

Annual Report 2014

Innovation
and Expertise:
System Solutions for specific
Customer
Requirements

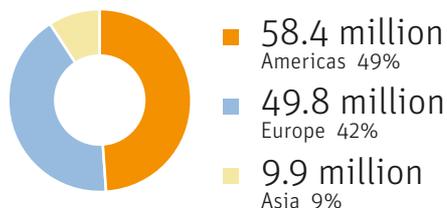
Key Figures

Elma Group Key Figures

in CHF 1,000	2014	2013
Order income	122,644	120,701
Revenue	118,079	113,010
EBITDA	6,596	5,383
EBIT	4,093	2,799
in % of revenue	3.5	2.5
Net income	2,296	838
in % of revenue	1.9	0.7
in % of average equity (ROE)	9.2	3.8
Balance sheet total	67,576	65,579
Shareholders' equity	27,210	22,576
in % of balance sheet total	40.3	34.4
Headcount year end (FTE)	683	682

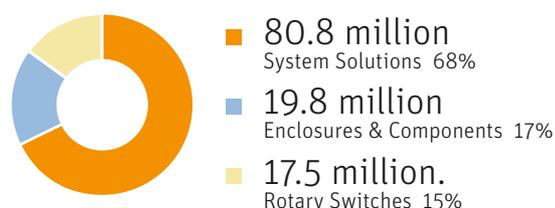
Revenue by business region

in CHF and %



Revenue by product line

in CHF and %



683

employees

CHF 122.6 million

order income

CHF 118.1 million

revenue

ELMA – Your Solution Partner

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

Elma also provides enclosure solutions and high-end rotary switches for demanding applications for electronics companies. The company has a broad base of proven standard products which can be tailored to individual applications: from the 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.

Highlights 2014



Opening of Factory in Shanghai, China

In March 2014, our local production capacities were expanded with the opening of a new factory building in Shanghai. At the same time, investments were made in sheet metal processing. By using our own production, we are able to offer customers in Asia a wider range of enclosures with the quality they expect from Elma.

Elma wins Red Dot Award 2014

Elma Electronic AG convinced the 40-member expert panel for the “Red Dot Award: Product Design 2014” with the high design quality of its iD-Box 16. In the current competition, the international experts discussed and evaluated 4,815 entries from 53 countries. But only designs that inspire with quality and innovation are being awarded by the jury. The design-enclosure iD-Box 16 was successful and received the coveted Red Dot quality seal. The multifunctional housing iD-Box 16 for high-quality electronic components distinguishes itself not only with its design, but also with its flexibility regarding sizes, versions and colors. Several customers are already putting the iD-Box16 enclosure to successful use.



reddot award 2014
winner



Elma’s innovations at the international trade fair “electronica 2014”

Elma presented a variety of product innovations at the international trade fair “electronica 2014” in Munich, Germany. The new selector switch MR50, the miniature encoder MultiWheel and the German premiere of the Red Dot awarded enclosure iD-Box 16 were the main themes of Elma Electronic at the “electronica 2014”. Further, Elma showed small-form-factor systems as well as the vibration-resistant card retainers “SureLock” with excellent cooling characteristics.

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Dear Shareholders,

The Elma Group closed the 2014 financial year with higher revenue and also with a slight increase in order income compared with the previous year. The Europe region turned in a particularly solid performance with increased sales and order income. The Americas and Asia regions also reported positive revenue trends but their order income was down year-on-year. In 2014, the Elma Group posted total revenue of CHF 118.1 million, representing a growth of 4.5%; adjusted for currency translation effects, the increase was 4.7%. Order income rose by 1.6% to reach CHF 122.6 million; adjusted for currency translation effects, the increase was 1.8%. EBIT increased significantly to CHF 4.1 million (previous year: CHF 2.8 million) thanks to the higher revenue and lower functional costs. The net income improved during 2014 to CHF 2.3 million (previous year: CHF 0.8 million). The equity ratio was 40.3% (previous year: 34.4%). Net debts were reduced by CHF 3.5 million to CHF 14.3 million (previous year: CHF 17.8 million).

Market trends

The US economy showed encouraging development. By the end of 2014, the value of the US Dollar had increased significantly against the Euro and the Swiss Franc; this generated a positive impact for the Elma Group, which earns about two thirds of its total revenue in the Dollar area. However, demand in the Defense and Aerospace sectors remained sluggish. Governmental organizations are still subject to major financing and cost pressure, leading to the postponement of various government projects. A slight easing of the economic situation in Europe was evident after several very difficult years and we saw demand increasing in Germany, the UK, France and Israel. Even so, an economic recovery in the EU zone cannot be expected for the time being in the absence of a resolution to the debt crisis, and with deflationary trends emerging. To some extent, 2014 saw a loss of momentum for the economy in Asia and more particularly in China. In view of the expansion of government investment programs in China, however, we anticipate growing demand in this region.

Innovation, research and development

As a group of companies that is market focused, we develop innovative, customer-oriented complete solutions for system integration throughout the world. To a greater extent, we are becoming a system integrator as we expand our broad know-how of the design and implementation of integrated system solutions. Our strategy is geared to attaining a leading position in the electronic packaging market while continuing to consolidate our market position. Meanwhile, the trend towards individualization and miniaturization is ongoing. In April 2014, the iD-Box 16 housing system developed by us was honored with the Red Dot Design Award in the Product Design category. The iD-Box is a new standard-independent system that can adapt its size to meet specific operational requirements.

In our Rotary Switches business segment, we develop and produce high-quality switches for electronic equipment manufacturers. During 2014, we focused on the development of new multifunctional switches such as the MR50 selector switch – an extremely rugged rotary switch with the smallest possible dimensions for mobile devices – as well as the new MultiWheel encoder, a hall effect sensor miniature encoder with a 9-fold joystick function for one-finger operation.

In this Annual Report, we present three of the projects that we were able to undertake for our customers in 2014. Our engineering teams provided support for our customers throughout these projects, from the concept evaluation, simulation and design phases all the way through to complete testing and verification of performance.

Objectives

The targets for the 2014 financial year included a further increase in revenue and an improvement to our operating result (EBIT), as well as an increase in the net income; we achieved all of these goals. In order to attain the specified objectives for 2014, we made investments to develop our markets, train our employees, expand our product range and upgrade our production sites.

Revenue

The Elma Group achieved total revenue of CHF 118.1 million in 2014 (previous year: CHF 113.0 million). This represents a year-on-year growth of 4.5%; adjusted for currency translation effects, revenue rose by 4.7%.

All three regions posted increased sales. The Americas region, with a contribution of 49% of total revenue the largest region of the Elma Group, reported an upturn of 1.9%; adjusted for currency translation effects, revenue rose by 2.4% to USD 63.4 million. In the Europe region, which contributes 42% to the Group's total revenue, an increase of 7.8% was achieved, bringing the figure to CHF 49.8 million; adjusted for currency translation effects, revenue was up 7.6%. The Asia region, with a 9% share of revenue, sales grew by 4.0% to CHF 9.9 million; adjusted for currency translation effects, the increase was 4.5%.

Sales of system solutions, backplanes, storage modules and electronic cabinets in the System Solutions product line enabled us to boosted revenue to CHF 80.8 million year-on-year (previous year: CHF 74.2 million). Sales for the Enclosures & Components product line totaled CHF 19.8 million (previous year: CHF 20.0 million), while the Rotary Switches business contributed CHF 17.5 million to overall revenue (previous year: CHF 18.8 million).

Order income

After a difficult first half of 2014 – with figures down by almost 12% year-on-year – order income in the last three months of the second half showed a very positive trend, mainly due to the revival in contracts awarded by the public sector. Order income rose by 1.6% to CHF 122.6 million (previous year: CHF 120.7 million); adjusted for currency translation effects, the increase was 1.8%.

In the Americas region, order income remained at the previous year's level, with a slight downturn of 0.2%; in local currency, this translated into an increase of 0.3% to USD 65.2 million. The Europe region posted the highest growth during the reporting year: compared with the previous year, an increase of 8.3% to CHF 53.6 million was achieved; adjusted for currency translation effects, order income rose by 8.2%. In the Asia region it was down by 18.7% to CHF 9.0 million; adjusted for currency translation effects, the decrease was 18.4%. The decline is attributable to the anticipated reduction in the trading business with single board computers in 2014. The core business in Asia, however, developed positively.

Elma has achieved the goals – increased revenue and improved profitability.

EBIT and net income

Thanks to higher revenue coupled with lower functional costs, the operating result rose significantly year-on-year. We closed the 2014 financial year with an EBITDA of CHF 6.6 million (previous year: CHF 5.4 million). EBIT reached CHF 4.1 million (previous year: CHF 2.8 million) and net profit totaled CHF 2.3 million (previous year: CHF 0.8 million).

Balance sheet

As of December 31, 2014, Elma reported total assets of CHF 67.6 million (previous year: CHF 65.6 million). The equity ratio was 40.3% (previous year: 34.4%). New agreements without financial covenants were signed with the lending banks in June 2014. Net debts were reduced by CHF 3.5 million to CHF 14.3 million (previous year: CHF 17.8 million).

Dividend policy

We continue to adhere to our long-term objectives:

- improve the balance-sheet structure
- reduce net debts
- attain an equity ratio of over 50%

The achievement of these targets is the basis for a distribution of dividends. We have achieved progress over recent years. The Board of Directors will propose to the shareholders at the Annual General Meeting on April 22, 2015 to waive dividend payments.

Investments

In all the regions, we made selective investments in machinery, plant, technology and our employees, and we also optimized our production capacities. The focus in the Americas region was on the development and manufacturing of electronic packaging and system solutions. We have production facilities in three US states, backed up by profound development expertise. In the Europe region, we are well positioned to serve the European market thanks to our main production facility at Timișoara, Romania. Asia continues to be our growth market. We have increased vertical added value at our production site in Shanghai, China. In 2014, we invested a total of CHF 2.1 million in fixed assets across the three regions (previous year: CHF 1.8 million). About 14% of these investments were made in the Americas region, 69% in Europe and 17% in Asia.

Growth strategy

In order to strengthen our expertise in electronic design and software solutions, in particular for small form factor solutions and integrated embedded systems, we have established a Design Center in Bangalore, India. Elma Electronic Private Ltd. is 100% owned by the Elma Group. The Design Center has commenced operational activities in February 2015. With this step, we continue our growth strategy.

Elma continues a growth strategy.



“We adhere to our long-term objectives.”

Our employees are the key players

In the sophisticated and complex systems and components business, our employees play the key part in day-to-day collaboration with our customers. As requirements for specialist know-how and intercultural skills become more demanding, our employees are constantly faced with new tasks and challenges – which also offer them opportunities to develop. For many years, we have been able to count on highly motivated employees who show enormous dedication as they tackle our customers’ requirements, thereby delivering a crucial contribution to the Elma Group’s success. At the end of 2014, the number of employees was constant at 683 (+0.1%). The Europe region has the Group’s highest headcount with 378 employees, followed by Americas with 268 and Asia with 37.

Changes on the Group Executive Board

A new member joined the Group Executive Board of the Elma Group. As of November 1, 2014, the Board of Directors appointed Tedy Kratenstein as Regional Manager of the Europe region (EMEA) and member of the Group Executive Board. The Group Executive Board has three members: Fred Ruegg (CEO/Regional Manager Americas), Edwin Wild (CFO/Regional Manager Asia) and Tedy Kratenstein (Regional Manager Europe).

Implementation of the new Ordinance “OaEC”

The Ordinance against Excessive Compensation with respect to Stock Exchange Listed Companies (OaEC/VegüV) passed by the Swiss Federal Council has been in force since January 1, 2014. All the provisions of this new ordinance must be implemented by the end of 2015 at the latest. We have decided to implement the new regulations at an early stage and the Board of Directors already requested the shareholders to approve a comprehensive amendment to the articles of incorporation on April 24, 2014. The proposed adjustments were adopted by the shareholders and brought into force. The Board of Directors has also revised the bylaws, and the revised version was brought into force on April 25, 2014. At the Annual General Meeting on April 22, 2015, the Board of Directors will propose the shareholders to give their binding approval to the overall compensation for the members of the Board of Directors and the Group Executive Board.

Impact and outlook after drop of Swiss Franc peg by SNB

The Swiss National Bank surprised financial markets across the globe on January 15, 2015 when it unexpectedly ended its cap of 1.20 Swiss Franc per Euro. Back in summer 2011, when the US Dollar and the Euro plunged to all-time lows against the Swiss Franc, we had already taken action by initiating measures to mitigate the negative consequences of major exchange rate fluctuations. Thanks to the expansion of production capacities over recent years in the EU as well as the US, the impact of the renewed gain in strength by the Swiss Franc since January 2015 will be cushioned by natural hedges. The Board of Directors and the Group Executive Board therefore expect that these new exchange rate realities will mainly result in translation differences for the Elma Group, i.e. conversion effects when translating the closing statements of the international group companies into the consolidated accounts in Swiss Francs. We shall adhere to our objectives to continue increasing our revenue and to improve the operating result (EBIT).

Appreciation

We would like to take this opportunity of sincerely thanking all our shareholders for their ongoing trust in our Group. Special thanks are due to our customers for their constructive cooperation which enables us to keep on improving our quality and our services. By no means least, we thank our employees, who turn our values into a living reality and who play a very crucial part in the success of the Elma Group by contributing their expertise and commitment.

Strategy of the Elma Group

Elma – Your Solution Partner. This claim is recognized worldwide, as we offer the products and services of our three strategic product lines through nine local Group companies, spread across the regions Americas, Europe and Asia. In order to significantly improve results in the medium-term, achieve a growth each year and exploit growth potential through targeted acquisitions, our corporate strategy focuses on three key elements:

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 our three regions:

We sell our products through our regional subsidiaries, strategic partners and distributors worldwide. The components business is the basis for a successful development and implementation of system solutions.

Regional production:

With production sites in the three regions, we can quickly respond to the needs of our customers. In addition, they provide us extensive protection against the consequences of significant currency fluctuations (“natural hedging”).

Develop and expand the systems business from level 3 to level 4 and expand the customer base and design-ins for the Rotary Switches business:

We focus on advanced technical components and system solutions and on expanding the system integration business in all three regions. We expand our product range with small form factor products in the electronic packaging. In the Rotary Switches product line, we supplement our business activities and solutions for human-machine interface applications.

We focus on advanced technical components and system solutions and on expanding the system integration business in all three regions.

Corporate and Leadership Culture

With nine local companies on three continents and a sales and distribution network that spans the globe, we bring together an immense diversity of skills, talents and personalities. Our values are shaped by who we are, what we do and how we do it. They mirror the culture and the spirit of Elma, influence our behavior and determine how we are perceived by our colleagues, customers, shareholders, suppliers and business partners.

