	29	29	69	19	19	19	6
Total	**88**	**88**	**88**	**299**	**309**	**309**	**309**	**339**	**289**	**289**	**289**	**42**
Annual variable remuneration [1]	46	46	46	154	154	0	308	149	149	0	297	0
Multi-year variable remuneration												
LTI plan [2]	12	12	12	42	42	0	84	41	41	0	81	0
Total	**58**	**58**	**58**	**196**	**196**	**0**	**392**	**189**	**189**	**0**	**378**	**0**
Benefit expense	18	18	18	171	205	205	205	176	195	195	195	16
Total remuneration	**164**	**164**	**164**	**666**	**710**	**514**	**906**	**704**	**672**	**483**	**861**	**58**

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

[1] Values refer to the Medium & Short Term Incentive ("MSTI") remuneration component.
Due to Dr Merte's late start during the year, a flat-rate MSTI 2018 was allocated to him pro rata temporis on the basis of 100-percent target achievement.
[2] Due to the late entry of Dr Merte during the year, he was allocated a pro rata lump sum for LTI 2018 on the basis of 100-percent target achievement.
[3] The table shows the benefits granted for 2017 pro rata for the period until 1 February 2017.

The following table shows the total remuneration received by the individual members of the Executive Board for financial years 2017 and 2018 in accordance with the GCGC, broken down into their respective components:

	Dr Rolf Merte	**Nicolas-Fabian Schweizer**		**Marc Bunz**		**Dr Maren Schweizer**
Inflow	**Executive Board Chair since 08.10.2018**	**Deputy Chair of the Executive Board**		**Chief Financial Officer**		**Executive Board Chair until 01.02.2017** [3]
in EUR thousands	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Fixed remuneration	83	280	280	270	270	36
Ancillary benefits	4	19	29	69	19	6
Total	**88**	**299**	**309**	**339**	**289**	**42**
Annual variable remuneration [1]	46	209	101	197	97	0
(of which for previous years)		42	2	36	2	
Multi-year variable remuneration [2]						
LTI plan	12	109	34	101	36	0
(of which for previous years)		55	14	49	16	
Total	**58**	**318**	**134**	**298**	**133**	**0**
Benefit expense	18	171	205	176	195	16
Total remuneration	**164**	**788**	**648**	**813**	**616**	**58**

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

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

[2] Due to the late entry of Dr Merte during the year, he was allocated a pro rata lump sum for LTI 2018 on the basis of 100-percent target achievement

[3] The table shows the inflow for 2017 pro rata for the period until 1 February 2017.

Benefits in the event of the premature termination of duties

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

Supervisory Board remuneration system

The remuneration of the Supervisory Board is regulated in Section 13 of the Articles of Association. In addition to the reimbursement of expenses, each member receives a fixed remuneration component of EUR 15 thousand per financial year as well as a variable remuneration of EUR 300 for each EUR 0.01 by which the dividend declared at the annual general meeting exceeds a dividend of EUR 0.40 per share with full dividend entitlement distributed to the shareholders. The variable remuneration is limited to a maximum amount of EUR 15 thousand. The Chair receives twice and the Deputy Chair one and a half times this remuneration. Members of Supervisory Board committees also receive a fixed annual remuneration of EUR 15 thousand. The Chair of a committee receives twice the remuneration and the Deputy Chair one and a half times the remuneration. The total remuneration of the Supervisory Board in 2018 came to EUR 180 thousand (previous year: EUR 180 thousand), thereof EUR 180 thousand fixed (previous year: EUR 180 thousand) and EUR 0 variable (previous year: EUR 0).

Remuneration of the Supervisory Board (excluding VAT) for financial year 2018

in EUR thousands	Fixed remuneration	Remuneration for committee work	Variable remuneration[1]	Total
Michael Kowalski [2]	**30**	**30**	**-**	**60**
(2017)	30	30	-	60
Dr Stephan Zizala [3]	**23**	**23**	**-**	**45**
(2017)	19	11	-	30
Karin Sonnenmoser [4]	**15**	**15**	**-**	**30**
(2017)	8	8	-	15
Chris Wu [5]	**15**	**-**	**-**	**15**
(2017)	8	-	-	8
Carsten Brudlo	**15**	**-**	**-**	**15**
(2017)	15	-	-	15
Siegbert Maier	**15**	**-**	**-**	**15**
(2017)	15	-	-	15
Former members of the Supervisory Board				
Christoph Schweizer [6] (2017)	12	12	-	23
Christian Schmid [7] (2017)	8	8	-	15
Total 2018	**113**	**68**	**-**	**180**
(Gesamt 2017)	113	68	-	180

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

[1] Based on the dividend proposal of EUR 0 (2017: EUR 0.30)
[2] Chair of the Supervisory Board and the Personnel and Finance Committee
[3] Deputy Chair of the Supervisory Board and the Personnel and Finance Committee since 7 July 2017
[4] Member of the Supervisory Board and the Personnel and Finance Committee since 7 July 2017
[5] Member of the Supervisory Board since 7 July 2017
[6] Deputy Chair of the Supervisory Board and the Personnel and Finance Committee until 7 July 2017
[7] Member of the Supervisory Board and the Personnel and Finance Committee until 7 July 2017

Schramberg, 12 April 2019

Schweizer Electronic AG

The Executive Board

(Dr R. Merte) (N. F. Schweizer) (M. Bunz)

NON-FINANCIAL STATEMENT

THE NON-FINANCIAL STATEMENT

1. INTRODUCTION

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

We are pleased to fulfil our obligation (§ 289 b, Par. 1 HGB and § 315 b HGB) to disclose the "non-financial information" specified in the CSR Guidelines Implementation Act in our Annual Report with immediate effect. We have used the G4 guidelines of the Global Reporting Initiative (GRI) as a framework for publication and identified the key figures relevant to Schweizer Electronic AG.

SUSTAINABILITY

Sustainability is a broad field that can encompass a range of aspects. We set out our commitment to sustainable action and the resulting fields of activity in our Schweizer Management Manual (first edition 1996), which aims to turn the complexity surrounding the issue into something we can concretely address and to consistently integrate sustainability into our activities. This manual is updated and expanded on an ongoing basis to meet the latest requirements. The last update was in September 2017.

MATERIAL ASPECTS AND STAKEHOLDERS

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

- Employees
- Customers
- Investors
- Suppliers.

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

The following section of the Non-Financial Statement focuses on Environmental, Labour and Social Issues, as well as measures for respecting human rights and combating corruption and bribery.

All information required for an understanding of the business processes, business results, the corporation's present situation and the effects of its activities on the aforementioned aspects is already part of the combined management report and is therefore not referred to again in this section of the annual report. They can be tracked via the GRI Index starting on page 84.

2. MISSION STATEMENT

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

VISION

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

MISSION

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

VALUES

The following values are important to us and guide our behaviour: Quality, Speed, Creativity, Openness.
These values represent the foundation for our past, present and future.

QUALITY AND ENVIRONMENTAL AWARENESS

We commit ourselves to the reduction of energy consumption, to energy efficiency, to the continuous improvement of our performance as well as to contributing to environmental protection.

We are striving for the reduction of our environmental impact e.g. by the recycling of materials, which actively contributes to the protection of the environment, and we consider binding commitments resulting from our activities as well the compliance to applicable law and regulations an indispensable basis for our actions. Therefore, we are openly cooperating with authorities and the public in matters of environmental protection.

We stand for highest quality and care in all areas. Furthermore, we have set ourselves the target of a zero defect tolerance and constantly strive to improve our products and solutions. Thus, we are able to reduce rejects and offer our customers the best possible quality at the same time. With this attitude, we remain viable for the future and are well positioned to face forthcoming challenges.

This results in the following guiding principles that determine our actions and are based on our values. We are customer-oriented, creative, globally coordinated, versatile, competent, cooperative, friendly, inviting, competitive and consciously responsible.

Our Competency Framework for our employees was developed based on this mission statement. It sets out the guidelines for cooperation and management and is intended to help employees and managers orient themselves in their day-to-day work.

3. ENVIRONMENTAL ISSUES

Preventative assurance in terms of quality, environmental and energy reduces product costs by minimising the time and effort required for defective performance, and it reduces the ecological burden by minimising the need for follow-up work, thereby cutting energy and waste disposal costs. Another factor at play here is our will to continuously improve, which constitutes an essential building block in how we think and act.

At Schweizer, the following fields of action have been identified in terms of environmental issues: environmental policy and planning, which include environmental and energy planning.

ENVIRONMENTAL POLICY

A core feature of our company is the will to continuously improve our performance and our contribution to environmental protection. In addition, our compliance with relevant laws and regulations forms the essential basis of all our actions. This is set out in both the vision and quality claim of our mission statement.

CERTIFICATION AUDITS UM ISO 14001/ EM ISO 50001

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

ENVIRONMENTAL ISSUES – CORE TOPICS AND INDICATORS

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

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

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

The sustainability figures refer to Schweizer's only production site, Schweizer Electronic AG, in Schramberg.

A second, sustainable production site is currently under construction in China. The company **Schweizer Electronic (Jiangsu) Co. Ltd.** is located in Jintan, Jiangsu province.

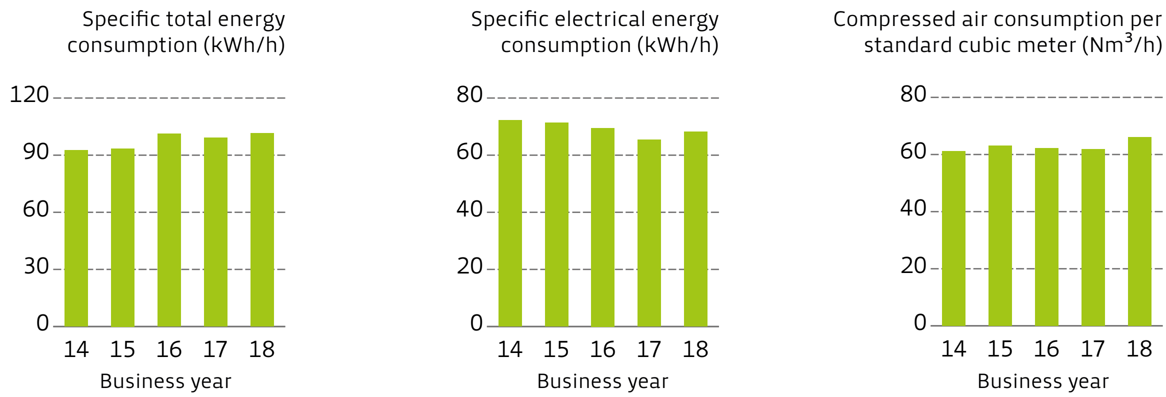
ENERGY CONSUMPTION & MEASURES TO REDUCE ENERGY CONSUMPTION

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

The specific electrical energy consumption slightly increased due to fluctuations in capacity utilisation in the fiscal year 2018, but has been reduced, however, in the course of the last years. This is due to effective cost-cutting measures implemented in recent years. In addition to regular software updates in production plants, which improve heating, cooling and standby properties in the production processes, this includes optimising the cooling network. As a result of this optimisation, the output of the network pump in the S1 and S5 plants could be reduced by approximately 50% in 2016. In the past fiscal year, the IAT network pumps were converted to pressure control.

Towards the end of the previous financial year, we set up a process heat network in the circuit formation lines area to save further energy costs. The network will be designed so other systems can utilise it at a later date. Although the use of the company's own combined heat and power plant as of 2016 has led to a slight increase in specific overall energy consumption, it has already led to a significant reduction in CO_2 emissions in its first two years of use.

The key figures identified at Schweizer for reporting are the specific total energy consumption, the specific electrical energy consumption per production hour (kWh/h), and the compressed air consumption per standard cubic meter per production hour (Nm^3/h). The slight increase of the specific values is due to fluctuations in capacity utilisation in the fiscal year 2018.



Business year	Specific total energy consumption (kWh/h)
2018	101.60
2017	99.17
2016	101.24
2015	93.48
2014	92.51

Business year	Specific electrical energy consumption (kWh/h)
2018	68.26
2017	65.37
2016	69.51
2015	71.37
2014	72.25

Business year	Compressed air consumption per standard cubic meter (Nm^3/h)
2018	66.08
2017	61.97
2016	62.22
2015	63.09
2014	61.26

CO_2 FOOTPRINT AND MEASURES FOR REDUCING CO_2 EMISSIONS

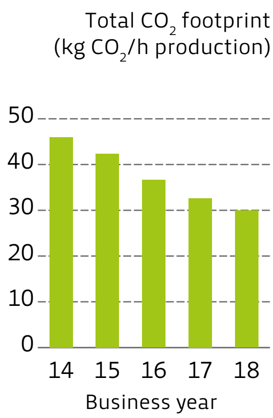
The overall CO_2 footprint is calculated from the production CO_2 footprint and the transport CO_2 footprint. For production, the data from the supply plants at the Schramberg site are used. For transport, CO_2 consumption data is taken from the Federal Environment Agency (UBA), which is recorded per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

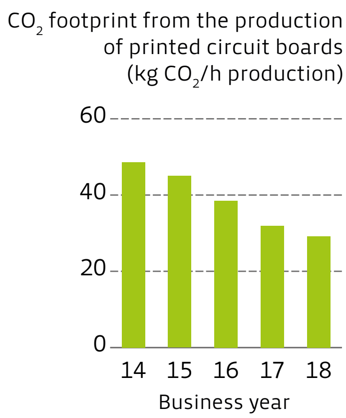
Ongoing energy-saving measures and an increase in production capacity utilisation have led the production CO_2 footprint per hour of production to fall steadily in recent years. Since 2016, the company's combined heat and power plant (CHP) has been included in production CO_2 footprint calculations.

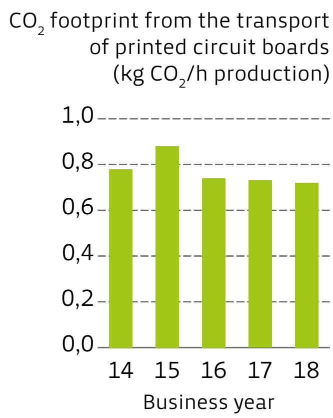
Use of the company's own co-generation plant has further reduced CO_2 emissions from production by more than 2 kg/hour of production since 2016.

All figures shown for the CO_2 footprint refer to production and transport from the Schramberg plant. SCHWEIZER turnover, which is directly delivered from WUS or MEIKO to our customers, amounts to 10 percent of total sales, but is not included due to a lack of underlying data.

The CO_2 footprint for transport can only be recorded as of the 2017 financial year. The 2017 value has been used as a starting point for 2016 and prior to this. The CO_2 footprint transport has been calculated in proportion to the delivery quantity in m^2. Overall, the CO_2 footprint for transport accounts for only about two to three percent of the total CO_2 footprint.







Business year	**Total CO_2 footprint (kg CO_2/h production)**
2018	29.93
2017	32.64
2016	36.61
2015	42.36
2014	46.00

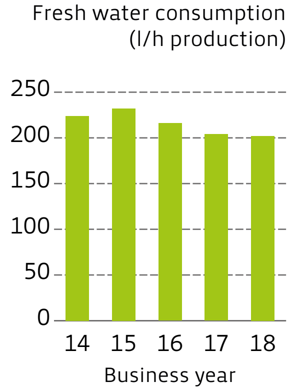
Business year	**CO_2 footprint from the production of printed circuit boards (kg CO_2/h production)**
2018	29.21
2017	31.91
2016	38.50
2015	45.03
2014	48.65

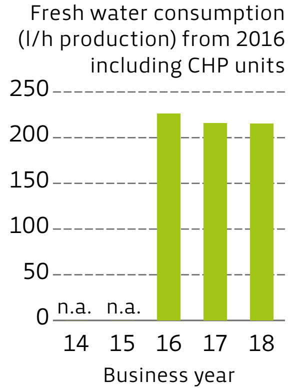
Business year	**CO_2 footprint from the transport of printed circuit boards (kg CO_2/h production)**
2018	0.72
2017	0.73
2016	0.74
2015	0.88
2014	0.78

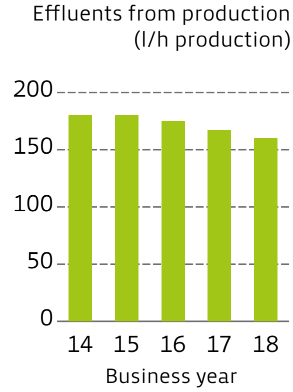
WATER

The production of a printed circuit board contains many water-intensive processes, meaning the consumption of fresh water and the generation of production-related effluents are important indicators for assessing Schweizer Electronic AG's impact on the environment. Therefore, one of our most important tasks in the field of environmental protection is to continuously optimise fresh water consumption and effluents produced during production. For example, a measure introduced in 2012 to pipe excess water from air conditioning systems back into the rainwater return line enables us to save almost four percent of the fresh water purchased from the city every year. Environmentally friendly aspects are always taken into consideration when planning and purchasing new plants. In 2016, a new surface cleaning plant was purchased that consumes less than half the amount of water per production hour that was required by its predecessor.

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







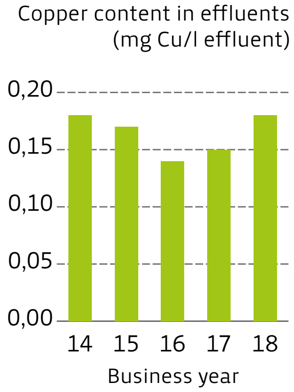
Business year	**Fresh water consumption (l/h production)**
2018	202
2017	204
2016	216
2015	232
2014	224

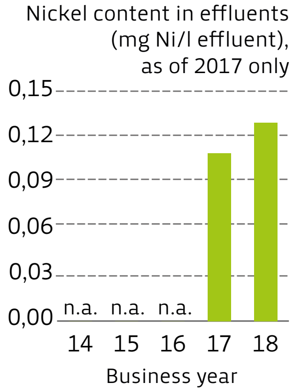
Business year	**Fresh water consumption (l/h production) from 2016 including CHP units**
2018	215
2017	216
2016	226
2015	n.a.
2014	n.a.

