ELMA
Your Solution Partner

Annual Report 2011

System Solutions for the highest requirements.

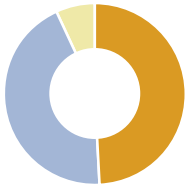
Key Figures and Highlights

Elma Group Key Figures

in CHF 1,000	2011	2010
Order income	**112,361**	130,676
Revenue	**117,718**	126,029
EBITDA	**6,853**	6,396
EBIT	**4,498**	3,673
in % of revenue	**3.8**	2.9
Net income	**1,826**	1,709
in % of revenue	**1.6**	1.4
in % of average equity (ROE)	**9.0**	8.6
Balance sheet total	**66,058**	66,406
Shareholders' equity	**21,198**	19,231
in % of balance sheet total	**32.1**	29.0
Headcount (FTE)	**706**	711

Revenue by business region

in CHF and %



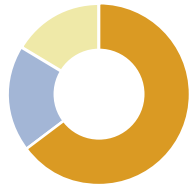
58.0 million
Americas 49.3%

51.8 million
Europe 44.0%

7.9 million
Asia 6.7%

Revenue by product line

in CHF and %



76.2 million
System Solutions 64.8%

22.4 million
Enclosures & Components 19.0%

19.1 million
Rotary Switches 16.2%

706
employees

CHF 112.4 million
order income

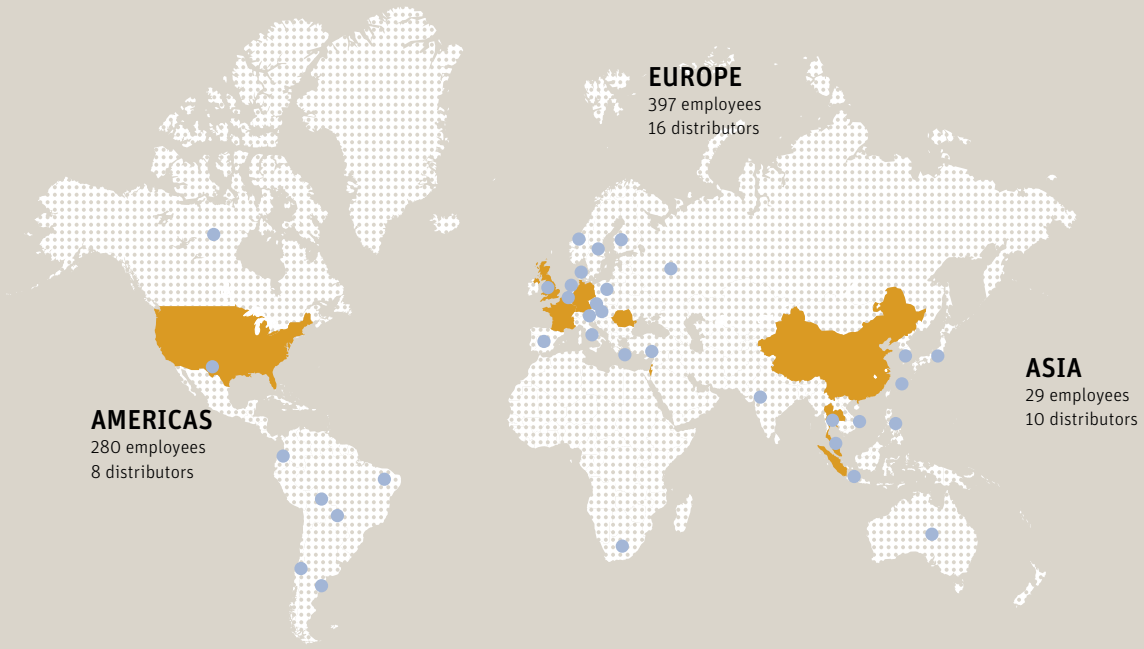
CHF 117.7 million
revenue

ELMA – Your Solution Partner

Elma Electronic is a global manufacturer of electronic packaging products for the embedded systems market – from components, storage boards, backplanes and chassis platforms to fully integrated subsystems. Elma is listed at the Swiss Stock Exchange, with subsidiaries in 9 countries on 3 continents. To ensure that our integrated solutions are optimized to our customers' needs, Elma partners with leading board manufacturers in the industry.

Elma also provides enclosure solutions to electronics companies. The company has a broad base of proven standard products that can be tailored to individual applications, from initial concept to volume production. Elma's reliable solutions, flexibility, and design expertise are key reasons why the leading electronics companies in the world choose Elma time and again.

3 regions – 1 company

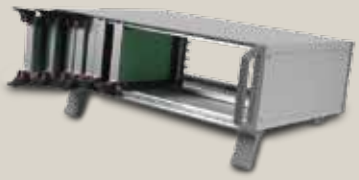


Strategic business segments and product lines

Elma – Your Solution Partner. A system consists of a set of single components, which are combined to form a complete whole. We build our systems according to the specifications and requirements of our customers.

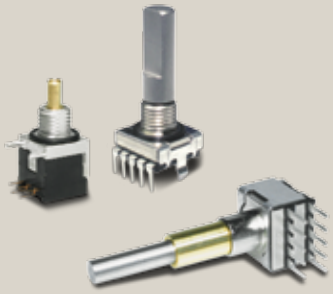
System Solutions

In its systems business, Elma's main focus is on embedded systems. Typically, our systems are used in the medical, military and media image processing sectors. They are also used in the telecom sector and for data transmission. The modular product range includes the housing Elmaset range, the cabinet systems, the backplane (rear panel of an electronic device with multiple slots for plug-in modules), and memory modules (storage solutions). The Elma system solutions are complemented with components such as power supplies and fan systems.



Enclosures & Components

In the electronic packaging market, Elma offers standard products, modified standard products and customized solutions for the packaging of electronic modules in 19-inch equipment. The aims here are to protect sensitive electronic modules from external influences and to protect the environment from the possible interference emanating from the electronics.



Rotary Switches

Elma is a leading manufacturer of switches for mobile radio devices used by security forces, the defense industry and emergency services. The product range extends from coded switches and encoders to selector switches. Elma is able to develop or modify customized, efficient and reliable switch solutions.

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To our shareholders,

The 2011 financial year was dominated by significant exchange rate fluctuations and an increasingly difficult economic environment. Customer demand weakened significantly during the second half of the year. In a challenging environment, the Elma Group performed well, closing the 2011 financial year with a year-on-year increase in net income. We regard this result as confirming the success of the strategy that we have been implementing since 2008.

Our targets were to achieve continuous growth in our markets, to implement an ambitious program aimed at the ongoing optimization of processes and costs as well as to further improve the company's profitability. We achieved these objectives. We expanded our customer base thanks to more offensive market activities in all the regions. Operating results were improved by optimizing costs in all three regions. Operational processes were optimized and lead times were shortened, while quality and delivery compliance saw significant improvement.

The persistent weakening of the US Dollar and the Euro was one of the greatest challenges, given that Elma generates about 70% of its total revenue in these two currencies. We acted when both the US Dollar and the Euro hit all-time lows against the Swiss Franc in August. Additional measures were initiated, especially in Switzerland, in order to mitigate the negative consequences of the currency turmoil. We were able to cushion the impact of the strong Franc by natural hedging, thanks to the expansion of production capacity in the EU zone and the US that was implemented in previous years.

In all regions, we made targeted investments in machinery, factories, technology and in our employees, thereby expanding our production and engineering capacities. We have high capacity for development and production in the Americas region, backed by extensive know-how in developing and manufacturing of electronic packaging and system solutions. We offer our customers solutions that are tailored to their requirements and thus have become one of the leading providers of integrated system solutions in our sector. In the Europe region, we are well positioned to serve the European market with our production facility at Timişoara (Romania). In the growth market of Asia, we already have excellent engineering know-how. Our plans to set up our own production facility in China are aimed at increasing the value add in the Asia region and to further exploit the region's growth potential.

Production and engineering capacities expanded with targeted investments.

Three customer projects that were completed in 2011 are presented on pages 20 to 25.

Analysis of 2011 business results

The Elma Group increased its total revenue in local currency by 5.6%. Both the Americas and Asia regions exceeded their previous year revenues in local currency, whereas the Europe region posted a slight decline in revenue year-on-year adjusted for currency translation effects. Nevertheless, the strong Swiss Franc had a marked impact on the annual financial statement. In Swiss Francs, the Group's revenue declined by 6.6% to CHF 117.7 million (previous year: CHF 126.0 million).

Elma is well positioned in all three regions. As a leading provider of integrated system solutions, we are able to offer our customers tailored solutions to meet their requirements.
«Your Solution Partner»

More than
50
years of experience

706
employees

3
regions

CHF
117.7 million
revenue

Although revenue showed a year-on-year decline in Swiss Francs, EBITDA increased by 7.1% to CHF 6.9 million (previous year: CHF 6.4 million). EBIT improved by 22.5% to CHF 4.5 million (previous year: CHF 3.7 million) which is attributable in particular to the strict cost management. Net income rose by 6.8% to CHF 1.8 million (previous year: CHF 1.7 million).

Revenue increased in local currency by 5.6%.

With a contribution of 49% to total revenue, the Americas region is the Elma Group's largest region and was able to show another year-on-year improvement. Despite challenging market conditions, an 11.9% increase in revenue was achieved in local currency, thereby strengthening our strong position in this region. In Swiss Francs, revenue declined by 5.1% to CHF 58.0 million (previous year: CHF 61.1 million).

In the Europe region, which contributes about 44% of the Elma Group's total revenue, sales of CHF 51.8 million were achieved (previous year: CHF 56.0 million). This corresponds to a decline of 7.4%; adjusted for currency translation effects revenue decreased by 1.1%. Although customer sentiment continued to improve in the first months, uncertainty about the potential economic consequences of the unresolved European debt crisis led to a weakening in capital expenditure and demand from various customers in the second half of the year.

In the Asia region, and particularly in China, Elma posted sound growth and was able to continue strengthening its position in this rapidly developing market. This region contributes about 7% to the Group›s total revenue. Dynamic demand from customers was a key feature during the first months. In connection with regional rail projects, however, this demand slackened because ongoing expansion was halted due to serious railway accidents. Overall, the Asia region was able to increase its revenue by 4.8% in local currency. In Swiss Francs, revenue declined by 11.2% to CHF 7.9 million (previous year: CHF 8.9 million).

The increasing reluctance in capital expenditure by customers in the second half of the year was reflected in a weaker order income in 2011. At CHF 112.4 million, order income decreased by 14.0% in Swiss Francs and by 2.8% adjusted for currency translation effects (previous year: CHF 130.7 million). While order income in the Americas region rose by 3.9% adjusted for currency translation effects (in Swiss Francs: –12.0%), the Europe region posted a decline of 10.1% (in Swiss Francs: –15.7%). Falling demand in the Chinese rail business and the marked downturn in South-East Asia caused a decline of order income in the Asia region by 2.6% (in Swiss Francs: –17.5%).

In each of the product lines, revenue developed differently in local currency. Adjusted for currency translation effects, System Solutions reported an increase in revenue of 12.0% (in Swiss Francs: –3.4%). Enclosures & Components posted a decrease of 4.2% (in Swiss Francs: –11.8%) while Rotary Switches' revenue declined by 5.9% (in Swiss Francs: –12.3%).

At December 31, 2011, Elma reported total assets of CHF 66.1 million (previous year: CHF 66.4 million). The equity ratio was 32.1% (previous year: 29.0%). Despite investments in the range of CHF 1.8 million (previous year: CHF 1.2 million), we reduced net debts by a further CHF 0.7 million to CHF 17.7 million in the reporting year (previous year: CHF 18.4 million). As of the balance sheet date, the financial covenants agreed with banks in 2010 were met.

We have made good progress in recent years, and we are committed to our objectives of improving the balance sheet structure, of further reducing our net debts and of achieving an equity ratio exceeding 50% in the mid-term. On April 26, 2012, the Board of Directors will therefore propose to the shareholders at the Annual General Meeting that dividend payments continue to be waived.

Profitability and Net Income further increased.

Elma – Your Solution Partner.

As a market-oriented enterprise, we develop innovative and customized solutions in the area of systems integration worldwide. Our strategy is geared to the goal of securing a leading position in our sector. This approach enables us to consolidate our market position and to continue expanding it. In our strategic business segment Rotary Switches, we develop and produce high-quality rotary switches for manufacturers of electronic devices.

We continued to further implement our successful strategy. We modified our strategic orientation in 2008 when our addressed markets slumped sharply due to the global financial and economic crisis. We shifted the focus from growth to achieving stability, strengthening our competitive edge and optimizing our cost structure. This strategy proved to be successful. In recent years, we were able to expand our market share in the Americas and Asia regions, while holding our own in Europe. We also demonstrated that we are able to adapt to changes in the environment and that we can achieve a positive operating result even in difficult years. Key elements of our strategy are shown on page 7.

Lean organizational and management structures

Operational management of the Elma Group is in the hands of the Group Executive Board (GEB). The GEB consists of three members who directly manage the three regions (Americas, Europe and Asia). The organizational units “regions” and “products” share responsibility for providing services. This organizational structure has proven its merits in recent years, and it forms the basis for the joint ongoing development of our company and our corporate culture. Quick decision-making enables us to react to changes in the markets – given the highly complex nature of the product/market relationship and the rapid pace of environmental developments – and adapt to new customer requirements. The economic situation is analyzed on a regular basis in close collaboration with the Board of Directors, and the effectiveness of the strategy is reviewed. Targeted measures are initiated and implemented whenever required.

Quick decision-making enables to react to changes in the markets.

Outlook and objectives 2012

In 2012, the Elma Group will mainly focus on intensifying the development of its addressed markets. Besides expanding our market position, the management stresses for a further optimization of internal procedures and processes, particularly in the Europe and Asia regions. We have set ourselves the following goals:

- Sustainable growth of revenue in all three regions;
- Improved EBIT margin compared to the previous year (long-term objective 8–12% in good times, and over 4% during a recession);
- Investment of our available cash flows in our markets, products and production facilities.

The continuously strong Swiss Franc and the weak market dynamics in some regions will be a challenging environment for Elma in 2012. We will increase our marketing developments and improve our market penetration accordingly.

Appreciation

Our employees contribute to the success of our company with their commitment, motivation and know-how. The trust that our customers place in our products and services is an important cornerstone of our future. We offer our sincerest thanks to all of you. Our thanks are also due to you, our respected shareholders. Your support encourages and commits us to further increase the value of our company in the long term.

Martin Wipfli
Chairman of the Board of Directors

Stephan Bürgin
CEO

Strategy of the Elma Group

Elma – Your Solution Partner. This is the claim that we spread throughout the world, as we offer the products and services in our three strategic product lines through our nine national companies, spread across the regions of the Americas, Europe and Asia.

Our corporate strategy focuses on three key elements, with three medium-term objectives in order to significantly improve results, achieve growth each year and exploit growth potential through targeted acquisitions.

Expand our market share:
We intensify our market activities and develop strategies to win more customers in new market segments for our three strategic product lines: Systems Solutions, Enclosures & Components and Rotary Switches.

Sell all product lines in all regions:
We sell our products in the three regions through our regional subsidiaries, strategic partners and distributors worldwide. The components business is actively supporting a successful system integration business.

**Develop and expand the systems business (level 3 and level 4),
expand customer base and design-ins for the Rotary Switches business:**
We focus on high-caliber technical components and system solutions and on expanding the system integration business in all three regions. In the Rotary Switches product line, we supplement our business activities and solutions for man-machine interface applications.

A successful strategy. Positive EBIT can be achieved, even in difficult years.

Corporate and leadership culture

Elma is proud of its multicultural organization. With nine subsidiaries on three continents, backed by a global marketing and distribution network, we combine a huge variety of different skills, talents and personalities. Our values are determined by who we are, what we do and how we do it. They reflect Elma's culture and spirit, they guide the way we behave and how we are perceived by our colleagues, customers, shareholders and business partners – both as individuals, and as an organization.

Our employees

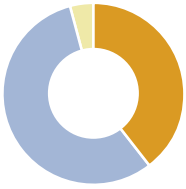
Elma faced some enormous challenges in the difficult economic conditions that prevailed during the last three years: how to retain our competitive edge, how to motivate our employees and how to achieve good positioning with a view to future growth. Thanks to meticulous personnel planning and the option of short-time working to bridge over difficult economic phases in selected areas, we were able to achieve the goal of retaining our teams. By the end of 2011, Elma employed 706 employees worldwide. Our success is based on our employees› commitment and loyalty, and their motivation to support und drive the transformation of our company.

Elma is an attractive employer that attracts highly motivated employees. This statement is confirmed by our low staff turnover rates and the results of the local employee surveys that are conducted on a regular basis. Every two or three years, our subsidiaries conduct employee and satisfaction surveys among their employees. Our group companies in Germany and China carried out surveys in 2011. The local management teams discuss and appraise the results of these surveys; suggested improvements are developed on a joint basis and action plans are defined whenever necessary.

We advance our employees by offering internal and external product trainings. We enable our employees to participate in project management seminars, and we promote their continuous education through management and expert seminars as well as targeted IT user courses.

We conduct employee and satisfaction surveys at regular intervals to create the basis for a good working atmosphere – and for our business success.

Employees per region



280
Americas 39.7%

397
Europe 56.2%

29
Asia 4.1%

Employees per functions

70
Management and administration 9.9%

203
Marketing, sales and engineering 28.8%

433
Production 61.3%

Our code of conduct and corporate culture

The Elma Group's code of conduct and ethics sets clear standards for integrity and impeccable business behavior, on the basis of our five core values: leadership, result orientation, innovation, focus and commitment. In its code of conduct and ethics, Elma has laid down rules that apply worldwide how to interact with people both within and outside our entreprise. The code of conduct stipulates guidelines that safeguard the personal dignity, privacy and personal rights of each and every individual. The code governs our approach to issues such as integrity and objectivity, preventing corruption and handling confidential data. Our employees are called on to report every breach of the code of conduct and of local or other laws, articles of incorporation, ordinances and regulations, as well as any suspicion that the code is not being respected.

Core values

Leadership

We lead by mutual respect and open communication. For our transparent actions, we assume personal responsibility. We embrace change confidently.

Result orientation

We derive our motivation from successes in working with our customers, our employees and our shareholders.

Innovation

In recognizing opportunities and in developing creative solutions we are "best in class". For our customers, we are "Your Solution Partner".

Focus

We focus on the requirements of our customers and our markets.

Commitment

As employees, we represent our company. We are committed to Service, Quality and Dependability.

Working together for a better future, brightening the future of Elma.