Employees

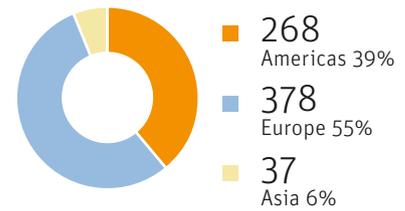
In the difficult economic environment of the recent years the Elma Group faced several major challenges: how to remain competitive, how to motivate their employees and how to position the company favorably with the future growth in mind. At the end of 2014, Elma employed a workforce of 683 throughout the world. 55% of these employees work in Europe, 39% in North America and 6% in Asia. The Elma Group employed a total of 206 women worldwide, equivalent to a 30% quota of the overall workforce by end of 2014. In the Europe region, women account for 35% of the workforce, in the Americas region 24% and in the Asia region 27%. Our success is underpinned by our employees' dedication and loyalty, and also by their commitment to contribute towards the transformation of our company and drive it forward. Despite the difficult market environment, we were able to maintain our staffing level. Annual employee interviews are held with all staff members to discuss performance, agree individual targets and define personal development objectives.

Training

Whenever possible, the Elma Group fills vacant management posts and other key positions from its own ranks. Targeted basic and advanced training measures are in place to foster the new generation of specialists and managers from inside the company. High priority is accorded to in-house training and the selective promotion and development of managers and young talents. We develop our employees by arranging regular training, including both external and internal product courses. We make it possible for our employees to participate in seminars, and we encourage them to take advanced training at management and specialist seminars and to attend specific training courses for IT users. We safeguard Elma's high standard of quality by arranging regular training courses and by continuously optimizing our quality system in compliance with the ISO9001/ISO14001 standards.

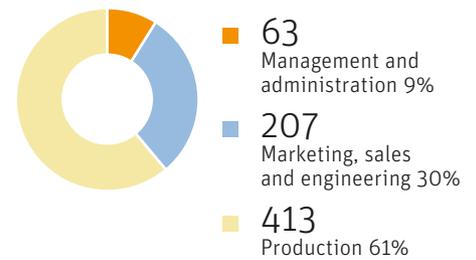
Employees per region

Number of employees end 2014



Employees per function

Number of employees end 2014



Corporate values

Our shared corporate values – Integrity, Transparency and Accountable Leadership – provide the basis for sustainable overall development, and they are becoming even more important as our company becomes more globalized. Corporate management communicates these fundamental values and maintains and fosters the corporate culture. Open, active and timely communication with employees, customers, investors, suppliers and business partners lays the foundations for trust. In 2015, we shall focus on continuing to implement our leadership principles as integral components of our corporate culture within the Group.

Binding code of conduct

The Elma Group wants to be successful in the long term and thus maintains a culture of integrity and compliance with the law. Integrity and compliance with the law are not only the basis but also an opportunity for Elma's sustainable growth and profitability. The Code of Conduct and Ethics defines the values, business principles and rules set by the Board of Directors and the Group Executive Board, with binding effect for all members of the Board of Directors, the Group Executive Board and all employees.

The Elma Group's Anti-Bribery Commitment

The Elma Group's business is professional and ethically compliant. The Elma Group's integrity and standing in the global market is vital to the protection and further development of the brand, for sustainable growth of our business. The Elma Group demands that intermediaries conducting services on its behalf will not bribe. Elma also commits to make no facilitation payments and to extend and accept gifts and invitations only if they are non-cash, customary and of modest value.

The Code of Conduct and Ethics that applies to the entire Elma Group and the Anti-Bribery Compliance Policy were revised by the Board of Directors at the end of 2014.

The shared corporate values provide the basis for sustainable overall development.

System Solutions

As a leading manufacturer of fully integrated system solutions, Elma offers its customers solutions that are tailored to their needs. Elma covers the entire range of products and services in the embedded systems segment, from simple enclosures, backplanes, storage solutions and chassis platforms through to fully integrated complete systems with power supply, single-board computers, storage and networking boards. Elma's engineering teams offer their customers support, from the concept evaluation and simulation through to the design and test phases.

Modular concepts to meet specific customer requirements

Elma offers a wide selection of basic systems for all commonly used technologies. The range of Elma's CompactPCI serial systems extends from small, low-cost solutions to vibration-resistant and rail-certified systems. A vast selection of CompactPCI serial backplanes is available to fit the specific needs of our customers. As well as simple scalability in relation to the enclosures, the modular concept also allows for different power supply and cooling options. Possibilities for deploying the new CompactPCI serial platforms are opening up in industrial automation, traffic monitoring, the transport sector and measurement technology, to name only the main areas. The trend towards miniaturization is also continuing. Customers are calling for concepts that embrace all technologies, with as many sophisticated performance features as possible already incorporated into the basic version and the option of maximum flexibility for adaptation in the literally "last mile".

Embedded computers from Elma are compact, but they offer the same full performance capabilities as any Elma system. Embedded computers in the bo!sys family are suitable for a wide range of applications, from the simplest computing units through to complex ruggedized systems and even demanding IP69k applications. Elma offers these robust enclosures as PC104 technology equipment and also for COM modules and single-board computers.

Elma has unveiled a new high-speed controller and storage module for VPX applications. The new model is an addition to Elma's series of 3U-VPX storage solutions and is suitable for applications that set higher requirements for data capacity and read/write performance.

Innovative system solutions

An important development for Elma is the trend towards the "Internet of Things" (or IoT). This trend is accelerating the need to enter, process and store data with small and robust embedded computing products at low cost.

Developing complex and ruggedized system solutions for harsh environment is our strength.



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Next-Gen Test Equipment Uses Open Architecture Standard AXIe

When Giga-tronics began developing their next generation of products, they chose to base them on the AXIe modular, open standards architecture. They chose Elma for our expertise in signal integrity for complex back-plane designs and deep experience in thermal solutions. The result is a high-performance modular AXIe-based system platform on which Giga-tronics is building high-performance automated test systems such as the GT-ASG18A. This is an advanced, multi-channel signal generator used for simulating radar and electronic signals. Celebrating 35 years in business and based in San Ramon, California, Giga-tronics is highly respected in the automated test equipment industry, with customers in aerospace & defense, communications and general microwave component testing.



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www.gigatronics.com

Enclosures & Components

Our Enclosures & Components and Cabinets product line comprises standard products and customized solutions to protect electronic components against external influences (such as temperature, moisture, dust, radiation, etc.). The products include tabletop and compact cases, sub racks, enclosure components as well as front panels, handles and accessories for computer enclosures and, of course, electronic cabinets.

Varied range of top-quality products

Surfaces have to perform several functions equally well. They should afford protection against damaging influences (dust, moisture, chemicals, heat, cold, wear), convey the decisive first impression of a product's quality, emphasize the design of the equipment and set color keynotes. In its own front panel centers in the Europe and Americas regions, Elma offers its customers standard products as well as individual front panels with digital printing. By using a configurator to enter their data online, customers can receive an immediate visualized preview.

In April 2014, Elma's new iD-Box16 was honored with the Red Dot Design Award in the product design category. The Red Dot has established its international position as one of the most prestigious quality labels for outstanding design. The multifunctional housing iD-Box 16 for high-quality electronic components distinguishes itself not only with its Red Dot awarded design, but also with its flexibility regarding sizes, versions and colours. As a standard-independent enclosure system, the size is adapted to the operational requirements. Materials such as anodized aluminum and the use of fewer screws give the enclosure premium appeal.

New iD-Box 16 was honored with the Red Dot Design Award.

Innovative components

Exceptionally harsh environments require special fastening components for electronic assembly systems. Elma extends its range of accessories for printed circuit boards (PCB) by the card retainers "SureLock". A simple turn of a screw enables SureLock to expand and securely hold the card assembly in place, eliminating tooling costs in most implementations. This provides a uniform retention force across SureLock's entire length to continually protect cards subject to extreme shock and vibration typically found in rugged and harsh computing environments. SureLock also provides excellent heat transfer from board to enclosure.



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iD-Box 16 Design Enclosure Assists Research

The appealing design of Elma's new versatile housing and its flexible implementation options add up to a successful combination for use in many different applications, including measurement and sensor technology, medical technology, mobile testing and measurement equipment, inspection and calibration instruments, and optical and mechanical measuring systems. Several customers are already putting the iD-Box 16 enclosure to successful use. One example is Swisstrace, a Swiss company that specializes in developing, producing and selling research equipment for nuclear medicine. Their products are used in research with radioactively marked tracers. Equipment of this kind is mostly used in universities and research departments in the pharmaceutical industry. The company has now launched "twilite two", a further development of its blood sampling system.

www.swisstrace.ch

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Rotary Switches

Our Rotary Switches product line comprises high-caliber rotary switches and encoders that are used in electronic devices. Rotary switches provide the human-machine interface which makes technical equipment simple to operate. Elma also develops and modifies reliable high-performance switch solutions tailored to specific customer requirements, for use in a vast range of industrial applications.

Impressive high-precision products for demanding applications

Several new and innovative products have been added to our Rotary Switches product line. At the start of the year, Elma introduced the first product in the new A47 series: a new high-end audio attenuator. Low-noise yet high-precision thin-film resistors and fine volume adjustment thanks to 47 positions with selectable end-stops are just two of the many highlights of this new switch that guarantees superb acoustic quality.

Elma's X4 switch provides a high-grade switching platform with optimized push-button functionality. The contactless magnetic contact system (hall effect) ensures maximum robustness and reliability with a long product lifetime.

The new MR50 selector switch extends Elma's product range by adding an extremely rugged multi-function rotary switch with minimal dimensions. This product is principally used for portable devices in sectors such as communications and transport, and also in precision applications such as medicine, test and measurement and control, photo/video and testing equipment.

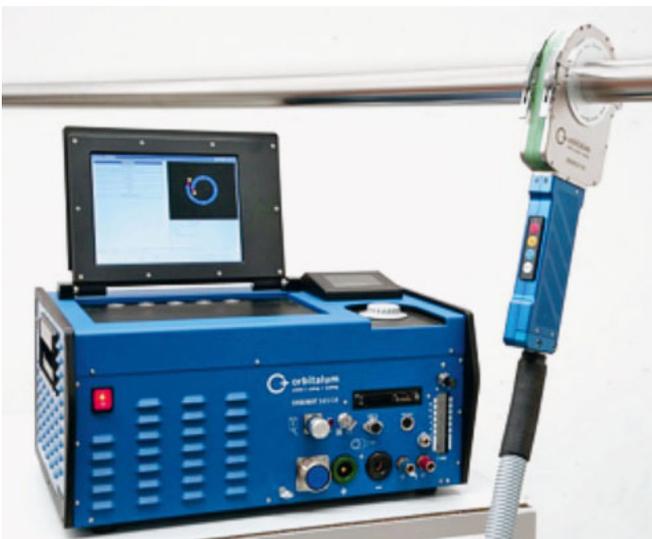
Innovative switch solutions

The MultiWheel encoder, another new product, is a hall effect sensor miniature encoder with a 9-fold joystick function for one-finger operation. This rugged control device was specifically designed for demanding outdoor and cockpit applications as well as for industrial controls. The small rotary knob is equipped with a hall effect sensor encoder and magnetic locking system to guarantee high reliability and a long product lifetime.

Customer needs are the benchmark for our innovative, robust and reliable switch solutions.



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Skillful Pipe Welding thanks to intuitive Control Technology

The orbital welding process is one of the preferred methods used for pipe manufacturing when the weld seams must be of high quality. Orbitalum Tools GmbH, based in Germany, is an international provider of orbital welding solutions. For the ORBIMAT 165 CA welding machine illustrated here, the key aspect of the control concept was that setting the welding parameters had to be as intuitive as possible. Elma's X4 switch was chosen for this purpose. Magnetic contacting enables the X4 to function very reliably throughout a long service lifetime, even under extreme ambient conditions.

www.orbitalum.de



Americas

With two operating companies (Elma Electronic Inc. and Optima Stantron Corp.) flanked by a number of sales, engineering and production facilities, the Americas region offers its customers services from the Elma Group's entire value chain. To tap the markets in North and Latin America, Elma Americas offers sophisticated customer-specific system solutions and an extensive range of backplanes and electronic cabinets.

Activities in 2014

The focus in the Americas region was on consolidating our leading position in the defense and aerospace sectors. Customer demand in this sector continued to develop sluggishly. Government organizations were still under major funding and cost pressure, which led to the postponement of various government projects, and some were downsized or even cancelled altogether. On the other hand, we were able to continue expanding the communications market by developing our high-speed backplanes (40G) and designing the low-cost ATCA chassis. There is growing demand for small form factor solutions (SFF solutions) from the industrial markets. In the reporting year, Cisco entered into a strategic partnership with Elma, which means that Elma is an official Cisco Technology Integrator. We were able to implement a global customer project in the rail sector with our cabinet solutions.

Well positioned for the future

Since July 1, 2014, Elma's subsidiaries Elma Bustronic Corp. and Elma Electronic Inc. have been operating under the umbrella of Elma Electronic Inc. The Backplane products are still marketed under the "Elma Bustronic" name as a product brand. The aim of integrating the two units was to enhance the combined technical strengths and to speed up the development of the next generation of products and services. Operations will continue as usual from the Fremont, California location.

Revenue

in CHF million

2014	58.4
2013	57.3
2012	57.3

Order income

in CHF million

2014	60.0
2013	60.1
2012	57.7

Europe

Elma is represented in Europe by six group companies in Switzerland, Romania, Germany, the UK, France and Israel. Customers are supplied with products in our Enclosures & Components and Rotary Switches product lines from the European production facility in Romania.

Activities in 2014

A slight economic recovery and an upturn in demand were evident in some of the European countries. However, the situation in markets for electronic packaging remained challenging and public sector budgets suggested that growth is likely to be somewhat muted. Nevertheless, the defense sector in the UK showed encouraging development during the reporting year, with a striking increase in order income. The Europe region focused on marketing in the transport and research sectors, especially in the Swiss and German markets.

Our customers' requirements are trending more towards hi-speed products such as the open-VPX, MTCA.4 and CPCI serial, which is gaining ground. The 19-inch technology market is viewed as incapable of further growth, but since this technology is very widespread in Europe, Elma will continue to address this market with appropriate products. About two thirds of the Elma Group's total investments were made in the European production facilities.

At the factory in Timișoara, Romania, ongoing modernization of sheet metal production is in progress, while tools and machinery for the Rotary Switches and Enclosures & Components product lines were being brought up to the latest standards. In Switzerland, there was further expansion of the successful front panel center and digital printing. Relocation of operational activities from Switzerland to the production site in Romania continued. For many years, Elma has been expanding its production capacities in the EU zone as one of its tried-and-tested measures to enable cushioning of major fluctuations in the Swiss Franc exchange rate by means of natural hedging.