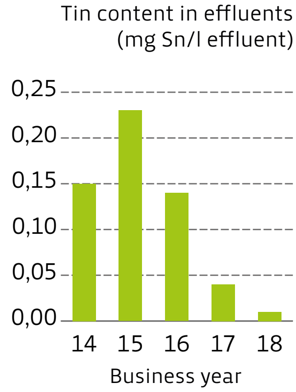
Business year	**Effluents from production (l/h production)**
2018	160
2017	167
2016	175
2015	180
2014	180

AMOUNT OF COPPER, NICKEL AND TIN IN EFFLUENTS

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







Business year	Copper content in effluents (mg Cu/l effluent)
2018	0.18
2017	0.15
2016	0.14
2015	0.17
2014	0.18

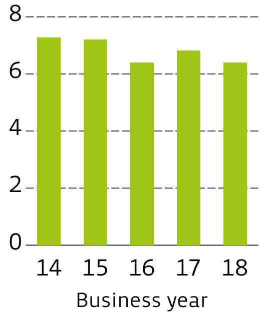
Business year	Nickel content in effluents (mg Ni/l effluent), as of 2017 only
2018	0.13
2017	0.11
2016	n.a.
2015	n.a.
2014	n.a.

Business year	Tin content in effluents (mg Sn/l effluent)
2018	0.01
2017	0.04
2016	0.14
2015	0.23
2014	0.15

WASTE

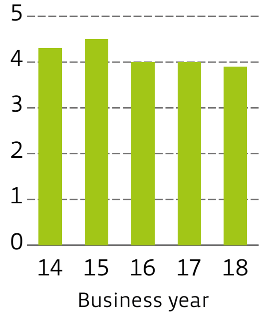
Since the ISO 14001 environmental management system was introduced, waste and clean waste separation in particular have been prioritised. We pay attention to sorting waste consistently and correct disposal. Our aim is to maintain or further improve this high level of waste separation. To safeguard waste disposal transport, trucks are randomly subjected to brief inspections.

Total amount of waste
(kg/h production)



Business year	Total amount of waste (kg/h production)
2018	6.40
2017	6.81
2016	6.40
2015	7.21
2014	7.28

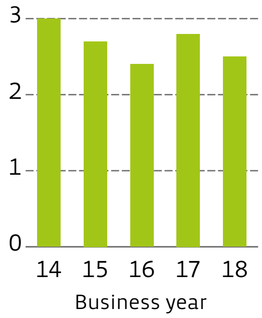
Hazardous waste*
(kg/h production)



Business year	Hazardous waste* (kg/h production)
2018	3.9
2017	4.0
2016	4.0
2015	4.5
2014	4.3

*according to EU-wide regulatory categorisation

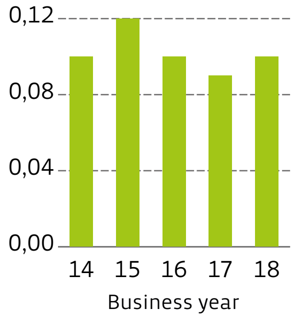
Non-hazardous waste*
(kg/h production)



Business year	Non-hazardous waste* (kg/h production)
2018	2.5
2017	2.8
2016	2.4
2015	2.7
2014	3.0

*according to EU-wide regulatory categorisation

Clean recyclable plastics
(kg/h production)



Business year	Clean recyclable plastics (kg/h production)
2018	0.10
2017	0.09
2016	0.10
2015	0.12
2014	0.10

RESOURCES

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

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

In conjunction with this report, we primarily define resources as the materials used in production, from base material laminates – a synthetic resin-impregnated fibre mat – through a wide range of metals for the production of conductor paths and surfaces to be refined, to the chemicals used in wet processes.

The procurement of raw materials / auxiliary materials is carried out according to a process plan defined in the management manual.

We generally expect our suppliers to use a QM system based on DIN EN ISO 9000 ff and pursue further development to ISO/TS 16949, as well as an environmental management system according to ISO 14001 and an energy management system according to ISO 50001/EMAS (for SMEs: energy audit according to EN 16247). For the procurement of energy services, products, facilities and energy, we proceed according to the criteria of the external specifications or our purchasing conditions.

Schweizer Electronic AG reserves the right to carry out quality audits at the supplier's premises. In special cases, it can be contractually agreed between our customer, our supplier/external manufacturer and Schweizer Electronic AG that the customer is entitled to carry out audits at our supplier/external manufacturer. This verification by the customer is not interpreted by us as proof of effective quality control at our supplier's/external manufacturer's plant. It does not release us from the responsibility of providing our customers with quality products.

CONFLICT MATERIALS

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

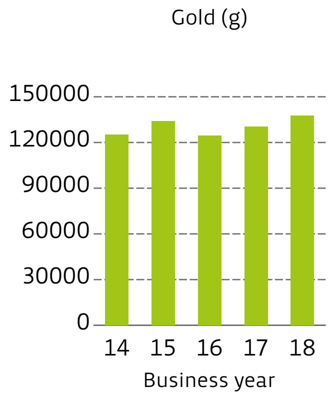
Conflict materials are being mined and sold under appalling conditions to support and finance armed conflict in the Democratic Republic of Congo and its neighbouring countries. In July 2010, the US government passed the Dodd-Frank Wall Street Reform and Consumer Protection Act to control and prevent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

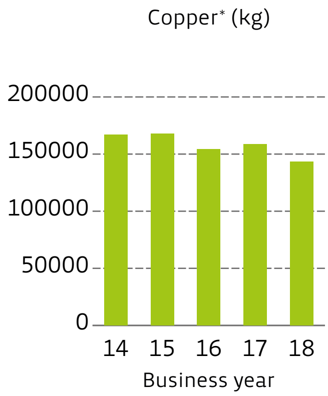
Companies like Schweizer Electronic AG, which supplies to US listed companies, must also inform its customers when conflict materials are present in their products or supply chain.

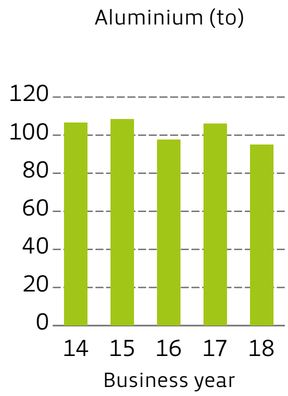
As Schweizer shares the opinion of its customers, we do our best not to purchase raw materials from the Democratic Republic of Congo. This is why we work closely with our suppliers. We expect our suppliers to source their minerals from conflict-free smelters and check their own supply chain for conflict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

We also conduct regular supplier audits and evaluations of our largest suppliers and other relevant service providers with regard to quality management, environmental protection, sustainability and energy management.

MATERIALS USED BY WEIGHT





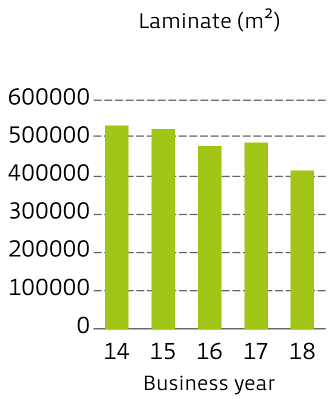


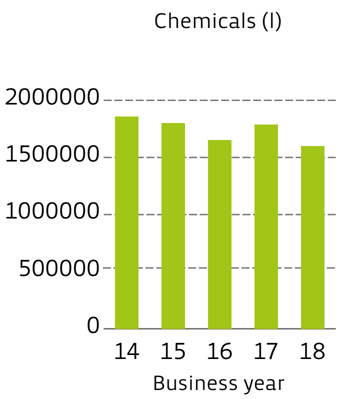
Business year	Gold (g)
2018	137,812
2017	130,446
2016	124,518
2015	134,183
2014	125,118

Business year	Copper* (kg)
2018	143,421
2017	158,461
2016	154,233
2015	168,003
2014	167,182

Business year	Aluminium (to)
2018	95.0
2017	106.0
2016	97.6
2015	108.4
2014	106.5

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





Business year	Laminate (m^2)
2018	415,000
2017	489,000
2016	480,000
2015	524,000
2014	534,000

Business year	Chemicals (l)
2018	1,599,155
2017	1,787,080
2016	1,651,399
2015	1,801,122
2014	1,858,955

4. EMPLOYEE ISSUES

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

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

As of the end of the year, Schweizer Electronic AG employed 783 individuals in Germany. The annual average fluctuation rate was 3.96%. More than 26 percent of our employees have been with us for more than 25 years. In Asia, we employed 14 people as of the end of the year.

OCCUPATIONAL HEALTH AND SAFETY

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

The first employee survey focussing on questions concerning physical burdens and mental stress was carried out amongst all employees in October 2017. Following its analysis by an external service provider, individual workplace inspections took place until the end of 2018, prioritised according to areas which had been identified as the most hazardous by the employees.

Thanks to measures proposed by the analysis team and worked out by the employees and managers concerned, improvements in the workplace design such as the reduction of manual load handling or noise pollution, have been achieved already at individual workplaces. Monitoring of the effectiveness as well as the regular repetition of the employee survey support the safeguarding of an effective health protection through a continuous improvement process.

COMPANY INTEGRATION MANAGEMENT

Together with the Works Council we entered into a works agreement concerning the company integration management (BEM) in 2018. Targets of this agreement are the overcoming of the inability to work, the prevention of future inability to work as well as the retention of the workplace.

Employment protection and support are the overriding aims of the development of measures within the company integration management. This includes measures for the safety and health protection, the health supporting design of the workplace, the promotion of health as well as measures of in-company rehabilitation and professional development.

FLEXIBLE TRANSITION TO RETIREMENT

Furthermore, an internal working group and the works council devised an internal solution for partial retirement in 2017. This solution will facilitate a smooth and flexible transition into retirement for the benefit of our employees. The corresponding works agreement entered into force on 1 January 2018. In 2018 six employees entered into partial retirement. Four employees work in shifts, two employees in the administration. The duration of the partial retirement period lasts from min. two years to max. six years. For the current fiscal year further agreements have already been concluded with additional employees.

TRAINING

Schweizer employs an average of 27 trainees and dual students who are trained for the company's own requirements. An apprenticeship with us is regarded as the basis for a secure professional future. We believe it important to employ specialists who have already familiarised themselves with our company during training.

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

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

TRAINEE PROGRAMME

With the establishment of a new production site in China, we started a trainee programme in 2018. Within this programme, we train employees, destined to work at our plant in China, over the course of approx. one year at our site in Schramberg.

FURTHER EDUCATION AND HEALTH MANAGEMENT

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

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

In the fiscal year 2018 the annual performance appraisal system had been replaced by a new works agreement for a revised performance appraisal. The target of the revised performance appraisal is to establish a transparent appraisal instrument which is comprehensible for all employees. The appraised performance is basis for the performance-related remuneration component and embedded into the yearly performance appraisal conversation. A trial performance appraisal without effect on the remuneration had been carried out as a training measure for all employees by October 1st, 2018. Within a one-day workshop, the mana-gers had been trained by external experts, which included a simulated conversation. The first real appraisal will take place in 2019.

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

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

Number of occupational and commuting accidents and resulting absences

Business year	Number of accidents at work and on the way to work*.	resulting days of absence
2018	22	286
2017	12	110
2016	16	189
2015	13	105
2014	12	113

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

More than half of the accidents in 2018 were external commuting accidents or happend on in-plant ways, without work machinery or tools being involved. They tripled compared to the previous year. Analyses proved this to be an accidental increase, which is not related to systematic causes. Prevention measures are in process.

Number of employees and average fluctuation rate

Business year	Number of employees on 31.12	Average fluctuation rate
2018	814	3.20 %
2017	797	3.96 %
2016	787	3.20 %
2015	774	3.04%
2014	773	3.44%

Total number of newly hired employees

Business year	Total	male	female
2018	65	31	34
2017	76	45	31
2016	77	35	42
2015	75	47	28
2014	86	54	32

As of December 31, 2018 the number of employees at SCHWEIZER amounted to 814 people, 281 women and 533 men. 15 women and four men worked part-time.

5. SOCIAL ISSUES

CORPORATE SOCIAL RESPONSIBILITY

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

One of the projects that Schweizer Electronic AG has supported in recent years is the International Schramberg Organ Competition, which is organised every four years and took place for the fifth time in summer 2016. It has an excellent reputation in the international youth music scene and among local residents. Other cultural projects are in the pipeline.

For the younger generation, the 'Mini Schramberg' large-scale games project took place once again in summer 2017. During the first week of the school holidays, more than 500 children took over city hall and the city centre to prepare themselves for life as employees and citizens of the city. As a local employer, Schweizer sees itself as jointly responsible for ensuring that the next generation is prepared for its future at home, at school, and in other projects that have an impact on day-to-day life. This is why the company also regularly participates in the Schramberg Summer Campus. Held every year towards the end of the school holidays, the event gives young people the opportunity to get to know different areas of expertise and employers, helping them to make a decision on their further career.

Employees at Schweizer are also involved in social projects. In spring 2017, for example, employees suggested that a local kindergarten in Sulgen be redesigned for the children and the company assisted the project both financially and with hands-on involvement. Trainees at Schweizer helped to dig up the garden and install the playground equipment. Projects such as this are a core part of our training programme. Plans for social projects are underway for the current financial year. These projects will receive assistance from Schweizer's trainees during working hours.

Schweizer Electronic AG is also involved in promoting sports at local level. For years the company has been the main sponsor of the Tria Schramberg e.V. triathlon association and organises local sporting events together with the club. Schweizer's employees also participate in these events. Employees are also encouraged to take part in other sporting events in the region. In order to support the local community in Schramberg, the company supported events of the Association Szene 64.

Since 2018, we have been financially supporting the Forum Kunst in Rottweil within the framework of a benefactor agreement. The Forum Kunst was founded as an art association in 1970 with the aim to foster the confrontation with contemporary art. Since its foundation, the organisers have been cautious to offer a platform not only for regional artists but also artists of national and international reputation to promote the exchange. At the same time this enhances the attractiveness of the region as living space for employees and their families.

In addition, we granted once more a donation to the Stiftung Lebenshilfe Rottweil, an organisation supporting severely handicapped people. Thanks to the various activities of these so-called "Lebenshilfe" associations and there institutions, a significant contribution towards the integration of handicapped people is ensured.

On an international level, we support the Association for the Promotion of Street Children in Bolivia e.V. (Fundacion Arco Iris). This association was founded in 1997 on the initiative of priest Josef Maria Neuenhofer from Dunningen and primarily assists street children in the Bolivian capital of La Paz. It supports kindergartens and school education services, and provides health care and food for destitute children and young people.

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

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

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

WHISTLE-BLOWING SYSTEM AT SCHWEIZER

Since we have a strong interest in reporting violations of laws, regulations and internal rules in order to detect and clarify unlawful behavior in the company, we introduced a whistleblower system at Schweizer in the past financial year and concluded a corresponding company agreement. Early guidance from employees, former colleagues, customers, and third parties can help to adopt a preventive strategy to avert material and immaterial damage, legal consequences, and reputational damage to the company and its employees.

The whistleblowing system opens up a confidential communication channel in which employees and others have the opportunity to electronically report violations in connection with the company to a central processor. Particular care is taken to ensure that the rights of the individual, the informal right of self-determination and the privacy of the participants are respected.

7. GRI CONTENT INDEX

The Non-Financial Statement contains standard disclosures from the GRI Sustainability Reporting Guidelines.

GENERAL STANDARD DISCLOSURES

General Standard Disclosures	Brief description for the respective information	Reference to the position in the Non-Financial Statement or in the Annual Report	Explanation of omission or alternative presentation
Organisational profile			
G4-3	Name of organisation	Non-Financial Statement 2018 Page 4,5	
G4-4	Brands, products and services	Annual Report 2018 Page 33ff	
G4-5	Company headquarters	Annual Report 2018 Page 32	
G4-6	Overview of sites	Annual Report 2018 Page 32	
G4-7	Ownership and legal form	Annual Report 2018 Page 29, 32, 59, 119	
G4-8	Markets	Annual Report 2018 Page 37ff., 49ff.	
G4-9	Size of company	Annual Report 2018 Page 3	
G4-13	Significant changes within the organisation	Annual Report 2018 Page 33, 48	
G4-14	Precautionary principle	Non-Financial Statement 2018 Page 4, 5 Annual Report 2018 Page 52ff.	
Identified material aspects and boundaries			
G4-17	Companies in the consolidated financial statements	Annual Report 2018 Page 32, 101	
Report profile			
G4-28	Reporting period	Business year 2018 (01.01. – 31.12.2018)	
G4-30	Reporting cycle	annual	
G4-32	GRI Index	Non-Financial Statement 2018 Page 84	
G4-33	Internal assurance	This sustainability report was not audited externally. The quality of the data was reviewed by the Supervisory Board.	
Governance			
G4-34	Governance structure	Annual Report 2018 Page 8, 59ff., 137f.	
Ethics and integrity			
G4-56	Code of Conduct and Ethics	Non-Financial Statement 2018 Page 4, 5, 13, 16	

SPECIFIC STANDARD DISCLOSURES

Specific Standard Disclosures	Brief description for the respective information	Reference to the position in the Non-Financial Statement or in the Annual Report	Explanation of omission or alternative presentation
Economic			
Economic performance			
G4-EC1	Direct generated and distributed economic value	Annual Report 2018 Page 38ff., 88ff.	
Environmental			
Materials			
G4-EN1	Materials used by weight or volume	Non-Financial Statement 2018 Page 12	This is a quantitative list of the most important production materials. Due to its complexity, it is currently not possible to break it down into renewable and non-renewable materials. Packing materials are not included.
Energy			
G4-EN5	Energy intensity	Non-Financial Statement 2018 Page 6	The total energy consumption includes power and gas. The hour of production serves as the organisation-specific parameter for measuring the intensity. The information at SCHWEIZER is indicated as specific energy consumption.
Water			
G4-EN8	Total water consumption by source	Non-Financial Statement 2018 Page 8	The information is not shown per production hour rather than in absolute values.
Emissions			
G4-EN15 and G4-EN16	Direct GHG emissions (scope 1) Indirect energy-related GHG emissions (scope 2)	Non-Financial Statement 2018 Page 7	The diagram contains the total CO_2 footprint, which includes both direct CO_2 emissions (gas combustion) and indirect CO_2 emissions from electricity purchased from utility companies. An additional distinction is made between the CO_2 footprint resulting from production, which also consists of direct emissions, and the CO_2 footprint caused by transporting our goods (direct emissions only). Gas, petrol and electricity consumption were used to determine CO_2. No oil was used. Since the consumption values of the utility companies (electricity) are not supplied until the autumn of the following year, the value is determined using the previous year's values as an estimate. Information is shown per production hour.
G4-EN18	Intensity of GHG emissions	Non-Financial Statement 2018 Page 7	
G4-EN19	Reduction of GHG emissions	Non-Financial Statement 2018 Page 7	SCHWEIZER gives information in a CO_2 footprint (per production hour).
Effluents and waste			
G4-EN22	Total volume of effluent discharge by quality and place of discharge	Non-Financial Statement 2018 Page 8, 9	The information is not shown per production hour rather than in absolute values. The quality of the effluents is indicated in mass per volume based on selected residual metal impurities.
G4-EN23	Total weight of waste	Non-Financial Statement 2018 Page 10	The figure includes the total amount of waste and the breakdown into hazardous and non-hazardous waste and clean recyclable plastics per hour of production.