System solutions to meet the most demanding requirements

Our Systems Solutions product line delivers system solutions based on tried-and-tested Elmaset products, backplanes, storage modules and cabinets. As Embedded Computer Systems, these products are put to use in many industries where reliability, protection against harsh environmental conditions and long service lifetimes are demanded. Application areas include sectors such as defense, aerospace, telecommunications, transport (railway technology), medical electronics, research and industrial applications. Elma supports numerous standardized architectures that are deployed in these market segments. This approach enables us to offer our customers the best solution for each individual case, from development through to a complete, fully functional system. Thus, we create genuine added value for our customers as «Your Solution Partner».

Activities in 2011

A wide range of solutions for the new openVPX architecture were developed and successfully launched on the market during the reporting year. These include sophisticated housing systems, backplanes and storage solutions. A 40G (gigabyte) ATCA high-speed system was also introduced with great success.

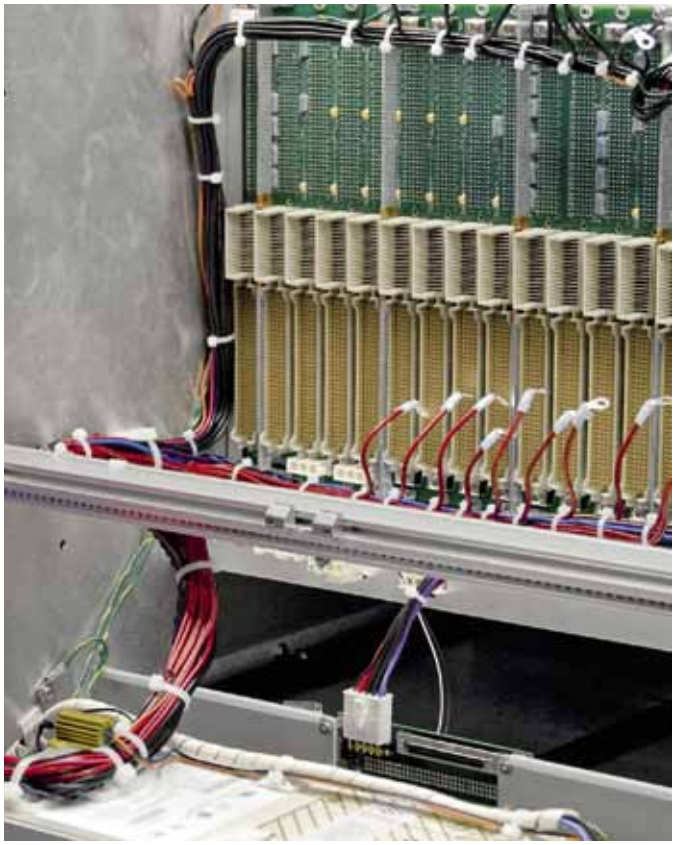
We made numerous investments to automate our prefabrication over the course of the year. In the electronic design area, we introduced a new design platform that is used throughout the group to facilitate the interchange of data and solutions. Ever more complex design tests are required due to the constant increase in signal power. To a growing extent, verification of signal integrity is becoming a standard requirement as part of the overall service package offered to our customers. We run an active design and engineering program that is coordinated on a group-wide basis for our system solutions and the respective components.

More investments in automation and electronic design.

This product line brought in a substantial number of major system contracts, especially in the Americas region. The defense and aerospace sectors account for much of this business. Many well-knowh companies in this sector are Elma's long-term customers. In China, many systems were deployed in the rapidly growing high-speed train market. A large number of Elma systems also went into operation at the European Organization for Nuclear Research (CERN) in Geneva, Switzerland.

2011 business result

In local currency, Elma grew its revenue from system solutions, backplanes and cabinets by 12.0%. Converted into Swiss Francs, revenue from the System Solutions product line fell by 3.4% to CHF 76.2 million (previous year: CHF 78.8 million).



Effective protection for sensitive electronics

As a manufacturer of housings and components, Elma has a broad geographic basis in the electronic packaging market. The “packaging” of sensitive electronic componentry in housing systems is intended to protect the electronics against disruptive influences – and, at the same time, to prevent any detrimental effects caused by the electronics from reaching the environment. Our core expertise comprises the development of user-friendly designs for housings and systems, including IP protection, cooling and electromagnetic compatibility (EMC). Products in our Enclosures & Components (E&C) line make it easier for users to start out in our systems business.

Elma supplies customers with technically convincing solutions that meet demanding industrial requirements.

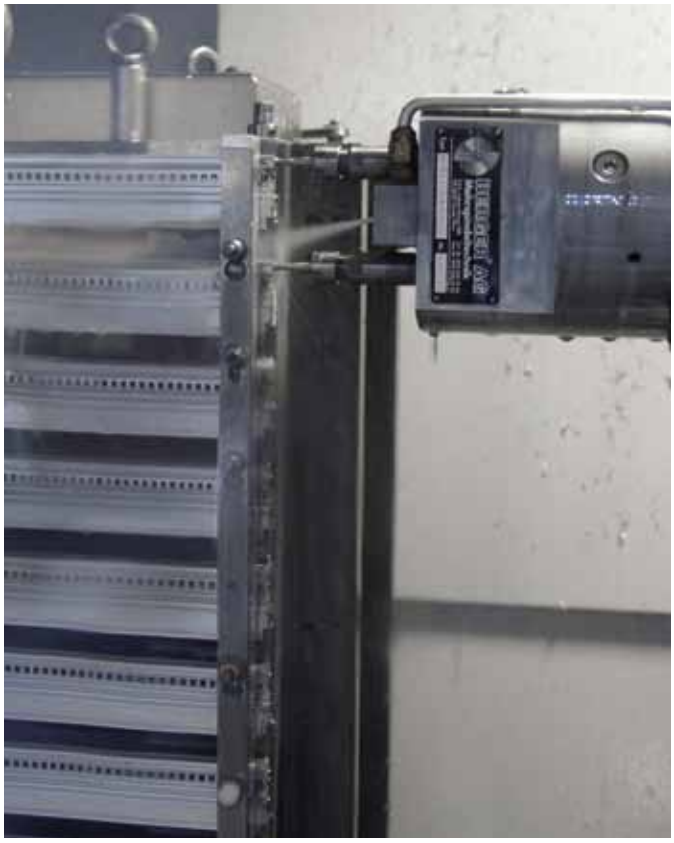
Activities in 2011

E&C services for our customers range from advice on design, assembly and installation through to complete delivery and logistics concepts. The focus here is on the specific requirements of markets and customers. Products are mainly used in the fields of industrial automation, data communication and medical technology. All the sectors have largely similar requirements: a precise knowledge of specific market requirements, a local presence on the customer’s doorstep, prompt implementation of customers’ wishes, efficient communication and the ability to turn new ideas into reality – together with a favorable cost-to-benefit ratio. Our customers demand solutions that are not only technically convincing, but are also in line with the latest requirements in their industrial sectors – from design through to green development, production and disposal.

We have augmented the services offered at our Front Panel Center in Switzerland by adding a 48-hour express service, thereby boosting revenue as well as unit numbers. Furthermore, the anodized aluminum digital printing was launched successfully that allows aluminum panels to be printed with digital quality. This process meets the highest requirements for abrasion and wear resistance, as well as resistance to chemicals. The Microbox 36 was also added to our small housing range to accommodate the trend toward smaller electronic housings.

2011 business result

Revenue from the Enclosures & Components product line dropped by 4.2% in local currency. After consolidation in Swiss Francs, a downturn of 11.8% to CHF 22.4 million was posted (previous year: CHF 25.4 million).



Customized switch solutions

Our Rotary Switches product line develops and produces a host of rotary pulse encoders, coding switches and selector switches that are deployed for demanding industrial applications in the aerospace, safety and security engineering, medical technology and defense sectors. The range is rounded out by matching knobs. Communication equipment (radio devices) for mobile use number among the key applications in our product range.

Activities in 2011

We successfully implemented a variety of customer projects for the E33 encoder generation, as well as hybrid solutions with our switch type 01. We also improved the production of our dual concentric switches in the E37 product family, featuring a high level of functionality combined with minimal dimensions and a wide range of versions for adaptation to our customers' specific requirements.

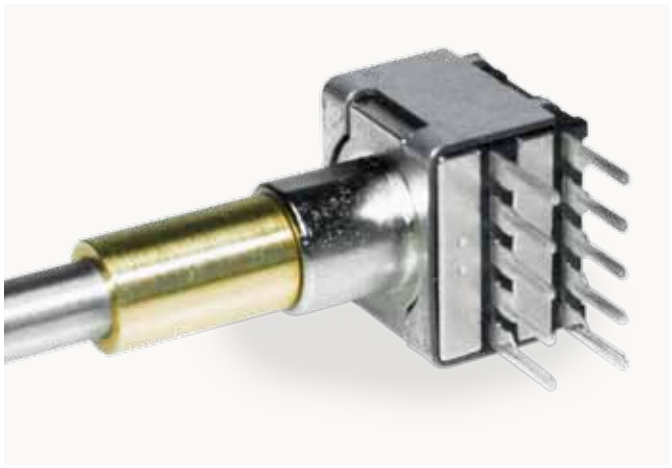
Our E37 product family offers excellent functionality and a variety of models.

We were invited to undertake another design-in project for our long-standing customer Motorola in 2011. In collaboration with Continental, we obtained an ISO-TS 16949 parts certification. Thanks to the introduction of a new metal knob range, we offer our customers a complete selection of switch solutions with service extending from professional design-in advice through to series production.

One key milestone was the improvement in our delivery performance and quality. Gradual renewals of our tools and improvements to the automation of our production plants have resulted in substantially optimized delivery performance and product quality.

2011 business result

The Rotary Switches product line earns the majority of its revenue in the US Dollar zone. As a consequence, it posted a significant downturn due to the conversion into Swiss Francs. Revenue declined by a total of 12.3% to CHF 19.1 million (previous year: CHF 21.7 million); adjusted for currency translation effects, the decrease amounted to 5.9%.



Americas

In the Americas region, Elma serves customers in the defense, aerospace and telecoms market segments. Our extensive offering in the premium segment – ranging from sophisticated components and parts solutions such as backplanes and cabinets through to integrated complete solutions – has enabled us to secure a leading position in the Americas region. Elma stands for reliable solutions, flexibility and development expertise. Even under economically challenging circumstances, these key advantages set the stage for us to sharpen our competitive edge so as to gain market share. Growing uncertainty about economic developments in the US during the second half of 2011 led to a marked slowdown in customer demand across all market segments. Despite the muted market trend, our offensive marketing work and an increase in our vertical added value enabled us to increase revenue and continue consolidating our market position.

Strengthening our market position through offensive market activities.

Activities in 2011

Numerous new products such as new storage solutions were successfully launched on the market in the defense, aerospace and telecoms segments. Alongside major system orders, we also managed to secure substantial contracts in the switch business (Rotary Switches), e.g. for medical technology. Prototypes for the new openVPX architecture were generally in heavy demand. Elma Americas is already one of the leading providers of system platforms and backplanes in openVPX architecture.

To continue strenghening our competitive edge, we made investments in our three production facilities over the course of the year. We have upgraded the sheet metal production at our facility in Lathrop (California) and at the cabinet production plant in Lawrenceville (Atlanta, Georgia) through selective investments in automation. Major investments in production and testing were also made at our electronic manufacturing facility in Fremont (California).

Quality and reliability are important values in the aerospace industry, which is a critical market segment for Elma. Since 2011, our company has been certified to AS 9100, the quality management system certification standard for the development and manufacture of products destined for the aerospace industry.

2011 business result

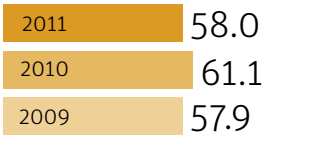
In local currency, Elma Americas increased its total revenue year-on-year by 11.9% to USD 65.8 million (previous year: USD 58.8 million). In Swiss Francs, this corresponds to a downturn of 5.1%. The profitablity also showed encouraging development. Income orders rose by 3.9% in local currency to USD 63.4 million (previous year: USD 61.0 million). In Swiss Francs, however, the region had to accept a decline of 12.0%.

11.9 %

Revenue rose by 11.9 % in local currency.

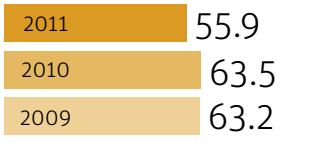
Revenue

in CHF million



Order income

in CHF million



Europe (EMEA – Europe, Middle East, Africa)

The Europe region supplies customers in a variety of sectors including defense, aerospace, safety and security technology, telecoms, industrial automation and transport, alongside work in cooperation with research institutions. Customer sentiment picked up in the first months of the year although the improvement did not yet amount to an economic recovery. Concerns about another economic slowdown in the second half of the year dampened various customers' appetites for investment and the pace of demand slackened. Selective investments in new technologies together with the modernization of production facilities and operational process improvements proved our competition in the Europe region.

Activities in 2011

In the Europe region, business development focused on expanding our key markets in Germany and the UK as well as the markets in Southern and Northern Europe that are managed from Germany. We achieved further improvements in order processing, quality and delivery reliability in the European countries, especially in Switzerland and at our production site in Romania. In Germany, we invested in a new SMD (surface-mount device) assembly machine that enables us to assemble very small active components for complex backplanes and electronic components with increased speed and precision.

Marked advances in order processing, quality and delivery reliability.

In terms of technology, Europe saw a continuation of the trend towards openVPX, VPX, MicroTCA, CompactPCI serial and IPMI-based products. We also noted greater demand for additional services in system integration and contract manufacturing. Elma›s prime assets are the experience and know-how of the development teams available to us in-house. The ongoing development of MicroTCA.4 systems for basic research institutes was an outstanding technical highlight of 2011. One example is our work for CERN, the Swiss-based European Organization for Nuclear Research.

2011 business result

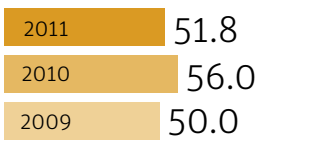
Total revenue of CHF 51.8 million was achieved in the Europe region (previous year: CHF 56.0 million). This equates to a downturn of 7.4%; adjusted for currency translation effects, revenue fell by 1.1%. Order income totaled CHF 48.7 million (previous year: CHF 57.8 million), or 15.7% down year-on-year; adjusted for currency translation effects, the decline was 10.1%.

Elma Germany marks 25 years

Our German subsidiary based at Pforzheim is celebrating its 25th anniversary in 2012. Ever since Elma Electronic GmbH was established in 1987, it has ranked as a leading provider of solutions in the field of complex basic systems for electronics as well as sophisticated backplanes.

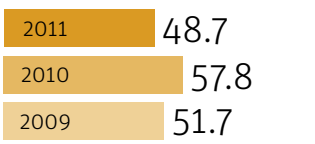
Revenue

in CHF million



Order income

in CHF million



Asia

In the Asia region, Elma serves customers in the defense, aerospace, transportation, industrial automation and telecoms sectors. The growth rate on Asian markets continued during 2011. However, customer demand already showed signs of tailing off from the second quarter onwards. In China, the rising rate of inflation in the wake of strong economic growth posed one of the main challenges for economic policy. In order to curb growth momentum so as to curtail the risk of inflation, the Chinese government began to tighten its monetary and interest rate policies. There were also growing concerns about another economic slowdown in the US and the euro zone, making various customers distinctly less willing to invest, especially in the fourth quarter of 2011. Orders that had already been issued were deferred and some rail projects that had already been started were brought to a halt. Intensive marketing activities enabled Elma China to compensate for part of the lost revenue with business from customers in other sectors. The Singapore and Malaysia markets, on which Elma focuses in South-East Asia, performed positively in 2011 albeit at a significantly lower level.

Elma leads the Chinese market for VPX and CompactPCI products.

Activities in 2011

Elma is well positioned in the rail sector as well as the industrial and defense sectors in the Asia region, and especially in China. We lead the Chinese market with VPX and CompactPCI products in particular. One technical highlight was the development of a customized 7U system platform which was selected by the Insigma Group, a China-based high-tech corporation, for use in Chinese high-speed trains.

Our rapidly growing business in the Asia region calls for investments in the future of our subsidiary in China. In the next two years, we plan to set up our own sheet metal production plant in China, thereby continuing to expand our value chain. We are following the “natural hedging” strategy aimed at reducing the influence of exchange rate fluctuations on our operating results by creating value add at local level.

2011 business result

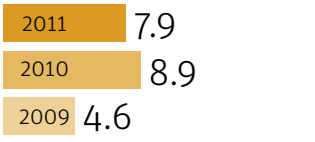
In the reporting year, revenue increased year-on-year by 4.8% in local currency; in Swiss Francs, this equated to a downturn of 11.2% to CHF 7.9 million (previous year: CHF 8.9 million). Decreasing demand in the Chinese rail business caused order income in the Asia region to fall by 2.6% in local currency; in Swiss Francs, order income was reduced by 17.5% to CHF 7.7 million (previous year: CHF 9.4 million).

4.8 %

Revenue rose by 4.8 % in local currency.

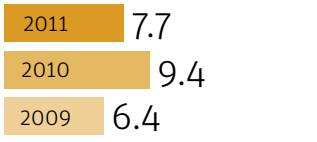
Revenue

in CHF million



Order income

in CHF million



Customized solutions to meet highest expectations

Elma offers top quality to meet demanding requirements. The focus is on the individual nature of our customers' demands. Three different customer projects from our three regions show: systems and solutions from Elma are used in such diverse applications as media image processing, research and railway technology.

Platform solutions for video on demand Americas

The video on demand market is rapidly moving in a very exciting direction. Video services are becoming increasingly personalized, allowing subscribers to watch what they want, when they want it and on any device – from TVs to PCs, cell phones and iPods®. RGB Networks, based in Sunnyvale, California, with offices around the world, is the leading provider of scalable multiscreen IP video delivery solutions in North America. RGB Networks provides advanced delivery and processing systems for the broadband market.

Elma has designed a platform solution for RGB's Video Multiprocessing Gateway (VMG™) to accommodate both AC and DC power for full redundancy and customized their backplane using ATCA technology. Elma also designed the chassis to provide only the features they needed.