Strengthening our market position through innovation

Elma was present at the major trade shows where it showcased numerous new products. These events included "embedded world", the specialist fair for embedded technologies in Nuremberg, Germany, in February, "DSEI", the leading event in the defense and security sector in London, UK, during September, "electronica", the world's leading fair for electronic components, systems and applications during November in Munich, Germany, as well as "InnoTrans", the international trade show for transport technology in Berlin, Germany, in September.

Revenue

in CHF million

2014	49.8
2013	46.2
2012	47.5

Order income

in CHF million

2014	53.6
2013	49.5
2012	47.0

Asia

The markets in China and South-East Asia are represented by Elma's group companies in China and Singapore. Elma is well positioned in both the railway and industrial sectors throughout the Asia region, especially in China. With its VPX technologies and openVPX products, Elma is the leading provider in the Chinese market.

Activities in 2014

The focus in Asia was on expanding local production. Capacities were boosted with the opening of a new factory building in Shanghai in March 2014, and sheet metal production was added to the ongoing organic development. Using Elma's own production facilities will offer customers in Asia a wider range of enclosures with the high quality that they expect from Elma. There has been a corresponding increase in the number of locally manufactured chassis and systems.

Orders from the aerospace industry were stagnant because various government projects were shelved or withdrawn. Thus the demand for VPX remained robust and growing numbers of local products were able to benefit from current government policy which calls for more local manufacturing. Elma noted a marked increase in demand from its core Asian markets, i.e. industrial automation and the transport sector. There is a gradual but noticeable recovery in the rail sector and the Chinese government has started to release projects that were held back over the last two years. On the other hand, trading business with single board computers declined sharply during the 2014 business year.

In South-East Asia, the focus was on developing the market in the transport sector where strong growth is evident. In this region, Elma supplies their customers with products such as electronic cabinets and enclosures with electromagnetic compatibility as well as CPCI systems, but also succeed in delivering orders for customers in certain segments of the industrial automation market.

Enhanced electronic design skills

Elma has set up a Design Center in Bangalore, India, in order to enhance its electronic design skills and expertise in software solutions, with a particular focus on small form factor solutions and integrated embedded systems. Elma Electronic Pte. Ltd. is 100% owned by the Elma Group. The Design Center began operations in February 2015.

Revenue

in CHF million



Order income

in CHF million

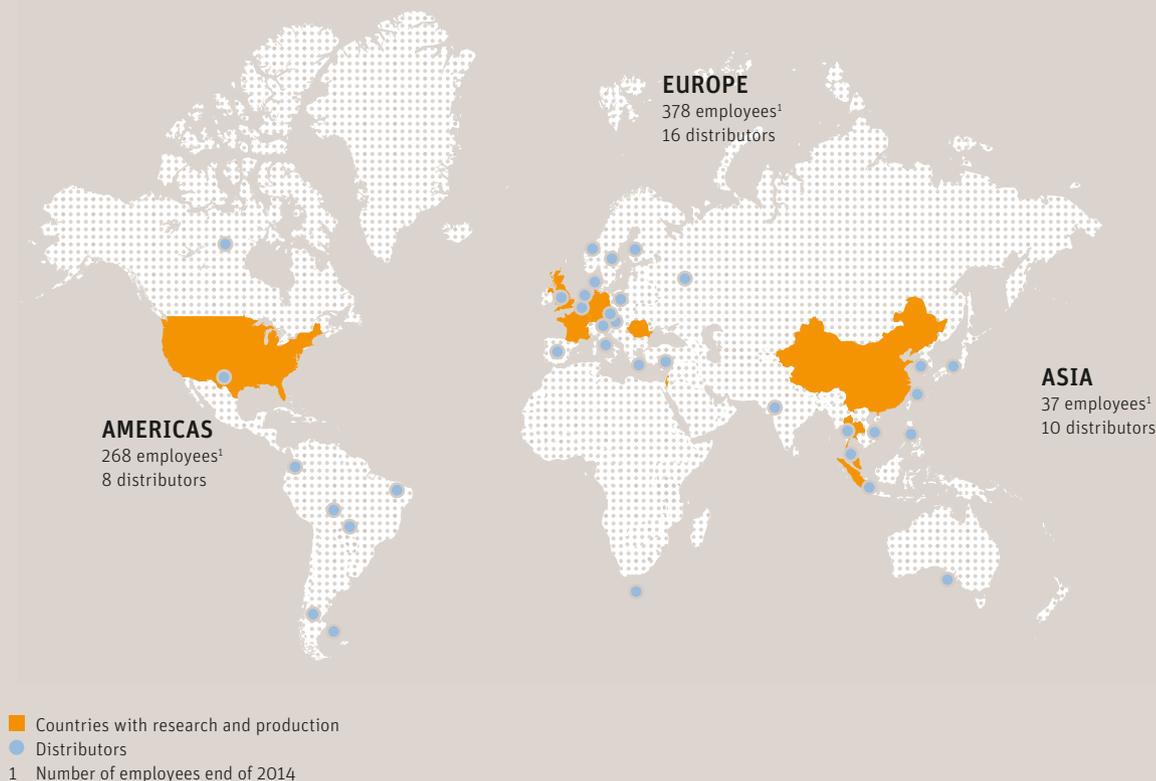


Expertise in manufacturing, assembly and testing – just a few of Elma’s many strengths

Quality of manufacturing is the top priority at Elma. This calls for maximum focus and a broad spectrum of technical know-how from our employees at the very heart of Elma’s operation: Production. Step by step, we produce a system that consists of different components, in line with our customers’ requirements to a complete solution: truly customized.

The photographs on the next pages are snapshots from our day-to-day production operations at facilities in the Americas, Europe and Asia regions. They show Elma employees in their workplace, at the service of our customers.

3 regions – 1 company





Elma Americas

30 Years Customized Solutions

Elma Americas has been developing the markets in North and Latin America for the last 30 years. The region employs 268 employees at several sales, engineering and production centers in Fremont, Lathrop, Philadelphia and Atlanta. As a provider of complete system solutions, we carry out all the steps of the system manufacturing in-house – from technological consulting and design optimization to design services, precision manufacturing, assembly and testing.







Elma Europe

Innovative Enclosure Systems and Switch Solutions

In Europe, Elma is a leading in developing and manufacturing innovative housing systems and switch solutions. We supply our customers through our own companies and a network of distributors. The central production facility for Europe, located in Romania, guarantees our group companies supplies with Rotary Switches and products from our Enclosures & Components product line. At the end of the year, the Europe region employed 378 employees, including 124 at the Romanian facility, mainly in production.





Elma Asia

China as growth market

Elma is represented in Asia with its own local companies in China and Singapore. We offer locally assembled chassis and system platforms, addressing the markets in China and South-East Asia. By upgrading our own production facility for sheet metal construction in China, we are continuing to expand our local value chain. At the end of the year, the Asia region employed 37 employees.

Corporate Governance

The section “Corporate Governance” describes the principles of management and control as they apply to the top decision-making bodies of the Elma Group. The information has been prepared in conformity with the Directive on Information Relating to Corporate Governance issued by SIX Swiss Exchange and the Ordinance against Excessive Compensation with respect to Stock Exchange Listed Companies “OaEC”, which entered into force on January 1, 2014. The principles of management and control correspond substantially 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, 2014. The Elma Group follows the Corporate Governance Directives of SIX Swiss Exchange, which has been in effect since July 1, 2002, and supplemented on October 1, 2014. The principles and rules of corporate governance practiced by the Elma Group are set out in the Company’s Articles of Incorporation¹, the Company bylaws¹ and the additional regulations of the Board of Directors. 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, 2014.

BOARD OF DIRECTORS		
GROUP EXECUTIVE BOARD		
AMERICAS	EUROPE (EMEA)	ASIA
Elma Electronic Inc. USA-Fremont, CA Optima Stantron Corp. USA-Lawrenceville, GA	Elma Electronic AG CH-Wetzikon Elma Electronic Romania SRL RO-Timisoara Elma Electronic GmbH DE-Pforzheim Elma Electronic UK Ltd. UK-Bedford Elma Electronic France SASU F-Villemairieu Elma Electronic Israel Ltd. IL-Petach-Tikva	Elma Electronic Technology (Shanghai) Co. Ltd. CN-Shanghai Elma Electronic (China) Co., Ltd. CN-Shanghai Elma Electronic (Hong Kong) Limited CN-Hongkong Elma Electronic (Hong Kong) International Limited CN-Hongkong Elma Asia Pacific Pte. Ltd. SG-Singapore Elma Electronic Private Ltd.² IND-Bangalore (in the course of incorporation)

¹ The Company’s Articles of Incorporation (in German) as at April 24, 2014, and the Company’s bylaws (in German) as at April 25, 2014, are published at www.elma.com. Direct link: <http://www.elma.com/en-eu/investors/corporate-governance/>

² On December 30, 2014, Elma Group founded Elma Electronic Private Ltd. The share capital of the newly founded company amounts to INR 100,000. The share capital has been paid up at the beginning of 2015.

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, 2014, amounted to CHF 87.86 million. None of the Group companies own Elma shares. Information about these companies is available on page 67. For further information about the Elma share please refer to page 52.

1.2 Significant shareholders / shareholders’ agreements

According to the information available to Elma Group, the shareholders mentioned in Note 9 on page 91 of this Annual Report hold 3% or more of the share capital of Elma Electronic AG.

In financial year 2014, Elma Electronic AG was not informed by shareholders of any disclosure of shareholdings in accordance with article 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 Electronic AG is not aware of any shareholders’ agreements.

1.3 Cross shareholdings

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 57, 75, and 89. The Articles of Incorporation (in German) are available under <http://www.elma.com/en-eu/investors/corporate-governance/>

2.1 Ordinary capital

The ordinary capital of Elma Electronic AG is unchanged and amounts to CHF 2,513,412 at December 31, 2014.

2.2 Conditional and authorized capital in particular

The Company has no conditional capital or authorized share capital as at December 31, 2014.

2.3 Changes in capital in the last three years

The share capital of Elma Electronic AG remained unchanged since financial year 2010 at CHF 2,513,412. Further information on changes in capital over the last two years are shown in the consolidated statement of changes in equity on page 57. For the financial year 2012, please refer to the related Annual Report (<http://www.elma.com/en-eu/investors/reports>).

2.4 Shares

The share capital at December 31, 2014, 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 Restrictions 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 or options outstanding as at December 31, 2014.

3 The Board of Directors

The Board of Directors of Elma Electronic AG consisted of four independent members at December 31, 2014.

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 as attorney-at-law in the Canton of Uri
Career	1990–1995	Tax consultant ATAG Ernst & Young AG, Zurich
	1995–1997	Head of tax department Bank Leu AG, Zurich
	1997–1998	Partner Tax Partner AG, Zurich

David Schnell Vice Chairman, Swiss, 1947

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

Walter Häusermann Member, Swiss, 1965

Current activity	Since 2010	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	1991–1994	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
	2000–2002	Finance Director Expo.02
	2003–2010	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 AG and Geberit AG
	1986–1996	Member of the executive management ELCO Looser Holding AG, Zurich
	1996–2001	General Manager Hoval Heiztechnik AG, Feldmeilen/Vaduz
	2002–2006	CEO Sauter AG, Basel
	2006–2011	CEO Kaba Group, Rumleng

3.2 Other activities and interests**Martin Wipfli**

- Chairman of the Board of Directors nebag ag, Zurich
- Member of the Board of Directors Metall Zug AG, Zug
- Member of the Board of Directors Zug Estates Holding AG, Zug
- Several 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
- Several mandates for the Board of Directors of unlisted companies

Walter Häusermann

- Member of the Board of Directors nebag ag, Zurich
- Several mandates for the Board of Directors of unlisted companies

Rudolf W. Weber

- Several mandates for the Board of Directors of unlisted companies

In accordance with article 19d of the Articles of Incorporation, the members of the Board of Directors may exercise no more than 30 additional pecuniary mandates, including a maximum of five mandates at stock exchange listed companies. In addition, they may neither hold nor exercise more than ten gratuitous mandates.

As a mandate shall be considered every activity in the highest management or governing bodies of other legal entities, which are obligated to register themselves with the commercial register or another comparable foreign register and neither control the Company nor are controlled by the Company. Mandates for different companies, which are part of the same company group, are considered one mandate. The restriction of additional mandates according to article 19d of the Articles of Incorporation does not apply to mandates that are exercised by a member of the Board of Directors by order of a Group company.

3.3 Election and term of office

The Board of Directors consists, in accordance with article 14 of the Articles of Incorporation, of a minimum of three and a maximum of seven members, each of which is elected individually by the Annual General Meeting. The Annual General Meeting also elects the Chairman among the members of the Board of Directors.

The term of office of the members of the Board and the Chairman expires with the conclusion of the next ordinary shareholders' meeting. Re-election is permitted without restriction.

The members of the Board of Directors automatically retire from the Board at the Annual General Meeting following their 70th birthday.

If the office of the Chairman is vacant, the Board of Directors will appoint a new Chairman for the remaining term of office.

The voting procedures concerning the members of the Compensation Committee and of the independent proxy advisor are described in section 3.4 "Internal Organization" (Role and function of the Compensation Committee) respectively in section 6.1 "Restrictions and representation of voting rights" (independent proxy).

Name	Function		Date of the first election as member of the Board of Directors
Martin Wipfli	Chairman	nonexecutive	April 25, 2007
David Schnell	Vice Chairman	nonexecutive	May 3, 2001
Walter Häusermann	Member	nonexecutive	April 30, 2004
Rudolf W. Weber	Member	nonexecutive	April 30, 2004

At the General Meeting held on April 24, 2014, Martin Wipfli, David Schnell, Walter Häusermann and Rudolf W. Weber were re-elected individually as members of the Board of Directors for another term of office of one year until the conclusion of the next ordinary shareholders' meeting. In addition, Martin Wipfli was re-elected as Chairman of the Board of Directors for a term of office until the conclusion of the next ordinary shareholders' meeting; he holds office as Chairman of the Board of Directors since 2008.

Rudolf W. Weber and Martin Wipfli were elected individually as members of the Compensation Committee for a term of office until the conclusion of the next ordinary shareholders' meeting.