Specific Standard Disclosures	Brief description for the respective information	Reference to the position in the Non-Financial Statement or in the Annual Report	Explanation of omission or alternative presentation
Social			
Employment			
G4-LA1	Total number of newly hired employees and staff turnover	Non-Financial Statement 2018 Page 15	The number of employees and the total number of newly hired employees are stated in absolute figures. The fluctuation rate is expressed as a percentage and is not separated by gender. The number of new employees and the fluctuation rate refer exclusively to the Schramberg site. The number of employees includes all employees, 14 of whom were working in the offices in Asia as of 31 December 2017.
Occupational health and safety			
G4-LA6	Occupational accidents, lost days, fatalities	Non-Financial Statement 2018 Page 14, 15	A list is provided of accidents subject to reporting requirements at the Schramberg site and the resulting days of absence. There were no fatalities.
Training and education			
G4-LA10	Competence Management and Training Programs	Non-Financial Statement 2018 Page 14	There are no transitional aid programmes for people leaving the profession.
G4-LA11	Regular Employee Performance Reviews	Non-Financial Statement 2018 Page 14	It is not possible to list employees by gender or employee category.
Society			
Anti-corruption			
G4-SO4	Information and training on anti-corruption guidelines and procedures	Annual Report 2018 Page 142	Employees and suppliers are kept up to date. Information on this is permanently accessible.
Product responsibility			
Product and service labeling			
G4-PR5	Results of customer satisfaction surveys	Annual Report 2017 Page 36	The data refer to the customers of the Schramberg site.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

		2018	2017
	Notes no.	EUR thouands	EUR thouands
Sales revenues	3.1	125,349	120,926
Cost of sales | Cost of goods and services provided to generate sales		-106,774	-101,932
Gross profit		**18,575**	**18,994**
Other operating income	3.2	4,491	3,449
Distribution costs		-4,754	-4,539
Administration expenses		-15,384	-13,133
Other operating expenses	3.3	-1,298	-4,425
Operation results		**1,630**	**346**
Financial income	3.4	30	4,267
Financial expenses	3.5	-802	-792
Earnings from participating interests accounted for using the equity method		0	29
Earnings before taxes on income and revenue		**858**	**3,850**
Taxes on income and revenue	3.8	-351	-387
Consolidated result		**507**	**3,463**
Of which attributable to:			
Shareholders of the parent company		512	3,488
Non-controlling interests		-5	-25
Earning per share			
Undiluted (= diluted) shareholding		3,766,993	3,762,548
Undiluted, based on the profit attributable to holders of ordinary shares of the parent company		0.14	0.92

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2018	2017
	Notes no.	EUR thouands	EUR thouands
Consolidated result		**507**	**3,463**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods (after taxes):		**19**	**-716**
Currency translation of foreign operations	4.9	19	372
Net- (loss)/gain from available-for sale financial assets		0	-1,088
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (after taxes):		**-76**	**-58**
Gain/(loss) aus erfolgsneutral zum beizulegenden Zeitwert bewerteten Vermögenswerten	4.2	-63	0
Gain/(loss) on the revaluation of defined benefit pension plans	4.13	-17	-81
Tax on profits	3.8	4	23
Other earnings after tax		**-57**	**-774**
Overall result after taxes		**450**	**2,689**
Of which attributable to:			
Shareholders of the parent company		454	2,710
Non-controlling interests		-4	-21

CONSOLIDATED BALANCE SHEET

	Notes no.	31.12.2018 EUR thousands	31.12.2017 EUR thousands
Assets			
Non-current assets		**59,092**	**62,180**
Tangible assets	4.1	56,556	59,490
Intangible assets	4.1	1,793	691
Participating interest in companies recognised using the equity method	4.3	0	1,232
Other participating interests	4.2	444	507
Other financial assets	4.4	5	5
Deferred tax assets	3.8	275	255
Short-term assets		**76,177**	**51,423**
Inventories	4.5	10,106	17,731
Trade receivables	4.6	22,270	17,752
Contract assets	4.7	8,734	0
Tax receivables	3.8	2,044	2,476
Other financial assets	4.4	822	477
Other assets		1,719	1,694
Cash and cash equivalents	4.8	29,990	11,293
Non-current assets held for sale	4.3	511	0
Balance sheet total		**135,269**	**113,603**
Liabilities			
Equity capital	**4.9**	**62,978**	**62,342**
Subscribed capital		9,664	9,664
Own shares		-29	-40
Capital reserves		21,837	21,904
Profit reserves/balance-sheet profit		31,444	30,678
Equity attributable to shareholders of the parent company		62,916	62,206
Non-controlling interests		62	136
Non-current liabilities		**43,679**	**31,086**
Financial liabilities	4.11	18,281	5,969
Other financial liabilities	4.12	2,222	1,371
Provision for defined benefit pension plans	4.13	20,149	20,492
Trade payables		3	0
Other provisions	4.15	843	227
Deferred tax liabilities	3.8	2,181	3,027
Current liabilities		**28,612**	**20,175**
Financial liabilities	4.11	7,147	1,242
Other financial liabilities	4.12	167	358
Provision for defined benefit pension plans	4.13	925	880
Trade payables		9,786	6,525
Other liabilities	4.14	3,574	4,220
Other provisions	4.15	7,013	6,950
Total liabilities		72,291	51,260
Balance sheet total		**135,269**	**113,603**

CONSOLIDATED CASH FLOW STATEMENT

	Notes no.	2018 EUR thousands	2017 EUR thousands
Operating activities			
Earnings before tax		**858**	**3,850**
Adjustment to reconcile earnings before taxes to net cash flows:			
Amortisation and impairment of tangible and intangible assets	4.1	7,533	8,089
Expenses for share-based remuneration	4.18, 3.6	94	227
Exchange difference, net		-1,837	645
Losses from the sale of tangible assets		12	5
Interest income	3.4	-24	-207
Dividend income	3.4	-6	-45
Interest expenses	3.5	714	792
Loss/profit from the sale of financial assets	3.5	88	-4,003
Share in earnings from participating interests recognised using the equity method		0	-29
Changes in the provision for defined benefit pension plans (without changes recognised directly in equity)	4.13	-285	-260
Change in other provisions	4.15	679	2,275
Change in tax receivables	3.8	432	-1,275
Change in trade and other receivables and advance payments		-4,836	-10
Change in inventories	4.5	726	-1,487
Change in trade and other payables		3,547	-1,228
Interest received		24	207
Dividend received		6	45
Interest paid		-85	-88
Tax on profits paid		-1,706	-2,871
Cash flow from operating activities		**5,934**	**4,632**
Investment activities			
Proceeds from the sale of tangible assets		1,107	0
Payments to acquire tangible assets and intangible assets		-6,530	-3,283
Proceeds from disposals of investments		1,210	4,636
Cash flow from investing activities		**-4,213**	**1,353**
Financing activities			
Proceeds from borrowings	4.11	19,459	0
Payments for the repayments of loans	4.11	-1,242	-1,346
Payments from finance leases	4.11	-269	-214
Dividend payments		-1,130	-2,446
Cash flow from financing activities		**16,818**	**-4,006**
Net change in cash and cash equivalents		18,539	1,979
Changes in cash and cash equivalents owing to exchange rates		158	-194
Cash and cash equivalents as at 1 January		**11,293**	**9,508**
Cash and cash equivalents as at 31 December		**29,990**	**11,293**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in EUR thousands	Notes no. 4.9	Subscribed capital	Own shares	Capital-reserves	Profit-reserves/ balance-sheet - profit
As of 1 January 2017		**9,664**	**-52**	**21,941**	**30,378**
Consolidated result					3,488
Other comprehensive income					-778
Overall result					**2,710**
Change in minority interest					
Change in own shares			**12**		**36**
Long-Term Incentives for Executive Board members				-37	
Dividend payout					-2,446
Allocation in reserves					
Other changes					
As of 31 December 2017		**9,664**	**-40**	**21,904**	**30,678**
As of 1 January 2018		**9,664**	**-40**	**21,904**	**30,678**
Effect of adoption of IFRS 15					1,359
As of 1 January 2018 - restated -		**9,664**	**-40**	**21, 904**	**32,037**
Consolidated result					512
Other comprehensive income					-58
Overall result					**454**
Change in minority interest					
Change in own shares			11		83
Long-Term Incentives for Executive Board members				-67	
Dividend payout					-1,130
Allocation in reserves					
Other changes					
As of 31 December 2018		**9,664**	**-29**	**21,837**	**31,444**

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 shareholder of SEAG)**	**Equity attributable to shareholders of the parent company**	**Non-controlling interests**	**Equity capital**
-3,612	**1,513**	**1,150**	**-10,582**	**61,931**	**151**	**62,082**
			3,488	3,488	-25	3,463
-58	-1,088	368		-778	4	-774
-58	**-1,088**	**368**	**3,488**	**2,710**	**-21**	**2,689**
					6	6
				48		**48**
				-37		-37
			-2,446	-2,446		-2,446
			-2,500			
-3,670	**425**	**1,518**	**-12,040**	**62,206**	**136**	**62,342**
-3,670	**425**	**1,518**	**-12,040**	**62,206**	**136**	**62,342**
				1,359		1,359
-3,670	**425**	**1,518**	**-12,040**	**63,565**	**136**	**63,701**
			512	512	-5	507
-13	-63	18		-58	1	-57
-13	**-63**	**18**	**512**	**454**	**-4**	**450**
					-71	-71
				94		94
				-67		-67
			-1,130	-1,130		-1,130
			-1,500			
-3,683	**362**	**1,536**	**-14,159**	**62,916**	**62**	**62,978**

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 (regulated market).

The consolidated financial statements of the SCHWEIZER Group for the financial year ending 31 December 2018 were prepared and approved for publication by the Executive Board on 12 April 2019.

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

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

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

ACCOUNTING PRINCIPLES APPLIED FOR THE FIRST TIME

The application of the following pronouncements of the International Accounting Standards Board (IASB) is mandatory for financial year 2018:

Standards / interpretations		**Consequences for the consolidated financial statement**
IFRS 9	Financial instruments	Insignificant – the details are explained at the end of this overview.
IFRS 4	Amendments to IFRS 4 Application of IFRS 9 "Financial instruments" together with IFRS 4 "Insurance contracts".	None
IFRS 15	Revenue from contracts with customers	Significant – the details are explained at the end of this overview
IFRS 15	Clarifications to IFRS 15 Revenue from contracts with customers	Please refer to the comments on IFRS 15 in this regard.

Miscellaneous standards	Annual improvements to the International Financial Reporting Standards, cycle 2014 to 2016	Insignificant
IFRS 2	Amendments to IFRS 2 – Classification and measurement of share-based payment transactions	Insignificant
IAS 40	Amendments to IAS 40 – Transfers to and from the portfolio of investment properties	None
IFRIC 22	Foreign currency transactions and considerations given or received in advance	Insignificant

For the transition to IFRS 15 and IFRS 9, SCHWEIZER applied the modified retrospective approach in each case. At the conversion date of 1 January 2018, the conversion effects for the SCHWEIZER Group were recognised in retained earnings at the beginning of the comparative period. The figures reported for the comparative period were not adjusted in accordance with the chosen transition method. The accounting principles in accordance with the two new standards and the main conversion effects for SCHWEIZER in the 2018 financial year are explained below.

IFRS 9 – FINANCIAL INSTRUMENTS

The IASB adopted the final version of IFRS 9 in July 2014. The new standard sets out the requirements for the recognition and measurement of financial assets and liabilities and essentially replaces IAS 39. The SCHWEIZER Group applies IFRS 9 for the first time as of 1 January 2018.

For the SCHWEIZER Group, the new provisions of IFRS 9 mainly affect the classification of financial assets and the impairment model.

Classification and measurement of financial assets and liabilities

The new standard contains three categories for the classification and measurement of financial assets:

- measured at amortised cost,
- measured at fair value through equity in other comprehensive income, and
- measured at fair value through profit or loss.

The classification is based on the company's business model for managing financial assets (business model condition) and the contractual cash flows (cash flow condition). With regard to financial liabilities, the existing provisions of IAS 39 are largely continued.

At the SCHWEIZER Group, the equity instruments previously classified in the IAS 39 category "available for sale" were allocated to the category "measured at fair value through equity in other comprehensive income" in accordance with IFRS 9. Accordingly, future changes in fair value recognised in other comprehensive income are not reclassified to profit or loss even if the financial instrument is subsequently disposed of. However, dividends on these investments continue to be recognised in the income statement. The investment in SCHRAMBERGER WOHNUNGSBAU, the fair value of which could not be reliably determined and was therefore measured at cost in accordance with the exception provision contained in IAS 39, was measured at fair value in accordance with IFRS 9. For this investment, the acquisition costs represent the best possible estimate of the fair value, so that this has no effect. There were no material changes in financial liabilities or derivatives as a result of the first-time application of IFRS 9. The SCHWEIZER Group does not engage in hedge accounting. However, the Group reserves the option under IFRS 9 to apply the criteria of IAS 39 in accounting in the future. Overall, at the time of first-time application there was no changeover effect with an impact on retained earnings due to the changed classification.

An overview of the allocation of financial instruments according to the original categories of IAS 39 and the new categories in accordance with IFRS 9 and the related carrying amounts at the date of first-time application is presented below:

		31.12.2017		01.01.2018	31.12.2018
In EUR thousands	**Measurement category according to IAS 39**	**Carrying amounts**	**Measurement category according to IFRS 9**	**Carrying amounts**	**Carrying amounts**
Assets					
Participating interests	Available for sale	507	at fair value through equity	507	444
Trade receivables	Loans and receivables	17,752	Amortised cost	17,752	22,270
Other financial assets					
Derivative financial assets (no hedge relationship)	Held for trading	39	at fair value through profit or loss	39	28
Other non-derivative financial assets	Loans and receivables	443	Amortised cost	443	803
Cash and cash equivalents	Loans and receivables	11,293	Amortised cost	11,293	29,990
Liabilities					
Financial liabilities	Financial liabilities at amortised cost	7,211	Amortised cost	7,211	25,428
Trade payables	Financial liabilities at amortised cost	6,525	Amortised cost	6,525	9,789
Other financial liabilities					
Derivatives with negative market value	Held for trading	0	at fair value through profit or loss	0	5
Leasing liabilities	Non IFRS 7	1,655	Non IFRS 7	1,655	2,374
Other non-derivative financial liabilities	Financial liabilities at amortised cost	74	Amortised cost	74	15

New impairment model for financial assets

IFRS 9 has also introduced a new impairment model for financial assets under which expected losses in the future (expected credit loss model) are also recognised. The new impairment model is applied to all financial assets measured at amortised cost and to contract assets. This resulted in only an insignificant need for impairment in the context of the first-time application.

In the case of cash and cash equivalents and other financial assets, there was only a negligible need for impairment in the first-time application.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 entered into force on 1 January 2018 and replaces all the previously existing revenue recognition requirements (IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31). IFRS 15 introduces a 5-step model for revenue recognition from customer contracts. In accordance with IFRS 15, revenue is recognised in the amount of the consideration that a company can expect in return for the transfer of goods and services to a customer.

Period-related revenues from customer-specific products

By applying IFRS 15, revenue from the sale of products is recognised on a period basis if one of the criteria in IFRS 15 for time-related realisation – products without an alternative use and the existence of a legal claim to payment for the service already rendered in the amount of the costs including an appropriate profit margin – is met in the majority of cases. Due to the period-related realisation, the affected sales are realised prior to the delivery date, which results in a conversion effect from the recognition of contract assets and the reduction of inventories, as the revenues of the Schweizer Group from the sale of products prior to the application of IFRS 15 were uniformly realised at specific points in time.

The period-related calculation of sales revenues is based on the cost-to-cost input method. To determine the stage of completion, the production costs already incurred are divided by the total production costs for unfinished and finished goods.