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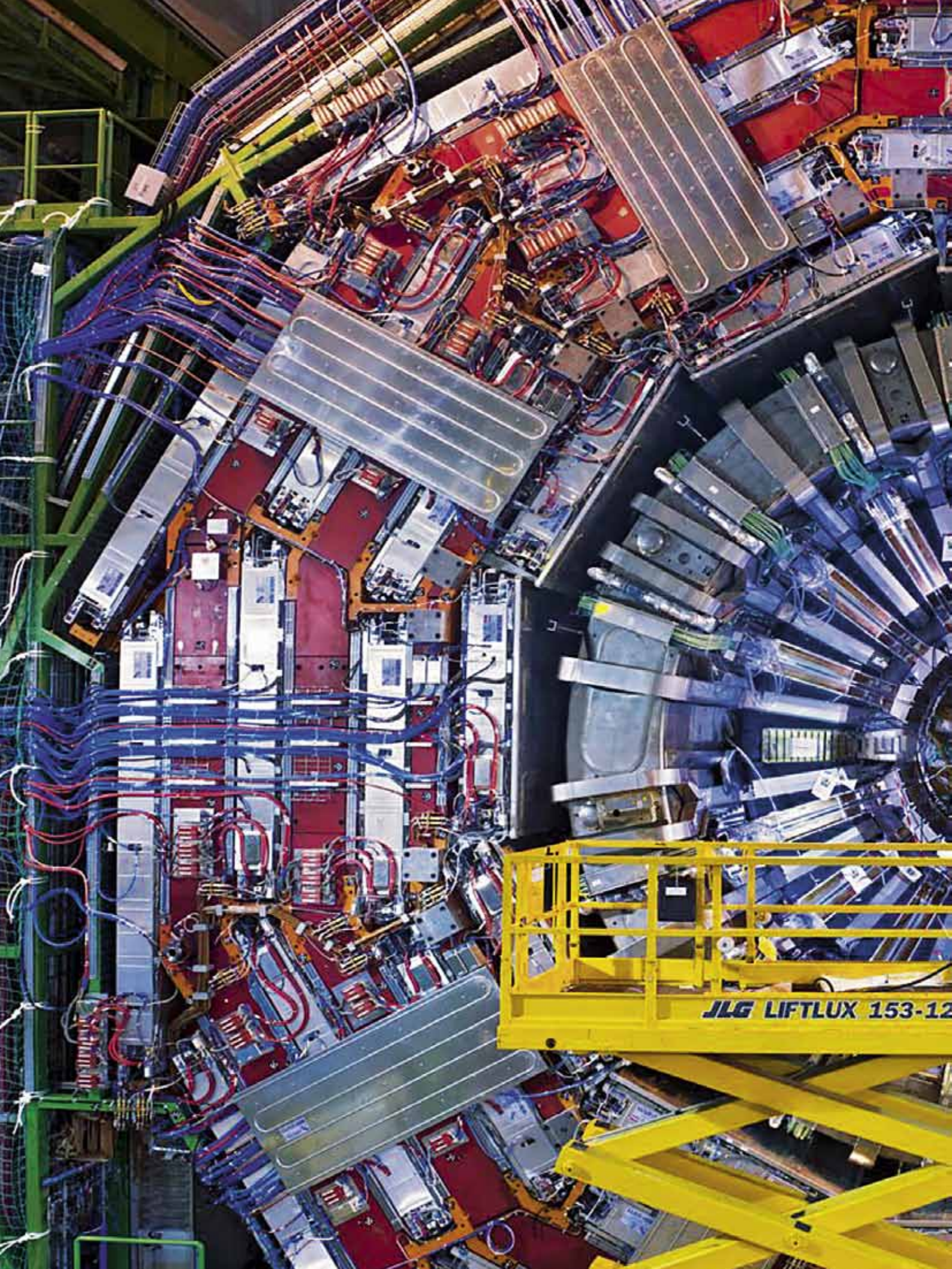
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VMEbus technology for research institutions in Europe

The European Organization for Nuclear Research (CERN) is located at Meyrin in the Canton of Geneva, Switzerland. With over 2,300 employees from 20 member states, CERN is the world's largest research center for particle physics. Basic physical research is undertaken at CERN – the best-known example is the Large Hydron Collider (LHC) which is used to research for example into the structure of matter. ELMA supplies CERN with systems based on VMEbus technology, which is frequently deployed in the scientific world. ELMA systems are utilized to control parts of the accelerator complex.

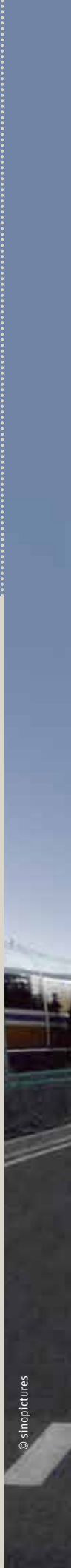
ELMA Germany is involved in numerous research projects as scientific applications are bringing systems close to the limits of what is technically feasible. These projects provide ELMA's engineers with valuable know-how that is ultimately used to optimize our own standard series.

© CERN

Fast system solutions for high speed trains Asia

Elma tailors system solutions to ensure fast and cost-effective with compatibility, consistency and reliability. Elma China's customized system platform 7U was selected by Insigma Group to put on the high-speed train carriage. The system used secures its security and reliability by continuously monitoring the real-time speed, vibration, pressure, temperature and humidity of all high-speed trains in operation.

Insigma Group, based in China, evolved from a high-tech company with the root in Zhejiang University in 2001, has become a conglomerate with business in diversified industries including software outsourcing, rail transport, IT solutions, energy saving and emission reduction projects, green intelligent building.



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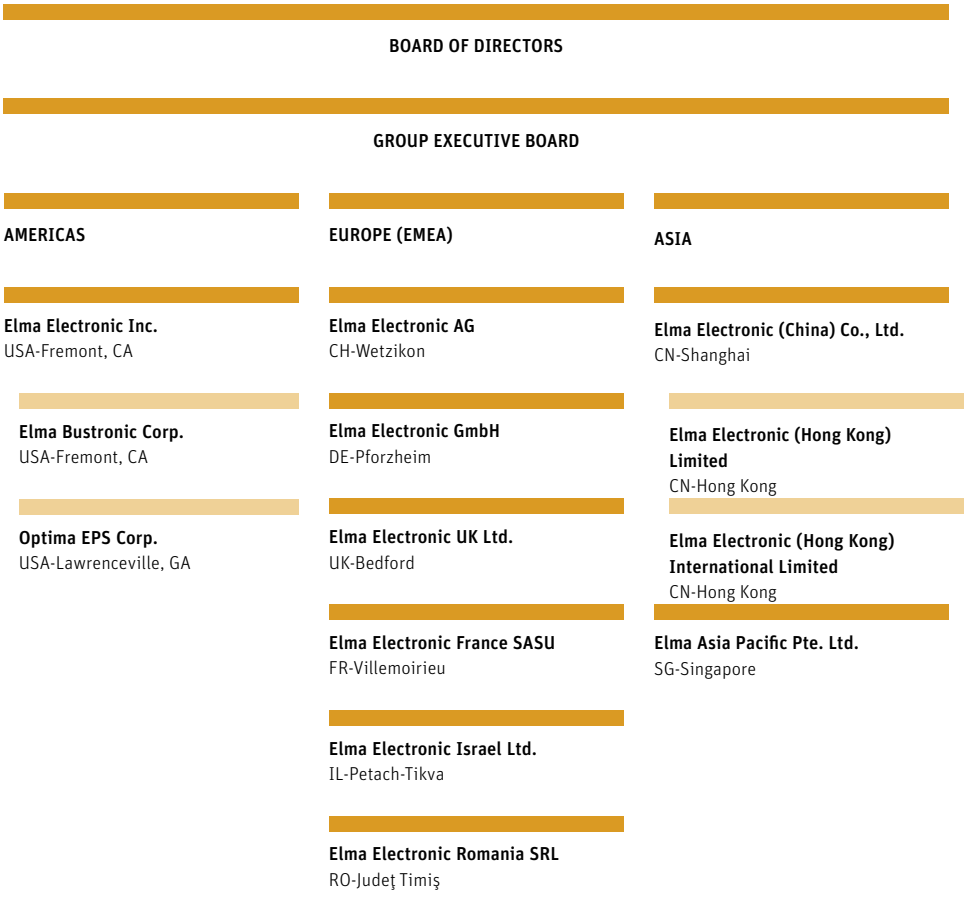
Corporate Governance

This Corporate Governance Report describes the principles of management and control as they apply to the top decision-making bodies of the Elma Group. They have been prepared in conformity with the Directive on Information Relating to Corporate Governance issued by SIX Swiss Exchange and correspond to the "Swiss Code of Best Practice for Corporate Governance" published by economiesuisse. Unless otherwise specified, all the information contained in the report is based on data as at December 31, 2011. The Elma Group follows the Corporate Governance Directives of the SIX Swiss Exchange, which has been active since July 1, 2002 and supplemented on July 1, 2009. The principles and rules of corporate governance practiced by the Elma Group are set out in the Company's Articles of Incorporation[1], the Company bylaws1 and the Regulations of the Board of Directors Committees. The Chairman of the Board of Directors reviews the content and current relevance of these regularly, and proposes any required additions or amendments to the Board of Directors.

1 Group structure and shareholders

1.1 Group structure

The Elma Group is organized by region. The following organization chart shows the detailed operational Group structure as at December 31, 2011.



1 The Company's Articles of Incorporation (in German) as at March 31, 2011, and the Company's bylaws (in German) as at August 19, 2011, are published at www.elma.com. The direct link is http://www.elma.com/Switzerland/English/About/ArticlesOfIncorporation.aspx

Elma Electronic AG (parent company of the Elma Group, hereinafter also "the Company") is the only listed company included in the consolidation. The Company is headquartered in Wetzikon/Switzerland. The Elma share (ticker symbol ELMN, security number 531916) is listed on the SIX Swiss Exchange. The market capitalization at December 31, 2011, amounts to CHF 98.25 million. None of the Group companies own Elma shares. Information about the non-listed companies is available on page 59. For further information about the Elma share please refer to page 44.

1.2 Significant shareholders

According to the information available to Elma Group, the shareholders mentioned in Note 7 of the Financial Statements on page 84 of this Annual Report hold 3% or more of the share capital of Elma Electronic AG.

In the business year 2011, Elma was not informed by shareholders of any disclosure of shareholdings in accordance with Art. 20 SESTA. Details about disclosure of shareholdings may be downloaded from the disclosure platform of the SIX Swiss Exchange at http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

Elma Electronics AG is not aware of any shareholder agreements.

1.3 Cross holdings

There were no cross holdings with other companies.

2 Capital structure

Information about the capital structure is included in the Articles of Incorporation of Elma Electronic AG and in the Financial Statements on pages 49, 68 and 83. The Articles of Incorporation (in German) are available under: http://www.elma.com/Switzerland/English/About/ArticlesOfIncorporation.aspx

2.1 Ordinary capital

The ordinary capital of Elma Electronic AG amounts to CHF 2,513,412 at December 31, 2011.

2.2 Conditional and authorized capital in particular

In 2011, the conditional capital was reduced from CHF 104,588 to nil due to options rights which were not exercised on time and have therefore expired. The Board of Directors has cancelled the Company's Articles of Incorporation rule in terms of increasing the conditional capital at March 31, 2011 because all stock option programs expired and the exercise periods lapsed. Therefore, the Company has no conditional capital as at December 31, 2011.

The Company has no authorized share capital.

2.3 Changes of capital in the last three years

The equity of Elma Electronic AG has changed in the last three years as follows.

	Shareholders' equity in CHF 1,000
December 31, 2011	**22,377**
December 31, 2010	**17,199**
December 31, 2009	**16,757**

Changes in capital in 2011:
The ordinary capital remained unchanged compared to year end 2010. The nominal value of registered shares also remained unchanged at CHF 11.00. The conditional capital, outstanding at December 31, 2010, was reduced from CHF 104,588 to nil due to options rights which were not exercised on time and have therefore expired.

Changes in capital in 2010:
As a result of the exercise of employee options, the ordinary capital increased from CHF 2,510,321 to CHF 2,513,412. The nominal value of registered shares remained unchanged at CHF 11.00. The conditional capital therefore decreased by the same amount from CHF 107,679 to CHF 104,588.

Changes in capital in 2009:
As a result of the exercise of employee options, the ordinary capital increased from CHF 2,509,562 to CHF 2,510,321. The nominal value of registered shares remained unchanged at CHF 11.00. The conditional capital therefore decreased by the same amount from CHF 108,438 to CHF 107,679.

2.4 Shares

The share capital at December 31, 2011, is divided into 228,492 registered shares with a nominal value of CHF 11.00 each. All the registered shares are fully paid in and entitled to dividends. Each share is entitled to one vote, provided that the shareholder is registered in the share register. Detailed information about voting rights is set out in the Articles of Incorporation and in Section 6 of this chapter "Corporate Governance".

2.5 Participation and bonus certificates

Elma Electronic AG has neither issued participation nor bonus certificates.

2.6 Limitations on transferability and nominee registrations

According to Article 5 of the Articles of Incorporation, only a person entered as such in the share register is recognized as a shareholder or beneficiary of the Company. The shares are indivisible and the Company recognizes only one shareholder or beneficiary for each share.

There are no registration limits. A registration in the share register presupposes evidence of the formally correct transfer. Moreover, the Company can refuse registration as a shareholder with voting rights, if, on request, the purchaser does not expressly confirm that he has acquired

and will hold the shares in his own name and for his own account. The Board of Directors is authorized to cancel registrations in the share register retrospectively to the date of registration, if such registrations were based on false statements. It may seek an explanation from the shareholder or beneficiary concerned in advance. In any case, the concerned shareholder or beneficiary must be immediately informed of the cancelation. Shares which are held by a nominee will be registered in the share register without voting rights. Up to now, no entries have been refused.

2.7 Convertible bonds and options

Elma Electronic AG and its Group companies have no convertible bonds outstanding. At December 31, 2011, there are no options outstanding.

3 The Board of Directors

The Board of Directors of Elma Electronic AG comprised four non-executive members at December 31, 2011.

3.1 Members of the Board of Directors

None of the members of the Board of Directors had significant business relationships with Elma Electronic AG or one of the Group companies. None of them has held executive positions with Elma Electronic AG or one of its Group companies at any time. Information about personal details and other activities and functions of the individual members of the Board of Directors is as follows:

Martin Wipfli Chairman of the Board of Directors (since April 23, 2008), Swiss, 1963

Current activity	Since 1998	Managing Partner Baryon AG, Zurich
Education		Study of law at University of Berne (lic. iur.)
		Admitted to practice law in the Canton of Uri
Career	1990 to 1995	Tax consultant ATAG Ernst & Young AG, Zurich
	1995 to 1997	Head of tax department Bank Leu AG, Zurich
	1997 to 1998	Partner Tax Partner AG, Zurich

David Schnell Vice Chairman, Swiss, 1947

Current activity	Since 2002	Self-employed management consultant
Education		Business administration graduate
Career	1985 to 1997	CFO and member of the executive management
		ELCO Looser Holding AG, Zurich
	1995 to 1997	Chief Operating Officer and member of the Board of Directors
		ELCO Looser Holding AG, Zurich
	1997 to 2002	CFO and member of the executive management
		Swisscom AG, Berne

Walter Häusermann Member, Swiss, 1965

Current activity		President and Delegate FJD Feine Juwelen Distributions AG, Schaffhausen
Education		Studies at London School of Economics (MSc Finance and Accounting) and at University of Berne (lic. phil. hist.)
Career		Activities in investment banking Credit Suisse
	From 1994	Corporate Treasury/Head of Financial Controlling, The Swatch Group Ltd, Biel
	From 1997	Finance and Operations Manager Calvin Klein watch brand
	2000 to 2002	Finance Director Expo.02
	2003 to 2010	Self-employed management consultant

Rudolf W. Weber Member, Swiss, 1950

Current activity	Since 2011	Self-employed management consultant
Education		Studies at ETH Zurich (dipl. Ing. ETH), studies at University St. Gallen (lic. oec. HSG)
Career		Activities for Hayek Engineering and Geberit
	1986 to 1996	Member of the executive management ELCO Looser Holding AG, Zurich
	1996 to 2001	General Manager Hoval Heiztechnik, Feldmeilen/Vaduz
	2002 to 2006	CEO Sauter AG, Basel
	2006 to 2011	CEO Kaba Group, Rümlang

3.2 Other activities and interests

Martin Wipfli
- Chairman of the Board of Directors nebag ag, Zurich
- Member of the Board of Directors Kardex AG, Zurich
- Member of the Board of Directors Metall Zug AG, Zug
- Mandates for the Board of Directors of unlisted companies

David Schnell
- Member of the Board of Directors Kuoni Reisen Holding AG, Zurich
- Member of the Board of Trustees Kuoni and Hugentobler-Stiftung, Zurich
- Member of Sanction Commission, SIX Swiss Exchange, Zurich
- Mandates for the Board of Directors of unlisted companies

Walter Häusermann
- Member of the Board of Directors nebag ag, Zurich
- Mandates for the Board of Directors of unlisted companies

Rudolf W. Weber
- Mandates for the Board of Directors of unlisted companies

3.3 Elections and terms of office

The Board of Directors consists, in accordance with article 14 of the Articles of Incorporation, of at least three and at most seven members. The members of the Board of Directors are elected for a period of one year. Re-election is permitted and the number of re-elections is not limited. In the case of by-elections, new members enter the term of office of their predecessor. Members of the Board of Directors automatically resign from the Board at the Annual General Meeting held in the year after they reach their 70th birthday.

The date of the first election and the remaining term of office of each member of the Board of Directors:

Board members	Elected for the first time	Elected until AGM in
Martin Wipfli	April 25, 2007	2012
David Schnell	May 3, 2001	2012
Walter Häusermann	April 30, 2004	2012
Rudolf W. Weber	April 30, 2004	2012

At the General Meeting held on May 11, 2011, Martin Wipfli, David Schnell, Walter Häusermann and Rudolf W. Weber were re-elected in globo as members of the Board of Directors for another term of office of one year.

3.4 Internal organizational structure

The Board of Directors is the supreme authority in the Company, subject to matters which by law (Swiss Code of Obligations, Art. 698) are reserved for the shareholders or which are assigned through law or the Articles of Incorporation to other bodies of companies. The Board of Directors elects the Chairman and Vice Chairman from among its members for a one-year term. The Board of Directors may, according to law and the Articles of Incorporation, delegate the management of the company completely or partly to one or several members or to third parties (Executive Board). The Board of Directors enacts a company bylaw for the internal organization, which set the competences and responsibilities of the Executive Board. Decisions are taken by the Board of Directors as a whole. The Chairman, supported by two Committees (Audit Committee, Nomination/Remuneration Committee) and the CEO, provides information about the course of business, important transactions and about organizational changes. The majority of the members of the Board of Directors must be present to ensure a quorum. Resolutions are passed by a majority of the votes cast. If the vote is tied, the Chairman shall have a casting vote. Discussions and resolutions of the Board of Directors are recorded in minutes, which are signed by the Chairman and the secretary. The secretary is designated by the Board of Directors. Written resolutions are possible, unless a member demands oral consultation. Meetings of the Board of Directors may also be held via telephone or video conference.