3.4 Internal organization

The Board of Directors is the supreme authority in the Company, subject to matters which by law are reserved for the shareholders or which are assigned through law or the Articles of Incorporation to other executive bodies. The Board of Directors has following inalienable and nontransferable duties:

- Overall direction of the Company and issuance of necessary instructions
- 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 with the Group Executive Board, especially in respect of compliance with the law, the Articles of Incorporation, regulations and policies
- Preparation of the Annual Report and the Compensation Report according to article 13 et seq. OaEC and preparation of the General Meeting as well as the implementation of its resolutions
- Notification of the judge in the event of over-indebtedness
- Resolution on the realization of capital increase and resulting amendments of the Articles of Incorporation

The composition of the Board of Directors is unchanged since 2007. The selection process for future recruitment will be made irrespective of origin, social background, religion or gender.

The Board of Directors constitutes itself subject to the power of the General Annual Meeting according to article 7 of the Articles of Incorporation and designates among its members a Vice Chairman, whose term of office expires with the conclusion of the following ordinary shareholders' meeting. He also appoints a secretary, who neither needs to be a member of the Board nor a shareholder. The members of the Board of Directors represent the company through joint signature with a minimum of two signatures.

The Board of Directors may, according to the law and the Articles of Incorporation, delegate the management of the company completely or partly to one or several members or to other persons (Executive Board). The Board of Directors enacts a company bylaw for the internal organization, which outlines the competences and responsibilities of the Group Executive Board.

Decisions are taken by the Board of Directors as a whole. Board Committees do not have resolution authority except by means of explicit delegation by the Board of Directors. The Chairman, supported by two standing Committees (Audit and Compensation Committee) as well as 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. In the event of a tie, 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. Written resolutions by way of circulation are possible, unless a member demands oral consultation. Meetings of the Board of Directors may also be held via telephone or video conference.

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, calling, preparing of and presiding over the Company's General Meetings
- Determining, calling, preparing of and presiding over Board meetings of the Company
- Timely information of members of the Board of Directors and its committees
- Monitoring compliance and implementation of resolutions of the Board of Directors
- Reporting to the entire Board of Directors

The Chairman of the Board of Directors has the right to call in third parties as consultants to the Board meetings. The Vice Chairman shall represent the Chairman and takes over his duties in his absence. He has the right to obtain the necessary information.

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:

- Monitoring and supervision of the suitability and effectiveness of the Group's accounting and financial management mechanisms
- Reviewing the interim financial statements and the Annual Report
- Monitoring financing and liquidity
- Assessing 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
- Assessing the external auditors' reports

Role and function of the Compensation Committee

The Compensation Committee has the task of preparing resolutions relating to the compensation of the members of the Board of Directors, the Group Executive Board and the managing directors of the Group companies, and of submitting a respective proposal to the Board of Directors as a whole. In addition, the committee prepares the business of the Board of Directors and advises and assists in carrying out its tasks in the area of personnel planning and the compensation in the Elma Group.

The Annual General Meeting elects the members of the Compensation Committee consisting of one or more members. The members of the Compensation Committee are elected individually by the Annual General Meeting. Eligible are only members of the Board of Directors. The chairman of the Compensation Committee shall be appointed by the Board of Directors; otherwise, the Compensation Committee constitutes itself. The term of office of the members of the Compensation Committee expires with the conclusion of the next ordinary shareholders' meeting. Re-election is possible. If the Compensation Committee is not complete, the Board of Directors may appoint the lacking members for the remaining term of office.

Based on the proposal prepared by the Compensation Committee, the Board of Directors resolves upon the compensation of the Board of Directors and the Group Executive Board and submits it to the Annual General Meeting for approval in accordance with article 19e of the Articles of Incorporation.

The main responsibilities of the Compensation Committee are the following:

- Preparation and elaboration of the principles of the compensation for the members of the Board of Directors, the committees, the Group Executive Board and the managing directors of the Group companies for submission to the Board of Directors
- Consulting, design and submission of proposals to the Board of Directors regarding the specific compensation of the members of the Board, the Committees, the Group Executive Board and the managing directors of the Group companies in accordance with the principles adopted by the Board of Directors
- Setting of targets and issuance of the performance assessment for the members of the Group Executive Board
- Approval of the Pension Fund Regulations of the Company
- Preparation of the compensation report for submission to the Board of Directors as a whole
- Approval of any further mandates of the Group Executive Board outside the Elma Group in accordance with article 19d para. 1 of the Articles of Incorporation of the Company.

In addition, the Board of Directors assigns the Compensation Committee the following functions particularly in relation to the appointment of the members of the Group Executive Board, the election of members of the Board by the Annual General Meeting and succession planning in general:

- Definition of the selection criteria and evaluation for the CEO and the members of the Group Executive Board
- Succession planning with regard to changes in the Board of Directors and recommendations in this respect to the Board of Directors for submission to the Annual General Meeting
- Acknowledgement and evaluation of succession planning for the members of the Group Executive Board, the managing directors of the Group companies and the “high potentials”, including strategic personnel planning regarding the furtherance of talents or replacement of low achieving employees, including the organization of the latter

Frequency and calling of meetings

The Board of Directors as well as the Audit Committee and the Compensation Committee meet as often as the Company's business requires.

The Board of Directors meets at least four times each financial 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 Compensation 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. The external auditors attend all Audit Committee meetings.

The Compensation Committee meets twice a year as a minimum. The meetings each last up to half a day. As a rule, the CEO also attends these meetings. The Chairman of the Compensation Committee reports orally on its activities at the meetings of the Board of Directors. Any board member may request information from the Chairman of the Compensation Committee at any time about the business and access to the committee's documents. In urgent cases the reporting must be provided immediately.

If necessary, other persons as well as external consultants can be brought in for special questions by the Board of Directors, the Audit Committee and the Compensation Committee. In 2014, no external consultants were brought in.

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

Name	Entire Board of Directors ¹		Audit Committee ¹		Compensation Committee ²	
	Function	Participation at meetings	Function	Participation at meetings	Function	Participation at meetings
Martin Wipfli	Chairman	6		3	Member	2
David Schnell	Vice Chairman	6	Chairman	3		–
Walter Häusermann	Member	6	Member	3		–
Rudolf W. Weber	Member	6		–	Chairman	2
Total Meetings		6		3		2

1 The CEO and the CFO attended all six meetings of the entire Board of Directors as well as all three meetings of the Audit Committee.

2 The CEO attended all meetings of the Compensation Committee. He stepped outside during the time that his compensation was under review.

3.5 Assignment of authority and responsibility

The assignment of authority and responsibility between the Board of Directors and the Group Executive Board is defined in Elma Group's organizational regulations. The Company's organizational regulations (in German) are available under <http://www.elma.com/en-eu/investors/corporate-governance/>

The Board of Directors has in principle delegated the operational management of the Group to the CEO. The Board of Directors has reserved for itself for approval in addition to the decisions which it is responsible for based on the duties defined by Swiss Code of Obligation article 716a as inalienable and nontransferable 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 bond issues
- Conclusion of rental and lease contracts from a term of three years
- Investment of free cash flows, cash/foreign exchange management above CHF 0.5 million
- Agreements to guarantees, suretyships, letters of comfort, collaterals
- Personnel and salary policy of the Group
- Appointment, dismissal and setting employment conditions for members of the Group Executive Board, managing directors of Group companies and of the product line managers
- Dismissals of more than five people

3.6 Information and control instruments for supervising the 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 and important key figures, as well as a comparison to the previous year and to the budget of the Elma Group and the individual Group companies.

A rolling three-months forecast is prepared on a monthly basis. In the first quarter, the Group's strategic alignment is reviewed. In addition, on a half-year basis, activities in the areas of internal and external control, risk management, insurance and compliance are reported. 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 progress of business and the execution of his duties. Reporting is submitted in writing to all members of the Board of Directors or verbally during a Board meeting. Where appropriate, the reporting has to be complemented 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 submit 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 be given access to business documents and records that are necessary for the Board member to perform a particular task. In case 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 immediately notifies in writing all members of the Board of Directors about events which have a significant impact on business operations, in particular about changes intended within the Group Executive Board, events which could be detrimental to the financial position of the Company and discoveries of irregularities within the Group.

The CEO and the CFO attend the meetings of the Board of Directors and of the Audit Committee. The CFO provides an update on the Group's Internal Control System (ICS) at the Audit Committee meetings.

The Board of Directors approved a comprehensive ICS which entered into force on November 4, 2008. It is regularly reviewed and adjusted if necessary; the last amendment was made on August 14, 2014. 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 cycles:

- Preparing the financial statements and consolidation process
- Purchasing/payables
- Revenue/receivables
- Inventories
- Wages and salaries
- Tangible and intangible assets
- Treasury
- General IT controls
- Entity level controls

These cycles will be verified annually through an internal audit on site and rotative every third year through an external auditor. Due to its corporate and organizational structure as well as the design of the internal control system, the Group Executive Board of Elma Electronic has refrained from establishing a separate internal audit department. The internal audits are carried out by Group controlling, which reports directly to the CFO. On a yearly basis, it reviews the progress made on the ICS for each Group company and submits the findings to the Group Executive Board. A report on the findings as well as a detailed reporting on the risks of the Company is submitted to the Board of Directors by the CFO every half year. The external auditor also examines the existence and documentation of the ICS within the annual audit and prepares a comprehensive report for the Board of Directors. The results of the risk assessment were discussed during two meetings of the Board of Directors in the financial year 2014. Details on risk management are available on pages 66 and 90 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 and 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 requests that lie within the competence of the Board of Directors

4.1 Members of the Group Executive Board (GEB)

Fred Ruegg Chief Executive Officer, Regional Manager Americas, Swiss, 1954

Education		Business Economist HWV, Zurich
Career	1981–1985	Head of Controlling and of the IT Department Sulzer Inc., New York (USA)
	1986–12/2013	Establishment and President Elma Americas
	Since 9/2013	CEO Elma Group

Edwin Wild Chief Financial Officer, Regional Manager Asia, Swiss, 1958

Education		Swiss Certified Expert for Accounting & Controlling
Career	1980–1986	External Auditor with Curator Revision AG, Zurich
	1986–1987	Internal Auditor with F. Hoffmann-La Roche Co., Ltd., Basel
	1987–1992	Kuhne & Nagel Management AG, Schindellegi SZ
		1987 to 1989 Head Corporate Controlling
		1989 to 1992 Head Internal Audit
	1993–2008	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	

Tedy Kratenstein Regional Manager Europe, Africa, Israeli, 1960

Education		B. Sc. Eng. and MBA from Tel Aviv University, Israel Multinational marketing program at Wharton Business School, USA
Career	1985–1990	Several managing positions at Scitex Corp.
	1990–1993	Head of Production planning & control Electronics Division at Scitex Corp.
	1993	Vice President Operations Noron Tech Ltd.
	1994–1995	Strategic Account Manager Orlite Industries Ltd.
	1996–2000	Head of global Sales & Marketing Orlite Industries Ltd.
	2000–2004	Managing Director Amirim Engineering & Marketing Ltd.
	2004–2012	CEO Kontron Israel
	2012–2014	Vice President of Sales Europe, Middle East and Africa Kontron
	Since 11/2014	President Europe Elma Group

4.2 Other activities and vested interests

The members of the Group Executive Board have no other activities or vested interests.

4.3 Statutory rules regarding the number of permitted activities

With regard to the number of other permissible activities, article 19d of the Articles of Incorporation also applies to the members of the Group Executive Board (see also section 3.2, Board of Directors).

4.4 Management contracts

The Group and its subsidiaries have not concluded any management contracts with third parties.

5 Compensations, shareholdings and loans

Elma discloses the information, which is required in this section, in a separate compensation report on pages 46 to 50 in this Annual Report.

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 (CO) 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/en-eu/investors/corporate-governance/>

6.1 Restrictions and representation of voting rights

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 and beneficiaries of the registered shares are entered.

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

Shareholders are entitled to be represented by written proxy, by a third person at the General Meeting or by the independent proxy. All shares held by a shareholder can only be represented by one person.

Independent proxy holder

In accordance with article 10 of the Articles of Incorporation, the shareholders' meeting elects an independent proxy holder. Natural persons, legal entities and partnerships are eligible. Independence may not be affected, neither in fact nor in appearance. On April 24, 2014, the Annual General Meeting elected the law firm Froriep, Zurich, as the independent proxy holder for a term of office of one year. The term of office of the independent proxy holder expires with the conclusion of the next ordinary shareholders' meeting. Re-election is permitted.

In case the Company does not have an independent proxy holder, the Board of Directors will appoint one for the next meeting of shareholders. The shareholders' meeting may recall the independent proxy holder as of the end of the shareholders' meeting.

The independent proxy holder shall exercise his duties in accordance with the relevant legislation. The Board of Directors ensures that shareholders have the possibility to issue concrete instructions to the independent proxy holder for every motion in the convocation, as well as general instructions for new motions within the matters under discussion and motions on items for which no notice has been given in accordance with article 700 para. 3 CO.

The Company also ensures that shareholders have the possibility to issue instructions electronically to the independent proxy holder not later than 4.00 p.m. on the third business day prior to the date of the general meeting. Decisive for complying with the deadline is the time when the independent proxy has received proxies and instructions. The Board determines the method of issuance of the proxies and instructions electronically.

For the Annual General Meeting held on April 24, 2014, shareholders had the possibility to register on the online platform ShareCommService AG (share register) and were able to give voting instructions to the independent proxy holder electronically or to order admission cards for the Annual General Meeting. Proxies and voting instructions could be issued electronically until April 22, 2014, 6:00 p.m.

The independent proxy holder must exercise the transferred voting rights as instructed. He refrains from voting if he has not received any instructions. In case the independent proxy is unable to exercise the duties of his office or the Company has no independent proxy according to article 10 of the company's Articles of Incorporation. The transferred voting rights and instructions are considered as given to the independent proxy holder appointed by the Board of Directors.

6.2 Statutory quorums

There are no quorums differing from the law.

The General Meeting passes its resolutions and makes its elections, unless the law or the Articles of Incorporation 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 for individual votings. The following resolutions of the General Meeting require at least two thirds of the votes represented and the absolute majority of the nominal value of shares represented to be passed:

1. Changing the Company's purpose
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 revoking of subscription rights
7. Relocation of the Company's registered office
8. Dissolution of the Company

6.3 Convening 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 appointed by the Board of Directors.

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

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 be placed on the agenda. In the invitation the Board of Directors further arranges the issuance of admission cards to the General Meeting.

6.4 Agenda

Shareholders representing shares with a nominal value of at least one million Swiss Francs may demand that an agenda item be included in 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. The Board of Directors can arrange an electronic voting for the General Meeting or particular voting.

6.5 Entry 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 (article 32 SESTA: 33 1/3% 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, its Group Executive Board or other key members of the Company's management.

8 Auditors

8.1 Duration of the mandate and term of office of the external auditors in charge

PricewaterhouseCoopers (PwC) initially accepted the auditing mandate for Elma in 1993. The responsible auditor in charge, Patrick Balkanyi, has been in office since 2014. The auditors are elected by the Annual General Meeting for one financial year; re-election is permitted.