Time-related revenues from non-customer-specific and customer-specific products

However, the criteria for period-related recognition are not applicable to all product sales of the Schweizer Group, which is why the time-related recognition of sales revenues is still applied in these cases. In a further step, an analysis was carried out to determine whether these products were to be sent directly to the customer or first to a consignment warehouse. In the case of direct delivery to the customer, IFRS 15 does not result in any changes – revenue continues to be recognised upon delivery to the customer – while delivery to a consignment warehouse sometimes results in timing differences with regard to revenue recognition. Under the previous rules on revenue recognition, revenue was recognised when the customer withdraws the products from the consignment warehouse. Under IFRS 15, revenue for those products for which the transfer of control already takes place upon delivery to the consignment warehouse is recognised at this point in time. If the transfer of control does not take place until the products are removed by the customer, sales revenues for these products in accordance with IFRS 15 – as before – are recognised at the time of removal.

With the exception of volume discounts, there are no take-back or refund obligations in the Schweizer Group.

The effects of IFRS 15 on the items in the opening balance sheet as at 1 January 2018 are shown in the following table. The table contains only the items affected by the adjustment. There were no contractual liabilities as of 1 January 2018. The exemption from reassessing contracts fulfilled before 1 January 2018 in accordance with IFRS 15 has been applied.

Effect from the application of IFRS 15 as at 01 January 2018

in EUR thousands	Balance-sheet as of 31.12.2017	Adjustment acc. to IFRS 15	Balance-sheet as of 01.01.2018
Assets			
Current assets	**51,423**	**1,888**	**53,311**
Inventories	17,731	-6,898	10,833
Contract assets	0	8,786	8,786
Balance sheet total	**113,603**	**1,888**	**115,491**
Equity			
Profit reserves/ balan-ce-sheet profit	30,678	1,359	32,037
Total equity	**62,342**	**1,359**	**63,701**
Liabilities			
Non-current liabilities	**31,086**	**529**	**31,615**
Deferred tax liabilities	3,027	529	3,556
Balance sheet total	**113,603**	**1,888**	**115,491**

The two tables below show the effects of IFRS 15 on the consolidated balance sheet and the consolidated income statement as of 31 December 2018. Both tables contain only the items affected by the adjustment.

Effect from the application of IFRS 15 as at 31 December 2018

Angaben in TEUR	Balance-sheet as of 31.12.2018 (without transition effect)	Adjustment acc. to IFRS 15	Balance-sheet as of 31.12.2018
Assets			
Current assets	**74,149**	**2,028**	**76,177**
Inventories	16,812	-6,706	10,106
Contract assets	0	8,734	8,734
Balance sheet total	**133,241**	**2,028**	**135,269**
Equity			
Profit reserves/ balance-sheet profit	29,984	1,460	31,444
Total equity	**61,518**	**1,460**	**62,978**
Liabilities			
Non-current liabilities	**42,906**	**568**	**43,474**
Deferred tax liabilities	1,613	568	2,181
Balance sheet total	**133,241**	**2,028**	**135,269**

in EUR thousands	P&L 2018 (without transition effect)	Adjustment acc. to IFRS 15	P&L 2018
Revenue	125,401	-52	125,349
Cost of sales	-106,966	192	-106,774
Gross profit	18,435	140	18,575
Income tax expense	-312	-39	-351
Consolidated result	406	101	507
Earnings per share	0.11		0.14

ACCOUNTING PRINCIPLES THAT HAVE BEEN PUBLISHED BUT NOT YET APPLIED

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

Standards / interpretations		Mandatory application[1)]	Adoption into EU law	Anticipated consequences for the consolidated financial statement
IFRS 16	Leases	1 January 2019	Yes	The details of the effects from IAS 16 are explained at the end of this overview
IFRS 9	Amendments to IFRS 9 – Early repayment regulations with negative compensation payment	1 January 2019	Yes	The details of the effects from IFRS 9 are explained in Section 2
IFRIC 23	Uncertainty regarding the treatment of income tax	1 January 2019	No	Insignificant
IFRS 17	Insurance contracts	1 January 2021	No	None
IAS 28	Amendments to IAS 28 Long-term Investments in associates and joint ventures	1 January 2019	No	None
Various Standards	Annual improvements to the International Financial Reporting Standards, cycle 2015 to 2017	1 January 2019	No	Insignificant
IAS 19	Amendments to IAS 19 – Plan amendments, curtailments or settlements	1 January 2019	No	Insignificant
Framework concept	Amendments to the references to the framework in IFRS	1 January 2020	No	None
IFRS 3	Amendments to IFRS 3 Definition of a business operation	1 January 2020	No	None
IAS 1 and 8	Amendments to IAS 1 and IAS 8 Definition of "significant"	1 January 2020	No	Insignificant

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

IFRS 16 – LEASES

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

IFRS 16 sets out the principles for recognition, measurement, presentation and disclosure of leases. In future, lessees will capitalise the right to use the leased asset and show the obligation to pay the lease as a liability. For lessors, the provisions of IAS 17 were generally adopted and the distinction between operating leases and finance leases is maintained.

Schweizer will choose the modified retrospective approach and generally recognise the cumulative changeover effects in retained earnings. The prior-year period has not been restated to reflect the chosen changeover method. The transitional provisions of IFRS 16 grant certain relief options for the transition.

The Group analysed the effects of the changed accounting regulations in the 2018 financial year as part of an implementation project. The significant conversion effects are presently expected due to the future recognition of leases of motor vehicles, e-bikes and rental space from Asian subsidiaries previously classified as operating leases. The Schweizer Group makes use of the relief provisions for short-term leases with a term of no more than 12 months and for low-value leased assets.

As a result of the application of the new standard, we expect the balance sheet total as of 1 January 2019 to increase by EUR 600 thousand due to the recognition of rights of use and lease liabilities. In addition, the application of the new standard also has an impact on the income statement, as interest expenses for the lease liability and depreciation on the right of use are now recognised. Under the assumption that leases expire and new contracts are concluded on a rolling basis, depreciation of rights of use will amount to approximately EUR 186 thousand in financial year 2019 according to current calculations and interest expenses will amount to approximately EUR 15 thousand. Compared to the previous lease accounting in accordance with IAS 17, the EBITDA is expected to increase by approximately EUR 464 thousand in 2019 due to the discontinuation of operating lease expenses.

The repayment portion of the lease payments under IFRS 16 must now be reported under cash flow from financing activities. Accordingly, we expect the cash flow statement to show a positive effect (increase) on the cash flow from operating activities amounting to approximately EUR 298 thousand and a corresponding reduction in the cash flow from financing activities.

2. SUMMARY OF MATERIAL ACCOUNTING PRINCIPLES

SCOPE OF CONSOLIDATION

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

The consolidated financial statement is based on the financial statements of Schweizer Electronic AG and its subsidiaries. All financial statements are prepared as at the 31 December 2018 reporting date. The annual financial statements of the individual companies included in the consolidated financial statement have been prepared in accordance with uniform accounting and valuation methods.

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

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

	31 December 2017	**Included for the first time in financial year 2018**	**Eliminated in financial year 2018**	**31 December 2018**
Number of fully consolidated companies				
National	1	0	0	1
International	4	1	0	5
Total	**5**	**1**	**0**	**6**
Number of companies accounted for using equity method				
International	1	0	1	0

Changes in the scope of consolidation of the Schweizer Group in the first half of 2018 resulted from the inclusion of Schweizer Electronic (Jiangsu) Co., Jiangsu, China as of 1 March 2018. The direct share of Schweizer Electronic AG in this company amounts to 100 percent. In addition, the investment in Meiko Schweizer Electronics Hong Kong Co. Ltd., Hong Kong, China, previously accounted for using the equity method, was sold in financial year 2018 (see Section 4.3).

A complete overview of the participating interests of Schweizer Electronic AG is provided in the list of shareholdings in Section 6.5.

CURRENCY TRANSLATION

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

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

Exchange rates	Year-end rate		Average rate	
EUR	**31.12.2018**	**31.12.2017**	**2018**	**2017**
USD USA	1.1450	1.1993	1.1810	1.1836
CNY China	7.8751	7.8044	7.8088	7.8073
SGD Singapore	1.5591	1.6024	1.5926	1.5588

ACCOUNTING AND VALUATION PRINCIPLES

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 and the depreciation resulting from production.

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

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

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

Scheduled depreciation takes place in accordance with the linear method.

INTANGIBLE ASSETS

Intangible assets consist exclusively of acquired intangible assets and mainly consist of software and a land use right at the site of the new production facility Schweizer Electronic (Jiangsu) Co., Ltd., Jiangsu, China.

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

The acquired land use right was carried at cost less non-monetary grants (incentives) in accordance with IAS 20.24ff (government grants). The grant is recognised in profit or loss over the life of the depreciable asset using a reduced depreciation charge. The land use right has a term of 50 years and is depreciated on a straight-line basis (see details under 4.1 and 4.17).

There are no intangible assets with an indefinite useful life.

LEASING

The Schweizer Group is the lessee in leasing arrangements for tangible assets. At the inception of the lease, finance leases and operating leases are classified in accordance with IAS 17 for financial years up to and including 2018. 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. For financial years beginning in 2019, the Group will apply IFRS 16, so that all leases will be accounted for similarly to finance leases. Accordingly, assets are recognised at the present value of future lease payments. Depreciation is charged over the economic useful life or lease term.

PARTICIPATING INTERESTS IN COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD.

The investment in Meiko Schweizer Electronics Hong Kong Co., Ltd., China, previously accounted for using the equity method, was sold in financial year 2018. After the partial sale in December 2016, this share still amounted to 31.42 percent. There are no other investments accounted for using the equity method (see Section 4.3).

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

Treatment as from 1 January 2018:

The following accounting policies were applied to financial instruments in the 2018 financial year. With regard to the notes on the transition to IFRS 9, please refer to Section 1. Basis of preparation of the consolidated financial statements – accounting principles applied for the first time.

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

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

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

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

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

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

Financial liabilities – measured at amortised cost

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

Financial liabilities

With the exception of derivative financial instruments, financial liabilities are measured at amortised cost using the effective interest method.

Derivative financial instruments

The Schweizer Group uses derivative financial instruments to counter currency risks and commodity price risks. Section 4.16 contains further information on the measurement of the fair value.

The derivative financial instruments of the Schweizer Group are allocated to the measurement category "at fair value through profit or loss". Changes in fair value are recognised in the income statement. There are no hedge accounting relationships in the Schweizer Group. The Schweizer Group reserves the option under IFRS 9 to continue to apply the hedge criteria of IAS 39 in future cases.

Treatment prior to 1 January 2018:

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 in 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. The other participations of the Schweizer Group are assigned to this category. Valuation allowances are recognised through profit or loss in the consolidated income statement.

Derivative financial instruments

As a rule, derivative financial instruments are recognised on the trading date. The prerequisites of IAS 39 with respect to the application of hedge accounting are not met for any derivatives, so measurement is carried out 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 listed (not corrected) prices for identical assets or liabilities in active markets accessible on the valuation date.
Level 2: Fair value calculated using valuation methods based on observable input factors for similar assets and liabilities in active markets or for identical assets and liabilities in inactive markets.
Level 3: Assets and liabilities measured using valuation methods based on developed, non-observable input factors, because insufficient observable market data is available to determine the fair value.

INVENTORIES

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

CONTRACT ASSETS

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

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

CASH AND CASH EQUIVALENTS

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

PROVISION FOR DEFINED BENEFIT PENSION PLANS

The Group's obligation under defined benefit plans is determined by estimating the future benefits that employees will receive in the current and prior periods. This amount is discounted. Defined benefit obligations are calculated annually on the basis of actuarial reports using the projected unit credit method, taking into account future pension adjustments. The service costs and net interest expense on net debt from defined benefit plans are recognised in income. Revaluations of recognised net debt from defined benefit plans are included in other comprehensive income.

DEFERRED TAXES

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

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

OTHER PROVISIONS

Other provisions take into account all recognisable risks and uncertain obligations towards third parties whose settlement is expected to lead to an outflow of funds which can be reliably estimated. They are recognised at their most probable amount and discounted if the amount discounted is material and is not offset against rights of recourse.

Obligations arising from partial retirement arrangements are classified as other long-term employee benefits in accordance with IAS 19 and accrued. The provisions are calculated on the basis of an actuarial report using the projected unit credit method applying the FIFO method (first in, first out), in which the portion earned from all top-ups is distributed in such a way that the top-ups to be paid out first are also fully financed first. The accumulation period for all top-ups ends uniformly at the end of the work phase. The present value is determined as the settlement amount for the fully financed benefits. For the group of employees who have a legal claim to the conclusion of a partial retirement contract, potential provisions were created assuming the probable utilisation of partial retirement by the employees. The fair value of the plan assets from the insolvency protection of the partial retirement obligations is deducted from the present value of the benefit obligations, so that the net liability is recognised in the provisions. Due to the first-time recognition of partial retirement obligations, no actuarial gains or losses have yet to be recognised in profit or loss in the financial year.

LIABILITIES

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

SALES REVENUE

Revenue recognition as of 1 January 2018:
In financial year 2018, the following accounting policies were applied for revenue recognition in accordance with IFRS 15. With regard to the notes on the transition to IFRS 15, reference is made to Section 1. Basis of preparation of the consolidated financial statements – accounting principles applied for the first time.

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

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

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

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

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

Revenue recognition prior to 1 January 2018:
Revenue from the sale of goods is recognised when the significant risks and opportunities of ownership of the goods have been transferred to the customer. This usually takes place when the goods are handed over to the customer. Revenue is recognised at the fair value of the consideration received or to be received, less any volume discounts and price reductions. As a rule, the time of revenue recognition corresponds to the time of delivery.

RECOGNITION OF INCOME AND EXPENSES

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

SHARE-BASED REMUNERATION

The members of the Group's Executive Board receive a variable remuneration component with a long-term incentive effect and risk elements (called the Long Term Incentive Programme; hereafter: LTIP). The LTIP component depends on the LTIP plan approved by the Supervisory Board. The LTIP component amounts to 15 percent of the gross fixed annual salary multiplied by the target achievement 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.

One member of the management team receives a variable remuneration component with a long-term incentive effect and risk elements (Long Term Incentive Programme; hereinafter referred to as LTIP). The LTIP component is based on the Group-wide regulations for LTIP plans in force at the time. The LTIP component amounts to 10 percent of the gross fixed annual salary multiplied by the target achievement 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 change 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 on an ongoing basis. Nonetheless, future events can deviate from the estimates made and have a significant influence on the net assets, financial position and results of operations.

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

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

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

- *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 4.13).

- *Valuation of the provision for litigation risks*
  The recognition of provisions for risks arising from legal disputes requires a significant estimate by management. The risk is assessed and evaluated on the basis of the current status of the respective proceedings, the probability of success and legal assessments. This estimate is based on various assumptions that may differ from actual developments in the future. These include the dynamics in the course of legal proceedings as well as the indeterminability of a future settlement or court judgement (see Section 4.17 "Legal disputes").

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

  The period-related calculation of sales revenues is based on the input method. The cost of materials used to manufacture unfinished and finished products is used to determine sales revenues.

  In a second step, a check is carried out to determine how high the order backlog is in the frozen zone, depending on the order date. The frozen zone is the period during which the customer cannot make any changes to the order or job and is obliged to accept the products.

  In a further step, the percentage of completion is also taken into account for unfinished products, i.e. the percentage of completion of the materials. The sales price at which the materials are sold is then examined, which ultimately results in revenue in accordance with IFRS 15 or leads to contract assets. The cost of sales attributable to these revenues are deducted from inventories and included in the cost of sales (see "Sales" and Section 3.3).

SEGMENT INFORMATION

The Schweizer Group consists exclusively of the "Electronic" business segment. In this segment, the Schweizer Group develops, produces and sells 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. First sales from mass production are not expected until 2021 at the earliest. No customer orders for series production had yet been placed as at the balance sheet date.

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

3. NOTES TO THE CONSOLIDATED INCOME STATEMENT

3.1 SALES REVENUE

Revenues* from contracts with customers break down as follows:

2017 Revenues in EUR thousands	Metallised circuits	Non-metallised circuits	Multilayer / HDI	Other	Total
EU (excl. Germany)	4.1	1.0	23.3	0.0	28.4
Germany	9.9	3.0	57.6	1.8	72.3
America	2.8	0.6	6.9	0.0	10.3
Asia	2.2	2.1	4.9	0.3	9.5
Other countries	0.4	0.0	0.0	0.0	0.4
	19.4	**6.7**	**92.7**	**2.1**	**120.9**

2018 Revenues in EUR thousands	Metallised circuits	Non-metallised circuits	Multilayer / HDI	Other	Total
EU (excl. Germany)	4.6	1.0	29.5	0.0	35.1
Germany	10.0	3.1	56.6	0.8	70.5
America	2.5	0.4	7.0	0.0	9.9
Asia	1.8	2.9	4.4	0.5	9.6
Other countries	0.2	0.0	0.0	0.0	0.2
	19.1	**7.4**	**97.5**	**1.3**	**125.3**

* The modified, retrospective approach was chosen for the application of IFRS 15.

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

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

CONTRACT BALANCES

In EUR thousands	31.12.2018	01.01.2018
Trade receivables	22,270	17,752
Contract assets	8,734	8,786

In 2018, the sales revenue with three customers (previous year: three customers) each amounted to more than 45 percent of overall sales. Sales revenue with these customers amounted to EUR 30 million (previous year: EUR 37 million), EUR 14 million (previous year: EUR 15 million), EUR 12 million (previous year: EUR 13 million). The total amount of the transaction price allocated to the unfulfilled period and date-related performance obligations at 31 December 2018 amounted to EUR 1,697 thousand. These performance obligations were met in January and February 2019.