The Board of Directors has following indefeasible and non-transferable duties:
- Overall direction of the Company and issuance of necessary instructions
- Approval of the corporate policy and strategy
- Determination of the organization
- Organization of the accounting system, of the financial control and of the financial planning

- Appointment and dismissal of the persons entrusted with management and representation and definition of their signatory powers
- Overall supervision of the persons entrusted in the Group Executive Board, especially in respect of observing the law, Articles of Incorporation, regulations and instructions
- Drawing up the Annual Report and preparing the General Meeting and carrying out its resolutions
- Notifying the judge in the event of over-indebtedness
- Resolution on the realization of capital increase and resulting amendments of the Articles of Incorporation
- Passing of resolutions regarding the subsequent payment of capital on not fully paid-in shares
- Examination of the professional qualification of the auditors

Role and function of the Chairman

The Chairman of the Board of Directors arranges to be informed on an ongoing basis by the Group Executive Board about the course of business, all important transactions and organizational changes. The main responsibilities of the Chairman are the following:

- Determining and preparing the agenda items of General Meetings and Board meetings
- Calling of Board meetings
- Presiding over the General Meetings and Board meetings
- Monitoring compliance and implication of resolutions of the Board of Directors
- Reporting to the entire Board of Directors

Role and function of the Audit Committee

The Audit Committee undertakes preparatory tasks, which are then submitted to the entire Board of Directors for decision. The main responsibilities of the Audit Committee are the following:

- Reviewing the suitability and effectiveness of the Group's accounting and financial control mechanisms
- Reviewing the financial statements and the Annual Report
- Monitoring financing and liquidity
- Evaluating and selecting the external auditors for nomination to be elected by the General Meeting
- Reviewing the engagement terms and determining the scope of the external audit
- Discussion of the results of the audit

Role and function of the Nomination/Remuneration Committee

The Nomination/Remuneration Committee undertakes preparatory tasks, which are then submitted to the entire Board of Directors for decision. The main responsibilities of the Nomination/Remuneration Committee are the following:

- Succession planning with regard to changes in the Board of Directors and recommendations in this respect to the Board of Directors
- Assessment of the compensation to the Board of Directors and recommendation in this respect to the Board of Directors

- Definition of the selection criteria and evaluation regarding the CEO and the members of the Group Executive Board, as well as of the managing directors of Group companies and product line managers
- Succession planning for the members of the Group Executive Board, product line managers, managing directors of Group companies and "High Potentials", including strategic personnel planning regarding the furtherance of talents
- Determining of targets and performance reviews of the members of the Group Executive Board
- Acknowledgement of the performance reviews of the managing directors of Group companies by the CEO
- Approval of employment conditions and financial compensation of the CEO, members of the Group Executive Board, product line managers and managing directors of Group companies
- Approval of the regulations for the pension fund of the Company

Frequency and calling of meetings

The Board of Directors as well as the Audit Committee and the Nomination/Remuneration Committee meet as often as the Company's business requires. The Board of Directors meets at least four times each business year, respectively, at least once per quarter, as well as at the request of one of its members. Meetings of the entire Board of Directors are called by the Chairman, in his absence by the Vice Chairman or another member. Meetings of the Audit Committee and the Nomination/Remuneration Committee, respectively, are called by the Committee's Chairman, in his absence by the Chairman of the Board of Directors or another member. In principle, the meetings of the entire Board of Directors as well as the meetings of the Audit Committee each last half a day and generally, the CEO, the CFO and a secretary who takes the minutes attend these meetings. As a rule, the CEO also attends the meetings of the Nomination/Remuneration Committee. The meetings of the Nomination/Remuneration Committee each last up to half a day. Other persons can be brought in, if necessary. In exceptional cases, external consultants may be brought in for special questions. The auditors attend all the meetings of the Audit Committee.

The Board of Directors and its committees are composed as follows:

	Entire Board of Directors[1]		Audit Committee[1]		Nomination/ Remuneration Committee[2]	
Name	Function	Participation at meetings	Function	Participation at meetings	Function	Participation at meetings
Martin Wipfli	Chairman	6		3	Member	3
David Schnell	Vice Chairman	6	Chairman	3		1
Walter Häusermann	Member	6	Member	3		1
Rudolf W. Weber	Member	5		–	Chairman	3

1 The CEO attended all six meetings of the entire Board of Directors as well as two meetings of the Audit Committee. The CFO participated in all meetings.
2 The CEO attended all meetings of the Nomination/Remuneration Committee. He stepped outside during the time that his remuneration was under review.

3.5 Definition of areas of responsibility

The allocation of areas of responsibility between the Board of Directors and the Group Executive Board is defined in Elma Group's bylaws. The Company's bylaws (in German) are available under http://www.elma.com/Switzerland/English/About/ArticlesOfIncorporation.aspx

The Board of Directors has in principle delegated the operational management of the Group to the CEO. The Board of Directors has reserved to itself for approval, in addition to the decisions for which it is responsible based on the duties defined by Swiss Code of Obligation Art. 716a as indefeasible and non-transferable, also important business issues related to strategy implementation and important organizational, financial and personnel matters from operations. These include in particular:

- Agreements on lawsuits and settlement proxies with an amount in dispute of above CHF 100,000
- Investments above CHF 100,000
- Credit borrowings or public loans
- Agreements to guarantees, suretyships, letters of comfort, collaterals
- Personnel and salary policy of the Group
- Appointment, dismissal and employment conditions for members of Group management (Group Executive Board, Regional Managers, managing directors of Group companies) and of the product line managers
- Dismissals of more than five people

3.6 Information and control instruments vis-à-vis Group Executive Board

The entire Board of Directors is integrated in the Elma Group's Management Information System at the appropriate level. Each month, it receives a reporting package consisting of the income statement, balance sheet, the most important key ratios, and a budget comparison of the Group and of the Group companies.

A forecast for the next business quarter is prepared on a monthly basis. In the first quarter, the Group's strategic alignment is revised. In addition, on half-year basis information about activities in the areas of internal and external control, risk management, insurance and compliance are prepared. Such documentation is made available to the Board of Directors at least one week prior to the meetings.

The CEO reports quarterly and without any request to the Board of Directors on the course of business and the execution of his duties. Reporting is in writing to all members of the Board of Directors or verbally during a Board meeting. Where appropriate, the reporting has to be completed by written documents.

Each member of the Board of Directors may demand information on all issues relating to all activities of the Group. Any member of the Board of Directors desiring information or access to business documents at times other than during the Board meetings shall make a written application to this end to the Chairman of the Board. Each member of the Board of Directors can apply to the Chairman that he receives access to business documents and records that are necessary for the Board member to perform a particular task. In case that the Chairman denies such a request for information, hearing or access to documents, the Board of Directors will decide upon the matter.

Irrespective of the regular reporting, the CEO notifies in writing immediately all members of the Board of Directors about events which have a significant impact on business operations, in particular about changes intended in the Group Executive Board, events which could be detrimental to the financial position of the Company and discoveries of irregularities in the Group.

The CEO and the CFO attend the meetings of the Board of Directors and of the Audit Committee. The CFO reports to the Audit Committee at the Audit Committee meetings on the Internal Control System.

The Board of Directors approved a comprehensive Internal Control System (ICS) which entered into force on November 4, 2008. The ICS aims to review systematically the existence, compliance and documentation of the most important controls of the most significant internal business processes. The ICS will be extended depending on the size and risk of each company, however all Group companies are integrated in the scope of examination. ICS documentations/ examination programs currently exist for the areas treasury, purchasing, sales, inventories, property, plant and equipment, wages & salaries, preparing the financial statements and consolidation. These areas will be verified annually through an internal audit on site and rotative every third year through an external auditor. The areas general IT controls and company-wide controls are reviewed each year. The internal audits are reviewed by Group controlling, which reports directly to the CFO. It examines every year all ICS issues for each Group company. The Board of Directors will be informed of the ICS examination every half year.

The external auditor also examines the existence and documentation of the ICS within the annual audit and prepares a special report for the Board of Directors.

The Board of Directors and management have defined a Group-wide risk management process, in order to control risks that arise from the business activities of the Group. The results of the risk assessment were discussed during two meetings of the Board of Directors in the business year 2011. Details on risk management are available on pages 58 and 84 of the Financial Statements.

4 Group Executive Board

The Chairman of the Group Executive Board (CEO) manages the Group operationally together with the other members of the Group Executive Board. He is responsible for setting, implementing and achieving the Group's entrepreneurial goals. The Group Executive Board supports the CEO in managing the Group. It deals with all business that is of major importance:

- Setting and implementing the Group strategy
- Drawing up and implementing the management structures and systems
- Optimal use of resources
- Promoting cooperation and communication
- Preparing motions that lie within the competence of the Board of Directors

4.1 Members of the Group Executive Board (GEB)

Stephan Bürgin Chief Executive Officer, Swiss, 1958, Regional Manager Asia

Education		Electrical Engineer FH in the field of telecommunications at the Engineering School Zurich Studies in business economics at the Engineering School Zurich (production engineer ISZ/SIB) Additional studies in "building and energy" at the Engineering School in Winterthur
Career	1979 to 2000	Various functions with management responsibility in development and production as well as in project and product management with Siemens Schweiz AG
	2000 to 2003	Head of Development and Production of Siemens Schweiz AG
	2003	CEO Swisstronics Contract Manufacturing AG
	2004 to 2005	CEO Electronicparc Holding AG
	2005 to 2007	Head of EMS division Cicor Technologies
	Since 4/2007	CEO Elma Group

Stephan Bürgin, Edwin Wild and Fred Ruegg (from left to right)

Edwin Wild Chief Financial Officer, Swiss, 1958, Regional Manager Europe (EMEA)

Education		Swiss Certified Expert for Accounting & Controlling
Career	1980 to 1986	External Auditor with Curator Revision AG, Zurich
	1986 to 1987	Internal Auditor with F. Hoffmann-La Roche Co., Ltd., Basel
	1987 to 1992	Kühne & Nagel Management AG, Schindellegi SZ 1987 to 1989 Head Corporate Controlling 1989 to 1992 Head Internal Audit
	1993 to 2008	Director Finance and Administration with ETA (Thailand) Co., Ltd., Samut Prakan, Thailand – Director at Swatch Group Trading (Thailand) Co., Ltd., Bangkok – Director at Wachirapani Co., Ltd., Bangkok
	Since 8/2008	CFO Elma Group

Fred Ruegg President Elma Electronic USA, Swiss, 1954, Regional Manager Americas

Education		Business Economist HWV, Zurich
Career	1981 to 1985	Head of Controlling and of the IT Department Sulzer Inc., New York (USA)
	Since 1986	Setting up and managing Elma Electronic Inc., Fremont (USA)

4.2 Other activities and vested interests

Stephan Bürgin is Chairman of the Board of Directors of Albis Technology, Zurich.

4.3 Management contracts

There are no management contracts with third parties.

5 Compensations, shareholdings and loans

The members of the Board of Directors receive a fix compensation for their work, which is determined by the Board of Directors itself. The Board of Directors may also agree to pay appropriate compensation to individual members for special services rendered. The compensation is proposed once a year by the Nomination/Remuneration Committee and determined by the entire Board of Directors at its own discretion and is not linked to any corporate objective. In the business year 2011, the compensation for the members of the Board of Directors was paid in cash. The compensations to the members of the Board of Directors are listed in the Financial Statements on page 85. Compared to the prior year, the compensation was unchanged. No special services have been compensated to individual members.

The members of the Group Executive Board receive an annual performance related compensation in cash in addition to a fixed salary, which is set according to the responsibility as CEO, CFO and Regional Manager, respectively.

The performance related compensation depends on the achievement of defined targets. The target agreement for the CEO and CFO consists of two parts: the operating result (EBIT) at Group level (70%) and personal goals agreed upon with the Board of Directors (30%). The target agreement for the Region Manager of Americas was set as follows – due to his active operational role in the American companies: EBIT at Group level (20%), EBIT and revenue of his region (60%) as well as personal goals agreed upon with the Board of Directors (20%).

In addition to social benefits, the members of the Group Executive Board are entitled to a company car.

The assessment of the compensation for the members of the Group Executive Board is set at the discretion of the Board of Directors, and is reviewed once per year. The Nomination/Remuneration Committee prepares the amount of the performance-related compensation and submits it to the Board of Directors annually. In the year under review, neither an industry-specific benchmark nor external studies or consultants have been called upon.

The determination of objectives and their weighting takes place individually and personally, on an annual basis at the beginning of the new business year. Upon achievement of 100% of the objectives, the performance-related compensation can amount to a number between 20% and 40% of the fixed salary. If the objectives are partially achieved, the compensation is lower in line with the agreed objectives or nil; if they are exceeded, the performance-related compensation is at most 85% of the fixed salary. The compensation has an upper limit.

If the CEO exceeded his target agreements of 100%, the incentive, which he receives by a target agreement of 101% to max 200%, will be deferred and one third will be paid out in each of the following three years. In the particular year, he will just receive the performance bonus for his 100% target agreement. The payment of the deferred performance bonus will only take place when the operating result (EBIT) is positive. Otherwise, the payment will be postponed for a year.

In business year 2011, the relation between performance-related compensation and fixed salary was 35.0% for the CEO (previous year: 38.5%) and for the other members of the Group Executive Board it was between 26% and 34% (previous year: 32% to 40%). The change of the performance-related bonus compared to the previous year is due to the higher deviation against the agreed targets at EBIT level.

The employment contracts with the members of the Group Executive Board do not include arrangements to severance payments, except the CEO's contract in case of a change of control. To this, please see section 7 of this chapter "Corporate Governance". Contracts of employment with the members of the Group Executive Board do not provide unusually long terms of notice. The term of notice is 3 to 6 months.

The compensation paid in the year under review, as well as shareholdings and loans, are described in detail in the Financial Statements on pages 85 to 86.

6 Shareholders' participation rights

Shareholders in Swiss incorporated companies enjoy extensive rights of participation and protection, which in principle are laid down in the Swiss Code of Obligations (OR) and are supplemented by the Company's Articles of Incorporation. The shareholders' participation rights are described in detail in the Articles of Incorporation of Elma Electronic AG. They are available under www.elma.com. The direct link to the Company's Articles of Incorporation is http://www. elma.com/Switzerland/English/About/ArticlesOfIncorporation.aspx

6.1 Voting right restrictions and representation

At the General Meeting, each share entitles to one vote, provided that the shareholder is registered in the share register. The Company maintains a share register, in which the owners of the registered shares and beneficiaries are entered. Shareholders are entitled to be represented by written proxy at the General Meeting.

Concerning limitation of the transferability and nominee entry, reference is made to the comments in Section 2.6 of this chapter "Corporate Governance".

6.2 Statutory quorums

There are no quorums differing from the law.

The General Meeting passes its resolutions and makes its elections, unless the Articles of Incorporation or the law provide otherwise, by an absolute majority of the share votes represented. The Chairman has a casting vote in the event of a tie. The Board of Directors is authorized to arrange an electronic voting for the General Meeting or individual votings. A resolution of the General Meeting that is passed by at least two thirds of the voting rights and combines the majority of the represented share value is required for:

1. Changing the Company's object
2. Creating voting shares
3. Changing limitations on transferability of registered shares
4. An authorized or conditional capital increase
5. A capital increase out of equity, against asset contribution or for the purpose of asset takeover and the granting of special benefits
6. Limiting or abolishing of subscription rights
7. Relocation of the Company's registered office
8. Winding up of the Company

6.3 Convocation of the General Meeting of shareholders

The ordinary General Meeting is held annually within six months of the end of the financial year at the headquarters of the Company or at another place as decided by the Board of Directors.

Extraordinary General Meetings can be called by the Board of Directors or by request of the auditors. Moreover, such meetings have to be arranged by the Board of Directors within eight weeks, if it is demanded in written form, including information about the subjects of discussion and the proposals, by one or several shareholders, who together represent at least 10% of the share capital.

The invitation to ordinary and extraordinary General Meetings must be issued at least 20 days before the Meeting by publication in the Swiss Official Gazette of Commerce. Registered shareholders receive the invitation in writing to the addresses recorded in the share register. The invitation includes the agenda items as well as the motions of the Board of Directors and, if applicable, of the shareholders, who have demanded a General Meeting to be held or that agenda items to be placed on the agenda. The Board of Directors makes provision in the invitation of admission cards to the General Meeting to be issued against depositing of the shares.

6.4 Agenda

Shareholders representing shares with a nominal value of at least one million francs may demand that an agenda item be placed on the agenda by giving notice of the agenda items and of the motions. Respective requests must be addressed to the Board of Directors not later than 40 days prior to the meeting. No resolutions shall be passed on motions relating to items which have not been announced in the requisite manner, with the exception of those motions relating to the convocation of an Extraordinary General Meeting or the execution of a special audit.

Votes and elections at the General Meeting are conducted by open votes. Votes and elections by secret ballot are held, if the Chairman decrees so or shareholders who together represent at least 2% of voting rights demand for such a ballot.

6.5 Registrations in the share register

The Company maintains a share register for registered shares in which the name, addresses, and nationalities (in case of juristic persons the head office) of the owners and beneficiaries are entered. Within the period starting from the date of the invitation and ending on the day

after the General Meeting, there will be no entries in the share register. Shareholders, who sell their shares prior to the General Meeting, are no longer entitled to vote or to receive dividends. In the event of a partial sale or purchase of shares after the closing date of the share register, the delivered admission and voting cards must be exchanged at the admission control to the General Meeting.

7 Change of control and defense measures

The Company has neither opted up the stock exchange threshold (Art. 32 SESTA: 33⅓% of the voting rights) nor has it opted out from such a duty to make an offer. There are no clauses on change of control (golden parachutes) in favor of members of the Company's Board of Directors or its Group Executive Board. There is a contractual agreement with the CEO that in case of a termination of the employment contract by the employer – in conjunction with a takeover or a merger – the CEO would receive a severance pay at the end of the employment. This pay equals six monthly salaries, a pro-rata 13th-month salary and the maximal bonus for six months that was agreed upon at the time of the termination of the employment contract.

8 Auditors

8.1 Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers (PwC) accepted the auditing mandate for Elma for the first time in 1993. The responsible lead auditor, Urs Honegger, has been responsible as lead auditor since 2007. The auditors are elected by the General Meeting for one financial year.