8.2 Audit fees

PwC's audit fees for services in connection with auditing the compensation report, the statutory annual financial statements of Elma Electronic AG as well as the consolidated financial statements of the Elma Group amounted to kCHF 200 for the financial year 2014.

8.3 Additional fees

The external auditors' additional fees amounted to kCHF 16 for the financial year under review.

Overview of the fees paid to the external auditors:

in CHF 1,000	2014	2013
Audit services	200	200
Additional fees	16	21
Tax consulting (Compliance)	10	14
Miscellaneous	3	4
Review half-year report	3	3
Total	216	221

8.4 Supervisory and controlling instruments with regard to the external auditors

The external 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 book-keeping, both for the consolidated financial statements and for the statutory financial statements. In the year under review, the external auditors wrote two reports and participated in all meetings of the Audit Committee.

The Audit Committee annually assesses the external auditors' performance, independence and service fees and proposes to the entire Board of Directors the external auditors to be put forward for election at the General Meeting. For the financial year 2014, the entire Board of Directors and the Audit Committee concluded that the independence of the external auditors is fully ensured.

In this evaluation, the Audit Committee attaches importance to the following criteria: overall independence of the external auditors as well as the personal independence of the auditor in charge; understanding of the Company's business and specific business risks; cooperation between the external auditor and the 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 auditor in charge, the Board of Directors in principle conforms to article 730a OC (i.e. every 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 fees for nonaudit services. In addition to the audit fees, the annual budget comprises an amount for nonaudit services. If nonaudit 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. The Company publishes its results in an annual report and a half-year report, as well as through detailed press releases. When the annual results are published, the Company hosts an analyst and media conference. Shareholders who are registered in the share register receive the Annual Report directly. The financial reports (annual reports, half-year reports) are available on the Company's website or can be ordered from the Company in print form under the following link: <http://www.elma.com/en-eu/investors/subscription-service/>

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/major_shareholders_en.html and http://www.six-swiss-exchange.com/shares/companies/management_transactions_en.html respectively.

Potentially 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 (direct link: <http://www.elma.com/en-eu/investors/corporate-news/>). 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 same link.

The direct link to register for ad hoc press releases is: <http://www.elma.com/en-eu/investors/subscription-service/>

The direct link to access to the Articles of Incorporation and the Company's bylaws (both in German) is: <http://www.elma.com/en-eu/investors/corporate-governance/>

For information regarding investor and media contacts, as well as for an overview of important dates, please refer to page 52 of this Annual Report.

Compensation Report

Introduction

This compensation report outlines the compensation principles and the compensation for the Board of Directors and the Group Executive Board of Elma Electronic AG. The compensation principles are governed by the Articles of Incorporation as at April 24, 2014. The content of this report, unless otherwise indicated, relates to the financial year 2014 and is in accordance with the Corporate Governance Directives of the SIX Swiss Exchange and the provisions of the “Ordinance against Excessive Compensation with respect to Stock Exchange Listed Companies” (OaEC) adopted by the Swiss Federal Council, which entered into force on January 1, 2014.

Principles governing compensation

Elma is committed to a modern and competitive compensation policy in order to recruit skilled manpower, to motivate its employees and to retain them in the long term. Total compensation of the members of the Group Executive Board comprises fixed and performance-related components. As global company, Elma’s compensation policy complies with the relevant legislation.

Governance

The Board of Directors of Elma Electronic AG is responsible for defining the compensation policy for the entire Group. It approves the individual compensation of each member of the Board of Directors and the Chairman, as well as of each member of the Group Executive Board. It makes its decisions on the basis of the proposals submitted by the Compensation Committee. In the financial years 2014 and 2013, members of the Compensation Committee were Rudolf W. Weber (Chairman) and Martin Wipfli (member). The Remuneration Compensation Committee undertakes preparatory tasks, which are then submitted to the entire Board of Directors for decision. The tasks and competences are described in detail in section 3.4 of the “Corporate Governance” report on pages 33 and 34 in this Annual Report.

As of the Annual General Meeting in 2015, the Board of Directors submits a proposal to the shareholders concerning the approval of the maximum aggregate amount of compensation of the Board of Directors for the period until the next general meeting in 2016 (“compensation period”). In addition, the Board of Directors shall propose for approval the maximum amount of compensation of the Group Executive Board for the financial year 2016 following the Annual General Meeting (“period of approval”). The respective total amounts include all contributions of the members of the Board of Directors, the Group Executive Board and the Company to the social and occupational pension schemes. The voting at the Annual General Meeting in relation to the maximum aggregate amounts of compensation is binding.

The Annual General Meeting held on April 24, 2014, approved comprehensive amendments and additions of the Articles of Incorporation of Elma Electronic AG in connection with the provisions of OaEC. Details of the compensation principles, loans, as well as property and benefits in relation to the members of the governing bodies are specified in article 19b et seq. of the Articles of Incorporation.

1 Link to the Articles of Incorporation <http://www.elma.com/en-eu/investors/corporate-governance/>

Decision-making levels of compensation

Type of compensation	Compensation Committee	Entire Board of Directors	Shareholders' Meeting
Compensation Board of Directors			
Maximum compensation for the Board of Directors for the period until the next ordinary shareholders' meeting ("Compensation period")	Recommendation	Proposal to shareholders' meeting	Approval
Individual compensation for the members of the Board of Directors for the previous compensation period	Proposal	Approval	
Compensation Group Executive Board (GEB)			
Maximum compensation for the members of the GEB for the financial year following the ordinary shareholders' meeting ("Period of approval")	Recommendation	Proposal to shareholders' meeting	Approval
Individual compensation for the members of the GEB (base compensation, performance related compensation, pension fund contributions and other compensation) for the previous financial year	Review, recommendation	Approval	

Compensation of the members of the Board of Directors

The members of the Board of Directors receive a fix compensation for their work. The compensation is set for one year, whereby the period corresponds to the length of time from one Annual General Meeting to the next one. The Board of Directors may additionally agree to pay appropriate compensation to individual members for special services rendered. The compensation is proposed once a year by the Compensation Committee and determined by the entire Board of Directors at its own discretion and is not linked to any corporate objective. The compensation shall be paid out yearly.

In the compensation period 2014, the fixed compensation for the members of the Board of Directors was paid out in cash. The amount of compensation was last amended in the year 2000, and remained unchanged since. No special services have been awarded to individual members. In 2014, total compensation comprised the fixed compensation and an expense allowance, including employer's contributions to social benefits thereon, if applicable.

Compensation for the members of the Board of Directors for the compensation periods 2014 und 2013 (audited)

Name	Function	2014			2013		
		Base compensation in CHF	Other compensation in CHF ¹	Total compensation in CHF	Base compensation in CHF	Other compensation in CHF ¹	Total compensation in CHF
Martin Wipfli	Chairman	80,000	5,200	85,200	80,000	5,200	85,200
David Schnell	Vice Chairman	70,000	4,550	74,550	70,000	4,550	74,550
Walter Häusermann	Member	50,000	3,250	53,250	50,000	3,250	53,250
Rudolf W. Weber	Member	50,000	3,050	53,050	50,000	3,050	53,050
Total Board of Directors		250,000	16,050	266,050	250,000	16,050	266,050

1 Expense allowance and any employer's contributions to social benefits on base compensation

Compensation of the members of the Group Executive Board

The assessment of the compensation for the members of the Group Executive Board is at the discretion of the Board of Directors, and is reviewed once per year.

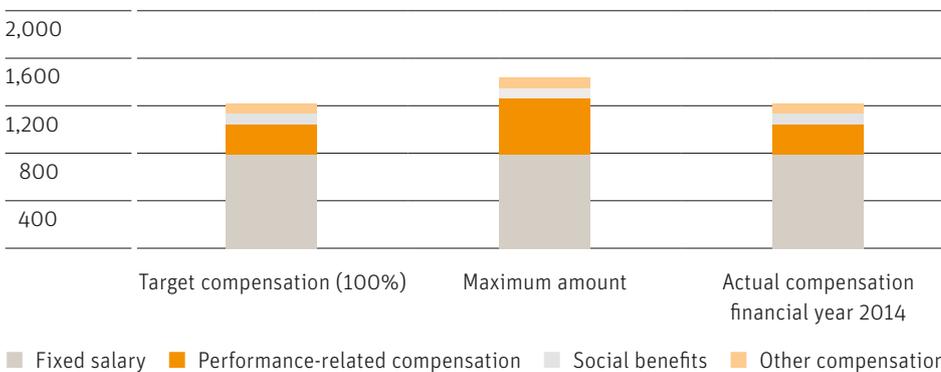
In financial year 2014, the Group Executive Board consisted of three members (previous year: two). The members of the Group Executive Board receive an annual performance-related compensation in cash in addition to a fixed salary, which is set according to the responsibility as CEO, CFO and Regional Manager, respectively. The Compensation Committee compiles the amount of the performance-related compensation on an annual basis and submits it to the Board of Directors for approval.

The performance-related compensation depends on the achievement of predefined targets. The target agreement for the members of the Group Executive Board consists of two parts: the operating result (EBIT) at Group level (70%) and personal goals agreed upon with the Board of Directors (30%).

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 between 26% and 44% of the fixed salary. If the objectives are partially achieved, the compensation is lower in line with the agreed objectives; if they are exceeded, the performance-related compensation can reach a maximum of between 53% and 75% of the fixed salary. The compensation thereby has an upper limit.

Compensation model for members of the GEB

In CHF 1,000



In addition to social benefits (old age insurance [AHV], unemployment insurance [ALV], invalidity insurance [IV], pension funds, etc.), the members of the Group Executive Board are entitled to a company car.

Compensation for the Group Executive Board for financial year 2014 (audited)

Name	Base compensation in CHF	Performance related compensation in CHF ¹	Pension fund contribution in CHF	Other compensation in CHF ²	Total compensation in CHF
Fred Ruegg, CEO	451,000	120,000	14,040	23,542	608,582
Edwin Wild, CFO	290,000	105,600	69,869	48,701	514,170
Tedy Kratenstein ³	52,113	23,050	8,119	8,280	91,562
Total Group Executive Board	793,113	248,650	92,028	80,523	1,214,314

1 Performance related compensation in cash

2 Amounts essentially comprise social security costs (insurances for old age, unemployment, etc. [AHV, ALV, IV] and the grant of a company car

3 Tedy Kratenstein has been member of the Group Executive Board since November 1, 2014

The performance-related compensation shown in this table refers to the financial year 2014 and will be presented to the Board of Directors for approval on March 13, 2015.

Compensation for the Group Executive Board for financial year 2013

Name	Base compensation in CHF	Performance related compensation in CHF ¹	Pension fund contribution in CHF	Other compensation in CHF ²	Total compensation in CHF
Fred Ruegg, CEO ³	234,671	42,474	21,176	16,068	314,389
Edwin Wild, CFO	267,332	72,667	75,364	47,541	462,904
Stephan Bürgin ⁴	145,730	106,519	39,888	34,691	326,828
Total Group Executive Board⁵	647,733	221,660	136,428	98,300	1,104,121

1 Performance related compensation in cash

2 Amounts essentially comprise social security costs (insurances for old age, unemployment, etc. [AHV, ALV, IV] and the grant of a company car

3 Fred Ruegg, CEO Elma Electronic AG since September 1, 2013

4 In addition to the compensation for the reporting year 2013 (patronal bonus of kCHF 50), the retained bonus from the previous years in the amount of kCHF 56.5 was paid to the family of the late CEO

5 As per December 31, 2013, the Group Executive Board consists of two members

The performance-related compensation shown in this table referred to the financial year 2013. The amounts for the financial year 2013 have been presented to the Board of Directors for approval on March 13, 2014.

In the financial year 2014, the relation between performance-related compensation and fixed salary was 26.6% for the acting CEO (previous year: 18.1%). The performance-related compensation of the other members of the Group Executive Board was between 36.4% and 44.2% of the base compensation (previous year: CFO: 27.2%). The change of the performance-related bonus compared to the previous year is due to the significant improvement of the EBIT margin. For the determination of compensation no branch specific benchmarks, external studies or advisors have been consulted – neither in the reporting year 2014 nor in the previous year.

Benefits and contractual agreements in case of withdrawal from the Company

The employment contracts with all members of the Group Executive Board include a term of notice of 6 months. Upon termination or early termination of a permanent employment contract with a member of the Group Executive Board, the Company may pay the salary up to the expiry of the term of notice, even if the employee is released from duty.

Loans, credits granted and additional remunerations

In the reporting year 2014, neither loans nor credits were granted to nor existed with nor were in place with the members of the Board of Directors, members of the Group Executive Board and related persons (previous year: CHF 0).

In the reporting year 2014, no compensation was distributed to members of the Board of Directors for interim or other consultancy activities (previous year: CHF 0). No goods or services were sold to governing bodies.

Compensation to former members of the Board of Directors and related parties: No such compensation payments were made during financial year 2014 (previous year: CHF 0).

Shareholdings by the Board of Directors and the Group Executive Board

At December 31, 2014, the individual members of the Board of Directors and related parties held 50,184 registered shares (previous year: 49,610 shares), corresponding to a quota of 22.0% (previous year: 21.7%) of the share capital of Elma Electronic AG. At December 31, 2014, the Group Executive Board as well as related parties held 2,640 registered shares (previous year: 2,640 shares), corresponding to a quota of 1.2% (previous year: 1.2%).

Shareholdings

No. of shares	2014	2013
Board of Directors		
Martin Wipfli (Chairman)	50,184	49,610
David Schnell (Vice Chairman)	–	–
Walter Häusermann	–	–
Rudolf W. Weber	–	–
Total Board of Directors	50,184	49,610
Group Executive Board		
Fred Ruegg	2,640	2,640
Edwin Wild	–	–
Tedy Kratenstein ¹	–	n/a
Total Group Executive Board	2,640	2,640

¹ Member of the Group Executive Board since November 1, 2014

Report of the statutory auditor to the General Meeting

We have audited the accompanying compensation report (tables on pages 46 to 50) dated March 13, 2015, of Elma Electronic AG for the year ended December 31, 2014.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 to 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 to 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report of Elma Electronic AG for the year ended December 31, 2014, complies with Swiss law and articles 14 to 16 of the Ordinance.