3.2 OTHER OPERATING INCOME

Other operating income is composed as follows:

	2018	2017
	In EUR thousands	In EUR thousands
Waste revenues	1,472	1,532
Currency gains	1,021	831
Income from the reversal of provisions	355	169
Income from the reversal of specific valuation allowances	0	98
Income from claims for damages	372	0
Income from the reversal of short and medium-term remuneration components from previous years	657	0
Income from subsidies	186	192
Other income	428	627
Total	**4,491**	**3,449**

3.3 OTHER OPERATING EXPENSES

Other operating expenses are composed as follows:

	2018	2017
	In EUR thousands	In EUR thousands
Currency losses	1,091	1,464
Allocation to the provision for litigation risks	0	2,500
Other expenses	207	461
Total	**1,298**	**4,425**

3.4 FINANCIAL INCOME

Financial expenses are made up as follows:

	2018	2017
	In EUR thousands	In EUR thousands
Other interest and similar income	24	207
Dividend income	6	45
Income from the sale of financial assets	0	4,003
Other	0	12
Total	**30**	**4,267**

3.5 FINANCIAL EXPENSES

Financial expenses are made up as follows:

	2018	2017
	In EUR thousands	In EUR thousands
Other interest and similar expenses	714	792
Losses from the disposal of participating interests accounted for using the equity method	88	0
Total	**802**	**792**

3.6 PERSONNEL EXPENSES

Personnel expenses are made up as follows:

	2018	2017
	In EUR thousands	In EUR thousands
Personnel costs		
Wages and salaries	38,809	37,038
Social security costs	6,172	6,162
Pensions	1,398	591
Total	**46,379**	**43,791**

The expenses for share-based remuneration to a member of the management team amount to EUR 12 thousand (previous year: EUR 17 thousand).

3.7 RESEARCH AND DEVELOPMENT EXPENSES

The criteria of IAS 38 for the capitalisation of incurred development expenses were not met in the financial year, as was also the case in the previous year. The expenditure for research and development recognised as an expense stood at EUR 3.9 million (previous year: EUR 3.8 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 resulting from temporary differences between the tax base of assets and liabilities and their carrying amounts in the IFRS consolidated balance sheet or from the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available.

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

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

	2018	2017
	In EUR thousands	In EUR thousands
Current taxes related to the reporting period	1,731	1,103
Taxes on income from other periods	-2	449
Deferred taxes of which deferred taxes from temporary differences EUR -1,321 thousand (previous year: EUR -1,165 thousand). of which reduction in deferred tax expense due to losses not previously recognised / due to reversal of an earlier write-down of a deferred tax asset EUR 57 thousand (previous year: EUR 0 thousand)	-1,378	-1,165
Total taxes on income and revenue	**351**	**387**

The amount of deferred taxes recognised in profit and loss in accordance with IAS 8 and in connection with IFRS 15 amounts to EUR 39 thousand (previous year: EUR 0 thousand).

TAX RECEIVABLES

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

	2018	2017
	In EUR thousands	In EUR thousands
Corporate income tax refund	1,164	1,423
Trade tax refund	880	1,053
Total receivables relating to taxes on income and revenue	**2,044**	**2,476**
Non-current	0	0
Current	2,044	2,476

The tax refunds result from the surplus of tax prepayments to the calculated tax liability.

DEFERRED TAXES

Deferred taxes on transactions that are recognised directly in equity increased equity in the reporting period by EUR 4 thousand (previous year: EUR 23 thousand in increased equity).

As at 31 December 2018, tax loss carryforwards amounted to EUR 4,272 thousand (previous year: EUR 3,473 thousand). Deferred tax assets relating to loss carryforwards were created in the amount of only EUR 1,837 thousand (previous year: EUR 1,500 thousand). To this extent, the company plans to be able to offset the start-up losses against future taxable profits. The loss carryforwards subject to deferred tax assets relate to a company that achieved a positive result in 2018. On the remaining loss carryforwards in the amount of EUR 2,435 thousand (previous year: EUR 1,973 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 31.12.2018	Deferred tax liabilities 31.12.2018	Deferred tax assets 31.12.2017	Deferred tax liabilities 31.12.2017
Tangible assets	10	6,611	0	7,534
Inventories	1,560	0	0	117
Receivables	0	2,449	0	56
Pension provisions	4,522	0	4,584	0
Liabilities	760	10	151	54
Tax loss carryforwards	312	0	255	0
	7,164	**9,070**	**4,990**	**7,762**
Netting	-6,889	-6,889	4,735	4,735
Recognition of deferred taxes	**275**	**2,181**	**255**	**3,027**

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 percent on which the expected tax expense is based (previous year: 28 percent) takes account of the company structure relevant for taxation.

	2018	2017
	In EUR thousands	**In EUR thousands**
Earnings before tax on profit	**858**	**3,850**
Expected income tax expense (-)/income (+)	-240	-1,078
Divergent tax rates	104	-43
Tax-free income	40	1,219
Non-tax-deductible expenses	-80	-186
Taxes from other periods	-1	-449
Effects from the use of loss carryforwards for which no deferred tax assets were previously recognised	341	33
Effects of non-recognition of deferred tax assets on loss carryforwards	-583	0
Other	68	117
Actual tax expense	**-351**	**-387**
Effective tax expense in %	41%	10%

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, taxable profits of EUR 1,753 thousand (previous year: EUR 261 thousand in profits) arose. These taxable profits were offset against losses carried forward for which no deferred tax assets had previously been recognised. Accordingly, current income tax expense from the utilisation of previously unrecognised losses decreased by EUR 292 thousand. The existing loss carryforwards of EUR 1,949 thousand can be carried forward indefinitely and EUR 2,323 thousand can be carried forward for a period of five years.

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

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

	2018	2017
	In EUR thousands	**In EUR thousands**
Gains (losses) resulting from actuarial gains and losses on the revaluation of defined benefit pension plans	4	23

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:

	2018	2017
	In EUR thousands	In EUR thousands
Earnings attributable to holders of ordinary shares of the parent company	512	3,488

	2018	2017
Weighted average number of ordinary shares*	3,766,933	3,762,548

*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, 4,432 (previous year: 4,699) ordinary shares from the share-based compensation were transferred to the members of the Executive Board and to a member of the management team (see also Section 2 and Section 4.9).

4. NOTES TO THE CONSOLIDATED BALANCE SHEET

4.1 TANGIBLE AND INTANGIBLE ASSETS

The development of tangible and intangible assets in financial years 2018 and 2017 is presented in the following overview:

Development of consolidated fixed assets and intangible assets in 2018

	Procurement and manufacturing costs					
in EUR thousands	**01.01.2018**	**Acquisitions**	**Divestment**	**Transfer postings*)**	**Currency-translation**	**31.12.2018**
Tangible assets						
Land and buildings	38,986	109	0	-568	0	38,527
Technical equipment and machines	92,790	1,456	1,965	517	0	92,798
Other plant, factory and office equipment	55,950	526	208	31	1	56,300
Advance payments and plants under construction	4,069	4,064	120	-822	37	7,228
Total tangible assets	**191,795**	**6,155**	**2,293**	**-842**	**38**	**194,853**
Intangible assets						
Software	4,984	1,363	0	56	-6	6,397

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

Development of consolidated fixed assets and intangible assets in 2017

	Procurement and manufacturing costs						
in EUR thousands	**01.01.2017**	**Acquisitions**	**Additions from external tax audit**	**Disvestment**	**Transfer postings**	**Currency-translation**	**31.12.2017**
Tangible assets							
Land and buildings	38,920	8	58	0	0	0	38,986
Technical equipment and machines	90,383	1,276	0	560	1,691	0	92,790
Other plant, factory and office equipment	55,292	671	0	12	4	-5	55,950
Advance payments and plants under construction	4,286	1,597	0	0	-1,763	-51	4,069
Total tangible assets	**188,881**	**3,552**	**58**	**572**	**-68**	**-56**	**191,795**
Intangible assets							
Software	4,797	119	0	0	68	0	4,984

	Accumulated depreciations							Carrying amounts	
	01.01.2018	Scheduled deprecia-tion	Impair-ments	Divest-ments	Transfer postings*)	Currency translation	31.12.2018	31.12.2018	31.12.2017
	13,800	774	0	0	-57	0	14,517	24,010	25,186
	73,480	4,469	0	967	0	0	76,982	15,816	19,310
	45,025	1,979	0	207	0	1	46,798	9,502	10,925
	0	0	0	0	0	0	0	7,228	4,069
	132,305	**7,222**	**0**	**1,174**	**-57**	**1**	**138,297**	**56,556**	**59,490**
	4,293	311	0	0	0	0	4,604	1,793	691

	Accumulated depreciations							Carrying amounts	
	01.01.2017	Scheduled deprecia-tion	Scheduled deprecia-tion/amortisation form external tax audit	Impairment	Divest-ments	Currency translation	31.12.2017	31.12.2017	31.12.2016
	13,019	770	11	0	0	0	13,800	25,186	25,901
	69,444	4,593	0	0	557	0	73,480	19,310	20,939
	42,746	2,292	0	0	10	-3	45,025	10,925	12,546
	0	0	0	0	0	0	0	4,069	4,286
	125,209	**7,655**	**11**	**0**	**567**	**-3**	**132,305**	**59,490**	**63,672**
	3,870	423	0	0	0	0	4,293	691	927

The additions to intangible assets mainly include the addition of software licences at EUR 460 thousand and the acquisition of a land use right at EUR 741 thousand for the new production site of Schweizer Electronic (Jiangsu) Co., Ltd., Jiangsu, China.

Land use rights are recognised at cost less incentives as follows:

	TCNY	In EUR thousands
Land use right acquisition cost	53,306	6,691
Incidental acquisition costs	40	5
Land transfer tax	1,599	201
Total acquisition costs	**54,945**	**6,897**
Grants from public authorities	**49,041**	**6,156**
Net recognition	**5,903**	**741**

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 2,087 thousand (previous year: EUR 1,281 thousand) and other plant, factory and office equipment in the amount of EUR 532 thousand (previous year: EUR 578 thousand). Land and buildings with a carrying amount of EUR 2,358 million (previous year: EUR 2,358 thousand) serve as senior collateral for three bank loans of the Group. Of the loans secured by mortgages, an additional EUR 968 thousand (previous year: EUR 0 thousand) is secured by the assignment of machines as security.

4.2 OTHER PARTICIPATING INTERESTS

This item materially concerns the participating interest in Meiko Electronics Co. Ltd., Ayase, Japan. This is shown at the market value of the shares denominated in JPY (carrying amount as at 31 December 2018: EUR 432 thousand (previous year: EUR 495 thousand).

A participating interest of 1.34 percent is also held in SCHRAMBERGER WOHNUNGSBAU GmbH, Schramberg, with an acquisition cost of EUR 12 thousand (previous year: EUR 12 thousand).

4.3 NON-CURRENT ASSETS AVAILABLE FOR SALE

In financial year 2018, land (in Dunningen) with a carrying amount of EUR 511 thousand was classified as held for sale and sold with legal effect at a price of EUR 961 thousand in January 2019.

As of 2 November 2018, the assets held for disposal of the shares in Meiko Schweizer Electronics Hong Kong Co. Ltd., Hong Kong accounted for using the equity method were sold in their entirety. Following the partial sale on 31 December 2016, Schweizer Electronic Singapore's shareholding in Meiko Schweizer Electronics Hong Kong Co., Limited, China still amounted to 31.42 percent. Due to the sale decided in the first half of 2018, this investment was classified as held for sale. In the meantime, the sale has been completed. This resulted in a disposal loss of EUR 88 thousand, which is reported under financial expenses.

4.4 OTHER FINANCIAL ASSETS

Other financial assets are composed as follows:

	2018	2017
	In EUR thousands	In EUR thousands
Gebrüder Schmid GmbH	69	350
Vendors with debit balances	700	75
Miscellaneous other financial assets	58	57
Total financial assets	**827**	**482**
Non-current	5	5
Current	822	477

Miscellaneous other financial assets include positive fair values of commodities derivatives in the amount of EUR 28 thousand (previous year: EUR 39 thousand).

4.5 INVENTORIES

	2018	2017
	In EUR thousands	In EUR thousands
Raw materials and supplies	4,665	5,997
Unfinished products	2,451	5,272
Finished products	2,990	6,462
Total inventories	**10,106**	**17,731**

Write-downs on inventories, which were recognised as expenses in the reporting period, amount to EUR 1,513 thousand (previous year: EUR 1,994 thousand) and are reported under cost of sales. The carrying amount of inventories measured at net realisable value is EUR 4,862 thousand (previous year: EUR 4,802 thousand).

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

4.6 TRADE RECEIVABLES

	2018	2017
	In EUR thousands	In EUR thousands
Trade receivables	**22,270**	**17,752**

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

In EUR thousands	Gross book value as at 31.12.2018	Risk provision as at 31.12.2018	Average expected probability of default in %
Not due	855		
Past due by 1-30 days	7,717	8	0.04
Past due by 31-60 days	9,367	4	0.09
Past due by 61-90 days	3,571	4	0.14
Past due by 91-120 days	755		0.18
Past due by 121-150 days	21		0.03
Total	**22,286**	**16.0**	**0.48**

	Total	Not due	Overdue but not impaired				
			< 30 days	30-60 days	61-90 days	91-120 days	> 120 days
	In EUR thousands	In EUR thousands	In EUR thousands	In EUR thousands	In EUR thousands	In EUR thousands	In EUR thousands
31.12.2017	17,752	16,099	1,294	53	132	94	80

As at 31 December 2017, individual valuation allowances existed in the amount of EUR 0 thousand.

The development of valuation allowances on receivables is as follows:

	2018	2017
	In EUR thousands	**In EUR thousands**
As at 1 January	**0**	**98**
Utilised	0	0
Reversed	0	98
Added (charges for valuation allowances)	16	0
As at 31 December	**16**	**0**

4.7 CONTRACT ASSETS

	2018	2017
	In EUR thousands	**In EUR thousands**
Contract assets	8,734	0

An impairment loss of EUR 4 thousand was recognised for the contract assets.

Please refer to our comments under "Basis of preparation of the consolidated financial statements – IFRS 15 Revenue from contracts with customers" and Section 3.1.

4.8 CASH AND CASH EQUIVALENTS

	2018	2017
	In EUR thousands	**In EUR thousands**
Bank balances and cash on hand	28,565	9,877
Short-term deposits	437	417
Money market funds	988	998
As at 31 December	**29,990**	**11,293**

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 insignificant.

A money market fund exists at Union Investment in the amount of EUR 988 thousand (previous year: EUR 998 thousand). This fund was classified as a cash equivalent as it can be converted into fixed cash amounts at any time and is only subject to minor value fluctuation risks.

As of 31 December 2018, the Group had committed credit lines of EUR 8,190 thousand (previous year: EUR 9,190 thousand). The credit lines relate to Schweizer Electronic AG.

4.9 EQUITY

SCHWEIZER ELECTRONIC AG

As at 31 December 2018, the share capital stood at EUR 9,664,054 (previous year: EUR 9,664,054) and was divided into 3,780,000 (previous year: 3,780,000) registered shares (no-par-value shares).

In financial year 2018, 13,000 no-par-value shares of Schweizer Pte. Ltd., Singapore, were acquired at a price of EUR 19.90 per share, making a total of EUR 259 thousand. This represents an amount of the share capital of EUR 33 thousand or 0.34 percent of the share capital. From the total of 2,716 shares held as of 1 January 2018 and the 13,000 no-par value shares acquired, 3,701 shares (previous year: 3,887 shares) were transferred to the members of the Executive Board as a variable component of their remuneration under a Long Term Incentive Program (LTIP) in the 2018 financial year. This represents an amount of EUR 9 thousand or 0.10 percent of the share capital. The transfer price of EUR 73 thousand was measured on the basis of the stock market price.

In addition, 731 shares were transferred to employees of the management team at a market price of EUR 12 thousand. This represents a share of EUR 2 thousand or 0.02 percent in the share capital. As at the balance-sheet date, Schweizer Electronic AG held a total of 11,284 own no-par-value shares. This represents an amount of EUR 29 thousand or 0.30 percent of the share capital. The subscribed capital is shown net of the par value of the own shares.

As a 100-percent subsidiary, Schweizer Pte. Ltd., Singapore held no shares as of the balance sheet date (previous year: 13,000 shares) in Schweizer Electronic AG.

AUTHORISED CAPITAL

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

CONDITIONAL CAPITAL

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

NOTIFICATIONS OF VOTING RIGHTS

The German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) obliges investors to notify the relevant company if their voting interest in listed companies reaches specified thresholds. Notifications of voting rights for financial year 2018 and later are also published on our website at *www.schweizer.ag/en/investor-relations/corporate-governance.html*.

OWN SHARES

	In EUR thousands
As of 1 January 2017	**52**
Issuance of shares to the Executive Board and one member of the management team	-10
As of 31 December 2017	**40**
Issuance of shares to the Executive Board and one member of the management team	-11
As of 31 December 2018	**29**

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.

The modified, retrospective approach was chosen for the application of IFRS 15. As a result, the previous year's figures as of 31 December 2017 have not been adjusted. The adjustment was made as of 1 January 2018, as a result of which a conversion effect of EUR 1,359 thousand was recognised in retained earnings.

In addition to differences from currency translation and changes in the fair value of assets measured at fair value with no effect on income, effects from the revaluation of pension obligations less offsetting deferred taxes are also reported here.

The effect of the currency translation of foreign operations recognised in other comprehensive income, which is to be reclassified in the income statement in the subsequent periods, is comprised as follows:

	2018	2017
	In EUR thousands	In EUR thousands
Currency translation of foreign operations		
Consolidation-related currency effects	19	309
Currency translation of joint ventures valued at equity	0	63
Total	**19**	**372**

DIVIDENDS

In financial year 2018, a cash dividend of EUR 0.30 per share totalling EUR 1,130 thousand (previous year: EUR 2,446 thousand) was distributed to the shareholders of Schweizer Electronic AG for financial year 2017.

For the dividend payment for the 2018 financial year, the Executive Board is proposing a payment of EUR 0.00 (previous year: EUR 0.30) per share and EUR 0 (previous year: EUR 1,130 thousand). The dividend payment for financial year 2018 is dependent on the approval of the annual general meeting of 28 June 2019.