8.2 Audit honorarium

PwC's audit honorarium for services in connection with auditing the statutory annual financial statements of Elma Electronic AG and the consolidated financial statements of Elma Group amounted to TCHF 255 for the financial year 2011.

8.3 Additional honorariums

The audit firm's additional honorariums amounted to TCHF 76 for the financial year 2011.
Overview of the honorariums paid to the auditors:

in CHF 1,000	**2011**	2010
Audit services	255	290
Tax consulting	42	26
Change in financial reporting standards to SWISS GAAP FER	15	12
Miscellaneous	11	24
Half-Year Report	8	10
Total	**331**	**362**

8.4 Supervisory and control instruments vis-à-vis the auditors

The auditors present their audit findings to the Audit Committee at a closing meeting that takes place at least once a year. The external auditor issues a detailed report to the Board of Directors that includes a business analysis, a comment on the audit, accounting and bookkeeping, both for the consolidated financial statements and for the statutory financial statements, as well as a commentary on legislative developments and on Corporate Governance. In the year under review, the auditors wrote two reports and participated in all three meetings of the Audit Committee.

The Audit Committee annually evaluates the external auditor's performance, independence and remuneration and submits a proposal to the entire Board of Directors on the question as to which external audit firm should be proposed to the General Meeting for election. The Board of Directors will be informed via Audit Committee. For the financial year 2011, the entire Board of Directors and the Audit Committee concluded that the independence of the auditors is fully ensured.

In this evaluation, the Audit Committee attaches importance to the following criteria: overall independence of the auditors and the personal independence of the lead auditor as well; understanding of the Company's business and business risks; cooperation between auditor and Audit Committee as well as the Group Executive Board; practical recommendations of the implementation of legal requirements and regulations in accordance with Swiss GAAP FER. Concerning the rotation of the lead auditor, the Board of Directors in principle conforms to the Swiss Code of Obligations (i.e. all seven years).

The Audit Committee determines the scope of the external audit, the audit plans and the relevant processes on an annual basis. It discusses the results of the audit with the external auditors. The Audit Committee also examines the annual audit fee in relation to the external auditors' additional honorariums for non-audit services. In addition to the audit fees, the annual budget comprises an amount for non-audit services. If non-audit services will exceed the budgeted amount, approval by the Audit Committee is needed in advance.

9 Information policy

Elma Electronic AG provides information regularly and comprehensively about the course of business. When the annual results are published, the Company organizes an analyst and media conference. On a quarterly basis, information concerning order income and revenue are published by press release. The half-year results are published by a letter to the shareholders and a press release. Shareholders who are registered in the share register receive the Annual Report directly. The financial reports are available in electronic form on the Company's website or can be ordered from the Company in print form under the following link: http://www.elma.com/Switzerland/English/About/SubscriptionService.aspx

Official notices are published in the Swiss Official Gazette of Commerce. Publications in conjunction with the listing of the registered shares at the SIX Swiss Exchange are made in accordance with the listing rules of SIX Swiss Exchange. Detailed information regarding disclosure notices and transactions of Elma shares by members of the Board of Directors or members of the Group Executive Board can be viewed under http://www.six-swiss-exchange.com/shares/companies/management_transactions_en.html

Price-sensitive information is published according to the ad hoc publicity rules of the SIX Swiss Exchange. The press releases of the Company are available under www.elma.com, Corporate Information, Investor & Media Relations, Press Releases Elma Group (direct link: http://www.elma.com/Switzerland/English/About/PressReleases.aspx). Financial reports of the Company, a calendar with important dates for investors and the media, the possibility to subscribe for press releases or Company brochures, presentations and other information are also available under the link Investor & Media Relations.

The direct link to register for ad hoc press releases and to order the annual report of the Company is http://www.elma.com/Switzerland/English/About/SubscriptionService.aspx

The direct link to have access to the Articles of Incorporation and the Company's bylaws (both in German) is http://www.elma.com/Switzerland/English/About/ArticlesOfIncorporation.aspx

For information regarding investor and media contacts, as well as for an overview of important dates, please refer to page 44 of this Annual Report.

Information for Investors

The registered shares of Elma Electronic AG with a nominal value of CHF 11 per share are listed on SIX Swiss Exchange and have been traded there since December 4, 1996.

Security number 531916
ISIN CH0005319162
SIX ticker symbol ELMN
Reuters ELMN.S
Bloomberg ELMN:SW

		Swiss GAAP FER			IFRS		
Elma registered shares		2011	2010	2009	2009	2008	2007
Share capital							
Number of registered shares issued		228'492	228'492	228'211	228'211	228'142	227'481
Average number of registered shares		228'492	228'352	228'172	228'172	227'812	224'288
Nominal value	in CHF	11.00	11.00	11.00	11.00	11.00	15.50
Nominal share capital	in CHF 1,000	2'513	2'513	2'510	2'510	2'510	3'526
Number of treasury shares		–	–	–	–	10	775
Conditional capital[1]							
Number of registered shares		–	9'508	9'789	9'789	9'858	10'519
Key figures							
Equity per share	in CHF	92.77	84.16	89.68	89.68	145.09	193.55
Profit (loss) per share	in CHF	7.99	7.48	–16.41	–16.41	–28.01	19.86
Disbursement per share[2]	in CHF	–	–	–	–	–	4.50
Pay-out ratio	in %	–	–	–	–	–	23
Stock market prices							
Highest	in CHF	440.00	465.00	500.50	500.50	850.00	780.00
Lowest	in CHF	405.00	400.00	390.00	390.00	425.00	300.00
Closing price	in CHF	430.00	440.00	420.00	420.00	510.00	780.00
Stock market capitalization[3]							
Year-end value	in CHF million	98	101	96	96	116	177
	in % of equity	463	523	468	468	352	403

1 On September 25, 2000, a share option program for Senior Management was introduced. 20,000 restricted transfer registered shares were set aside for issue against exercised options. Each option exercised is entitled to one share. All share option programs have expired.
2 Distribution in the form of a nominal repayment value.
3 The stock exchange listed capitalization is equivalent to the share price, multiplied by the total number of shares at the year end.

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Financial Calendar

April 26, 2012
General Meeting in Wetzikon

August 22, 2012
Half-Year Report at June 30, 2012

Financial Statements 2011 Elma Group

Consolidated Balance Sheet

at December 31

Assets

in CHF 1,000	Notes [1]	**2011**	2010
Non-current assets			
Tangible assets	6	14,045	14,342
Intangible assets	7	1,804	2,384
Deferred income tax assets	8	3,333	3,350
Other financial assets	9	134	224
Total non-current assets		**19,316**	**20,300**
Current assets			
Inventories	11	22,447	20,367
Trade accounts receivable	12	14,951	16,247
Other accounts receivable	13	1,022	963
Derivative financial instruments	10	–	512
Prepaid expenses	14	1,259	1,450
Cash		7,063	6,567
Total current assets		**46,742**	**46,106**
Total assets		**66,058**	**66,406**

1) The accompanying Notes on page 51 ff. are an integral part of the financial statements.

Consolidated Balance Sheet

at December 31

Liabilities and shareholders' equity

in CHF 1,000	Notes [1]	2011	2010
Shareholders' equity			
Share capital		2,513	2,513
Capital reserves		8,388	8,388
Retained earnings		10,297	8,330
Total shareholders' equity	15	**21,198**	**19,231**
Liabilities			
Non-current liabilities			
Long-term borrowings	17	24,600	24,800
Deferred income tax provisions	8	616	808
Other liabilities		100	101
Derivative financial instruments	10	613	994
Other provisions	16	213	459
Total non-current liabilities		**26,142**	**27,162**
Current liabilities			
Short-term borrowings	17	200	200
Other provisions	16	4,021	3,762
Trade accounts payable		7,004	8,191
Derivative financial instruments	10	373	–
Other current liabilities	18	1,722	2,243
Accruals	19	5,398	5,617
Total current liabilities		**18,718**	**20,013**
Total liabilities		**44,860**	**47,175**
Total liabilities and shareholders' equity		**66,058**	**66,406**

1) The accompanying Notes on page 51 ff. are an integral part of the financial statements.

Consolidated Income Statement

in CHF 1,000	Notes [1]	2011	2010 [2]
Sales of products and services	30	**117,718**	**126,029**
Cost of goods sold	20	–77,879	–82,982
Gross profit		**39,839**	**43,047**
Sales and marketing expenses	20	–17,808	–18,914
Administrative expenses	20	–13,659	–15,216
Research and development expenses	20	–3,159	–3,130
Other operating income	23	2,841	12,147
Other operating expenses	24	–3,556	–14,261
Operating income (EBIT)		**4,498**	**3,673**
Financial income	25	16	19
Financial expenses	25	–1,298	–1,418
Income before taxes		**3,216**	**2,274**
Income taxes	8	–1,390	–565
Net income		**1,826**	**1,709**
Earnings per share in CHF	28	7.99	7.48

1) The accompanying Notes on page 51 ff. are an integral part of the financial statements.
2) In the reporting year, the total currency effects were integrated for the first time in the operating result.
The necessary restatements of the previous year's figures are shown in the appendix in Note 2.1 Basis of preparation.

Consolidated Statement of Changes in Equity

in CHF 1,000	Share capital	Capital reserves			Retained earnings				Total
		Additional paid-in capital	Other legal reserves	Total	Currency translation adjustments	Cash flow hedge	Accumulated profits	Total	
Equity at January 1, 2010	**2,510**	7,310	1,027	**8,337**	–6,470	–829	16,919	**9,620**	**20,467**
Net income	–	–	–	–	–	–	1,709	1,709	1,709
Currency translation differences	–	–	–	–	–3,043	–	–	–3,043	–3,043
Cash flow hedge, net of tax	–	–	–	–	–	44	–	44	44
Share-based payments									
– Proceeds from shares issued	3	51	–	51	–	–	–	–	54
Equity at December 31, 2010	**2,513**	7,361	1,027	**8,388**	–9,513	–785	18,628	**8,330**	**19,231**
Equity at January 1, 2011	**2,513**	7,361	1,027	**8,388**	–9,513	–785	18,628	**8,330**	**19,231**
Net income	–	–	–	–	–	–	1,826	1,826	1,826
Reclassifications	–	–50	50	–	–	–	–	–	–
Currency translation differences	–	–	–	–	–22	–	–	–22	–22
Cash flow hedge, net of tax	–	–	–	–	–	163	–	163	163
Share-based payments									
– Proceeds from shares issued	–	–	–	–	–	–	–	–	–
Equity at December 31, 2011	**2,513**	7,311	1,077	**8,388**	–9,535	–622	20,454	**10,297**	**21,198**

The accompanying Notes on page 51 ff. are an integral part of the financial statements.

Consolidated Cash Flow Statement

January 1 to December 31

in CHF 1,000	Notes [1]	**2011**	2010
Cash flow from operating activities			
Net income		1,826	1,709
Adjustments for			
Depreciation of tangible assets	6	1,695	1,915
Amortization of intangible assets	7	660	808
Change in provisions	16	–143	468
Other non-cash-effective income and expenses		220	721
Changes in net working capital			
Inventories	11	–2,084	–1,059
Trade accounts receivable	12	1,136	59
Other accounts receivable and prepaid expenses	13/14	621	–1,674
Trade accounts payable		–1,110	359
Other payables and accruals	18/19	–503	1,552
Total cash flow from operating activities		**2,318**	**4,858**
Cash flow from investing activities			
Purchase of tangible assets	6	–1,709	–1,089
Disposal of tangible assets		170	398
Purchase of intangible assets	7	–88	–120
Disposal of intangible assets		–	29
Changes in other financial assets		35	–55
Total cash flow from investing activities		**–1,592**	**–837**
Cash flow from financing activities			
Repayment of short-term borrowings	17	–200	–2,270
Increase in share capital and additional paid-in capital		–	54
Total cash flow from financing activities		**–200**	**–2,216**
Effects of exchange rates on cash		–30	–666
Change in cash		**496**	**1,139**
Cash at January 1		**6,567**	**5,428**
Cash at December 31		**7,063**	**6,567**

1) The accompanying Notes on page 51 ff. are an integral part of the financial statements.

Notes to the Consolidated Financial Statements

1 Basic information

Elma Group is a worldwide provider of solutions for the construction of enclosure systems for electronics. The product range extends from 19" electronic packaging components to modular enclosures, electronic cabinets and backplanes, and up to complete system platforms. Elma Group also produces rotary switches for electronic applications. The parent company, Elma Electronic AG, is a Swiss company, registered in Wetzikon. The consolidated financial statements 2011 were approved for publication on March 21, 2012 by the Board of Directors, and are subject to approval by the Annual General Meeting on April 26, 2012.

2 Summary of significant accounting principles

The significant accounting principles applied in drawing up these consolidated financial statements are described below.

2.1 Basis of preparation

The consolidated financial statements (hereinafter also called "Group Accounts") for Elma Group are based on the individual annual accounts of the Group companies drawn up to December 31, 2011 in accordance with standard guidelines. The Group Accounts have been prepared in accordance with Swiss GAAP FER and comply with the Swiss law as well as with the Listing Rules of SIX Swiss Exchange. They are based on the historical cost principle, except for the valuation of derivative financial instruments which are reported at fair values.
The preparation of Group Accounts in accordance with Swiss GAAP FER calls for estimates to be made. Furthermore, the application of Group-wide accounting policies requires the use of estimates and judgment by management.
In order to aggregate the total currency effects in the operating results and thus increase the transparency of reporting, income of kCHF 254 (previous year: kCHF 1,180) and expenses of kCHF 964 (previous year: kCHF 815) from foreign currency hedging transactions are disclosed in other operating income, resp. other operating expenses. The previous year's financial statements have been restated accordingly. This change led to an increase in previous year's EBIT of kCHF 365. However, the financial result declined by the same amount. Thus, there was no effect in the net income.

Adjustments to the previous statement in the disclosure

in CHF 1,000	**2010 restated**	2010 previous
Other operating income	12,147	10,967
Other operating expenses	–14,261	–13,446
Operating income (EBIT)	3,673	3,308
Financial income	19	1,199
Financial expenses	–1,418	–2,233

2.2 Consolidation

The Group accounts include the annual accounts of Elma Electronic AG, Wetzikon (parent company), and the shareholdings in which Elma Electronic AG directly or indirectly holds more than 50% of the voting rights, or in some other way holds a controlling interest in the company, in accordance with the full consolidation method. Changes to the scope of consolidation are reflected at the date of acquisition or disposal, respectively. The capital consolidation is based on the purchase method. All significant intercompany receivables and payables, income and expenses are eliminated. Unrealized profits on inventories and fixed assets produced within the Group are also eliminated. Group companies and associated companies are listed in Note 4, Scope of consolidation.

2.3 Segment reporting

On the basis of the matrix organization, both geographic and product-specific information is taken into account. The main focus of the segments is the location of Elma Group's key regional companies (geography). The managing directors of the Group subsidiaries are responsible for market development, sales and the results of the regional companies, and they manage the local staff. As the second level of the matrix organization, the product line managers are responsible for the product line strategy as well as for the development and supply of products.

The three product lines are:
- System Solutions (SYS)
- Enclosures & Components (E&C)
- Rotary Switches (RS)

and essentially comprise the following:

- The **System Solutions** product line comprises backplanes for electronic equipment in which modules (plug-in boards) can be inserted into slots provided for that purpose, and electronic cabinets (including chassis) which are available for external areas, for attachment to walls, as desktop models or as 19″ consoles, up to and including complete embedded system solutions. In the strict sense, the Systems product line essentially comprises integrated systems for medical, military and media image processing (MRI, aerial reconnaissance, video-on-demand) or applications in the telecoms sector or data transmission. Elma provides worldwide support for all relevant standards (VITA, CPCI, ATCA, or MicroTCA) and specializes in tailor-made solutions. Elma concentrates on system platforms and provides the power supply, cooling, shielding, cabling, the connection of boards via backplanes and the input/output interfaces as well as the system management.

- The **Enclosures & Components** product line comprises products to protect electronic modules against external influences (temperature, moisture, dust, radiation, etc.). These are desktop and small enclosures, module chassis and enclosure components as well as front panels, handles and accessories for computer casings.

– The **Rotary Switches** product line comprises high-quality rotary switches of the kind used in electronic devices. The rotary switches form the man-machine interface and provide a simple way of operating technical devices.

In accordance with the regional management structure, the Group companies have been assigned to the three regions Americas, Europe and Asia. The Group companies are allocated as follows:

Americas:
– Elma Electronic Inc., Fremont, CA, USA
– Elma Bustronic Corp., Fremont, CA, USA
– Optima EPS Corp., Lawrenceville, GA, USA

Europe:
– Elma Electronic AG, Wetzikon, Switzerland
– Elma Electronic GmbH, Pforzheim, Germany
– Elma Electronic UK Ltd., Bedford, UK
– Elma Electronic France SASU, Villemoirieu, France
– Elma Electronic Israel Ltd., Petach-Tikva, Israel
– Elma Electronic Romania SRL, Timişoara, Romania

Asia:
– Elma Electronic (China) Co. Ltd., Shanghai, China
– Elma Electronic (Hong Kong) Limited, Hongkong, China
– Elma Electronic (Hong Kong) International Limited, Hong Kong, China
– Elma Asia Pacific Pte. Ltd., Singapore

2.4 Foreign currency translation

The Group Accounts are presented in Swiss francs. The individual accounts of the subsidiaries are reported in their local currency. In the individual accounts of each Group company, income and expenditures in foreign currencies are translated at exchange rates prevailing at the dates of the transactions (spot rates). Assets and liabilities are translated at year-end exchange rates. The resulting exchange rate gains and exchange rate losses are recognized in the income statement of the Group companies and are included in the Group result.
For consolidation purposes, balance sheet items in the accounts of foreign Group companies are translated at the year-end closing rates at December 31. The items on the income statement are translated at the prevailing average annual exchange rates. The resulting translation differences are recognized directly in equity under “Currency translation adjustments”.

2.5 Tangible assets

Tangible assets are carried at historical acquisition cost or production cost. Costs with a value-added component are capitalized and are then written down over the remaining useful life of the asset. Repair, maintenance and replacement costs are not capitalized. Instead, these are charged against the income statement.

Depreciation is charged on a straight-line basis in accordance with estimated useful lives as follows:

Land	none
Buildings	25–50 years
Technical plant and machinery	5–10 years
Equipment	5–7 years
Hardware	3–5 years
Software	3–5 years
Vehicles	5 years

Residual book values and economic useful lives are reviewed at every balance sheet date and are adjusted if necessary.