PricewaterhouseCoopers AG



Patrick Balkanyi
Audit expert
Auditor in charge



Christoph Schmidt
Audit expert

Winterthur, March 13, 2015

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

Elma registered shares	Swiss GAAP FER					
	2014	2013	2012	2011	2010	
Share capital						
Number of registered shares issued	228,492	228,492	228,492	228,492	228,492	
Average number of registered shares	228,492	228,492	228,492	228,492	228,352	
Nominal value	in CHF	11.00	11.00	11.00	11.00	11.00
Nominal share capital	in CHF 1,000	2,513	2,513	2,513	2,513	2,513
Number of treasury shares		-	-	-	-	-
Conditional capital						
Number of registered shares		-	-	-	-	9,508
Key figures						
Equity per share	in CHF	119.09	98.80	96.26	92.77	84.16
Profit (loss) per share	in CHF	10.05	3.67	3.45	7.99	7.48
Dividend (pay-out) per share	in CHF	-	-	-	-	-
Pay-out ratio	in %	-	-	-	-	-
Stock market prices						
Highest	in CHF	403.00	418.75	435.00	440.00	465.00
Lowest	in CHF	367.75	379.75	390.00	405.00	400.00
Closing price	in CHF	384.50	397.25	406.00	430.00	440.00
Stock market capitalization¹						
Year-end value	in CHF million	88	91	93	98	101
	in % of equity	323	402	422	463	523

¹ The stock-exchange-listed capitalization is equivalent to the share closing price, multiplied by the number of shares at the year end.

Contact

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Shareholders' Register

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 jasmine.loetscher@elma.ch

Financial Calendar

April 22, 2015
 Annual General Meeting
August 18, 2015
 Half-Year Report at June 30

Financial Statements 2014 Elma Group

Consolidated Balance Sheet

at December 31

Assets

in CHF 1,000	Notes ¹	2014	2013
Non-current assets			
Tangible assets	6	14,265	14,125
Intangible assets	7	881	1,111
Deferred income tax assets	8	3,767	3,389
Other financial assets	9	205	170
Total non-current assets		19,118	18,795
Current assets			
Inventories	11	22,469	19,764
Trade accounts receivable	12	17,357	18,444
Other accounts receivable	13	864	1,085
Prepaid expenses	14	699	947
Cash		7,069	6,544
Total current assets		48,458	46,784
Total assets		67,576	65,579

¹ The accompanying Notes on page 59 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	2014	2013
Shareholders' equity			
Share capital		2,513	2,513
Capital reserves		8,388	8,388
Retained earnings		16,309	11,675
Total shareholders' equity	15	27,210	22,576
Liabilities			
Non-current liabilities			
Bank debts	17	11,380	14,350
Subordinated loan	17	10,000	10,000
Deferred income tax provisions	8	1,315	859
Other liabilities		53	20
Other provisions	16	265	234
Total non-current liabilities		23,013	25,463
Current liabilities			
Other provisions	16	2,730	2,516
Trade accounts payable		7,301	8,969
Derivative financial instruments	10	73	121
Other current liabilities	18	2,910	2,157
Accruals	19	4,339	3,777
Total current liabilities		17,353	17,540
Total liabilities		40,366	43,003
Total liabilities and shareholders' equity		67,576	65,579

1 The accompanying Notes on page 59 ff. are an integral part of the financial statements.

Consolidated Income Statement

in CHF 1,000	Notes ¹	2014	2013
Sales of products and services	31	118,079	113,010
Cost of goods sold	20	-82,984	-79,008
Gross profit		35,095	34,002
Sales and marketing expenses	20	-16,820	-17,062
Administrative expenses	20	-11,611	-11,194
Research and development expenses	20	-2,282	-2,383
Other operating income	23	815	724
Other operating expenses	24	-1,104	-1,288
Operating income (EBIT)		4,093	2,799
Financial result	25	-672	-994
Ordinary result		3,421	1,805
Non-operating result	26	338	249
Earnings before taxes (EBT)		3,759	2,054
Income taxes	8	-1,463	-1,216
Net income		2,296	838
Earnings per share in CHF	29	10.05	3.67

¹ The accompanying Notes on page 59 ff. are an integral part of the financial statements.

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		
Equity at January 1, 2013	2,513	7,311	1,077	8,388	-9,856	-292	21,242	11,094	21,995
Net income	-	-	-	-	-	-	838	838	838
Currency translation differences	-	-	-	-	-453	-	-	-453	-453
Cash flow hedge, net of tax	-	-	-	-	-	196	-	196	196
Equity at December 31, 2013	2,513	7,311	1,077	8,388	-10,309	-96	22,080	11,675	22,576
Equity at January 1, 2014	2,513	7,311	1,077	8,388	-10,309	-96	22,080	11,675	22,576
Net income	-	-	-	-	-	-	2,296	2,296	2,296
Currency translation differences	-	-	-	-	2,242	-	-	2,242	2,242
Cash flow hedge, net of tax	-	-	-	-	-	96	-	96	96
Equity at December 31, 2014	2,513	7,311	1,077	8,388	-8,067	-	24,376	16,309	27,210

The accompanying Notes on page 59 ff. are an integral part of the financial statements.

Consolidated Cash Flow Statement

January 1 to December 31

in CHF 1,000	Notes ¹	2014	2013
Cash flow from operating activities			
Net income		2,296	838
Adjustments for			
Depreciation of tangible assets	6	2,148	1,967
Amortization of intangible assets	7	355	617
Change in provisions	16	523	336
Other non-cash-effective income and expenses		114	66
Changes in net working capital			
Inventories	11	-1,605	4
Trade accounts receivable	12	2,107	-3,908
Other accounts receivable and prepaid expenses	13/14	567	-200
Trade accounts payable		-2,015	2,784
Other payables and accruals	18/19	852	-113
Total cash flow from operating activities		5,342	2,391
Cash flow from investing activities			
Purchase of tangible assets	6	-2,088	-1,794
Disposal of tangible assets	6	28	32
Purchase of intangible assets	7	-60	-223
Disposal of intangible assets	7	7	6
Changes in other financial assets		-26	-36
Total cash flow from investing activities		-2,139	-2,015
Cash flow from financing activities			
Repayment of long-term borrowings	17	-2,970	-2,250
Total cash flow from financing activities		-2,970	-2,250
Effects of exchange rate on cash		292	-36
Increase (decrease) in cash		525	-1,910
Cash at January 1		6,544	8,454
Cash at December 31		7,069	6,544

¹ The accompanying Notes on page 59 ff. are an integral part of the financial statements.

Notes to the Consolidated Financial Statements

1 Basic information

The Elma Group is a global manufacturer of electronic packaging products for the embedded systems market – from components, storage boards, backplanes and chassis platforms to fully integrated systems. Elma also provides enclosure solutions to electronics companies, from cases to vertical cabinets, as well as precision components such as rotary switches/encoders, front panels, and LEDs. The parent company, Elma Electronic AG, is a Swiss company, registered in Wetzikon. The consolidated financial statements 2014 were approved for publication on March 13, 2015 by the Board of Directors and are subject to approval by the Annual General Meeting on April 22, 2015.

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 the Elma Group are based on the individual annual accounts of the Group companies drawn up to December 31, 2014 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 convention, 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.

Swiss GAAP FER 31 (Complementary recommendation for listed companies) will be applied for the first time in the business year 2015. By applying only minor changes in disclosure and no material impact on the financial statements are expected.

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 the 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 offers a wide selection of basic systems for all commonly used architectures. As provider of fully integrated system solutions, Elma is specialized in customized solutions – from enclosure cases, backplanes, storage and chassis platforms to fully integrated systems with power supply, single board computers, storage and networking boards, the product line covers the complete range of products and services.
- The **Enclosures & Components** product line, including Cabinets, comprises standard products as well as customized solutions 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 and encoders used in electronic devices. The rotary switches form the human-machine interface and provide a simple way of operating technical devices. Elma develops and modifies efficient and reliable switch solutions which are tailor-made to the customers' requirements.

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
- Optima Stantron Corp., Lawrenceville, GA, USA

Europe:

- Elma Electronic AG, Wetzikon, Switzerland
- Elma Electronic Romania SRL, Timișoara, Romania
- Elma Electronic GmbH, Pforzheim, Germany
- Elma Electronic UK Ltd., Bedford, England
- Elma Electronic France SASU, Villemoirieu, France
- Elma Electronic Israel Ltd., Petach-Tikva, Israel

Asia:

- Elma Electronic Technology (Shanghai) Co. Ltd, Shanghai, China
- Elma Electronic (China) Co. Ltd., Shanghai, China
- Elma Electronic (Hongkong) Limited, Hongkong, China
- Elma Electronic (Hongkong) International Limited, Hongkong, China
- Elma Asia Pacific Pte. Ltd., Singapore
- Elma Electronic Private Ltd., Bangalore, India (in the course of incorporation)

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. Assets kept for investment purposes are stated at acquisition or production cost less accumulated depreciation.

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.

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 systems over 5 years).

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 five, in justified cases over a maximum of ten 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 of 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 recognised in equity of the 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 tax 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

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 employer 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 accruals for vacation and overtime, social security contributions as well as performance tax related bonuses and premiums payable to employees.

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 the 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 company;
- 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 30, 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.

24.2 Non-operating result

The non-operating result includes income and expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Group.

2.25 Dividends

Elma will commit to a flexible distribution policy which takes into account the capital 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 of the Elma Group, Elma Electronic AG is responsible for the risk management process across the Group. The Board of Directors is responsible for the form and monitoring of the risk management process, the ongoing implementation of the processes has been delegated to the Group Executive Board. The objective of Elma Group's risk policy on one hand is to systematically identifying and assessing potential business risks early enough and initiating the measures required to sufficiently mitigate the key risks and on the other hand to ensure compliance with the legal requirements. Both strategic and operational risks are being included. The risk management is closely linked to the Internal Control System (ICS).

The risk assessment carried out in 2014 was based on company-specific risks and information obtained during interviews with the responsible management of the Group companies. The risk assessment is geared to a specific risk catalogue developed specifically for the Elma Group. The identified risks will be evaluated according to the likelihood of their occurrence and their potential financial implications and recorded in a risk matrix. The risks were systematically broken down into four priority groups and for each risk, a respective action plan was put in place. The implementation of the actions defined is reviewed by the Group Controlling and reported to the Board of Directors twice a year. The results of this year's risk assessment were presented and approved at the meetings of the Board of Directors on June 12, 2014 and December 2, 2014.

4 Scope of consolidation

4.1 Group companies

The scope of consolidation at December 31, 2014 includes the following companies:

Company and location	Business activity	Local currency in 1,000	Share capital	31.12.2014 Ownership in %	31.12.2013 Ownership in %
Elma Electronic AG, Wetzikon, Switzerland	▲●■▼◆	CHF	2,513	Parent company	Parent company
Elma Electronic Inc., Fremont, CA, USA	▲●■▼◆	USD	1	100	100
Elma Bustronic Corp., Fremont, CA, USA		USD	219	-	100
Optima Stantron Corp., Lawrenceville, GA, USA	▲●■▼	USD	1	100	100
Elma Electronic Romania SRL, Timișoara, Romania	●▼	RON	1,509	100	100
Elma Electronic GmbH, Pforzheim, Germany	▲●■▼◆	EUR	128	100	100
Elma Electronic UK Ltd., Bedford, UK	▲■▼◆	GBP	37	100	100
Elma Electronic France SASU, Villemairie, France	▲▼◆	EUR	38	100	100
Elma Electronic Israel Ltd., Petach-Tikva, Israel	▲▼◆	ILS	1	100	100
Elma Electronic Technology (Shanghai) Co. Ltd., Shanghai, China	▲●▼◆	RMB	2,459	100	100
Elma Electronic (China) Co., Ltd., Shanghai, China	▲	RMB	7,688	100	100
Elma Electronic (Hong Kong) Limited, Hongkong, China	▲	HKD	10	100	100
Elma Electronic (Hong Kong) International Limited, Hongkong, China	▲	HKD	10	100	100
Elma Asia Pacific Pte. Ltd., Singapore	▲	SGD	100	100	100
Elma Electronic Private Ltd., Bangalore, India (in the course of incorporation)	■▼	INR	100	-	-

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

The scope of consolidation has changed due to the merger of Elma Bustronic Corp. into Elma Electronic Inc. during the reporting year. All listed companies were 100% owned by Elma Electronic AG directly or indirectly, and thus no financial impact for the Group Accounts 2014 occurred.

4.2 Formation of a development company in India

The Elma Group established the company Elma Electronic Private Ltd. on December 30, 2014. The share capital of the newly established company will be INR 100,000. The share capital will be paid in beginning of 2015.

5 Exchange rates

Average rates for the income statement and statement of cash flows	2014	2013
1 USD/CHF	0.92	0.92
1 EUR/CHF	1.21	1.23
1 GBP/CHF	1.51	1.45
1 ILS/CHF	0.26	0.26
1 RON/CHF	0.27	0.28
1 RMB/CHF	0.15	0.15
1 HKD/CHF	0.12	0.12
1 INR/CHF	0.02	-

Year-end rates for the balance sheet at December 31	2014	2013
1 USD/CHF	0.99	0.89
1 EUR/CHF	1.20	1.23
1 GBP/CHF	1.55	1.47
1 ILS/CHF	0.26	0.26
1 RON/CHF	0.27	0.27
1 RMB/CHF	0.16	0.15
1 HKD/CHF	0.13	0.11
1 INR/CHF	0.02	-

6 Tangible assets

Year 2014

in CHF 1,000

	Developed real estate	Buildings	Machinery, equipment and fixtures	Other tangible assets	Other tangible assets	Tangible assets kept for investment purposes	Total 2014
Acquisition cost							
Balance at January 1	2,050	11,785	22,044	310	6,258	9,555	52,002
Additions	-	48	1,551	101	388	-	2,088
Disposals	-	-38	-70	-	-203	-	-311
Reclassifications	-	-	71	-281	210	-	-
Currency translation differences	65	259	435	-	163	-	922
Balance at December 31	2,115	12,054	24,031	130	6,816	9,555	54,701
Accumulated depreciation							
Balance at January 1	39	9,201	18,562	-	5,557	4,518	37,877
Depreciation	-	252	1,326	-	353	217	2,148
Disposals	-	-38	-67	-	-169	-	-274
Reclassifications	-	-	37	-	-37	-	-
Currency translation differences	-	233	313	-	139	-	685
Balance at December 31	39	9,648	20,171	-	5,843	4,735	40,436
Net book values							
at January 1	2,011	2,584	3,482	310	701	5,037	14,125
at December 31	2,076	2,406	3,860	130	973	4,820	14,265
Fire insurance value at December 31	-	17,723	30,329	427	8,610	14,369	71,458