4.10 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 in this connection. Net debts are determined from the financial liabilities less cash and cash equivalents. SCHWEIZER continues to limit the net gearing ratio to a maximum of 150 percent. Secondly, the equity ratio, which corresponds to the ratio of equity to total capital, is used as a control parameter. As a target figure, the company observes a minimum ratio of 35 percent that must not be undershot. A deviation of both stipulations is, however, permitted and is based on the actual situation (investment programme, interest rate levels, credit rating factors).

	2018	2017
Net gearing ratio as a performance indicator	**In EUR thousands**	**In EUR thousands**
Financial liabilities	25,428	7,211
Less cash and cash equivalents	-29,990	-11,293
Net financial liabilities	**-4,562**	**-4,082**
Equity	62,978	62,342
Net gearing ratio	-7.2%	-6.5%

Equity amounted to EUR 63.0 million (previous year: EUR 62.3 million). SCHWEIZER's equity ratio reduced slightly by 8 percentage points to 46.6 percent (previous year: 54.9 percent) and continued to significantly exceed the minimum equity ratio of 35 to 40 percent.

4.11 FINANCIAL LIABILITIES

Interest-bearing loans of EUR 25,428 thousand relate to fixed-interest bank loans with a nominal value of EUR 7,100 thousand (previous year: EUR 9,600 thousand) and a carrying amount of EUR 5,969 thousand (previous year: EUR 7,211 thousand) as well as variable-interest bank loans with a nominal value of EUR 19,459 thousand (previous year: EUR 0 thousand) and a carrying amount of EUR 19,459 thousand. The bank loans involve long-term and short-term financial liabilities. The terms of the loans extend from 2019 to 2025 With the exception of a loan with a nominal value of EUR 3,000 thousand (carrying amount: EUR 3,000 thousand; previous year: EUR 3,000 thousand), there is collateral in the form of mortgages of EUR 21,804 thousand (previous year: EUR 16,604 thousand) and a collateral assignment of machinery in the amount of EUR 968 thousand (previous year: EUR 0 thousand).

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.

In EUR thousands	**As at 01.01.2017**	**Cash flow from financing activities**	**New leases**	**As at 31.12.2017**
Financial loans	7,209	-1,240	0	5,969
Liabilities under finance leases	1,306	0	277	1,583
Non-current financial liabilities	**8,515**	**-1,240**	**277**	**7,552**
Financial loans	1,347	-106	0	1,242
Liabilities under finance leases	235	-214	52	73
Current financial liabilities	**1,582**	**-320**	**52**	**1,315**
Total	**10,097**	**-1,560**	**329**	**8,867**

In EUR thousands	As at 01.01.2018	Cash flow from financing activities	New leases	As at 31.12.2018
Financial loans	5,969	12,312	0	18,281
Liabilities under finance leases	1,583	-230	855	2,208
Non-current financial liabilities	**7,552**	**12,082**	**855**	**20,489**
Financial loans	1,242	5,905	0	7,147
Liabilities under finance leases	73	-39	133	167
Current financial liabilities	**1,315**	**5,866**	**133**	**7,314**
Total	**8,867**	**17,948**	**988**	**27,803**

4.12 OTHER FINANCIAL LIABILITIES

	2018	2017
	In EUR thousands	**In EUR thousands**
Liabilities under finance leases	2,374	1,655
Miscellaneous other financial liabilities	15	74
Total other financial liabilities	**2,389**	**1,729**
Non-current	2,222	1,371
Current	167	358

Miscellaneous other financial liabilities include negative market values from commodity derivatives in the amount of EUR 5 thousand (previous year: EUR 0 thousand).

4.13 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 biometric risks and interest rate risks. The service cost and the net interest on the net liability from defined benefit pension plans are shown in the income statement under personnel expenses in the respective functional areas.

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

		2018	2017
Financial assumptions			
Discount rate as at 31 December	%	1.82	1.65
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 2018 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 obligations are reported in the balance sheet in the amount of EUR 21.1 million (previous year: EUR 21.4 million) and are derived as follows:

	2018	2017
Changes in present value of defined benefit obligations	**In EUR thousands**	**In EUR thousands**
Liability from defined benefit obligation as at 1 January	**21,372**	**21,574**
Expenses recognised in profit and loss		
Interest expense	346	366
Current service cost	225	235
Retirement benefits paid	-885	-880
Amounts recognised in other comprehensive income		
Actuarial gains and losses		
Changes in demographic assumptions	162	0
Changes in financial assumptions	-525	252
Experience adjustments to gains (-)/losses (+)	379	-175
Liability from defined benefit obligation as at 31 December	**21,074**	**21,372**
Benefit commitment amounts recognised in the balance sheet		
Present value of defined benefit obligations	21,074	21,372
Provisions for pensions and similar obligations	**21,074**	**21,372**

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

	2018	2017
Effects, statement of comprehensive income	**In EUR thousands**	**In EUR thousands**
Current service cost	225	235
Interest expense for defined benefit obligation	346	366
Amounts recognised in the income statement	**571**	**601**
Actuarial gains (-) and losses (+)		
from changes in demographic assumptions	162	0
from changes in financial assumptions	-525	252
due to experience-based adjustments	379	-175
Amounts recognised in other comprehensive income	**16**	**77**
Total (amounts recognised in the statement of comprehensive income)	**587**	**678**

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.

		2018	2017
		In EUR thousands	In EUR thousands
Sensitivity			
Discount rate	+0.5%	-1,429	-1,498
Discount rate	-0.5%	1,605	1,687

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

	2018	2017
	In EUR thousands	In EUR thousands
Within the next 12 months (next business year)	925	888
between two and five years	3,735	3,605
between six and ten years	4,879	4,700

The weighted average maturity of the defined benefit pension plans at the end of the reporting period is 14.6 years (previous year: 15.1 years).

In the case of defined contribution plans for members of the Executive Board, no further obligations exist beyond remittance of the contributions to the provident fund. The contribution payments are recognised as a personnel expense and for the reporting year amount to EUR 418 thousand (previous year: EUR 362 thousand).

Contributions to statutory pension insurance in the 2018 financial year came to EUR 2,987 thousand (previous year: EUR 2,875 thousand).

4.14 OTHER LIABILITIES

	2018	2017
	In EUR thousands	In EUR thousands
Liabilities from salary and wage accounting	1,790	1,735
Liabilities from other taxes	1,499	1,775
Liabilities relating to social security	10	28
Miscellaneous other liabilities	275	682
Total other liabilities	**3,574**	**4,220**
Non-current	0	0
Current	3,574	4,220

4.15 OTHER PROVISIONS

Other provisions are broken down into the following types of provisions and developed as follows in financial year 2018:

In EUR thousands	As at 1 Jan.	Acquisitions	Utilised	Reversals	Interest effect	As at 31 Dec.
Obligations vis-à-vis employees	3,227	2,512	2,512	289	2	2,940
Guarantees	285	0	0	8	0	277
Insurance premiums	0	8	0	0	0	8
Additional provisions	3,665	1,668	692	38	28	4,631
Total	**7,177**	**4,188**	**3,205**	**355**	**30**	**7,856**
Of which current	*6,950*					*7,013*
Of which non-current	*227*					*843*

The obligations vis-à-vis employees include costs for time credit entitlements, profit participations, outstanding holidays, anniversary obligations and partial retirement programmes.

In 2018, provisions of EUR 1,123 thousand were created for the first time for obligations arising from a company agreement for partial retirement arrangements. The total obligation from partial retirement agreements amounted to EUR 1,283 thousand as of the balance sheet date. Reinsurance assets secured against insolvency were netted at EUR 275 thousand.

Other provisions include provisions for litigation risks (see Section 4.17 "Legal disputes"), year-end closing costs and outstanding cost invoices.

4.16 ADDITIONAL INFORMATION CONCERNING FINANCIAL INSTRUMENTS

The following table shows the reconciliation of the balance sheet items to the classes of financial instruments, broken down by the carrying amounts and fair values of the financial instruments, as well as the assignment of the balance sheet items to the measurement categories:

		31.12.2018	
In EUR thousands	**Measurement category according to IFRS 9**	**Carrying amounts**	**Fair value**
Assets			
Participating interests	at fair value through equity	444	444
Trade receivables	Amortised cost	22,270	22,270
Other financial assets			
Derivative financial assets (no hedge relationship)	at fair value through equity	28	28
Other non-derivative financial assets	Amortised cost	799	799
Cash and cash equivalents	Amortised cost	29,990	29,990
Liabilities			
Financial liabilities	Amortised cost	25,428	25,428
Trade payables	Amortised cost	9,789	9,789
Other financial liabilities			
Derivatives with negative market value	at fair value through equity	5	5
Leasing liabilities	Non IFRS 7	2,374	2,374
Other non-derivative financial liabilities	Amortised cost	10	10

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

Aggregated presentation by measurement category

Category	**31.12.2018**
	In EUR thousands
Financial assets – measured at amortised cost	53,059
Financial assets measured at fair value through profit or loss	28
Financial assets (equity instruments) measured at fair value through equity	444
Financial liabilities measured at amortised cost	35,227
Financial liabilities measured at fair value through profit or loss	5

		31.12.2017	
In EUR thousands	**Measurement category IAS 39**	**Carrying amounts**	**Fair value**
Assets			
Participating interests	Available for sale	507	507
Trade receivables	Loans and receivables	17,752	17,752
Other financial assets			
Derivative financial assets (no hedge relationship)	Held for trading	39	39
Other non-derivative financial assets	Loans and receivables	443	443
Cash and cash equivalents	Loans and receivables	11,293	11,293
Liabilities			
Financial liabilities	Financial liabilities at amortised cost	7,211	7,211
Trade payables	Financial liabilities at amortised cost	6,525	6,525
Other financial liabilities			
Derivatives with negative market value	Held for trading	0	0
Leasing liabilities	Non IFRS 7	1,655	1,655
Other non-derivative financial liabilities	Financial liabilities at amortised cost	74	74

The following table shows the net income (including interest income) from financial instruments. The carrying amounts of the financial instruments, aggregated according to the IAS 39 measurement categories, are as follows:

Category	**31.12.2017**
	In EUR thousands
Available for sale	507
Loans and receivables	29,488
Financial assets held for trading	39
Financial liabilities at amortised cost	13,810
Financial liabilities held for trading	74

INFORMATION ON MEASURING THE FAIR VALUE

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

	31 December 2018			31 December 2017		
In EUR thousands	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Derivative financial instruments with positive market value		28			39	
Other participating interests	432			495		
Assets	**432**	**28**		**495**	**39**	
Derivative financial instruments with negative market value		5				
Liabilities		**5**				

As at 31 December 2018, the derivative financial instruments comprised commodity hedges. 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.

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 financial years 2017 and 2018. Due to insignificant deviations from the market and costing interest rate, it is assumed that the carrying amounts correspond to the fair value.

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

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

					2018
In EUR thousands	**Fair value**	**Value adjustment**	**From interest**	**From dividends**	**Net result**
Financial assets – measured at amortised cost	0	-20	24	0	4
Financial assets measured at fair value through profit or loss	-11	0	0	0	-11
Financial assets (equity instruments) measured at fair value through equity	-66	0	0	6	-60
Financial liabilities measured at amortised cost	0	0	-698	0	-698
Financial liabilities measured at fair value through profit or loss	-5	0	0	0	-5
Total	**-82**	**-20**	**-674**	**6**	**-770**

The net interest expense of EUR 674 thousand includes interest income of EUR 24 thousand and interest expense of EUR 698 thousand.

NET LOSSES AND GAINS ON FINANCIAL INSTRUMENTS BY MEASUREMENT CATEGORY IN ACCORDANCE WITH IAS 39 FOR THE 2017 FINANCIAL YEAR

Category	2017
	In EUR thousands
Available for sale	
Recognised in other comprehensive income	-1,088
Recognised in the income statement	4,003
of which: reclassification from equity into profit or loss	1,359
Loans and receivables	-291
Financial assets and liabilities held for trading	109
Financial liabilities at amortised cost	-283

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 while observing the segregation of duties. The risk management of financial instruments is also integrated into the Group-wide risk management system.

The risks which are hedged are chiefly as follows:

Commodity price risk:
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 has two businesses. The first secures the purchase of 29 troy ounces of gold per month from 20 July 2018 to 31 July 2019. With the second line of business, the company hedges 33 troy ounces per month from 16 August 2018 to 31 August 2019.

If the gold price had increased (decreased) by 10 percent as of 31 December 2018, earnings before taxes would have increased by EUR 84 thousand (previous year: EUR 103 thousand) or respectively decreased by EUR 84 thousand (previous year: EUR 103 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).

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 had risen (fallen) against the major currencies (USD, SGP and CNY) by 10 percent as at 31 December 2018, earnings before tax would have fallen by EUR 694 thousand (previous year: EUR 87 thousand) or respectively decreased by EUR 847 thousand (previous year: EUR 106 thousand).

Liquidity risks

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

The Group has EUR 8.2 million in short-term credit lines, EUR 4.5 million of which were drawn as of the balance sheet date. The loans for financing the deposit to Schweizer Electronic (Jiangsu) Co., Ltd., China total EUR 34 million, of which EUR 15 million was drawn as of the balance sheet date. In addition, Schweizer maintains a liquidity reserve of EUR 5.6 million (previous year: EUR 5.6 million), which is covered by part of the deposits and funds and may only be used with the approval of the Supervisory Board and the banking powers of the Executive Board.

The financial liabilities have the following maturities:

2018	**31.12.2018**	**up to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**More than 5 Years**	**Total**
In EUR thousands						
Financial liabilities						
Repayment	25,428	-2,461	-4,686	-11,981	-6,300	-25,428
Interest		-91	-260	-1,173	-275	-1,799
Balance	25,428	-2,552	-4,949	-13,154	-6,575	-27,227
Trade payables	9,789	-7,697	-2,089	-3	0	-9,789
Other financial liabilities	2,389	-42	-125	-2,222	0	-2,389
Derivatives						
Inflow	0	0	0	0	0	0
Outflow	0	0	-5	0	0	-5
Balance	0	0	-5	0	0	-5
Total	37,606	-10,291	-7,165	-15,379	-6,575	-39,410

2017	31.12.2017	up to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
In EUR thousands						
Financial liabilities						
Repayment	7,210	-336	-905	-3,469	-2,500	-7,210
Interest		-73	-177	-488	-84	-822
Balance	7,210	-409	-1,082	-3,957	-2,584	-8,032
Trade payables	6,525	-1,563	-4,962	0	0	-6,525
Other financial liabilities	1,728	0	-358	-1,370	0	-1,728
Total	15,464	-1,972	-6,402	-5,327	-2,584	-16,285

Counterparty default risks

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

Counterparty default risks are taken into account using the expected loss model. This means that a risk deduction is made according to the probability of default and taken into account for the corresponding term of the assets. Counterparty default risks relate in particular to trade receivables and cash and cash equivalents. These financial instruments do not have maturities longer than 12 months. Creditworthiness is assessed to evaluate the probability of default and payment patterns on the basis of credit information. There are no generalised individual valuation allowances. See also Section 1 of IFRS 9 "Financial Instruments". The company also maintains a list of receivables which are classified as due or overdue on the basis of the terms of payment. The accounts receivable are divided into dunning levels and dunned according to the overdue date.

Collateral

Collateral is provided to banks exclusively in the form of mortgages totalling EUR 21.8 million, of which EUR 18.0 million (previous year: EUR 4.2 million) is used. Of the loans secured by mortgages, an additional EUR 968 thousand (previous year: EUR 0 thousand) is secured by the assignment of machines as security.

4.17 CONTINGENT LIABILITIES, OTHER FINANCIAL LIABILITIES AND LEGAL DISPUTES

CONTINGENT LIABILITIES

Guarantees and other commitments

As at 31 December 2018, 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 2018, there were liabilities between Schweizer Electronic Singapore Pte. Ltd. and the supplier in the amount of EUR 155 thousand (previous year: EUR 275 thousand).

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

Furthermore, Schweizer Electronic AG undertakes to meet all the obligations of Schweizer Electronic Singapore Pte. Ltd., if the company is unable to fulfil them punctually and in good time. There are no guarantees or other commitments at the level of the subsidiary.

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

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:

	2018	2017
	In EUR thousands	In EUR thousands
Up to one year	697	345
More than one year and up to five years	1,228	810
Total	**1,925**	**1,115**

Obligations arising from finance leases

The Group has concluded a finance lease contract for a combined heat and power unit (CHP), a telephone system and a storage 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:

	2018			2017		
In EUR 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	357	46	311	295	11	284
More than one year and up to five years	1,719	114	1,605	951	67	883
Over 5 years	465	7	458	559	71	488
Total	**2,541**	**167**	**2,374**	**1,805**	**149**	**1,655**

Sale-and-leaseback transactions

The Group sold and leased back two machines worth EUR 987 thousand in December. The sale-and-leaseback transactions are structured as finance leases. There is no change in the economic assets of Schweizer. In accordance with IFRS 15, this is therefore purely a loan financing transaction and not a sale. The basic rental period for the machines is 96 months at an interest rate of 1.12 percent.

OTHER OBLIGATIONS

As of 31 December 2018, annual payment obligations totalling EUR 527 thousand (previous year: EUR 571 thousand) arose as a result of maintenance contracts concluded. The annual payment obligations from lease agreements within the framework of operating leases amount to EUR 228 thousand (previous year: EUR 126 thousand). The maintenance agreements and the lease agreements end between 2019 and 2021

As of 31 December 2018, order commitments from investment orders already placed for property, plant and equipment amounted to EUR 8,253 thousand (previous year: EUR 3,724 thousand), of which EUR 1,595 thousand is attributable to Schweizer Electonic (Jiangsu) Co., Ltd.

In November 2017, under an investment agreement between Schweizer and the Administration Committee of Jincheng Science and Technology Industrial Park, Jintan, China, it was agreed that Schweizer would invest in a new production plant on a site located there.