2.6 Intangible assets

2.6.1 Goodwill

Upon acquisitions of subsidiaries, the difference between the purchase price and the fair value of the net assets acquired is directly offset against equity at the acquisition date in accordance with Swiss GAAP FER 30. The impact of a theoretical capitalization and amortization over the useful life of 5 years is disclosed in Note 7.2.1 Intangible assets.

2.6.2 Software

Purchased computer software licenses are capitalized at acquisition cost plus the cost of putting the software into a state of operational readiness. These costs are depreciated over their estimated useful life of 3 to 5 years (ERP system).

2.6.3 Other intangible assets

Other acquired intangible assets, e.g. licenses, patents, etc., are recorded at acquisition cost and depreciated on a straight-line basis generally over 5, in justified cases over a maximum of 10 years. Internally generated intangible assets are not capitalized but charged directly to the income statement.

2.7 Impairment of assets

For purposes of the impairment test, assets are aggregated at the lowest level for which cash flows can be separately identified (cash-generating units). Assets are reviewed for the need for an impairment adjustment if relevant events, changes or developments indicate that the carrying amount is no longer recoverable. If the carrying amount of an asset exceeds the recoverable amount, an impairment loss is to be recognized against income (impairment). The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. The value in use is calculated on the basis of estimated future cash flows and their projections for subsequent years. They are discounted using an appropriate long-term interest rate.

2.8 Other financial assets (long-term)
In this category, loans and other long-term receivables are reported. Long-term financial assets are carried at cost less impairments (if any).

2.9 Derivative financial instruments and hedging
Derivative financial instruments are recorded at fair value (replacement value). Changes in the fair value are reported in the income statement. If the derivative is used to hedge future cash flows (cash flow hedge), the hedging instrument and its valuation changes are recognized directly in equity. Positive replacement values are reported as "Derivative financial instruments" in current assets. Negative replacement values are reported as "Derivative financial instruments" under short-term or long-term liabilities, respectively.

2.10 Determination of fair value
The fair value of derivatives which are traded in an active market is based on the quoted market price at the balance sheet date. The relevant quoted market price for financial assets is their current bid price. The fair value of financial instruments which are not traded in an active market is determined by application of valuation models. Elma Group uses different valuation models and makes assumptions which are based on market conditions prevailing at the balance sheet date. The fair value of interest rate swaps is calculated from the present value of the estimated future cash flows. The fair value of foreign currency forward transactions is determined on the basis of the forward exchange rates at the balance sheet date.

2.11 Inventories
Raw materials and supplies are stated at the lower of acquisition cost or market value. Finished goods and work in progress are stated at the lower of manufacturing cost or net realizable value. Allowances are made for slow-moving inventories. Manufacturing costs include cost of materials, direct and indirect production costs and order-related design/construction costs. Rebates such as cash discounts or customer credit notes are treated as reduction of acquisition cost. According to type and use, inventories are reported at weighted average prices. Provisions are made for slow-moving and non-moving as well as for excess inventories.

2.12 Receivables
Trade accounts receivable and other receivables are initially recorded at face value and subsequently carried at amortized cost after deducting required allowances. These allowances are calculated on the basis of an ageing structure, on individual consideration of overdue receivables, and conform with economic criteria.

2.13 Cash
Cash includes liquid funds held in credit and current accounts with banks and post offices with a maturity of less than three months. They are stated at nominal value.

2.14 Treasury shares

Where any Group company purchases shares of Elma Electronic AG (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from consolidated equity until the shares are cancelled, reissued or disposed. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is recognized in equity of Elma Group.

2.15 Borrowings

Borrowings include credits and loan obligations. They are stated at nominal value.

2.16 Current and deferred income taxes

Current income taxes are calculated at the balance sheet date on the basis of the prevailing tax legislation in force in the country where a Group company is located. Where necessary, a liability is recognized to cover the anticipated charge.

Deferred income taxes are calculated using the comprehensive liability method. Deferred income tax provisions account for the income tax implications between Group valuation principles and the prevailing tax valuation principles for assets and liabilities. The deferred taxes on these variances are then calculated at locally applicable tax rates. If the tax rate changes, the deferred taxes are adjusted accordingly. Deferred taxes on distributable profits of individual Group companies are taken into account upon consolidation. The change of the deferred income tax provision is recognized directly in the tax expense.

A potential reduction of future tax expense arising from available loss carry forwards and valuation differences is recognized only if realization out of forecasted profits is probable. Deferred tax assets and liabilities are offset by the taxable entities only to the extent that the income taxes are payable to the same taxation authority and there is a legal right of offset.

2.17 Employee benefits

2.17.1 Share-based payments

Option scheme

On November 13, 1996, the General Meeting decided on conditional capital comprising 20,000 registered Elma shares, each at CHF 20, to be used for the introduction of an option plan. Since all share option plans as well as the respective exercise periods have expired, the Board of Directors of Elma Electronic AG cancelled with resolution of March 31, 2011 the by-law regulations on conditional capital.

2.17.2 Pension benefits

Elma Group operates various pension plans and benefit schemes for retirement, death or disability, which are established in accordance with legislations prevailing in each country. The pension plan of the Swiss entity is maintained in a collective foundation with an insurance company. This pension plan is funded by contributions from employers and employees. The foreign pension plans are also generally funded by contributions to independent pension institutions. The

accumulated assets are managed independently from the Group. A benefit resulting from employer contribution reserves is recognized as an asset. The capitalization of an additional economic benefit (due to a surplus in the pension fund) is neither intended nor are the prerequisites given. An economic obligation is recognized as a liability if the conditions for setting up a provision are met.

2.18 Provisions

Provisions are established for legal or constructive obligations arising from a past event, if it is probable that an outflow of resources will be required to settle the obligation and if the amounts can be estimated reliably.

2.19 Liabilities

Liabilities of the Group against third parties are recorded at nominal value. Other liabilities include liabilities for insurance, taxes and other creditors that do not involve delivery of goods.

2.20 Accruals

Accruals are established for income and expenses incurred and are recorded to ensure a correct cut-off at year end. These are among others performance-related bonuses and premiums payable to employees, social security contributions and accruals for vacation and overtime.

2.21 Revenue recognition

Sales of products and services are recorded at the current value for the sale of goods and services in the course of the ordinary business activities of the Group, excluding sales or value-added tax and net of rebates, discounts and allowances. Sales within the Group are eliminated. Recognition principles for sales are as follows:

2.21.1 Sales of products

Revenue from sales of products is recognized for sales transactions in the course of the ordinary business activities, i.e. if they are part of the official range of products of Elma Group. Revenue from product sales is recognized when all the following criteria are met:

- the significant risks and rights of ownership were transferred to the buyer, and Elma retains neither significant managerial involvement nor effective control over the goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the sales of goods will flow to the entity;
- the costs can be measured reliably.

2.21.2 Other income
Other income is recorded if an Elma Group company has supplied or rendered services, work or other benefits for a customer and the collection of the receivable is reasonably assured. Income from such transactions is recognized in the financial year the service was rendered. Provisions are set up for all foreseeable losses relating to orders which fail to break even.

2.22 Leases
Assets held under long-term lease contracts (Financial Leasing) are capitalized on the balance sheet under Tangible Assets and are written down over their useful life. The associated lease obligations are posted to liabilities as short-term or as long-term borrowings. The interest charge for financial leases is posted to the income statement as financial expense.
Leasing arrangements in which a substantial proportion of the risks and rewards remain with the lessor are classified as Operating Leases. Payments made under operating leases are charged to the income statement in equal installments over the term of the contract. Obligations from non-cancellable operating lease contracts are disclosed in Note 29, commitments under operating leases and rental agreements, classified by maturity.

2.23 Research and development costs
Research and development costs are charged directly to expense in the income statement as incurred. Research and development costs include personnel costs, materials and other costs, as well as depreciation.

2.24 Dividends
Elma will commit to a flexible distribution policy which takes into account the equity requirements for the implementation of the group strategy. The shareholders' entitlements to dividend distributions are recognized as a liability in the period the corresponding resolution is passed by the General Meeting.

3 Risk management

As the parent company in the Elma Group, Elma Electronic AG is responsible for the risk management process across the group. The objective of Elma Group's risk policy is systematically identifying and assessing potential business risks, and deriving the measures required to sufficiently mitigate the key risks. The purpose of risk management is to enable us to attain or exceed our targets and to secure the continuing operation of the company as a going concern on a long-term basis thanks to an approach based on awareness of opportunities and risks. Risk management is based on guidelines specified by the Board of Directors and the Group Executive Board (GEB). The Board of Directors is responsible for the design and monitoring of the risk management process; the ongoing implementation of the process has been delegated to the

GEB. Risk management is an integral part of the management and planning processes. It includes the systematic identification, analysis and monitoring of key business risks, operational and financial risks, as well as management risks.
The Board of Directors and the GEB carried out another review of risks in the 2011 financial year. The assessment of risks was based on a company-specific catalog of risks and on information obtained during interviews with the responsible country managers. Risks were recorded according to the likelihood of their occurrence and their potential financial implications. The risks were systematically broken down into main groups and were evaluated according to the catalog; once identified, the risks were assigned to four priority groups. Detailed action plans were drawn up for the "Disastrous" and "Critical" categories. The implementation of the actions defined is reviewed locally by Group Controlling twice a year and reported to the Board of Directors. The results of this financial year's risk assessment were presented and approved at the meetings of the Board of Directors on June 10, 2011 and December 12, 2011.

4 Scope of consolidation

4.1 Group companies

The scope of consolidation at December 31, 2011 includes the following companies:

Company and location	Business activity	Local currency in 1,000	Share capital	Ownership in %
Elma Electronic AG, Wetzikon, Switzerland	▲●■▼◆	CHF	2,513	Parent company
Elma Electronic Inc., Fremont CA, USA	▲●■▼◆	USD	1	100
Elma Bustronic Corp., Fremont CA, USA	▲●■▼	USD	219	100
Optima EPS Corp., Lawrenceville, GA, USA	▲●■▼	USD	1	100
Elma Electronic GmbH, Pforzheim, Germany	▲●■▼◆	EUR	128	100
Elma Electronic UK Ltd., Bedford, UK	▲■▼◆	GBP	387	100
Elma Electronic France SASU, Villemoirieu, France	▲▼◆	EUR	38	100
Elma Electronic Israel Ltd., Petach-Tikva, Israel	▲▼◆	ILS	1	100
Elma Electronic Romania SRL, Timişoara, Romania	●▼	RON	1'509	100
Elma Electronic (China) Co., Ltd., Shanghai, China	▲▼◆	RMB	7'688	100
Elma Electronic (Hong Kong) Limited, Hong Kong, China	▲	HKD	10	100
Elma Electronic (Hong Kong) International Limited, Hong Kong, China	▲	HKD	10	100
Elma Asia Pacific Pte. Ltd., Singapore	▲	SGD	100	100

▲ Sales ● Production ■ Development ▼ Engineering Support ◆ System Assembly

5 Exchange rates

Average rates for the income statement and statement of cash flows	**2011**	2010
1 USD/CHF	0.88	1.04
1 EUR/CHF	1.23	1.37
1 GBP/CHF	1.42	1.61
1 ILS/CHF	0.25	0.28
1 RON/CHF	0.29	0.33
1 RMB/CHF	0.14	0.15
1 HKD/CHF	0.11	0.13
1 SGD/CHF	0.70	0.76

Year-end rates for the balance sheet at December 31	**2011**	2010
1 USD/CHF	0.94	0.93
1 EUR/CHF	1.21	1.25
1 GBP/CHF	1.45	1.46
1 ILS/CHF	0.24	0.26
1 RON/CHF	0.28	0.29
1 RMB/CHF	0.15	0.14
1 HKD/CHF	0.12	0.12
1 SGD/CHF	0.72	0.73

6 Tangible assets

Tangible assets

Year 2011

in CHF 1,000	Undeveloped real estate	Buildings	Machinery, equipment and fixtures	Tangible assets under construction	Other tangible assets	**Total 2011**
Acquisition cost						
Balance at January 1	2,076	20,963	20,730	–	6,280	50,049
Additions	–	22	1,078	160	449	1,709
Disposals	–	–	–365	–	–289	–654
Currency translation differences	2	–22	–328	–	–44	–392
Balance at December 31	**2,078**	**20,963**	**21,115**	**160**	**6,396**	**50,712**
Accumulated depreciation						
Balance at January 1	39	12,453	17,814	–	5,401	35,707
Depreciation	–	484	737	–	474	1,695
Disposals	–	–	–127	–	–254	–381
Currency translation differences	–	–14	–265	–	–75	–354
Balance at December 31	**39**	**12,923**	**18,159**	**–**	**5,546**	**36,667**
Net book values						
at January 1	2,037	8,510	2,916	–	879	14,342
at December 31	**2,039**	**8,040**	**2,956**	**160**	**850**	**14,045**
Fire insurance value at December 31	**–**	**32,308**	**24,954**	**1,351**	**7,175**	**65,788**

Year 2010

in CHF 1,000	Undeveloped real estate	Buildings	Machinery, equipment and fixtures	Tangible assets under construction	Other tangible assets	**Total 2010**
Acquisition cost						
Balance at January 1	2,143	22,927	26,148	301	6,904	58,423
Additions	–	–	596	–	493	1,089
Disposals	–	–1,305	–5,132	–16	–246	–6,699
Reclassifications	–	–200	818	–284	–334	–
Currency translation differences	–67	–459	–1,700	–1	–537	–2,764
Balance at December 31	**2,076**	**20,963**	**20,730**	**–**	**6,280**	**50,049**
Accumulated depreciation						
Balance at January 1	39	13,586	22,753	–	5,902	42,280
Depreciation	–	691	787	–	437	1,915
Disposals	–	–1,436	–4,399	–	–490	–6,325
Currency translation differences	–	–388	–1,327	–	–448	–2,163
Balance at December 31	**39**	**12,453**	**17,814**	**–**	**5,401**	**35,707**
Net book values						
at January 1	2,104	9,341	3,395	301	1,002	16,143
at December 31	**2,037**	**8,510**	**2,916**	**–**	**879**	**14,342**
Fire insurance value at December 31	**–**	**25,317**	**26,792**	**–**	**8,076**	**60,185**

7 Intangible assets

Intangible assets

Year 2011

in CHF 1,000	Patents, rights, customer relationships Acquisition ACT	Patents, rights, customer relationships Others	Licenses/ software	Others	**Total**
Acquisition cost					
Balance at January 1	1,573	806	2,041	1,630	6,050
Additions	–	–	88	–	88
Disposals	–	–	–90	–322	–412
Reclassifications	–	–	471	–471	–
Currency translation differences	1	–4	–	–6	–9
Balance at December 31	**1,574**	**802**	**2,510**	**831**	**5,717**
Accumulated amortization					
Balance at January 1	726	387	1,147	1,406	3,666
Amortizations	109	71	408	72	660
Disposals	–	–	–90	–322	–412
Reclassifications	–	–	377	–377	–
Currency translation differences	48	–	–3	–46	–1
Balance at December 31	**883**	**458**	**1,839**	**733**	**3,913**
Net book values					
at January 1	847	419	894	224	2,384
at December 31	**691**	**344**	**671**	**98**	**1,804**

Year 2010

in CHF 1,000	Patents, rights, customer relationships Acquisition ACT	Patents, rights, customer relationships Others	Licenses/ software	Others	**Total**
Acquisition cost					
Balance at January 1	1,707	920	2,018	1,896	6,541
Additions	50	–	40	30	120
Disposals	–	–	–15	–166	–181
Reclassifications	–	–	–	–31	–31
Currency translation differences	–184	–114	–2	–99	–399
Balance at December 31	**1,573**	**806**	**2,041**	**1,630**	**6,050**
Accumulated amortization					
Balance at January 1	530	358	827	1,535	3,250
Amortizations	281	80	323	124	808
Disposals	–	–	–2	–150	–152
Reclassifications	–	–	–	–19	–19
Currency translation differences	–85	–51	–1	–84	–221
Balance at December 31	**726**	**387**	**1,147**	**1,406**	**3,666**
Net book values					
at January 1	1,177	562	1,191	361	3,291
at December 31	**847**	**419**	**894**	**224**	**2,384**

7.1 Patents, rights, licenses and customer relationships

The amount reported in current year comprises mainly software licenses und capitalized customer relationships which have been taken over in the course of the acquisitions of ACT/ Technico in the year 2009 and Mektron Systems Ltd. in the year 2005.

7.2 Goodwill

Goodwill resulting from acquisitions is directly offset against equity at the date of transition to Swiss GAAP FER and in the future at the date of the acquisition, respectively. Due to the conversion from IFRS to Swiss GAAP FER, goodwill in the amount of CHF 8.5 million has been offset against equity as of December 31, 2009. The impact of theoretical capitalization and amortization over 5 years are shown below.

7.2.1 Impact of theoretical capitalization of goodwill on the balance sheet

Goodwill items which are older than 5 years and thus already fully amortized are not reported anymore.

in CHF 1,000	**2011**	2010
Acquisition costs		
Balance at January 1	**1,048**	**1,172**
Currency translation differences	6	–124
Balance at December 31	**1,054**	**1,048**
Accumulated amortizations		
Balance at January 1	**419**	**234**
Amortization for the year	198	234
Currency translation differences	14	–49
Balance at December 31	**631**	**419**
Balance sheet values		
Theoretical net book value of goodwill at January 1	629	938
Theoretical net book value of goodwill at December 31	**422**	**629**
Equity as reported	21,198	19,231
Balance sheet total as reported	66,058	66,406
Equity ratio as reported	32.1%	29.0%
Theoretical equity incl. net book value of goodwill	21,620	19,860
Theoretical balance sheet total incl. net book value of goodwill	66,480	67,035
Theoretical equity ratio	32.5%	29.6%

7.2.2 Impact of theoretical capitalization of goodwill on the income statement

in CHF 1,000	2011	2010
Net income as reported	**1,826**	**1,709**
Amortization of goodwill for the year	–198	–234
Theoretical net income incl. amortization of goodwill	**1,628**	**1,475**

8 Taxation

Taxation

in CHF 1,000	2011	2010
Current income taxes	–1,612	–896
Deferred income taxes	222	331
Total income taxes	**–1,390**	**–565**

Current income taxes comprise taxes which have been or are still being paid on the applicable profits of the individual Group companies, calculated on the basis of the laws and regulations in force in the individual countries.

