

To our shareholders

Following a challenging period due to the economic crisis, the order intake grew significantly to CHF 73.9 million in the first half of 2011, an increase of 21.5 per cent compared to the figure for the same period of 2010 (CHF 60.8 million). As the orders received have a delayed impact on sales, the net sales of CHF 56.4 million recorded in the first half of 2011 were still below the figure for the first half of 2010. However, the order backlog rose by CHF 17.8 million to CHF 56.4 million – a substantial increase compared to December 31, 2010. The sustained strength of the Swiss franc had a marked impact on Schlatter's profitability. This situation has escalated dramatically in recent weeks. Schlatter is continuing to work on implementing cost-reduction measures and on reducing its currency exposures. The operating result (EBIT) totaled CHF –3.0 million for the first half of 2011, compared to CHF 1.9 million, or CHF –2.7 million before the non-recurring gain on the sale of land in the amount of CHF 4.6 million, for the first half of the previous year. Net profit for the first half of 2011 totaled CHF –2.7 million (CHF 2.4 million).

Schlatter Group

The Welding segment experienced a strong upturn in demand in the first half of 2011. In the Weaving segment, an increase in orders had already been observed at an earlier stage, leading to an improved segment result for the first six months of the year.

Unlike in the Weaving segment, costs in the Welding segment are incurred predominantly in Swiss francs. Despite considerable efforts within the company, a negative operating result was recorded – reflecting the unfavorable development of the Swiss franc exchange rate against the euro. The Schlatter Group's competitors in the eurozone have gained a significant pricing advantage of around 25 per cent over the last 18 months due solely to foreign exchange trends.

At CHF 56.4 million, consolidated net sales for the first half of 2011 were lower than in the same period of the previous year (CHF 62.4 million). In the larger Welding segment, the significant upturn in the order intake was mainly observed after the first quarter of 2011 and will have a positive impact in the second half of the year. It took time to increase production capacity and this had a negative impact on net sales in the first half of 2011. Due to a high level of production capacity utilization key suppliers were unable to deliver, also leading to delays at Schlatter.

As of June 30, 2011, the Schlatter Group had an order backlog of CHF 56.4 million, representing an increase of 46 per cent compared to December 31, 2010 (CHF 38.6 million).

The measures introduced over the last two years to adapt the business to the changed economic environment are having a positive effect. The Schlatter Group will continue to systematically implement measures such as restrictive cash management, various cost-reduction initiatives in the areas of procurement and administration and the reduction of

currency exposures – particularly in view of the dramatic escalation of the currency situation in recent weeks.

A plot of land in Schlieren not used for operational purposes was sold in the first half of 2010. The previous year's result benefited from the exceptional gain on this sale in the amount of CHF 4.6 million that did not recur in the current financial year. The operating result for the first half of 2011 was CHF –3.0 million (CHF 1.9 million or CHF –2.7 million excluding the sale of land). The net profit for the first half of 2011 totaled CHF –2.7 million (CHF 2.4 million).

Net working capital (excluding cash and cash equivalents, financial assets and current interest-bearing liabilities) rose by CHF 6.3 million to CHF 16.0 million in the first half of 2011. The growth of the order intake resulted in increased preliminary work and larger orders of materials, leading to higher net working capital. Free cash flow for the first six months of 2011 amounted to CHF –8.9 million (CHF –4.9 million). This resulted in net debt of CHF –3.2 million (December 31, 2010: net financial position of CHF 6.1 million).

The Schlatter Group continued to invest systematically in the development of new products in the period under review. It is currently developing new welding systems for reinforcing mesh and industrial mesh that will open up a new range of applications. The first orders for the new systems are expected to be received during 2011. The launch of a new generation of equipment is also planned in the Rail Welding product area. The Weaving segment will extend its product mix this year through the addition of a new type of machine.

Headcount increased slightly from 444 full-time equivalents as of December 31, 2010, to 450 full-time equivalents as of June 30, 2011. Annualized net sales per employee totaled TCHF 256 (December 31, 2010: TCHF 263).