Incentives of TCNY 49,041 thousand or EUR 6,156 thousand were granted for the acquisition of the land use right in the form of a reduction in the purchase price. The incentive is not subject to any repayment obligation. The subsidy does not relate to ancillary facilities or infrastructure facilities or to real estate transfer tax or future real estate tax.

For the building to be constructed, it was agreed that it would be subsidised in full by repayable incentives. For the repayment, it was agreed that tax payments in the years 2022 to 2026 will be credited as repayment of the incentives. Incentives not yet repaid at the end of 2026 are non-refundable and would be recognised in the income statement.

For machines to be purchased, a subsidy of 20 percent of the respective purchase price was agreed, which does not include any repayment obligation.

The total investment for the plant in China will amount to approximately EUR 150 million (USD 180 million) for all three construction phases. At present, the focus is on phases one and two, which represent a total investment of around EUR 120 million.

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 claiming payment of USD 5.9 million for losses incurred by the plaintiff as a result of misrepresentations and the breach of verbal agreements relating to the plan to produce solar cells in China by 31 December 2016.

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

Appropriate provisions have been made in the balance sheet in connection with legal disputes (see also Section 4.15).

The actual outcome of these legal disputes may differ from the current assessment of the Supervisory Board on which the Executive Board's assessment is based. Should the claims asserted be upheld, this could have significant consequences for the Group's net assets, financial position and results of operations.

4.18 INFORMATION ABOUT RELATIONSHIPS WITH RELATED PARTIES

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. At the end of financial year 2018, the shares in Meiko Schweizer Electronics Hong Kong Co., Ltd. previously accounted for using the equity method were sold. Following the partial sale in December 2016, the share of Schweizer Electronic Singapore in the shares of Meiko Schweizer Electronics Hong Kong Co., Ltd. amounted to 31.42 percent before the sale.

Consequently, no expenses or income from Group transactions with the joint venture were incurred. Likewise, as at 31 December 2018, there were no outstanding balances with respect to the joint venture (previous year: EUR 0 thousand).

RELATED PERSONS

The related parties of the Schweizer Group comprise the members of the Executive 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 Executive Board and the Supervisory Board is comprised as follows:

	2018	2017
	In EUR thousands	**In EUR thousands**
Current benefits (without share-based remuneration)	1,108	1,266
Benefits after termination of employment	418	362
Share-based remuneration	82	210
Total	**1,608**	**1,838**

Former members of the Executive Board and the Supervisory Board received remuneration in the amount of EUR 193 thousand (previous year: EUR 193 thousand). The pension provisions include a provision in the amount of EUR 6,002 thousand (previous year: EUR 6,352 thousand) for the former members of the Executive Board and their surviving dependants.

The employees' representatives on the Supervisory Board, who are employed at Schweizer, also received a salary for their activity as employees.

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

OTHER RELATIONSHIPS WITH RELATED PARTIES

Mr Chris Wu has been a member of the Supervisory Board since 7 July 2017. Mr Wu is the managing partner of WUS Printed Circuit (Kunshan) Co. Ltd., Kunshan/China, from which goods in the amount of EUR 5.4 million (previous year: EUR 49 thousand) were purchased in financial year 2018. As of the balance sheet date, liabilities to this company amounted to EUR 1.4 million (previous year: EUR 18 thousand).

The relationships are limited exclusively to commercial transactions for products manufactured by WUS. A margin allocation has been agreed for the trading transactions, with the payment term usually being 75 days net. There are no further agreements with regard to securities, guarantees, interest or other conditions of performance.

5. EVENTS AFTER THE REPORTING PERIOD

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

6. ADDITIONAL INFORMATION IN ACCORDANCE WITH HGB

GROUP RELATIONS

The consolidated financial statements for the largest and smallest group of companies are prepared by Schweizer Electronic AG. They are published in the Federal Gazette.

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

The Executive Board and the Supervisory Board of Schweizer Electronic AG have issued the declaration for 2018 stipulated in Section 161 AktG and have made this declaration available to shareholders on the company website *www.schweizer.ag*.

6.2 NUMBER OF EMPLOYEES

The average number of employees is:

	2018			2017		
	National	International	Total	National	International	Total
Wage-earning employees	473	9	482	459	7	466
Employees	249	5	254	243	5	248
Number of employees	**722**	**14**	**736**	**702**	**12**	**714**
Trainees	19	8	27	28	0	28
Number of employees (including trainees)	**741**	**22**	**763**	**730**	**12**	**742**

6.3 AUDIT AND CONSULTING FEES

The auditor's fee calculated for the financial year amounts to EUR 331 thousand for audit services (of which EUR 64 thousand for the previous year), EUR 5 thousand for other certification services, EUR 0 thousand for tax consultancy services and EUR 41 thousand for other services.

6.4 COMPANY BODIES AND THEIR MANDATES

EXECUTIVE BOARD

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

Dr Rolf Merte (appointed since 8 October 2018)
Chair of the Executive Board
Responsible for Technology & Business Development, Sales & Marketing and Information Systems

Other activities and mandates:

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

Nicolas-Fabian Schweizer
Member of the Executive Board, (Deputy Chair)
Responsible for the Quality, Human Resources, Legal, Compliance and Media & Communications divisions

Activities and mandates within the Group:

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

Other activities and mandates:
- Member of the plenum of IHK Schwarzwald-Baar-Heuberg
- Member of Deutsche Bank AG's Freiburg Regional Advisory Board
- Member of the Advisory Board of WVIB Schwarzwald AG

Marc Bunz
Member of the Executive Board
Responsible for Operations, Purchasing,
Finance & Controlling and Investor Relations

Activities and mandates within the
Group:
- Managing Director of Schweizer Pte. Ltd., Singapore
- Director of Schweizer Electronic (Jiangsu) Co., Ltd., China
- Director of Schweizer Energy Production Singapore Pte. Ltd., Singapore
- Member of the Executive Board of Unterstützungskasse Christoph Schweizer e.V.
- Vice President of Meiko Schweizer Electronics Co. Ltd., Hong Kong (until 30 November 2018)

Other activities and mandates:
- Member of the Stock Exchange Council of the Baden-Württembergische Wertpapierbörse
- Member of the Advisory Board of HDI Global SE

SUPERVISORY BOARD

The Supervisory Board consists of the following persons:

Michael Kowalski
Chair
Member of the Finance Committee
Consultant, Senior Adviser of mmc Mollenhauer
Management Consulting AG, Wiesbaden

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

Karin Sonnenmoser
Member of the Finance Committee
Chief Financial Officer
of Ceconomy AG (from 1 March 2019)
of Zumtobel Group AG, Dornbirn, Austria
(until 9 March 2018)

Other activities and mandates:
- Member of the Supervisory Board of Vivantes–Netzwerk für Gesundheit GmbH, Berlin
- Member of the Supervisory Board of Tridonic GmbH & Co.KG, Dornbirn, Austria (until 9 March 2018)

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

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

Carsten Brudlo*
Manager Surface Finishing,
Schweizer Electronic AG, Schramberg

Siegbert Maier*
Quality Test Department Administrator
Schweizer Electronic AG, Schramberg

*) Employees' representative

6.5 SHAREHOLDINGS AS AT 31 DECEMBER 2018

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

In addition, all shares in the company Meiko Schweizer Electronics Hong Kong Co., Limited were sold in the 2018 financial year.

Schramberg, 12 April 2019

Schweizer Electronic AG

The Executive Board

Dr R. Merte　　N. F. Schweizer　　M. Bunz

INDEPENDENT AUDITOR'S REPORT

To Schweizer Electronic AG

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

Audit opinions

We have audited the consolidated financial statements of Schweizer Electronic AG, Schramberg, and its subsidiaries (the Group), comprising the consolidated balance sheet as of 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the financial year from 1 January to 31 December 2018 and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the Group status report, which has been combined with the status report, of Schweizer Electronic AG, Schramberg, for the financial year from 1 January to 31 December 2018.

In our opinion based on the findings of our audit

- the enclosed consolidated annual financial statements are in all material respects in compliance with IFRS as applicable in the EU and the supplementary provisions under commercial law pursuant to Section 315e (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group as at 31 December 2018 and its earnings situation for the financial year from 1 January 2018 until the end of 31 December 2018 in accordance with these requirements and
- the accompanying Group status report provides a suitable understanding of the Group's position. In all the material aspects, this Group status report is consistent with the consolidated financial statements, complies with German law and suitably presents the opportunities and risks of future development.

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

Basis for the audit opinions

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

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

Particularly significant audit issues are those which, in our opinion and due discretion, were most significant to our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These issues have been considered in connection with our audit of the consolidated financial statements as a whole and in forming our opinion thereon; we do not express a separate opinion on these issues.

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

1) Valuation of provisions for litigation risks

Reasons for determining this as a particularly important audit issue

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

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

Audit procedure

As part of our audit, we discussed the individual lawsuits with the Executive Board, the Chair of the Supervisory Board and the employees responsible for legal matters. In addition, in order to assess the outcome of the legal proceedings, we obtained the opinion of the attorneys responsible for the legal proceedings and the local auditor of the subsidiary, as well as the cost calculation for assessing the amount of the provisions. We assessed the discretionary decisions made by the legal representatives with regard to the valuation of the provision against the background of these findings. Our audit procedures did not give rise to any objections to the measurement of provisions for litigation risks.

Reference to related information

Schweizer Electronic AG has made disclosures in Section 2 and Section 4.17 of the notes to the consolidated financial statements in order to assess the provisions for litigation risks and to indicate the level of litigation risks.

2) Recognition and measurement of deferred tax assets

Reasons for determining this as a particularly important audit issue

Schweizer conducts its business in countries with various local tax laws. The recognition of deferred taxes on valuation differences and on loss carryforwards was a particularly important issue in the context of our audit, as it requires a high degree of discretionary decisions, estimates and assumptions by the legal representatives. This relates in particular to the recoverability of deferred tax assets on valuation differences and on loss carryforwards. The recoverability of deferred tax assets is based on the assessment of their usefulness based on future taxable income. In this respect, the legal representatives make estimates with regard to the economic development of the Group companies and the future use of existing loss carryforwards, which are subject to discretionary powers.

Audit procedure

We called in internal tax experts to assist in assessing deferred taxes. We dealt with the processes set up by the legal representatives, reviewed domestic tax values on the basis of tax assessments and the confirmation from the external tax consultant, took random samples to examine the identification, completeness and correct quantification of deviations between the recognition and measurement of assets and liabilities in accordance with tax regulations and IFRS accounting, and comprehended the calculation of deferred taxes and the application of the applicable tax rate.

As part of our audit procedures to assess the recoverability of deferred tax assets, we tested, on a sample basis, whether the tax planning was derived correctly from the corporate plans prepared by management. In addition, we assessed the tax planning assumptions of the respective company from the perspective of the taxable income generated in the past.

Our audit procedures did not give rise to any objections to the recognition and measurement of deferred taxes.

Reference to related information

With regard to the procedure regarding deferred taxes, Schweizer Electronic AG provides a report in the notes to the consolidated financial statements, inter alia, in Section 2 and in Note 3.8.

3) Revenue recognition for supply contracts

Reasons for determining this as a particularly important audit issue

A substantial part of the deliveries of the SCHWEIZER Group is processed via consignment stocks. Revenue is recognised in accordance with IFRS 15 "Revenue from contracts with customers" when the customer has gained control of the asset. In the case of withdrawals from consignment warehouses by the customer, depending on the contract design, both time-related and period-related revenue recognition can be considered. In our opinion, the accounting treatment of contracts for consignment warehouses is an area with a significant risk of material misstatement and therefore a particularly important audit matter, as estimates made by the legal representatives have a material effect on the interpretation of the contracts. This applies in particular to the legal entitlement to payment for services already rendered by Group companies. In addition, the first-time application of IFRS 15 in financial year 2018 was relevant to our audit due to the necessary Group-wide assessment of contractual bases with regard to the new accounting criteria.

Audit procedure

As part of our audit, we examined the company's internal documentation on IFRS 15, contract management and the assessments of the legal representatives with regard to the legal entitlement to payment for services already rendered by Group companies.

On the basis of risk-oriented selected samples, we assessed the estimates and assumptions made by the legal representatives, particularly with regard to the timing of revenue recognition, on a case-by-case basis. In particular, we selected those contracts with customers that represent a significant sales volume. Our audit procedures included, among other things, a review of the contractual basis and terms and conditions, including contractually agreed provisions on termination rights, penalties for late performance and contractual penalties, and damages. For the selected contracts, in order to assess the accrual-based determination of earnings, we also considered the sales revenue billable as of the balance sheet date and the related cost of sales to be recognised in profit or loss as well as the presentation of the related balance sheet items in the balance sheet.

With regard to the first-time application of IFRS 15, we considered the processes set up by SCHWEIZER to implement the new standard. As part of the assessment of the contract analysis carried out by the legal representatives, we assessed in particular – on a sample basis – whether the requirements for the period-related revenue recognition of contracts for consignment warehouses exist. In addition, we verified the effects of the first-time application of IFRS 15 in the notes to the consolidated financial statements.

Our audit did not give rise to any objections with regard to the recognition of revenue from supply contracts.

Reference to related information

Schweizer Electronic AG reports on the accounting and valuation principles applied in the context of accounting for consignment stock contracts, including information on the first-time application of recently published announcements, in the notes to the consolidated financial statements in Section 1 and Section 2, among others.

Miscellaneous information

The Supervisory Board is responsible for the report of the Supervisory Board. In all other respects, the legal representatives are responsible for the other information. The miscellaneous information comprises the components provided for in the Annual Report, of which we received a version by the time this audit opinion was issued, in particular the sections non-financial statement (Group), responsibility statement and corporate governance report and corporate governance statement. In addition, the miscellaneous information includes the other components of the Annual Report that are expected to be made available to us after our audit opinion has been issued, in particular the sections IFRS key figures, companies and information.

Our opinion on the consolidated financial statements and Group management report does not extend to miscellaneous information, and accordingly we do not express an audit opinion or any other form of conclusion on such information.

In connection with our audit, we have the responsibility to read the miscellaneous information and, in doing so, to assess whether the miscellaneous information

- is materially inconsistent with the consolidated financial statements, Group status report or the findings of our audit, or
- otherwise appears materially misrepresented.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the Group status report

The legal representatives are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the EU, the additional requirements of German law pursuant to Section 315e (1) HGB in all material aspects, and for the presentation of the net assets, financial position and results of operations of the Group in accordance with these requirements. In addition, the legal representatives are responsible for the internal controls that they have determined to be necessary to permit the preparation of consolidated financial statements free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing, where relevant, matters relating to the continuation of the company's activities. In addition, they are responsible for accounting on the basis of the going-concern accounting principle, unless there is the intention to liquidate the Group or to discontinue operations or there is no realistic alternative.

Moreover, the legal representatives are responsible for the preparation of the Group status report, which as a whole provides a suitable view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) that they have deemed necessary to enable the preparation of a Group status report in accordance with the applicable German legal provisions and to provide sufficient suitable evidence for the statements in the Group status report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the Group status report.

Responsibility of the auditor for the audit of the consolidated financial statements and Group status report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatements, whether intended or not, and whether the Group status report as a whole provides a suitable view of the Group's position and is in accordance, in all material respects, with the consolidated financial statements and the findings of our audit, complies with the requirements of the German legal regulations and suitably presents the opportunities and risks of future development, and to issue an audit report that includes our audit opinions on the consolidated financial statements and Group status report.

Reasonable assurance is a high level of assurance, but not a guarantee, that an audit conducted in accordance with section 317 HGB and the EU-APrVO and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misstatements can result from violations or inaccuracies and are regarded as material if it could reasonably be expected that they would individually or collectively influence the economic decisions of recipients made on the basis of these consolidated financial statements and Group status report.

During the audit, we exercise due discretion and maintain a critical attitude. In addition,

- we identify and assess the risks of material misstatements, whether intentional or not, in the consolidated financial statements and Group status report, plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to form the basis for our audit opinion. The risk that material misrepresentations are not detected is higher in the case of violations than in the case of inaccuracies, since violations may involve fraudulent interaction, forgery, intentional incompleteness, misleading representations or the repeal of internal controls;

- we gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and of the precautions and measures relevant to the audit of the Group status report for planning audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems;
- •we assess the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values and related disclosures presented by the legal representatives;
- we draw conclusions about the appropriateness of the going-concern accounting principle applied by the legal representatives and, based on the evidence obtained, whether there is a material uncertainty in connection with events or circumstances that could raise significant doubts about the Group's ability to continue its activities as a going concern. If we conclude that there is material uncertainty, we are obliged to draw attention to the relevant information in the consolidated financial statements and the status report in our audit report or, if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. Future events or circumstances may, however, result in the Group no longer being able to continue its business activities;
- we assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying business transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB;
- we obtain sufficient, suitable audit evidence for the accounting information of the companies or business activities within the Group to express an opinion on the consolidated financial statements and the combined Group status report. We are responsible for the management, supervision and execution of the audit of the consolidated financial statements. We bear the sole responsibility for our audit opinions;
- we assess the consistency of the combined Group status report with the consolidated financial statements, its compliance with the law and the picture it conveys of the Group's position.
- we perform audit procedures on the forward-looking statements presented by the legal representatives in the Group status report. On the basis of sufficient suitable audit evidence, we follow up on the significant assumptions underlying the future-oriented statements made by the legal representatives and assess the appropriate derivation of the future-oriented statements from these assumptions. We do not express an independent opinion on these forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discuss with those responsible for monitoring, inter alia, the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system, which we identify during our audit.

We make a statement to those responsible for the monitoring that we have complied with the relevant independence requirements and discuss with them all the relationships and other matters that can reasonably be expected to affect our independence and the safeguards taken to that end.

From the matters that we have discussed with those responsible for supervision, we determine those matters that were most significant in the audit of the consolidated financial statements for the current reporting period and which are therefore particularly important audit matters. We describe these matters in the auditor's report, unless laws or other legal provisions exclude public disclosure of the facts.