Deferred taxes

Movements on deferred taxes are as follows:

in CHF 1,000	2011	2010
Balance at January 1	**2,542**	**2,346**
Currency translation differences	–4	–147
Deferred taxes recorded in income statement	222	331
Deferred taxes recorded in equity	–43	12
Balance at December 31	**2,717**	**2,542**
– thereof deferred tax assets	3,333	3,350
– thereof deferred tax provisions	–616	–808
Balance after offset	**2,717**	**2,542**

Deferred taxes were calculated by applying an average tax rate of 32.6% (previous year: 30.5%).

Tax loss carry forwards

in CHF 1,000	2011	2010
Expiring in the next 3 years	–	72
Expiring in 4 to 7 years	5,215	10,415
Available without limitation	3,818	3,519
Total tax loss carry forwards	**9,033**	**14,006**
Calculated potential tax assets thereof	2,298	3,318
Valuation allowance	–1,040	–1,009
Net tax assets from tax loss carry forwards	**1,258**	**2,309**

The capitalized tax assets from loss carry forwards as of December 31, 2011 amounted to CHF 1.3 million (previous year: CHF 2.3 million). Potential tax assets of CHF 1.0 million (previous year: CHF 1.0 million) resulting from applicable loss carry forwards in the amount of CHF 2.3 million (previous year: CHF 3.3 million) were not capitalized due to substantial uncertainties over the future prospects for the business of some of the Group companies.

9 Other financial assets

Other financial assets

in CHF 1,000	2011	2010
Value of risk insurance for pension commitments	–	50
Financial receivables		
– Deposits for rent and leases	124	114
– Loans	–	50
– Other receivables	10	10
Total financial assets	**134**	**224**

10 Derivative financial instruments

Derivative financial instruments are used for the purpose of hedging interest rate and foreign currency fluctuations of Elma Group.

Derivative financial instruments

	2011		2010	
in CHF 1,000	Asset	Liability	Asset	Liability
Interest rate swaps – cash flow hedges	–	788	–	994
Foreign exchange forward contracts	–	198	512	–
Total derivative financial instruments	**–**	**986**	**512**	**994**
thereof short-term	–	373	512	–

To hedge against future increases in interest rates, future variable interest payments were pegged at a nominal amount of CHF 16 million (previous year: CHF 16 million) by using interest rate swaps.

Open interest rate hedging instruments at December 31, 2011

in CHF 1,000	Fixed interest rate in %	Start	End	2011 Negative fair value	2010 Negative fair value
Interest rate swaps for borrowings of CHF 8 million	2.93	20.08.07	20.08.12	–175	–363
Interest rate swaps for borrowings of CHF 8 million	3.04	04.05.09	05.05.14	–613	–631
Total				**–788**	**–994**

The fair value corresponds to the book value. Realized gains or losses on the hedging instrument and on the hedged position are recorded in the income statement. Unrealized gains or losses are recorded directly in equity, net of deferred income taxes.
At the closing date of December 31, 2011, there were 15 (previous year: 5) open foreign currency forward transactions, each for a nominal amount of USD 0.5 million, totaling USD 7.5 million (previous year: USD 2.5 million), thereof 12 expiring at the end of consecutive months, starting at the end of January 2012 through to the end of December 2012. On the balance sheet date, an unrealized loss of kCHF 710 (previous year: unrealised profit of kCHF 370) was debited to other operating expenses.

11 Inventories

Inventories

in CHF 1,000	2011	2010
Raw materials and supplies	7,893	8,152
Work in progress and semi-finished goods	6,430	5,503
Finished goods	14,034	12,618
Inventories, gross	**28,357**	**26,273**
Provisions	–5,910	–5,906
Inventories, net	**22,447**	**20,367**

No inventories were pledged, neither in the reporting year nor in the previous year.

12 Trade accounts receivable

Trade accounts receivable

in CHF 1,000	2011	2010
Trade accounts receivable, gross	15,074	16,422
Provisions	–123	–175
Trade accounts receivable, net	**14,951**	**16,247**

The provisions for doubtful receivables are based on the ageing structure of the receivables as well as individual value adjustments. The effective losses on accounts receivable in the amount of kCHF 47 (previous year: kCHF 155) were less than 0.1% of total revenues for the year (previous year: 0.2%). The creditworthiness of the non-overdue and non-value-adjusted receivables is deemed to be good.

Trade accounts receivable are divided into non-overdue and overdue receivables taking account of customer-specific agreements. The ageing structure is as follows:

Ageing structure of trade accounts receivable

in CHF 1,000	2011	2010
Not due	12,369	13,911
1 to 30 days overdue	1,952	1,928
31 to 90 days overdue	504	432
91 to 120 days overdue	156	23
More than 120 days overdue	93	128
Total trade accounts receivable	**15,074**	**16,422**

No trade accounts receivable were pledged, neither in the reporting year nor in the previous year.

13 Other accounts receivable

Other accounts receivable

in CHF 1,000	2011	2010
Value-added tax and withholding tax receivable	559	749
Prepayments for social security	271	64
Sundry receivable	192	150
Other accounts receivable	**1,022**	**963**

14 Prepaid expenses

Prepaid expenses

in CHF 1,000	2011	2010
Prepaid insurance premiums	88	96
Prepaid taxes	789	993
IT maintenance and license costs	140	178
Other prepaid expenses	242	183
Prepaid expenses	**1,259**	**1,450**

15 Shareholders' equity

The analysis of shareholders' equity into its separate components and related movements during the year is set out in the consolidated statement of changes in equity on page 49.

Share capital

Capital in CHF	2011 Number of shares	2011 Share capital	2010 Number of shares	2010 Share capital
Balance at January 1	228,492	2,513,412	228,211	2,510,321
Share capital increase at nominal value of CHF 11.00	–	–	281	3,091
Balance at December 31	**228,492**	**2,513,412**	**228,492**	**2,513,412**

The number of shares is 228,492 and remains unchanged from the previous year. In the reporting year, there was no increase of share capital (previous year: CHF 3,091).

The share capital is fully paid.

Conditional capital

Capital in CHF	2011 Number of shares	2011 Share capital	2010 Number of shares	2010 Share capital
Balance at January 1	–	–	9,789	107,679
Share capital increase at nominal value of CHF 11.00	–	–	–281	–3,091
Balance at December 31	**–**	**–**	**9,508**	**104,588**

The conditional capital decreased during the reporting year from CHF 104,588 to zero. These were options that were not exercised within the exercise period and thus fully expired. Since all share option plans as well as the respective exercise periods have expired, the Board of Directors of Elma Electronic AG cancelled with resolution of March 31, 2011 the by-law regulations on conditional capital. The company has no conditional capital as per December 31, 2011.

According to the information available to Elma Group, the shareholders listed on page 84, Note 7, have a holding of 3% or more in the capital stock of Elma Electronic AG.

Capital reserves and retained earnings

The consolidated reserves include legal reserves of Elma Electronic AG in the amount of kCHF 1,257 (previous year: kCHF 1,257) which are restricted for distribution to shareholders.

16 Other provisions

16.1 Long-term provisions

2011

in CHF 1,000	Guarantees, liability risks	Personnel expenses	Other	**Total**
Balance at January 1	371	79	9	459
Additions	–	11	–	11
Unused amounts released	–38	–6	–8	–52
Utilization	–157	–	–	–157
Reclassification	–96	62	–	–34
Currency translation differences	–6	–7	–1	–14
Balance at December 31	**74**	**139**	**–**	**213**

2010

in CHF 1,000	Guarantees, liability risks	Personnel expenses	Other	**Total**
Balance at January 1	223	142	–	365
Additions	262	11	10	283
Unused amounts released	–	–51	–	–51
Utilization	–156	–14	–	–170
Reclassification	85	–	–	85
Currency translation differences	–43	–9	–1	–53
Balance at December 31	**371**	**79**	**9**	**459**

The category guarantees and liability risks includes provisions for expected potential liability claims from customers as well as provisions for legal and litigation risks. In all cases of long-term and short-term provisions, the estimated probability of occurrence is estimated to be likely.

16.2 Short-term provisions

2011

in CHF 1,000	Guarantees, liability risks	Personnel expenses	Other	**Total**
Balance at January 1	269	3,068	425	3,762
Additions	393	3,507	239	4,139
Unused amounts released	–52	–170	–5	–227
Utilization	–200	–3,143	–325	–3,668
Reclassification	96	–62	–	34
Currency translation differences	–2	–10	–7	–19
Balance at December 31	**504**	**3,190**	**327**	**4,021**

2010

in CHF 1,000	Guarantees, liability risks	Personnel expenses	Other	**Total**
Balance at January 1	439	2,346	395	3,180
Additions	–	2,607	326	2,933
Unused amounts released	–31	–76	–83	–190
Utilization	–	–1,649	–153	–1,802
Reclassification	–85	–	–	–85
Currency translation differences	–54	–160	–60	–274
Balance at December 31	**269**	**3,068**	**425**	**3,762**

The highest provision amount is related to the category personnel expenses. For bonus and other performance-linked compensation payments of CHF 2.9 million (previous year: CHF 1.6 million) were executed in 2011. A new provision of CHF 2.9 million (previous year: CHF 2.2 million) has been set up to cover performance-related remunerations, to be paid out in 2012.

17 Borrowings

Borrowings

in CHF 1,000	**2011**	2010
Long-term bank loans	24,600	24,800
Short-term bank loans	200	200
Total borrowings	**24,800**	**25,000**
Due in less than one year	200	200
Due between 1 and 2 years	24,600	–
Due between 2 and 5 years	–	24,800
Maturity of financial debts	**24,800**	**25,000**
CHF	3.1%	3.4%
USD	3.0%	3.3%
EUR	0.0%	0.0%
Average interest rate by currency	**3.1%**	**3.4%**

New framework agreements with terms of up to three years were signed with all three banks at the beginning of August 2010, on the basis of the medium-term plan submitted in June 2010. All the agreements are tied to the same financial covenants (debt factor and equity ratio). A debt factor of maximum 3.5 and an equity ratio of minimum 30% were set for Elma Group in 2011. As of the balance sheet date, it was possible to comply with the financial covenants.

	2011			2010		
Covenants at December 31	**Target**	**Actual**	**Status**	**Target**	**Actual**	**Status**
Debt factor	≤ 3.5	2.6	met	≤ 4.5	2.9	met
Equity factor	≥ 30.0%	32.1%	met	≥ 28.0%	29.0%	met

(see also page 90; multi-year overview Elma Group)

The credit framework agreements have a maximum utilizable volume of CHF 26.3 (previous year: CHF 26.5 million), of which CHF 24.9 million has been used (previous year: CHF 25.0 million).
Although the credits were made available for the long term, a substantial portion of them was used on a short-term rollover basis. From a management perspective, the credits will be used long term and provided that the covenants stipulated in the framework agreements are being met. Management anticipates that it will also be possible to comply with the covenants in the future.

18 Other current liabilities

Other current liabilities

in CHF 1,000	2011	2010
Social security	330	160
Value-added tax and withholding tax liabilities	221	180
Advance payments from customers	998	1,502
Current income tax liabilities	139	341
Sundry liabilities	34	60
Other current liabilities	**1,722**	**2,243**

19 Accruals

Accruals

in CHF 1,000	2011	2010
Vacation, overtime and flexitime accruals	2,556	2,459
Rent	29	118
Insurance	19	–
Salaries and wages, bonus and social security	117	–
Pension benefits	586	548
License fees	420	699
Maintenance	434	272
Interest	151	–
Other accruals	1,086	1,521
Accruals	**5,398**	**5,617**

20 Expenses by nature

Expenses by nature

in CHF 1,000	2011	2010
Material costs	43,043	44,129
Personnel expenses	48,012	50,976
Depreciation of operational equipment	1,695	1,915
Amortization of intangible assets	660	808
Other operating costs	19,810	24,528
Total operating costs	**113,220**	**122,356**

21 Personnel expenses

Personnel expenses

in CHF 1,000	2011	2010
Salaries and wages	38,135	41,103
Other social costs	6,645	6,732
Pension benefit plans	2,581	2,509
Other personnel expenses	651	632
Personnel expenses	**48,012**	**50,976**

22 Pension benefits

Elma Group maintains a range of different pension schemes for its workforce, each tailored to suit relevant national legislation. Elma Electronic AG, Switzerland, is affiliated to two legally independent collective foundations of an insurance company. There is a base plan for occupational pension (BVG) and a supplementary plan. The assets of these collective foundations are managed collectively and are not allocated to the individual affiliated companies. To cover the benefit commitments in the events of death, disability and longevity, Elma maintains reinsurance in the frame of a collective insurance contract (full insurance). The coverage of the collective foundations is therefore at least 100%.
Coverage is not determined at the level of individual affiliated companies. Some foreign subsidiaries are also affiliated to pension funds of insurance companies.

22.1 Economic benefit/economic obligation and pension benefit expenses

in CHF 1,000	Surplus/deficit according to Swiss GAAP FER 26 31.12.11	Economic share of the company 31.12.11	31.12.10	Change to previous year	Contributions accrued	Pension benefit expenses in personnel expenses **2011**	2010
Patronage funds/pension institutions	–	–	–	–	–	–	–
Pension institutions without surplus/deficit Switzerland	–	–	–	–	–	305	391
Pension institutions with surplus Switzerland	971	–	–	–	–	925	632
Pension institutions according to Swiss GAAP FER 26	**971**	**–**	**–**	**–**	**–**	**1,230**	**1,023**
Pension institutions without surplus/deficit abroad	–	–	–	–	–	1,351	1,486
Total pension institutions	**971**	**–**	**–**	**–**	**–**	**2,581**	**2,509**

Due to the full insurance contracts, there are typically no surpluses or deficits at the level of the individual plans. However, a separated asset account which relates to a previous pension plan persists with an insurance company in the amount of kCHF 971 (previous year: kCHF 955). This balance, however, is of no benefit to the company as it is being used to fund employee contributions.

22.2 Items comprising the pension benefit expenses

in CHF 1,000	**2011**	2010
Contributions to pension institutions charged to the company	**2,581**	**2,509**

Funding is through employer and employee contributions. The contributions are calculated as a percentage of the insured salary.

23 Other operating income

Other operating income

in CHF 1,000	2011	2010
Foreign exchange gains	2,425	11,668
Gain on fixed assets disposed	3	244
Income from renting out buildings	138	59
Income from rendering of services	–	53
Sundry income	275	123
Other operating income	**2,841**	**12,147**

24 Other operating expenses

Other operating expenses

in CHF 1,000	2011	2010
Foreign exchange losses	2,288	12,259
Amortization of acquired intangible assets	535	653
Relocation costs and shifting production site	–	645
Losses from disposals of tangible assets	106	220
Building restorations	333	175
Capital taxes	74	38
Sundry expenses	220	271
Other operating expenses	**3,556**	**14,261**

25 Financial result

Financial result

in CHF 1,000	2011	2010
Bank interest	16	19
Financial income	**16**	**19**
Bank interest	–795	–891
Interest rate swap	–453	–479
Other financial expenses	–50	–48
Financial expenses	**–1,298**	**–1,418**
Financial result	**–1,282**	**–1,399**

26 Contingent liabilities and contingent assets

There are no contingent liabilities or contingent assets.

27 Pledged assets

The following table displays the composition of assets pledged to secure own liabilities:

Book value of pledged assets

in CHF 1,000	**2011**	2010
Real estate and buildings	**9,099**	**9,457**

28 Earnings per share

Profit per share

in CHF 1,000	**2011**	2010
Net income	1,826	1,709
Average number of registered shares in issue	228,492	228,352
Earnings per share in CHF	**7.99**	**7.48**

29 Commitments under operating leases and rental agreements

29.1 Operating leases

in CHF 1,000	**2011**	2010
Due within 1 year	344	250
Due between 2 and 5 years	409	305
Operating leases	**753**	**555**

Off-balance sheet commitments under operating leases are mainly commitments relating to company cars held under cancellable leases.

29.2 Rental agreements

in CHF 1,000	2011	2010
Due within 1 year	1,600	1,546
Due between 2 and 5 years	3,264	4,372
Due after 5 years	255	334
Rental agreements	**5,119**	**6,252**

30 Segment information

30.1 Revenue by business regions of Elma Group companies

	Elma Group		Americas		Europe		Asia		Eliminations	
in CHF 1,000	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Revenue third parties	117,718	126,029	57,982	61,128	51,798	55,961	7,938	8,940	–	–
Revenue between segments	–	–	3,837	4,992	22,237	23,450	199	43	–26,273	–28,485
Total revenue	**117,718**	**126,029**	**61,819**	**66,120**	**74,035**	**79,411**	**8,137**	**8,983**	**–26,273**	**–28,485**

30.2 Revenue by geographical business units

	Revenue third parties	
in CHF 1,000	2011	2010
North America	51,254	53,446
Europe	46,548	48,849
Asia	17,734	20,596
Other	2,182	3,138
Total	**117,718**	**126,029**

30.3 Revenue by product lines

	Revenue third parties	
in CHF 1,000	2011	2010
System Solutions	76,189	78,844
Enclosures & Components	22,448	25,441
Rotary Switches	19,081	21,744
Total product lines	**117,718**	**126,029**

31 Related party transactions

Regarding the disclosure of total compensation to the Board of Directors and the Group Executive Board under Article 663b and Article 663c of the Swiss Code of Obligations, we refer to Note 8 of the financial statement of Elma Electronic AG. There were no further transactions with related parties, neither in 2011 nor in the previous year.

32 Events after the balance sheet date

The Elma Group has purchased parts of the cabinet activities of Mayville Products Corporation, Mayville, Wisconsin, USA as of February 29, 2012. The acquisition covers selected product families with all accompanying technical documentations, existing current assets and current customer base.
The consolidated financial statements have been approved by the Board of Directors for publication on March 21, 2012.

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Elma Electronic AG, which comprise the balance sheet, income statement, statement of changes in equity, cash flow statement and notes (pages 46 to 77), for the year ended December 31, 2011.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

Report on other legal requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Urs Honegger
Audit expert, auditor in charge

Martin Graf
Audit expert

Winterthur, March 21, 2012

Financial Statements 2011 Elma Electronic AG

Balance sheet at December 31

Assets

in CHF 1,000	Notes [1]	2011	2010
Non-current assets			
Financial assets			
– Investments	3	27,212	27,211
– Loans to Group companies		2,849	3,952
– Other financial assets		10	60
Intangible assets		793	1,183
Tangible assets	2	8,074	3,464
Total non-current assets		**38,938**	**35,870**
Current assets			
Inventories		7,088	6,207
Trade accounts receivable			
– Group companies		1,662	1,781
– Third parties		3,501	2,859
Other accounts receivable			
– Group companies		452	67
– Third parties		749	675
Prepaid expenses		131	185
Cash		1,605	1,754
Total current assets		**15,188**	**13,528**
Total assets		**54,126**	**49,398**

1) The accompanying Notes on page 83 ff. are an integral part of the financial statements.