Year 2013

in CHF 1,000

	Developed real estate	Buildings	Machinery, equipment and fixtures	Other tangible assets	Other tangible assets	Tangible assets kept for investment purposes	Total 2013
Acquisition cost							
Balance at January 1	2,066	11,739	20,869	313	6,829	9,249	51,065
Additions	-	16	777	310	510	181	1,794
Disposals	-	-	-419	-	-319	-	-738
Reclassifications	-	87	851	-313	-750	125	-
Currency translation differences	-16	-57	-34	-	-12	-	-119
Balance at December 31	2,050	11,785	22,044	310	6,258	9,555	52,002
Accumulated depreciation							
Balance at January 1	39	8,997	17,690	-	5,651	4,317	36,694
Depreciation	-	254	1,151	-	361	201	1,967
Disposals	-	-	-413	-	-302	-	-715
Reclassifications	-	-	142	-	-142	-	-
Currency translation differences	-	-50	-8	-	-11	-	-69
Balance at December 31	39	9,201	18,562	-	5,557	4,518	37,877
Net book values							
at January 1	2,027	2,742	3,179	313	1,178	4,932	14,371
at December 31	2,011	2,584	3,482	310	701	5,037	14,125
Fire insurance value at December 31	-	17,391	30,199	453	9,882	13,702	71,627

7 Intangible assets

Year 2014

in CHF 1,000	Patents, rights, customer relationships		Licenses/ software	Others	Total
	Acquisition ACT	Others			
Acquisition cost					
Balance at January 1	1,498	811	3,049	835	6,193
Additions			60		60
Disposals			-131	-5	-136
Currency translation differences	172	67	9	-	248
Balance at December 31	1,670	878	2,987	830	6,365
Accumulated amortization					
Balance at January 1	1,063	636	2,608	775	5,082
Amortizations	114	99	131	11	355
Disposals			-124	-5	-129
Currency translation differences	130	40	6	-	176
Balance at December 31	1,307	775	2,621	781	5,484
Net book values					
at January 1	435	175	441	60	1,111
at December 31	363	103	366	49	881

Year 2013

in CHF 1,000	Patents, rights, customer relationships		Licenses/ software	Others	Total
	Acquisition ACT	Others			
Acquisition cost					
Balance at January 1	1,541	830	2,873	814	6,058
Additions	-	-	193	30	223
Disposals	-	-5	-21	-10	-36
Currency translation differences	-43	-14	4	1	-52
Balance at December 31	1,498	811	3,049	835	6,193
Accumulated amortization					
Balance at January 1	979	544	2,227	776	4,526
Amortizations	115	95	396	11	617
Disposals	-	-	-20	-10	-30
Reclassifications	-	3	-	-3	-
Currency translation differences	-31	-6	5	1	-31
Balance at December 31	1,063	636	2,608	775	5,082
Net book values					
at January 1	562	286	646	38	1,532
at December 31	435	175	441	60	1,111

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 business activities of Mayville Products Corporation in the year 2012 as well as ACT/Technico in the year 2009 and Mektron Systems Ltd. in the year 2005.

7.2 Goodwill

Goodwill resulting from acquisitions was directly offset against equity at the date of transition to Swiss GAAP FER and at the date of the acquisition, respectively.

7.2.1 Impact of a 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. The theoretical net book value of goodwill was fully amortized as per December 31, 2013.

8 Income taxes

Income taxes

in CHF 1,000	2014	2013
Current income taxes	-1,131	-1,186
Deferred income taxes	-332	-30
Total income taxes	-1,463	-1,216

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

Deferred taxes have changed as follows:

in CHF 1,000	2014	2013
Balance at January 1	2,530	2,671
Currency translation differences	-410	-118
Deferred taxes recorded in income statement	332	30
Deferred taxes recorded in equity	-	-53
Balance at December 31	2,452	2,530
- thereof deferred tax assets	3,767	3,389
- thereof deferred tax provisions	-1,315	-859
Balance after offset	2,452	2,530

Deferred taxes were calculated by applying an average tax rate of 31.4% (previous year: 31.1%).

Tax loss carry forwards

in CHF 1,000	2014	2013
Expiring in 1 to 2 years	177	108
Expiring in 2 to 5 years	76	3,957
Available without limitation	4,502	3,163
Total tax loss carry forwards	4,755	7,228
Calculated potential tax assets thereof	1,124	1,725
Valuation allowance	-894	-676
Net tax assets from tax loss carry forwards	230	1,049

The capitalized tax assets from tax loss carry forwards as of December 31, 2014 amounted to CHF 0.2 million (previous year: CHF 1.0 million). Potential tax assets of CHF 0.9 million (previous year: CHF 0.7 million) resulting from applicable tax loss carry forwards in the amount of CHF 1.1 million (previous year: CHF 1.7 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	2014	2013
Deposits for rent and leases	205	170
Total other financial assets	205	170

10 Derivative financial instruments

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

Derivative financial instruments

in CHF 1,000	2014		2013	
	Asset	Liability	Asset	Liability
Interest rate swap – cash flow hedges	-	-	-	121
Foreign exchange forward contracts	-	73	-	-
Total derivative financial instruments	-	73	-	121
thereof long-term	-	-	-	-
thereof short-term	-	73	-	121

Open interest rate hedging instruments at December 31, 2014

in CHF 1,000	Fixed interest rate in %	Start	End	2014	2013
				Negative fair value	Negative fair value
Interest rate swap for borrowings of CHF 8 million	03.04	04.05.2009	05.05.2014	-	-121

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.

As of December 31, 2014, there were total 2 (previous year: 0) open foreign exchange forward transactions, each for a nominal amount of USD 0.5 million, totaling USD 1.0 million (previous year: 0), expiring at the end of each month, starting end of January 2015 and end of February 2015. At the balance sheet date, a book loss of kCHF 73 (previous year: 0) resulted which was charged to the other operating expenses.

11 Inventories

Inventories

in CHF 1,000	2014	2013
Raw materials and supplies	8,553	8,346
Work in progress and semi-finished goods	6,034	5,391
Finished goods	14,600	12,292
Inventories, gross	29,187	26,029
Provisions	-6,718	-6,265
Inventories, net	22,469	19,764

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	2014	2013
Trade accounts receivable, gross	17,503	18,578
Provisions	-146	-134
Trade accounts receivable, net	17,357	18,444

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 76 (previous year: kCHF 12) were below 0.1% of the annual revenue (previous year: below 0.1%). 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	2014	2013
Not due	13,825	14,681
1 to 30 days overdue	2,661	2,711
31 to 90 days overdue	893	1,092
91 to 120 days overdue	30	9
More than 120 days overdue	94	85
Total trade accounts receivable	17,503	18,578

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	2014	2013
Value-added tax and withholding tax receivable	413	467
Prepayments for social security	348	386
Sundry receivable	103	232
Total other accounts receivable	864	1,085

14 Prepaid expenses

Prepaid expenses

in CHF 1,000	2014	2013
Prepaid insurance premiums	68	69
Prepaid taxes	7	10
IT maintenance and license costs	59	185
Advance payments to suppliers	194	301
Advance rental payments	118	129
Other prepaid expenses	253	253
Total prepaid expenses	699	947

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 57.

Share capital

Capital in CHF	2014		2013	
	Number of shares	Share capital	Number of shares	Share capital
Balance at December 31	228,492	2,513,412	228,492	2,513,412

The number of shares of total 228,492 remains unchanged from the previous year. In the reporting year, there was no increase of share capital (previous year: CHF 0). The share capital is fully paid. According to the information available to Elma Group, the shareholders listed on page 91, Note 9, 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

2014

in CHF 1,000	Guarantees, liability risks	Personnel expenses	Total
Balance at January 1	113	121	234
Additions	29	6	35
Unused amounts released	-14	-3	-17
Utilization	-	-	-
Currency translation differences	14	-1	13
Balance at December 31	142	123	265

2013

in CHF 1,000	Guarantees, liability risks	Personnel expenses	Total
Balance at January 1	117	166	283
Additions	5	27	32
Unused amounts released	-5	-3	-8
Utilization	-	-75	-75
Currency translation differences	-4	6	2
Balance at December 31	113	121	234

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 probability of occurrence is estimated to be likely.

16.2 Short-term provisions

2014

in CHF 1,000	Guarantees, liability risks	Personnel expenses	Other	Total
Balance at January 1	409	1,890	217	2,516
Additions	4	1,994	232	2,230
Unused amounts released	-8	-151	-4	-163
Utilization	-19	-1,759	-175	-1,953
Currency translation differences	13	91	-4	100
Balance at December 31	399	2,065	266	2,730

2013

in CHF 1,000	Guarantees, liability risks	Personnel expenses	Other	Total
Balance at January 1	514	1,405	308	2,227
Additions	182	1,927	187	2,296
Unused amounts released	-27	-46	-6	-79
Utilization	-258	-1,374	-277	-1,909
Currency translation differences	-2	-22	5	-19
Balance at December 31	409	1,890	217	2,516

The highest provision amount derives from the category personnel expenses. For bonus and other performance-related compensation payments of CHF 1.8 million (previous year: CHF 1.3 million) were executed in the reporting year. A new provision of CHF 2.0 million (previous year: CHF 1.9 million) has been set up to cover performance-related remunerations, to be paid in 2015.

17 Borrowings

Borrowings

in CHF 1,000	2014	2013
Long-term bank loans	11,380	14,350
Subordinated loan	10,000	10,000
Long-term borrowings	21,380	24,350
Short-term borrowings	-	-
Total borrowings	21,380	24,350
Due in less than 1 year	-	-
Due between 1 and 2 years	-	-
Due between 2 and 5 years	21,380	24,350
Maturity of financial debts	21,380	24,350
CHF	2.5%	3.0%
USD	0.0%	0.0%
EUR	0.0%	0.0%
Average interest rate by currency	2.5%	3.0%

In July 2012, Elma closed a private placement as a subordinated loan in the amount of CHF 10 million from a group of private investors. The funds raised were primarily used to repay existing bank debts. The subordinated loan has a maturity of 5 years and a fixed interest rate of 3% p.a.

In June 2014, new frame agreements were signed with the lending banks. They have a maximum utilizable volume of CHF 14.8 million, of which CHF 6 million will be amortized in quarterly instalments to each CHF 0.2 million as from September 30, 2014. As of December 31, 2014, an amount of CHF 11.4 million was claimed. As an integral part of the new agreements, the definition of financial covenants was dispensed.

Financial covenants at December 31

	2014		2013		Status
	Target	Actual	Target	Actual	
Equity ratio ¹ resp. a minimum of CHF 25 million equity		no financial covenants	≥ 35.0%	46.0% ¹	met
EBIT in CHF million		any more	≥ 0	2.8 million	met

¹ According to the previous loan agreements, the equity ratio was calculated as follows: (shareholders' equity + subordinated loan ./ intangible assets ./ deferred income tax assets) / (balance sheet total ./ intangible assets ./ deferred income tax assets)

(See also page 94; multi-year overview Elma Group)

18 Other current liabilities

Other current liabilities

in CHF 1,000	2014	2013
Social security	785	745
Value-added tax and withholding tax liabilities	229	189
Advance payments from customers	1,466	946
Income tax liabilities	294	169
Sundry liabilities	136	108
Total other current liabilities	2,910	2,157

The increase of advanced payments from customers is mainly due to the increase in the subsidiaries in USA and Germany.

19 Accruals

Accruals

in CHF 1,000	2014	2013
Vacation, overtime and flexitime accruals	2,642	2,479
Rent	127	101
Salaries and wages, bonus and social security	53	12
Maintenance	28	9
Interest	18	58
Other accruals	1,471	1,118
Total accruals	4,339	3,777

Other accruals include in particular services, delivery of goods and transportation cost which were not invoiced yet at year-end.

20 Expenses by nature

Expenses by nature

in CHF 1,000	2014	2013
Material costs	46,660	43,346
Personnel expenses	47,080	47,346
Depreciation of operational equipment	2,148	1,967
Amortization of intangible assets	355	617
Other operating costs	17,743	16,935
Total operating costs	113,986	110,211

21 Personnel expenses

Personnel expenses

in CHF 1,000	2014	2013
Salaries and wages	37,601	37,456
Other social costs	7,081	6,918
Pension benefit plans	1,857	2,535
Other personnel expenses	541	437
Total personnel expenses	47,080	47,346

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.

Economic benefit/economic obligation and pension benefit expenses

in CHF 1,000	Surplus/deficit according to Swiss GAAP FER 26 31.12.14	Economic share of the company		Pension benefit expenses in personnel expenses	
		31.12.14	31.12.13	2014	2013
Patronage funds/pension institutions	–	–	–	–	–
Pension institutions without surplus/deficit Switzerland	–	–	–	222	279
Pension institutions with surplus Switzerland	292	–	–	790	858
Pension institutions according to Swiss GAAP FER 26	292	–	–	1,012	1,137
Pension institutions without surplus/deficit abroad	–	–	–	845	1,398
Total pension institutions	292	–	–	1,857	2,535

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 292 (previous year: kCHF 288). This balance, however, is of no benefit to the company as it is being used to fund employee contributions. The increase is due to the interest income on capital.

23 Other operating income

Other operating income

in CHF 1,000	2014	2013
Foreign exchange gains	785	671
Gain on fixed assets disposed	4	4
Sundry income	26	49
Total other operating income	815	724

24 Other operating expenses

Other operating expenses

in CHF 1,000	2014	2013
Foreign exchange losses	706	591
Amortization of acquired intangible assets	-	513
Losses from disposals of tangible assets	13	6
Capital taxes	80	109
Sundry expenses	305	69
Total other operating expenses	1,104	1,288

25 Financial result

Financial result

in CHF 1,000	2014	2013
Bank interest	4	7
Financial income	4	7
Bank interest	-262	-429
Subordinated loan	-300	-300
Interest rate swap	-84	-241
Other financial expenses	-30	-31
Financial expenses	-676	-1,001
Total financial result	-672	-994

26 Non-operating result

Non-operating result

in CHF 1,000	2014	2013
Income from renting out buildings	557	494
Expenses related to renting out buildings	-219	-245
Total non-operating result	338	249

The non-operating result includes income from assets kept for investment purposes and from no longer required operational areas in the amount of kCHF 557 (previous year: kCHF 494).

27 Contingent liabilities and contingent assets

There are no contingent liabilities or contingent assets.

28 Pledged assets

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

Book value of pledged assets

in CHF 1,000	2014	2013
Real estate and buildings	8,447	8,815

29 Earnings per share

Earnings per share

in CHF 1,000	2014	2013
Net income	2'296	838
Average number of registered shares in issue (see Note 15)	228'492	228,492
Earnings per share in CHF	10.05	3.67

30 Commitments under operating leases and rental agreements

30.1 Operating leases

in CHF 1,000	2014	2013
Due within 1 year	254	337
Due between 2 and 5 years	428	385
Total operating leases	682	722

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

30.2 Rental agreements

in CHF 1,000	2014	2013
Due within 1 year	1,738	2,069
Due between 2 and 5 years	3,725	3,328
Due longer than 5 years	1,500	–
Total rental agreements	6,963	5,397

The increase of the long-term rental agreements is primarily due to the subsidiary in the UK as the lease agreement has been adapted and extended until September 2027.