Welding segment

In the first half of 2011, the Welding segment received orders totaling CHF 58.6 million (CHF 37.4 million), with the level of orders rising significantly in the second quarter in particular. While the Rail Welding and Wire Welding product areas experienced a marked increase in orders, the level of demand in the Radiators product area remained below expectations. The Welding segment generated net sales of CHF 39.5 million in the first half of 2011 (CHF 48.7 million). Having started the financial year with a very low order backlog, it reported a low level of sales in particular in the first few months of 2011. The order backlog rose substantially from CHF 24.8 million as of December 31, 2010, to CHF 44.5 million as of June 30, 2011. Due to the unfavorable foreign exchange developments the Welding segment recorded a negative operating result (EBIT) of CHF –3.7 million (CHF –2.4 million) for the first half of 2011.

Weaving segment

The recovery that was already visible in 2010 continued during the first six months of the current financial year. The order intake of CHF 14.9 million is below the figure for the first half of 2010 (CHF 23.4 million) but Schlatter expects higher level of orders in the second half of the year. As a result, the order intake for the full-year 2011 should be approximately in line with 2010. The costs and income generated by the Weaving segment are recorded entirely in euro, which is why this business is not impacted by foreign exchange rates. In the first half of 2011, the segment achieved net sales of CHF 16.9 million (CHF 13.6 million). The order backlog was CHF 11.8 million as of June 30, 2011 (December 31, 2010: CHF 13.8 million). An operating profit (EBIT) of CHF 0.9 million (CHF –0.1 million) was recorded in the period under review.

Outlook

The market development in the first half year was positive for Schlatter. However, in the current economic environment, it is difficult to evaluate the impact of the recent turmoils. The Board of Directors and the Executive Board expect the operating environment to be tough in the second half of 2011 as well as in the financial year 2012. The strength of the Swiss franc poses a considerable challenge for the Schlatter Group and will have a significant impact on the Group at least in the short term.

Walter Gränicher
Chairman of the Board of Directors

Jost Sigrist
Chief Executive Officer

Schlatter Group key figures

		1st half of 2011	1st half of 2010	2nd half of 2010	2010
Net sales	CHF million	56.4	62.4	57.3	119.7
Change compared to previous year	%	-9.5	-8.6	-1.8	-5.5
Operating result (EBIT)	CHF million	-3.0	1.9	-1.5	0.4
in % of net sales	%	-5.3	3.0	-2.5	0.4
Net profit	CHF million	-2.7	2.4	-2.2	0.2
in % of net sales	%	-4.9	3.9	-3.8	0.2
Earnings per share	CHF	-9.39	8.27	-7.44	0.81
Order intake	CHF million	73.9	60.8	48.9	109.7
Order backlog at period end	CHF million	56.4	47.0	38.6	38.6
Free cash flow¹	CHF million	-8.9	-4.9	11.3	6.4
Headcount at period end²	FTEs	450	453	444	444
Average headcount	FTEs	440	463	448	455
Net sales per employee³	CHF 1,000	256	270	256	263
		30.6.2011	30.6.2010		31.12.2010
Interest-bearing liabilities	CHF million	13.2	10.7		5.4
Net financial position (debt)⁴	CHF million	-3.2	-4.6		6.1
Gearing⁵	%	10.9	12.7		0.0
Current assets	CHF million	57.1	62.4		52.6
Non-current assets	CHF million	21.4	21.0		21.5
Liabilities	CHF million	48.8	47.4		41.2
Equity	CHF million	29.7	36.0		32.9
Equity ratio	%	37.8	43.2		44.3

¹ Free cash flow: cash flow from operating activities less purchase of property, plant and equipment, intangible assets and financial assets, plus sale of property, plant and equipment, intangible assets and financial assets

² Total full-time equivalents incl. temporary employees, excl. apprentices

³ Half-year figures, annualized

⁴ Net financial position (debt): cash and cash equivalents plus current investments (excl. derivatives from currency hedges) less interest-bearing liabilities

⁵ Gearing: net debt divided by equity

Share trading

The registered shares of Schlatter Holding AG are traded on the SIX Swiss Exchange under security number 227731. Telekurs STRN Reuters STRN.S