Miscellaneous legal and other legal requirements

Other disclosures in accordance with Article 10 of the EU-APrVO

We were elected as Group auditors by the annual general meeting on 29 June 2018. We were appointed by the Supervisory Board on 27 November 2018. We have been the Group auditors of Schweizer Electronic AG without interruption since financial year 2015.

We declare that the audit opinions contained in this audit report are consistent with the additional report to the Audit Committee under Article 11 of the EU-APrVO (audit report).

In addition to auditing the financial statements of the Group companies, we provided the following services that were not disclosed in the consolidated financial statements or in the Group status report:

- Consultations on new IFRS provisions and accounting issues;
- Statutory sector-specific audits;
- Audit services not required by law in relation to financial information.

Responsible auditor

The auditor responsible for the audit is Dr Eckart Wetzel.

Villingen-Schwenningen, 16 April 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft [Audit firm]

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 financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group status report, that is combined with the status report of Schweizer Electronic AG, includes a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Schramberg, 12 April 2019

The Executive Board

Dr R. Merte N.-F. Schweizer M. Bunz

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE REPORT AND CORPORATE GOVERNANCE 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 Executive Board reports on corporate governance in accordance with Section 289f in conjunction with Section 315d of the HGB. At the same time, the Executive Board and Supervisory Board report on the corporate governance of the company in accordance with item 3.10 of the German Corporate Governance Code.

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

The Executive Board of Schweizer Electronic AG and the management of the Group subsidiaries lead the company in accordance with the statutory provisions, the articles of association and the rules of the Board.

The Supervisory Board monitors, advises and supports the Executive 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 focused particularly on the interests of the shareholders. Many of the corporate governance principles in the GCGC have been complied with for quite some time already.

Compliance

Compliance with legal regulations, internal company guidelines and ethical principles is indispensable and a matter of course for SCHWEIZER.

The Executive Board fosters a corporate culture in which reliability, honesty, credibility and integrity are the cornerstones of actions.

In the context of the established risk management system, the Executive Board not only ensures that existing legal regulations and company guidelines and principles are complied with, but also provides for an environment in which any risks are identified at an early stage and measures are taken, thereby guaranteeing lawful conduct and minimising risks. Directives on competition law, insider regulations, fair competition, foreign trade legislation, export controls and the avoidance of corruption are made available to employees and form part of the corporate processes. Besides the general conditions of purchase, the existing supplier guidelines and evaluations, as well as the Conflict Minerals Policy, form the basis for a responsible supply chain. The company has established a whistleblower system in order to investigate violations fairly and appropriately. SCHWEIZER employees as well as external parties can report violations using this system. The whistleblower system ensures that absolute confidentiality is maintained when processing the information provided.

Periodic evaluations of specific compliance risks are carried out using checklists; the necessary measures are taken and verified by certification companies.

Information on the implementation of the CSR Directive Implementation Act is available in the Non-Financial Statement as a separate chapter in the 2018 Annual Report and is available on the website at: *https://www.schweizer.ag/en/about-us/corporate-social-responsibility.html.*

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

The Executive Board and the Supervisory Board addressed the recommendations and suggestions of the German Corporate Governance Code once again in the 2018 financial year.

DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SECTION 161 AKTG

(Version: December 2018)

The Executive Board and Supervisory Board of Schweizer Electronic AG (hereinafter also referred to as the "company") issue the following Declaration of Compliance in accordance with Section 161 AktG with reference to the recommendations of the "German Corporate Governance Code governmental commission" and will ensure that it is published on the company's website. The Executive Board and the Supervisory Board of Schweizer Electronic AG issued the last Declaration of Compliance in accordance with Section 161 AktG in December 2017. The following notes refer to the recommendations of the German Corporate Governance Code ("Code") in the edition of 7 February 2017, which was published in the Federal Gazette on 24 April 2017 and corrected on 19 May 2017.

The Executive Board and the Supervisory Board of Schweizer Electronic AG declare that, since the last Declaration of Compliance was issued in December 2017, 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 Executive Board, the Supervisory Board should consider the relationship of the Executive Board remuneration to the remuneration of senior management staff and the workforce overall and its development over time. The Supervisory Board did not fully comply with this recommendation. When concluding the employment contracts the Supervisory Board did take steps, in accordance with the provisions of the German Stock Corporation Act (AktG), to ensure that the total remuneration awarded to Executive Board members does not exceed the customary remuneration without special reason. However, to the extent the Code specifies this review of vertical appropriateness of the remuneration awarded to the Executive Board required pursuant to the German Stock Corporation Act, and defines the comparative groups decisive for the comparison as well as the time period of the comparison, a deviation in this regard is declared. The Supervisory Board considers the requirements of the recommendation to be too vague. In particular, the Supervisory Board does not have sufficiently specific information on how the senior management staff should be distinguished from junior management and which sections of the workforce are relevant and which irrelevant in this respect. It is also unclear what time frame and perspective should be considered in terms of “development over time”. The Supervisory Board is therefore of the view that the measures already implemented for determining the remuneration of the Executive Board are sufficient to ensure appropriate remuneration for members of the Executive Board.

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

In the event of premature termination of their Executive Board activities as a result of a change of control, the members of the Executive Board have a contractual entitlement to payment of a settlement and severance payment limited to three years' compensation, so that the recommendation in Code No. 4.2.3 (5) is generally complied with. However, for calculating the decisive annual remuneration, the overall remuneration of the past financial year and also any expected overall remuneration for the current financial year is not used, as provided for in the Code. In fact, the calculation is based on the average of the overall remuneration of the last three financial years prior to exit. The Executive Board and Supervisory Board are of the view that measuring the severance payment cap based on the average of several years of compensation is more meaningful and more appropriate than using the overall remuneration of only the last and any current financial year. Against this background, a partial deviation from Code No. 4.2.3 (5) in conjunction with Code No. 4.2.3 (4), clause 3, is declared.

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

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

Code No. 5.4.1: Code No. 5.4.1 (2), clause 1, alt. 1 and clause 2 recommend 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 (6 to 8) 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: 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 financial year. The Executive Board and the Supervisory Board believe that linking performance-related remuneration to the dividend adequately reflects the responsibility of the Supervisory Board for sustainable business development and that the existing compensation arrangement provides the members of the Supervisory Board with sufficient incentive to orient the exercise of their duties towards the long-term, successful development of the company.

Code No. 7.1.2: In Code No. 7.1.2, clause 3, 1st subclause, it is recommended that the consolidated financial statements and Group management report should be made publicly accessible within 90 days of the end of the financial year. The company has not complied with and does not comply with this recommendation. Compliance with a term of 90 days is not possible due to the time required to prepare consolidated financial statements and a Group management report. The consolidated financial statements and Group management report were and are, however, published by the statutory deadline.

Schramberg, December 2018
Schweizer Electronic AG

The Executive Board The Supervisory Board

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

Shareholders and annual general meeting

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

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

Supervisory Board

Under the Articles of Association, the Supervisory Board of Schweizer Electronic AG is made up of six members, of whom two are chosen by the company employees in accordance with the provisions of the law with respect to the German One-Third Employee Representation Act (Drittelbeteiligungsgesetz) and the remaining four by the annual general meeting. All the members of the Supervisory Board have been elected until the annual general meeting in 2019.

The Supervisory Board appoints the members of the Executive Board. It monitors and advises the Executive Board in the leadership of the company. The key decisions made by the Executive Board require the approval of the Supervisory Board. The Supervisory Board meets at least four times a year and meets without the Executive Board if required.

The Chair and Deputy Chair of the Supervisory Board are chosen from among the members of the Supervisory Board.

There is also a Personnel and Finance Committee consisting of three members of the Supervisory Board, the Supervisory Board Chair and two other shareholder representatives. The committee chair subsequently informs the Supervisory Board plenum of the consultations and resolutions of the committee. The Supervisory Board adopts the financial statements, approves the consolidated financial statements and appoints the auditor. Further details can be found in the Supervisory Board Report.

Information on the members of the Supervisory Board regarding the existing Personnel and Finance Committee and the activities and mandates carried out by the members can be found in the notes to the annual financial statements and at *http://www.schweizer.ag/en/about-us/supervisory-board.html.*

The Remuneration Report provides information on the essential features of the Supervisory Board remuneration system.

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

Executive Board

As a governing body of the Group, the Executive Board is committed to serving the company's interests and increasing its value in a sustainable manner. The Executive Board develops the strategic direction of the company, consults on and agrees same with the Supervisory Board and ensures its implementation. The Executive Board ensures appropriate risk management and controlling in the company. The Executive Board leads the company under its own responsibility. Since the appointment of Dr Rolf Merte on 8 October 2018, the body again consists of three members. Further information regarding the areas of responsibility and resumes of the Executive Board members can be found on the company's website at *www.schweizer.ag/en/about-us/executive-board.html.*

The Executive Board informs the Supervisory Board regularly, promptly and comprehensively with regard to all relevant issues regarding strategy, planning, business development, risk situation, risk management and compliance.

The Remuneration Report provides information on the essential features of the Executive Board remuneration system.

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

Targets for the proportion of women on the Supervisory Board, Executive Board and at management level

The "Act on the Equal Participation of Women and Men in Managerial Positions in the Private and Public Sectors" stipulates a minimum quota of 30% for women and men (known as the gender quota) on the Supervisory Boards of listed companies subject to parity codetermination. For companies such as Schweizer Electronic AG that are publicly listed or subject to codetermination (including under the One-Third Employee Representation Act [Drittelbeteiligungsgesetz]), an obligation has been introduced whereby they themselves must set targets for the proportion of women on the Supervisory Board and Executive Board and at the two highest management levels. The company has to observe a "no deterioration" rule.

For the period from 1 July 2017, for the proportion of women on the Supervisory Board, the **Supervisory Board** set a target that at least one seat on the Supervisory Board should be filled by a woman. At the time the new target was determined, there were no women on the Supervisory Board. The Supervisory Board has set a target of zero for the proportion of women on the **Executive Board** for the period from 1 July 2017. At the time the new target was determined, there were no women on the Executive Board.

For the period from 1 July 2017, the Executive Board has set a target that, for the proportion of women at the key management level below the Executive Board, at least one position should be filled by a woman. The legally stipulated second management level below the Executive Board is not defined as such at SCHWEIZER. For this reason, the target relates to the **key management level**. At the time the new targets were stipulated, the main management level below the Executive Board comprised employees who reported directly to the Executive Board and comprised a total of nine persons. When defining the new target figure, there were no women at this management level.

This new target should be reached by 30 June 2022.

Targets for the composition and competence profile of the Supervisory Board

On 19 June 2017, taking into account the recommendations of the German Corporate Governance Code, the Supervisory Board decided on the targets for its composition, including a competence profile for the entire body. According to the decision, the composition of the Supervisory Board of Schweizer Electronic AG should be such that qualified control of and advice to the Executive Board is ensured by the Supervisory Board.

The candidates proposed for election to the Supervisory Board should be in a position, based on their knowledge, skills and experiences, to carry out the tasks of a Supervisory Board member in an international company and to preserve the company's public reputation. In this respect, the personality, loyalty, commitment and professionalism of the person proposed for election should be taken into account in particular.

The aim is to have on the Supervisory Board as a whole all the knowledge and experience that are regarded as significant given the activities and business fields of Schweizer. Among other things, this includes knowledge and experience in the areas of general business management, corporate strategy and management, technology, production and sales, finance (including accounting), human resources and law (including compliance and supervisory law). Should new appointments need to be made, care must be taken to determine which of the desired knowledge and skills should be strengthened.

The Supervisory Board decided on the following objectives to be achieved when constituting the board:

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

- not more than two seats on the Supervisory Board for persons who undertake an advisory function or executive body function for customers, suppliers, lenders or other business partners of Schweizer Electronic AG; this will limit potential conflicts of interest on the Supervisory Board;

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

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

Diversity

As an international company, diversity and intercultural collaboration are essential factors of our business success. Diversity is firmly anchored in our corporate strategy. The term "diversity" incorporates diversity regarding cultural origin, religion, ethnic background, age, gender and sexual orientation as well as differences regarding professional background, experience and ways of thinking. The objective of our diversity concept is to gain the most suitable candidates from a professional and personal point of view for a mandate as Executive Board and Supervisory Board members of the company as well as for all leadership positions and thereby strive for a diverse composition.

The diversity concept pursued with respect to the composition of the executive bodies of Schweizer Electronic AG provides that the Supervisory Board observe diversity as a whole in the composition of the **Executive Board** in addition to the professional competence, experience and leadership quality of the candidates and, in doing so, aim for an appropriate proportion of women. Executive Board members should have many years of professional experience in industries relevant to the company. When evaluating potential candidates for appointment to vacant Executive Board positions, qualified women are included in the selection process and considered appropriately.

Adequate diversity is also observed with respect to the composition of the Supervisory Board. In accordance with the defined target for the proportion of women on the **Supervisory Board**, at least one seat on the Supervisory Board should be occupied by a woman. When selecting members of the Supervisory Board, criteria such as professional and social competence, international experience and suitability in terms of character are primary considerations.

In addition, when considering the composition of the Executive Board and Supervisory Board, a balanced age structure is observed without a fixed age limit being set.

Implementation of the targets for composition, including the competence profile, and diversity concept

The targets pursued in the composition including the competence profile and the criteria of the diversity concept pursued are taken into account at an early stage in the selection process of potential candidates for appointment to the Executive Board, nomination for election as a member of the Supervisory Board and for all management positions.

In its current composition, the Supervisory Board meets all the aforementioned targets regarding composition and fulfilment of the competence profile. The Supervisory Board as a whole has all the required technical and personal qualifications and is familiar with the business fields of Schweizer. A considerable number of Supervisory Board members hold international positions or have many years of international experience. The diversity of the Supervisory Board is appropriate. The target of having one female Supervisory Board member by 30 June 2022 has been met since 7 July 2017 with the election of Ms Karin Sonnenmoser to the Supervisory Board and Finance Committee.

In addition, the Supervisory Board has an appropriate number of independent members. In the assessment of the Supervisory Board, it should have at least three independent Supervisory Board members, of whom at least one shareholder member is independent. In the assessment of the Supervisory Board, it currently has two independent shareholder representatives, Mr Michael Kowalski and Ms Karin Sonnenmoser.

In the selection process for suitable candidates for the new appointment to the Executive Board, the Supervisory Board paid attention to diversity in addition to professional competence, experience and leadership quality. Qualified women were included in the selection process and given appropriate consideration. The current composition of the Executive Board reflects the target composition resolved by the Supervisory Board.

Targets for and implementation of the percentage of women:

	Starting point	Target by 30 June 2022	As at 31.12.2018
Supervisory Board	No women	One woman	One woman
Executive Board	No women	No women	No women
Key management level[1]	No women	One woman	One woman

[1] Management level below the Executive Board, which reports directly to it.

Accounting and financial statement audit

Since the 2015 financial year, consolidated financial statements have been prepared in accordance with IFRS guidelines. The annual financial statements of Schweizer Electronic AG are prepared in accordance with HGB guidelines. The consolidated financial statements and the annual financial statements are produced by the Executive Board, checked by the auditor and approved and adopted by the Supervisory Board. The consolidated financial statements and the annual financial statements are published within four months of the end of the financial year.

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

Transparency

Schweizer attaches 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 handled by the Investor Relations or Communications departments.

Acquisition and sale of company shares

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

Schramberg, 10 April 2019

The Executive Board	The Supervisory Board
Dr Rolf Merte Chair of the Executive Board	Michael Kowalski Chair 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 and officers insurance. D&O insurance is professional liability insurance for bodies, such as management and supervisory boards, and executive employees.

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

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

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

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

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

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

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

Free Cash flow
Defined as the difference from cash flow from operating activities and the cash flow from investing activities.

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.

MSTI
Abbreviation for Medium & Short Term Incentive. Variable compensation component with a mid- and short-term incentive effect.

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

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

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

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 difference between current assets and current liabilities. This is calculated by deducting current liabilities from current assets (excluding cash and cash equivalents).

TECHNOLOGY GLOSSARY

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

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

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

i^2 Board technology
Integration of semiconductors as well as passive components in PCBs.

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

KoRRund
The name of this research project stands for "Conforming multistatic radar configurations for all-round visibility in automated driving".

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

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

p^2 Pack technology
Innovative technology for the manufacture of power modules.

Prismark
Market research institute

SiC
SiC stands for silicon carbide.

Smart PVI box
The name stands for the BMBF funding project Smart Photovoltaic Inverter Box - Smart PVI Box.

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 gates.

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

FINANCIAL CALENDAR

Date	Publication/event
17.04.2019	Annual Report 2018
09.05.2019	Interim Report 1st Quarter 2019
09.05.2019	Analysts' Conference
28.06.2019	Annual General Meeting
09.08.2019	Financial Report (half-year)
07.11.2019	Interim Report 3rd Quarter 2019

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

LEGAL NOTICE

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In this report, Schweizer Electronic AG is also referred to as SCHWEIZER.
In this report, Meiko Electronics Co., Ltd. is also referred to as MEIKO.
In this report, WUS Printed Circuit (Kunshan) Co., Ltd. is also referred to as WUS.
In this report, Elekonta Marek GmbH & Co. KG is also referred to as Elekonta.
All figures are rounded, which can lead to minor deviations when these are added up.
For reasons of simplicity and brevity, the gender-neutral form is used throughout this document for the inclusion of both female and male designations.

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TRANSLATION OF THIS DOCUMENT

THE TRANSLATION OF this DOCUMENT is FOR CONVENIENCE ONLY. This is a non-binding translation. The German version is the only official and binding document and shall prevail in any event over this English version.

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 should it become apparent that the underlying assumptions were incorrect, this could cause the actual results to differ materially both in a positive and negative sense from the results referred to in forward-looking statements as expected, anticipated, proposed, planned, projected or estimated. SCHWEIZER does not obligate itself and does not intend to revise or correct these forward-looking statements in light of developments which differ from those anticipated.

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