31 Segment information

31.1 Revenue by business regions of Elma Group companies

in CHF 1,000	Elma Group		Americas		Europe		Asia		Eliminations	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Revenue third parties	118,079	113,010	58,361	57,261	49,814	46,227	9,904	9,522	–	–
Revenue between segments	–	–	6,534	5,760	19,304	18,960	211	178	–26,049	–24,898
Total revenue	118,079	113,010	64,895	63,021	69,118	65,187	10,115	9,700	–26,049	–24,898

31.2 Revenue by geographical business units

in CHF 1,000	Revenue third parties	
	2014	2013
North America	51,816	52,063
Europe	43,060	38,192
Asia	20,630	21,427
Other	2,573	1,328
Total revenue	118,079	113,010

31.3 Revenue by product lines

in CHF 1,000	Revenue third parties	
	2014	2013
System Solutions	80,775	74,189
Enclosures & Components	19,800	19,978
Rotary Switches	17,504	18,843
Total revenue	118,079	113,010

32 Related-party transactions

Regarding the disclosure of total compensation to the Board of Directors and the Group Executive Board under Articles 14 to 16 OaEC (VegüV), we refer to the Compensation Report. There were no further transactions with related parties, neither in 2014 nor in the previous year.

33 Events after the balance sheet date

On 15 January 2015, the Swiss National Bank announced that it was discontinuing the minimum exchange rate of 1.20 Swiss Francs to one Euro with immediate effect. This decision triggered a significant increase in the value of the Swiss Franc. The Swiss Franc also improved against the US Dollar, which is the most important currency for the Elma Group. At present, it is impossible to give a conclusive assessment of the precise impact of this monetary policy decision. The Group Executive Board and the Board of Directors of the Elma Group assume that the Elma Group will mainly be affected by translation differences as a result of the move.

No further events have occurred after the balance sheet date which have a significant impact on these financial statements. The consolidated financial statements have been approved by the Board of Directors for publication on March 13, 2015.

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 54 to 83) for the year ended December 31, 2014.

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, 2014 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



Patrick Balkanyi
Audit expert, auditor in charge



Christoph Schmidt
Audit expert

Winterthur, March 13, 2015

Financial Statements 2014 Elma Electronic AG

Balance Sheet at December 31

Assets

in CHF 1,000	Notes ¹	2014	2013
Non-current assets			
Financial assets			
– Investments	1	27,514	27,514
– Loans to Group companies		1,313	1,914
– Other financial assets		41	39
Intangible assets			
		154	237
Tangible assets	2/5	9,865	8,558
Total non-current assets		38,887	38,262
Current assets			
Inventories			
		6,266	5,797
Trade accounts receivable			
– Group companies		2,029	1,867
– Third parties		2,902	3,321
Other accounts receivable			
– Group companies		325	254
– Third parties		605	845
Prepaid expenses			
		123	212
Cash			
		2,160	2,591
Total current assets		14,410	14,887
Total assets		53,297	53,149

¹ The accompanying Notes on page 89 ff. are an integral part of the financial statements.

Balance Sheet at December 31

Liabilities and shareholders' equity

in CHF 1,000	Notes ¹	2014	2013
Shareholders' equity	3		
Share capital		2,513	2,513
Legal reserves			
– Reserves from capital contributions		7,311	7,311
– General reserves		1,077	1,077
Free reserves		5,899	5,899
Retained earnings		10,615	6,795
Total shareholders' equity		27,415	23,595
Liabilities			
Non-current liabilities			
Bank debts	10	11,380	14,350
Subordinated loan	10	10,000	10,000
Provisions		53	20
Total non-current liabilities		21,433	24,370
Current liabilities			
Derivative financial instruments		73	121
Trade accounts payable			
– Group companies		531	557
– Third parties		1,960	2,748
Other current liabilities			
– Group companies		25	16
– Third parties		99	162
Accruals		1,761	1,580
Total current liabilities		4,449	5,184
Total liabilities		25,882	29,554
Total liabilities and shareholders' equity		53,297	53,149

¹ The accompanying Notes on page 89 ff. are an integral part of the financial statements.

Income Statement

in CHF 1,000	Notes ¹	2014	2013
Revenue			
Sales of products		29,945	30,699
Income from services		2,089	1,890
Total income		32,034	32,589
Material expenses			
Material expenses		-16,000	-16,988
Personnel expenses		-11,785	-12,217
Depreciation		-983	-1,154
Other operating income	6	503	592
Other operating expenses	6	-3,738	-3,635
Gain on disposal of fixed assets		5	-
Reversal of depreciation on buildings		1,743	-
Operating income (EBIT)		1,779	-813
Financial expenses			
Financial expenses		-549	-745
Financial income		2,301	2,489
Income before taxes		3,531	931
Non-operating result			
Non-operating result	7	338	249
Earnings before taxes (EBT)		3,869	1,180
Taxes			
Taxes		-49	-49
Net income		3,820	1,131

¹ The accompanying Notes on page 89 ff. are an integral part of the financial statements.

Notes to the Financial Statements 2014

Applying the transitional provisions of the new accounting law, these financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the Swiss Code of Obligations effective until 31 December 2012.

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

1 Investments

The information about the non-listed group companies is illustrated in Note 4 of the consolidated financial statements of the Group on page 67 of this report.

In the reporting year, dividends from Elma USA in the amount of kCHF 1,500 (previous year: kCHF 2,400), from Elma UK in the amount of kCHF 600 (previous year: kCHF 0) as well as from Elma Germany in the amount of kCHF 121 (previous year: 0) were distributed and recognized in financial income.

2 Fire insurance value of fixed assets

in CHF 1,000	2014	2013
Real estate	25,628	25,595
Machinery, equipment and other assets	19,730	19,730

The slight increase in the fire insurance value of real estates compared to the previous-year results from the revaluation of leased property.

3 Shareholders' equity

According to the information available to Elma Group, the shareholders listed on page 91, Note 9, have a holding of 3% or more in the capital stock of Elma Electronic AG.

For further information on share capital, we refer to Note 15 on page 75 of the consolidated financial statements.

4 Pledged assets

in CHF 1,000	2014	2013
Book value of pledged buildings and real estate	8,447	7,128

The increased book value of pledged buildings and real estate compared with the previous year is due primarily to the reversal of depreciation on buildings in the amount of kCHF 1,743.

5 Net release of hidden reserves

In the reporting year, hidden reserves of kCHF 1,612 were released (previous year: kCHF 0).

6 Report of foreign currency exchange gain/loss

Other operating income included realized and unrealized foreign currency exchange gains of kCHF 500 in 2014 (previous year: kCHF 576). Other operating expenses included realized and unrealized foreign currency exchange losses of kCHF 316 (previous year: kCHF 243). This results in a net currency exchange gain of kCHF 184 (previous year: kCHF 333).

7 Non-operating result

The lease of assets kept for investment purposes resulted in an income in the amount of kCHF 557 (previous year: kCHF 494). The related costs were kCHF 219 (previous year: kCHF 245) and therefore a net profit of kCHF 338 (previous year: kCHF 249) was reported.

8 Risk Management

As the parent company of the Elma Group, Elma Electronic AG is responsible for the risk management process across the group. The Board of Directors is responsible for the form and monitoring of the risk management process, the ongoing implementation of the processes has been delegated to the Group Executive Board. The objective of Elma Group's risk policy on one hand is to systematically identifying and assessing potential business risks early enough and initiating the measures required to sufficiently mitigate the key risks and on the other hand to ensure compliance with the legal requirements. Both strategic and operational risks are being included. The risk management is closely linked to the Internal Control System (ICS).

The risk assessment carried out in 2014 was based on company-specific risks and information obtained during interviews with the responsible management of the Group companies. The risk assessment is geared to a specific risk catalogue developed specifically for the Elma Group. The identified risks will be evaluated according to the likelihood of their occurrence and their potential financial implications and recorded in a risk matrix. The risks were systematically broken down into four priority groups and for each risk a respective action plan was put in place.

The implementation of the actions defined is reviewed by the Group Controlling and reported to the Board of Directors twice a year. The results of this year's risk assessment were presented and approved at the meetings of the Board of Directors on June 12, 2014 and December 2, 2014.

9 Significant shareholders

According to the information available to the Elma Group as of December 31, 2014, 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

	2014		2013	
	Number of shares	in %	Number of shares	in %
Baryon AG, Zurich	50,184	22.0	49,610	21.7
Suzy Gubelmann-Kull and André Gubelmann, Wetzikon	33,530	14.7	33,530	14.7
Brita Meier, Uitikon-Waldegg	30,379	13.3	25,659	11.2
Civen Ltd., owned by Pixi Foundation, Vaduz	21,712	9.5	21,712	9.5
Sarasin Investmentfonds, Basel	19,102	8.4	19,535	8.6
Gekla AG, Hergiswil NW	16,000	7.0	16,000	7.0
Werner O. Weber, Zollikon	12,650	5.5	12,650	5.5
Joraem de Chavonay SA, Zug	12,000	5.3	5,230	2.3

10 Borrowings

In July 2012, Elma closed a private placement as a subordinated loan in the amount of CHF 10 million from a group of private investors. The funds raised were primarily used to repay existing bank debts. The subordinated loan has a maturity of five years and a fixed interest rate of 3% p.a.

In June 2014, new frame agreements were signed with the lending banks. They have a maximum utilizable volume of CHF 14.8 million, of which CHF 6 million will be amortized in quarterly instalments to each CHF 0.2 million as from September 30, 2014. As of December 31, 2014, an amount of CHF 11.4 million was claimed. As an integral part of the new agreements, the definition of financial covenants was dispensed.

Financial covenants at December 31

	2014		Target	Actual	2013 Status
	Target	Actual			
Equity ratio ¹ resp. a minimum of CHF 25 million equity		no financial covenants	≥ 35.0%	46.0% ¹	met
EBIT in CHF million		anymore	≥ 0	2.8 million	met

¹ According to the previous loan agreements, the equity ratio was calculated as follows: (shareholders' equity + subordinated loan ./ intangible assets ./ deferred income tax assets) / (balance sheet total ./ intangible assets ./ deferred income tax assets)

(See also page 94; multi-year overview Elma Group)

Appropriation of retained earnings

Retained earnings

Retained earnings are presented to the Annual General Meeting on April 22, 2015 as follows:	2014 in CHF	2013 in CHF
Retained earnings carried forward from previous year	6,794,694	5'664,064
Net income	3,819,795	1'130,630
Retained earnings	10,614,489	6'794,694

Proposal to the Board of Director

For appropriation of retained earnings	2014 Proposal of the Board of Director in CHF	2013 Resolution of the Annual General Meeting in CHF
To be carried forward	10,614,489	6'794,694
Retained earnings	10,614,489	6'794,694

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 86 to 92), for the year ended December 31, 2014.

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, 2014 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



Patrick Balkanyi
Audit expert, auditor in charge



Christoph Schmidt
Audit expert

Winterthur, March 13, 2015

Multi-year overview Elma Group

in CHF 1,000	Swiss GAAP FER				
	2014	2013	2012	2011	2010
Revenue	118,079	113,010	111,111	117,718	126,029
EBITDA	6,596	5,383	5,021	6,853	6,396
EBITA	4,093	2,799	2,512	4,498	3,673
EBIT	4,093	2,799	2,512	4,498	3,673
Net income	2,296	838	788	1,826	1,709
in % of average equity (ROE)	9.2	3.8	3.6	9.0	8.6
Depreciation of tangible assets	2,148	1,967	1,867	1,695	1,915
Amortization of intangible assets	355	617	642	660	808
Investments in tangible assets	2,088	1,794	2,303	1,709	1,089
Investments in intangible assets	60	223	157	88	120
Cash flow from operating activities	5,342	2,391	2,596	2,318	4,858
Cash flow from investment activities	-2,139	-2,015	-2,944	-1,592	-837
Free cash flow	3,203	376	-348	726	4,021
Cash flow from financing activities	-2,970	-2,250	1,800	-200	-2,216
Non-current assets	19,118	18,795	19,283	19,316	20,300
thereof tangible assets	14,265	14,125	14,371	14,045	14,342
Current assets	48,458	46,784	45,306	46,742	46,106
thereof cash and cash equivalents	7,069	6,544	8,454	7,063	6,567
Balance sheet total	67,576	65,579	64,589	66,058	66,406
Shareholders' equity	27,210	22,576	21,995	21,198	19,231
in % of balance sheet total	40.3	34.4	34.1	32.1	29.0
Non-current liabilities	23,013	25,463	27,884	26,142	27,162
Current liabilities	17,353	17,540	14,710	18,718	20,013
Total financial liabilities	21,380	24,350	26,600	24,800	25,000
Net financial debts (financial liabilities less cash balances)	14,311	17,806	18,146	17,737	18,433
ROCE (EBITA)/(equity plus net interest-bearing liabilities) in %	9.9	6.9	6.3	11.6	9.8
Indebtedness factor (net interest-bearing liabilities/EBITDA)	2.2	3.3	3.6	2.6	2.9
Headcount (FTE) year-end	683	682	682	706	711
Revenue per employee (average)	172	167	164	167	173

Glossary

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.

AXIe (Advanced TCA Extension)

AXIe is an open modular instrumentation standard based on AdvancedTCA (ATCA) which delivers high performance instrumentation for various industries such as test and measurement and semiconductor test. It can be integrated in future hard and software development. With the AXIe, the modular concept of the telecom platform ATCA will be adapted in the test and measurement engineering.

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.

Encoder

Converter for digital or analog signals.

Enclosures & Components

One of Elma's three product lines.

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.

IP-Schutz (Ingress Protection)

International standard. It classifies the degrees of protection provided against the intrusion of solid objects in electrical enclosures.

HMI (Human Machine Interface)

The human-machine interface includes the necessary elements over which the operator controls and handles a technical device.

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.

Rotary Switches

One of Elma's three product lines.

PC 104

PC 104 is a family of embedded computer standards which define both form factors and computer buses. The standard is modular and allows consumers to stack together boards on top of each other like building blocks without a backplane. The name is derived from "personal computer" and the number of connection pins (104) of the modular plug.

SFF (Small Form Factor)

SFF is the term for enclosures and packaging which are usually smaller than the standardized 19" enclosures and have customized dimensions.

System Solutions

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

VPX/VXS

VMEbus Serial Fabric Extensions.

3U (Unit)

Rack unit or rack mount space. 1U corresponds to 1¾ inch or 44.45 mm.

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:
www.elma.com/en.eu/investors/reports

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