Balance sheet at December 31

Liabilities and shareholders' equity

in CHF 1,000	Notes [1]	2011	2010
Shareholders' equity	4		
Share capital		2,513	2,513
Legal reserves			
– Reserves from capital contributions		7,311	7,361
– General reserves		1,077	1,027
Free reserves		5,899	5,899
Retained earnings		5,577	399
Total shareholders' equity		**22,377**	**17,199**
Liabilities			
Non-current liabilities			
Provisions		84	224
Long-term borrowings	1/9	24,600	24,800
Derivate financial instruments		613	–
Total non-current liabilitites		**25,297**	**25,024**
Current liabilities			
Short-term borrowings	1/9	200	200
Derivative financial instruments		373	994
Trade accounts payable			
– Group companies		300	460
– Third parties		2,488	2,451
Other current liabilities			
– Group companies		2	151
– Third parties		672	594
Accruals		2,417	2,325
Total current liabilities		**6,452**	**7,175**
Total liabilities		**31,749**	**32,199**
Total liabilities and shareholders' equity		**54,126**	**49,398**

1) The accompanying Notes on page 83 ff. are an integral part of the financial statements.

Income statement

in CHF 1,000	Notes [1]	2011	2010
Revenue			
Sales of products		35,920	38,009
Income from services		2,060	1,960
Total income		**37,980**	**39,969**
Material expenses		–20,288	–18,695
Personnel expenses		–13,436	–15,513
Depreciation		–580	–79
Other operating income		–	133
Other operating expenses		–3,263	–4,842
Gain on disposal of fixed assets		294	518
Reversal of depreciation on buildings		4,359	–
Operating income		**5,066**	**1,491**
Financial income		1,418	200
Financial expenses	3	–1,269	–1,274
Income before taxes		**5,215**	**417**
Taxes		–38	–29
Net income		**5,177**	**388**

1) The accompanying Notes on page 83 ff are an integral part of the financial statements.

Notes to the financial statements 2011

Details according to the Swiss Code of Obligations, Article 663b

1 Pledged assets

in CHF 1,000	2011	2010
Book value of pledged buildings and real estate	7,499	3,121

2 Fire insurance value of fixed assets

in CHF 1,000	2011	2010
Real estate	25,317	25,317
Machinery, equipment and other assets	9,730	29,629

3 Investments

The information about the non-listed group companies is illustrated in Note 4 of the consolidated financial statements of the Group on page 59 of this report.

In the reporting year a dividend of CHF 1,277,850 was distributed by Elma USA.

4 Shareholders' equity

The conditional capital decreased during the reporting year from CHF 104,588 to zero. These were options that were not exercised within the exercise period and thus fully expired. Since all share option plans as well as the respective exercise periods have expired, the Board of Directors of Elma Electronic AG cancelled with resolution of March 31, 2011 the by-law regulations on conditional capital. The company has no conditional capital as per December 31, 2011.

According to the information available to Elma Group, the shareholders listed on page 84, Note 7, have a holding of 3% or more in the capital stock of Elma Electronic AG.

For further information on share capital as well as conditional capital, we refer to Note 15 on page 68 of the consolidated financial statements.

5 Net release of hidden reserves

In the reporting year, hidden reserves in the amount of kCHF 4,378 (previous year: kCHF 1,997) were released.

6 Risk management

As the parent company in the Elma Group, Elma Electronic AG is responsible for the risk management process across the group. The objective of Elma Group's risk policy is systematically identifying and assessing potential business risks, and deriving the measures required to sufficiently mitigate the key risks. The purpose of risk management is to enable us to attain or exceed our targets and to secure the continuing operation of the company as a going concern on a long-term basis thanks to an approach based on awareness of opportunities and risks. Risk management is based on guidelines specified by the Board of Directors and the Group Executive Board (GEB). The Board of Directors is responsible for the design and monitoring of the risk management process; the ongoing implementation of the process has been delegated to the GEB. Risk management is an integral part of the management and planning processes. It includes the systematic identification, analysis and monitoring of key business risks, operational and financial risks, as well as management risks.

The Board of Directors and the GEB carried out another review of risks in the 2011 financial year. The assessment of risks was based on a company-specific catalog of risks and on information obtained during interviews with the responsible country managers. Risks were recorded according to the likelihood of their occurrence and their potential financial implications. The risks were systematically broken down into main groups and were evaluated according to the catalog; once identified, the risks were assigned to four priority groups. Detailed action plans were drawn up for the "Disastrous" and "Critical" categories. The implementation of the actions defined is reviewed locally by Group Controlling twice a year and reported to the Board of Directors. The results of this financial year's risk assessment were presented and approved at the meetings of the Board of Directors on June 10, 2011 and December 12, 2011.

7 Significant shareholders

According to the information available to the Elma Group as of December 31, 2011, the individual shareholders listed in the table below each own an interest of 3% or more in the share capital of Elma Electronic AG.

Significant shareholders	**2011** Number of shares	**2011** in %	2010 Number of shares	2010 in %
Baryon AG, Zurich	49,136	21.5	48,588	21.3
Suzy Gubelmann-Kull and André Gubelmann, Wetzikon	33,530	14.7	33,530	14.7
Brita Meier, Uitikon-Waldegg	22,147	9.7	21,769	9.5
Sarasin Investmentfonds, Basel	21,225	9.3	21,152	9.3
Civen Ltd., owned by Pixi Foundation, Vaduz	19,523	8.5	18,556	8.1
Gekla AG, Rotkreuz	16,000	7.0	16,000	7.0
Joraem de Chavonay SA, Zug	12,900	5.7	12,900	5.7
Werner O. Weber, Zollikon	12,650	5.5	11,450	5.0

8 Transactions with Board members, Group Executive Board and related parties

The overall compensation for the Board of Directors and the Group Executive Board is set out in the following table. Disclosure and measurement of the total compensation for 2011 and 2010 corresponds to both Swiss GAAP FER and new legislation defined in Articles 663b^{bis} up to and including 663c of the Swiss Code of Obligations.

In line with the focus of the operational management structure on three business regions, the composition of the Group Executive Board was concentrated on three members as of January 1, 2010.

Compensation 2011

	Basis	Variable portion	Other compensation			Total compensation
	Salary CHF	Compensation[1] CHF	Pension fund contribution CHF	Other remuneration[2] CHF	Severance pay CHF	CHF
Board of Directors						
Martin Wipfli (COB)	80,000	–	–	5,200	–	85,200
David Schnell	70,000	–	–	4,550	–	74,550
Walter Häusermann	50,000	–	–	3,250	–	53,250
Rudolf W. Weber	50,000	–	–	3,050	–	53,050
Total Board members	**250,000**	**–**	**–**	**16,050**	**–**	**266,050**
Group Executive Board						
Group Executive Board (without CEO)	478,352	141,252	80,617	51,197	–	751,418
Stephan Bürgin, CEO	284,750	99,701	74,880	34,572	–	493,903
Total Group Executive Board	**763,102**	**240,953**	**155,497**	**85,769**	**–**	**1,245,321**

Compensation 2010

	Basis	Variable portion	Other compensation			Total compensation
	Salary CHF	Compensation[1] CHF	Pension fund contribution CHF	Other remuneration[2] CHF	Severance pay CHF	CHF
Board members						
Martin Wipfli (COB)	80,000	–	–	5,200	–	85,200
David Schnell	70,000	–	–	4,550	–	74,550
Walter Häusermann	50,000	–	–	3,250	–	53,250
Rudolf W. Weber	50,000	–	–	2,953	–	52,953
Total Board members	**250,000**	**–**	**–**	**15,953**	**–**	**265,953**
Group Executive Board						
Group Executive Board (without CEO)	514,000	186,970	81,204	49,249	–	831,423
Stephan Bürgin, CEO	279,500	107,500	77,978	33,942	–	498,920
Total Group Executive Board	**793,500**	**294,470**	**159,182**	**83,191**	**–**	**1,330,343**

Notes

1) Compensation: The figures shown in this table depict the payments for performance related compensation of the financial year. The calculated amounts payable for the financial year 2011 will be presented to the Board of Directors for approval on March 21, 2012.

2) Other remuneration: These amounts essentially comprise social security costs and for the Group Executive Board the grant of a company car.
In the reporting year, no additional compensation was disbursed to members of the Board of Directors for interim or other consultancy activities (previous year: CHF 0).
No goods or services were sold and there were neither loans nor credits to Board members, members of the Group Executive Board and related persons (previous year: CHF 0).
No compensation payments were made to former members of the Group Executive Board or to former members of the Board of Directors. Equally, no compensation was granted to present or former members of the Board of Directors or parties related to the Group Executive Board which was not at generally accepted market terms (previous year: CHF 0).

Shareholdings by the Board of Directors and Group Executive Board

At December 31, 2011, the individual members of the Board of Directors and related parties held 49,136 registered Elma shares (previous year: 48,588) corresponding to a share of 21.5% (previous year: 21.3%) in the share capital of Elma Electronic AG. To December 31, 2011, the Group Executive Board as well as parties related to it disposed over 2,640 registered Elma shares (previous year: 2,640) corresponding to a share of 1.2% (previous year: 1.2%).

Shareholdings

in CHF 1,000	**2011**	2010
Board of Directors		
Martin Wipfli (Chairman)	49,136	48,588
David Schnell	–	–
Walter Häusermann	–	–
Rudolf W. Weber	–	–
Total Board of Directors	**49,136**	**48,588**
Group Executive Board		
Stephan Bürgin	–	–
Edwin Wild	–	–
Fred Ruegg	2,640	2,640
Total Group Executive Board	**2,640**	**2,640**

9 Borrowings

New framework agreements with terms of up to three years were signed with all three banks at the beginning of August 2010, on the basis of the medium-term plan submitted in June 2010. All the agreements are tied to the same financial covenants (debt factor and equity ratio). A debt factor of maximum 3.5 and an equity ratio of minimum 30% were set for Elma Group in 2011. As of the balance sheet date, it was possible to comply with the financial covenants.

	2011			2010		
Covenants at December 31	**Target**	**Actual**	**Status**	**Target**	**Actual**	**Status**
Debt factor	≤ 3.5	2.6	met	≤ 4.5	2.9	met
Equity factor	≥ 30.0%	32.1%	met	≥ 28.0%	29.0%	met

(see also page 90; multi-year overview Elma Group)

The credit framework agreements have a maximum utilizable volume of CHF 26.3 (previous year: CHF 26.5 million), of which CHF 24.9 million has been used (previous year: CHF 25.0 million).
Although the credits were made available for the long term, a substantial portion of them was used on a short-term rollover basis. From a management perspective, the credits will be used long term and provided that the covenants stipulated in the framework agreements are being met. Management anticipates that it will also be possible to comply with the covenants in the future.

Appropriation of retained earnings

Retained earnings

Retained earnings are presented to the Annual General Meeting on April 26, 2012 as follows:	**2011** in CHF	2010 in CHF
Retained earnings carried forward from previous year	399,329	11,418
Net income	5,177,234	387,911
Retained earnings	**5,576,563**	**399,329**

Proposal of the Board of Directors

for appropriation of retained earnings	**2011** Proposal of the Board of Directors in CHF	2010 Resolution of the Annual General Meeting in CHF
To be carried forward	5,576,563	399,329
Retained earnings	**5,576,563**	**399,329**

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Elma Electronic AG, which comprise the balance sheet, income statement and notes (pages 80 to 88), for the year ended December 31, 2011.

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

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

Opinion
In our opinion, the financial statements for the year ended December 31, 2011 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.
We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Urs Honegger
Audit expert, auditor in charge

Martin Graf
Audit expert

Winterthur, March 21, 2012

Multi-year overview Elma Group

	Swiss GAAP FER			IFRS		
in CHF 1,000	**2011**	2010	2009	2009	2008	2007
Revenue	117,718	126,029	112,531	112,531	124,901	130,727
EBITDA	6,853	6,396	1,235	1,410	3,515	9,365
EBITA	4,498	3,673	–2,480	–2,305	1,079	6,848
EBIT	4,498	3,673	–2,480	–2,305	–5,631	6,848
Net income	1,826	1,709	–3,745	–3,607	–6,370	4,441
in % of average equity (ROE)	9.0	8.6	–16.2	–11.6	–16.5	10.5
Depreciation of tangible assets	1,695	1,915	2,654	2,654	2,265	2,343
Impairment of goodwill	–	–	–	–	6,710	–
Amortization of other intangible assets	660	808	1,061	1,061	171	174
Investments in tangible assets	1,709	1,089	1,366	1,366	1,214	3,204
Investments in intangible assets	88	120	3,234	3,234	963	591
Cash flow from operating activities	2,318	4,858	3,721	3,721	–161	3,509
Cash flow from investment activities	–1,592	–837	–4,413	–4,413	–2,166	–3,785
Free cash flow	726	4,021	–692	–692	–2,327	–276.0
Cash flow from financing activities	–200	–2,216	–567	–567	2,817	681
Non-current assets	19,316	20,300	23,111	31,912	30,691	38,609
thereof tangible assets	14,045	14,342	16,143	16,143	17,673	19,515
Current assets	46,742	46,106	46,143	46,143	48,997	51,307
thereof cash and cash equivalents	7,063	6,567	5,428	5,428	6,661	6,661
Balance sheet total	66,058	66,406	69,254	78,055	79,688	89,916
Shareholders' equity	21,198	19,231	20,467	29,194	33,101	44,030
in % of balance sheet total	32.1	29.0	29.6	37.4	41.5	49.0
Non-current liabilities	26,142	27,162	1,707	1,781	2,566	16,380
Current liabilities	18,718	20,013	47,080	47,080	44,021	29,506
Total financial liablities	24,800	25,000	27,272	27,272	27,241	23,519
Net financial debts (financial liabilities less cash balances)	17,737	18,433	21,844	21,844	20,580	16,858
ROCE (EBITA)/(equity plus net interest-bearing liabilities) in %	11.6	9.8	–5.9	–4.5	2.0	11.2
Indebtedness factor (net interest-bearing liabilities/EBITDA)	2.6	2.9	17.7	15.5	5.9	1.8
Headcount (FTE)	706	711	702	702	723	722
Revenue per employee (average)	167	173	155	155	167	179

Glossary

7U (Unit)
Rack unit or rack mount space. 1U corresponds to 1¾ inch or 44.45 mm.

19″ (19 inch)
System size with 19 inch.

ATCA (Advanced Telecommunications Computing Architecture)
Largest specification effort in the history of the PCI Industrial Computer Manufacturers Group. Targeted to requirements for the next generation of carrier grade communications equipment.

ATR (Air Transport Rack)
System solution used in military and aerospace applications. Characterized in particular by small shape, robustness and specific cooling methods.

Backplane
Connects the daughter cards and enables the data exchange and the electric power supply inside the system.

Cabinets
Electronic cabinets.

cPCI (Compact Peripheral Component Interconnect)
High-capacity bus standard. The solid adaption of the well-known PCI bus for high system availability, in particular for telecommunication applications. To be applied in industrial applications nowadays.

Electronic Packaging
Assembly of a system around an electronic circuit board. It shelters the system mechanic which integrates the circuit board and protects it against environmental impacts such as dust and electromagnetic waves, the backplanes which transfers the data exchange within the circuit boards as well as the power supply and the cooling of the electronic circuit boards. The system mechanic is based on 19″ standard.

Embedded Systems
Electronic data processor or computer which is embedded in a technical environment. The computer controls, regulates or monitors the system in which it is embedded.

EMV (Electromagnetic Comptability)
Electromagnetic comptability is the ability of a system to operate in the intended environment without causing or suffering unacceptable degradation of performance due to unintentional electromagnetic radiation or response.

Enclosures & Components
One of Elma's three product lines.

Encoder
Converter for digital or analog signals.

IEEE
The Institute of Electrical and Electronics Engineers (IEEE) is a non-profit professional association dedicated to advancing technological innovation related to electricity. It forms committees for the standardization of technologies, hardware and software. IEEE is based in New York City.

IPMI (Intelligent Platform Management Interface)
Standardized computer system interface used by system administrators to manage a computer system and monitor its operation.

IP-Schutz (Ingress Protection)
International standard. It classifies the degrees of protection provided against the intrusion of solid objects in electrical enclosures.

Level 4
Value chain defined by the industry of electronic packaging products. The scale ranges from Level 0 (components) to 5 (system with logistics and support). Level 4 describes the system integration.

MTCA (Micro Telecommunications Computing Architecture)
Specification based on ATCA for smaller modules.

PICMG (PCI Industrial Computers Manufacturers Group)
Computer Standards Trade Associations. Develops common specifications and mechanical standards for non-office environments such as cPCI, ATCA, MicroTCA and AMC.

Rotary Switches
One of Elma's three product lines.

SATA (Serial Advanced Technology Attachment)
A storage-interface for connecting host bus adapters to mass storage devices such as hard disk drives and optical drives.

Surface-mount technology (SMT)
Method for constructing electronic circuits in which the components are mounted directly onto the surface of printed circuit boards (PCBs). An electronic device so made is called a surface-mount device (SMD). In the industry it has largely replaced the through-hole technology construction method of fitting components with wire leads into holes in the circuit board.

System Solutions
One of Elma's three product lines. Systems solutions based on components such as bodies, backplanes and cabinets.

VITA (VME International Trade Association)
Computer Standards Trade Associations. Develops common specifications and mechnical standards such as VME, VXS and VPX.

VME (Versa Module Eurocard)
Prior computer bus standard. Is continuously being replaced by the more powerful cPCI bus and ATCA in telecommunication and industrial applications. Is still being applied in demanding applications (e.g. military) due to its reliability. Important updates: VME64x and VXS.

VPX/VXS
VMEbus Serial Fabric Extensions.

Imprint

Explanation of statements about the future
This Annual Report contains statements about what the future might hold for Elma, and these are of course subject to uncertainties and risks. The reader must therefore bear in mind that statements of this kind may ultimately be at variance to actual events occurring at a future date. These statements about future prospects take the form of projections of potential developments. All statements about the future are based on data available to Elma at the time this Annual Report was being produced. Elma does not accept any obligation for updating the statements about future prospects contained in this Annual Report to reflect new information, future events or similar developments.

This Annual Report is also available in the German language. The original document, written in German, is binding.

A full copy of the Annual Report for Elma Electronic AG can be obtained from our website at: http://www.elma.com/Switzerland/English/About/Reports.aspx

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