

## "Schlatter is back on a sound footing"

To our shareholders

Whereas in 2004 the Schlatter Group was preoccupied with achieving a turnaround, in the 2005 financial year we worked on restoring the Group's operating and financial independence. For the most part, we achieved our goal: the operating result improved substantially, Zurmont Finanz AG acquired the majority shareholding, and the successful capital increase in December strengthened Schlatter's equity base. To avoid weakening the equity ratio, which currently stands at more than 30 percent, the Board of Directors will recommend to the Annual General Meeting that the Company forego a dividend distribution for the 2005 financial year. Thanks to the positive signals coming from the market, we are also optimistic about the outlook for 2006.

**Positive business development and further improvement in efficiency** A willingness to invest in core markets and the consistent implementation of restructuring measures resulted in a marked improvement in the sales and operating performance of the Schlatter Group in the 2005 financial year. For the year under review, the Group posted net sales of CHF 180.0 million, which is equal to an increase of 13.8 percent year on year (2004: CHF 158.2 million). The operating result (EBIT) increased from CHF 1.3 million to CHF 8.3 million. This includes a positive one-off effect of CHF 1.9 million as a result of a change in the pension plan of H.A. Schlatter AG. Net income – including minority interests of CHF 6.7 million and one-off proceeds to the amount of CHF 4.7 million – was the Schlatter Group's best result in five years. The Group managed to further improve on the strong order backlog of CHF 87.7 million at the end of 2004, raising this figure by 7.5% to CHF 94.2 million as per the balance sheet date.

**Strong international demand for Schlatter products** After picking up in the second half of 2004, demand for plants produced by the Schlatter Group companies remained strong throughout the 2005 financial year. Virtually

every type of plant benefited from this demand, in particular plants for reinforcing wire mesh, for rail-welding systems, radiator production plants and technical weaving machinery for the paper industry.

The move initiated two years ago to enhance the service and after-sales business is also bearing fruit. The trend towards signing service contracts with key customers enhances the performance of Schlatter plants and systems and consequently also customer satisfaction. The importance of this business activity is evident from the increase in its share of total sales in the 2005 financial year, which is why Schlatter intends to further expand these operations.

In the Welding segment demand was particularly strong for plants manufacturing mesh and wire products and the Group successfully expanded or defended its market position in all product segments in the 2005 financial year. In the reporting period, net sales for this segment increased by 16.8 percent to CHF 145.5 million (2004: CHF 124.6 million), and thus accounted for a good 80 percent of Group sales. EBIT jumped to CHF 7.5 million (CHF 0.4 million).

In the year under review, the launch of a new generation of weaving machines enabled the Weaving segment to reinforce its market position. Net sales for the segment improved by 2.7 percent to CHF 34.5 million (CHF 33.6 million), which was equal to 19.2 percent of Group revenues. EBIT amounted to CHF 1.3 million (2004: CHF 1.8 million).

**New majority shareholder and successful capital increase** In June 2005, Zurmont Finanz AG acquired the majority shareholding in Schlatter Holding AG from the Schlatter family, and Hans R. Schlatter, the last representative of the family, retired from the Board of Directors. The Board of Directors expresses its gratitude to him for his deep commitment to the Company over many years. Both customers and business partners have reacted very positively to the acquisition of the majority shareholding by Zurmont Finanz AG. Besides Hans R. Schlatter, Dr Max Keller and Dr Rudolf W. Hug also retired from the Board of Directors at the last General Meeting. Guido Patroncini, Martin A. Messner and Martino P. Bammatter were elected to the Board of Directors as representatives of the new majority shareholder.

With a view to strengthening the Company's capital base and reducing debt, Schlatter Holding AG raised a good CHF 23 million in new capital through a capital increase in December 2005. This successful transaction raised the Company's capital ratio to above 30 percent again, which is within the normal range for the industry. Net debt has also been scaled down to a level that can be regarded as healthy. As a result of the reduction in debt and the improvement in the Company's credit standing, Schlatter was able to renegotiate all of its credit agreements with its bank; the results will be reflected in considerably lower financing costs for the 2006 financial year. The standstill agreement signed in 2003 was terminated.

Schlieren, 10 April 2006

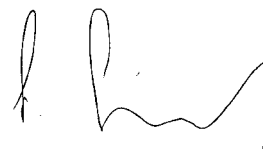


Dr Thomas Lustenberger  
Chairman of the Board of Directors

**Outlook** The overall outlook for the 2006 financial year is positive. The Schlatter Group has a large backlog of orders and the prospects of further contracts are encouraging. The huge reduction in the Group's net debt will lower interest costs, which in turn will give the Group greater scope in the conduct of its affairs. If the property in Schlieren were sold, it would bring a further improvement in this respect. A new ERP system is planned to come into operation at Company headquarters in Schlieren in mid-2006. Schlatter expects this to help to improve efficiency and enhance process management and security.

The current Chairman Dr Thomas Lustenberger, the current Vice Chairman Guido Patroncini, and Dr Kurt E. Siegenthaler will resign from the Board of Directors of Schlatter Holding AG on the occasion of the Annual General Meeting of 16 June 2006. Hans Ziegler (as new Chairman) and Werner Kummer will be proposed to the Annual General Meeting for election. Current members Martino P. Bammatter (as new Vice Chairman) and Martin A. Messner will remain on the Board of Directors.

**Acknowledgements** The high level of participation in our capital increase demonstrated that you, too, have faith in the future of the Schlatter Group. We should like to extend our sincere thanks for this expression of confidence. It would give us great pleasure to welcome you at the Annual General Meeting in Schlieren on 16 June 2006. The full 2005 Annual Report is available at [www.schlatter.ch](http://www.schlatter.ch). To obtain a printed copy (available in German only), please fill out and return the enclosed form.



Lucas Grolimund  
Chief Executive Officer

## Key figures of the Schlatter Group

		2005	IFRS 2004	2003	Swiss GAAP FER	
					2002	2001
Net sales	CHF m	<b>180.0</b>	158.2	157.7	171.5	176.6
Change on previous year	%	<b>13.8</b>	3.2	-8.1	-2.9	-1.4
Net company earnings	CHF m	<b>176.3</b>	153.1	151.1	173.4	175.1
Operating result before depreciation and amortization (EBITDA)	CHF m	<b>13.0</b>	6.2	-17.0	0.9	9.9
as % of net sales	%	<b>7.2</b>	3.9	-10.8	0.5	5.6
Operating result (EBIT)	CHF m	<b>8.3</b>	1.3	-32.4	-6.7	2.8
as % of net sales	%	<b>4.6</b>	0.8	-20.6	-3.9	1.6
Net income (incl. minority interests)	CHF m	<b>6.7</b>	-2.3	-33.7	-12.3	-2.4
as % of net sales	%	<b>3.7</b>	-1.4	-21.4	-7.1	-1.4
Net income (excl. minority interests)	CHF m	<b>6.5</b>	-2.6	-33.8	-11.7	-2.6
as % of net sales	%	<b>3.6</b>	-1.6	-21.4	-6.8	-1.5
Number of employees as at 31.12.		<b>518</b>	514	593	680	777
Average number of employees		<b>520</b>	526	633	756	688
Net sales per employee		<b>346</b>	301	249	227	257
Interest-bearing debt	CHF m	<b>31.4</b>	78.0	77.7	85.1	104.6
Net debt <sup>1</sup>	CHF m	<b>22.0</b>	57.8	67.5	61.4	90.9
Gearing <sup>2</sup>	%	<b>47.9</b>	365.0	325.3	111.3	130.0
Current assets	CHF m	<b>83.1</b>	93.5	85.7	104.2	116.9
Fixed assets	CHF m	<b>53.8</b>	56.4	55.8	71.9	96.8
Liabilities	CHF m	<b>91.0</b>	134.1	120.7	120.9	143.9
Equity (incl. minority interests)	CHF m	<b>45.9</b>	15.8	20.7	55.2	69.9
Equity (excl. minority interests)	CHF m	<b>44.2</b>	14.3	20.5	55.0	68.3
Equity financing ratio (incl. minority interests)	%	<b>33.5</b>	10.6	14.7	31.3	32.7
Return on equity (ROE) <sup>3</sup>	%	<b>14.7</b>	-12.3	-88.8	-19.6	-3.2
<b>Share data</b>						
Share capital as at 31.12.	CHF m	<b>17,575</b>	9,764	9,764	9,764	9,764
Total registered shares	No.	<b>292,917</b>	162,732	162,732	162,732	162,732
of which entitled to dividend payments	No.	<b>291,074</b>	160,889	157,594	157,594	157,904
Group earnings per registered share <sup>4</sup>	CHF	<b>39.35</b>	-15.92	-214.49	-74.44	-16.40
Equity per registered share <sup>4</sup>	CHF	<b>151.70</b>	88.76	129.86	348.94	432.72
Dividend per registered share	CHF	<b>0<sup>5</sup></b>	0	0	0	0
Payout ratio	%	<b>0<sup>5</sup></b>	0	0	0	0
<b>Share price development</b>						
High	CHF	<b>274.96</b>	173.00	180.00	301.00	489.50
Low	CHF	<b>143.63</b>	115.00	120.00	150.00	288.00
Price as at 31.12.	CHF	<b>235.10</b>	150.00	155.00	175.00	300.00
<b>Market capitalization</b>						
High <sup>6</sup>	CHF m	<b>68.9</b>	28.2	29.3	49.0	79.6
Low	CHF m	<b>23.4</b>	18.7	19.5	24.4	46.9
As at 31 December	CHF m	<b>68.9</b>	24.4	25.2	28.5	48.8

<sup>1</sup> Net debt: Interest-bearing debt less liquid assets

<sup>2</sup> Gearing: Net debt divided by equity

<sup>3</sup> Group income divided by average equity with exception as at 31.12.2005 (equity as at record date on account of issue of new shares)

<sup>4</sup> Calculated on the basis of shares entitled to dividend payments

<sup>5</sup> According to the motion to be submitted to the General Meeting on 16.6.2006

<sup>6</sup> After capital increase

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