Abridged consolidated half-year financial statements as of June 30, 2011

Consolidated balance sheet

Assets

CHF 1,000	30.6.2011	31.12.2010
Cash and cash equivalents	9,860	11,352
Current investments	732	609
Accounts receivable for goods and services	4,893	4,981
Current income tax receivables	43	153
Other receivables	4,089	3,263
Receivables from production orders in progress	16,263	13,782
Inventories	20,392	17,876
Accrued income	834	591
Current assets	57,106	52,607
Property, plant and equipment	11,004	11,606
Intangible assets	7,710	6,993
Goodwill	308	353
Financial assets	1	1
Deferred tax assets	2,352	2,540
Non-current assets	21,375	21,493
Total assets	78,481	74,100

Liabilities

CHF 1,000	30.6.2011	31.12.2010
Accounts payable for goods and services	13,153	10,883
Liabilities from production orders in progress	9,648	12,112
Current income tax liabilities	322	710
Other payables	1,579	1,868
Accrued liabilities	5,797	5,419
Current interest-bearing liabilities	11,717	3,908
Current provisions	2,638	2,817
Current liabilities	44,854	37,717
Financial debt	1,500	1,500
Pension liabilities	1,562	1,045
Long-term provisions	764	852
Deferred tax liabilities	135	133
Non-current liabilities	3,961	3,530
Total liabilities	48,815	41,247
Share capital	17,575	17,575
Treasury shares	-42	-106
Capital reserves (premium)	14,814	14,814
Retained earnings	-2,681	570
Total equity	29,666	32,853
Total liabilities and equity	78,481	74,100

Abridged consolidated half-year financial statements as of June 30, 2011

Consolidated statement of comprehensive income

	1st half of 2011	1st half of 2010	2010
Net sales	56,436	62,368	119,682
Other operating income	631	5,223	6,140
Material and service expenses	-28,227	-30,235	-60,516
Personnel expenses	-23,713	-25,937	-46,617
Other operating expenses	-6,437	-8,026	-15,232
Depreciation and amortization	-1,701	-1,534	-3,026
Operating result (EBIT)	-3,011	1,859	431
Financial income	1,147	2,265	2,075
Financial expenses	-576	-1,160	-1,429
Profit before tax	-2,440	2,964	1,077
Income tax expenses	-302	-558	-841
Net profit	-2,742	2,406	236
Currency translation differences	-523	-813	-1,840
Changes in fair value of financial assets	6	-2	9
Other comprehensive income	-517	-815	-1,831
Overall result	-3,259	1,591	1,595
Basic earnings per share (in CHF)	-9.39	8.27	0.81

Abridged consolidated half-year financial statements as of June 30, 2011

Consolidated statement of equity

CHF 1,000	Share capital	Treasury shares	Capital reserves	Translation differences	Fair value reserves	Other retained earnings	Total equity
31.12.2009	17,575	-105	14,814	-1,113	185	3,113	34,469
Change in fair value of financial assets					-2		-2
Translation differences				-813			-813
Other comprehensive income	0	0	0	-813	-2	0	-815
Net profit 1.1.-30.6.2010						2,406	2,406
Overall result	0	0	0	-813	-2	2,406	1,591
Purchase of treasury shares		-607					-607
Share purchase plan		606				-20	586
30.6.2010	17,575	-106	14,814	-1,926	183	5,499	36,039
31.12.2010	17,575	-106	14,814	-2,953	194	3,329	32,853
Change in fair value of financial assets					6		6
Translation differences				-523			-523
Other comprehensive income	0	0	0	-523	6	0	-517
Net profit 1.1.-30.6.2011						-2,742	-2,742
Overall result	0	0	0	-523	6	-2,742	-3,259
Purchase of treasury shares		-300					-300
Share purchase plan		364				8	372
30.6.2011	17,575	-42	14,814	-3,476	200	595	29,666

Abridged consolidated half-year financial statements as of June 30, 2011

Abridged consolidated cash flow statement

CHF 1,000	1st half of 2011	1st half of 2010	2010
Cash flow from operating activities	-6,975	-11,338	2,094
Cash flow from investment activities	-1,893	6,633	4,302
Free cash flow	-8,868	-4,858	6,396
Cash flow from financing activities	7,429	-5,472	-10,795
Change in cash and cash equivalents	-1,439	-10,177	-4,399
Cash and cash equivalents as of January 1	11,352	16,392	16,392
Impact of exchange rate on cash and cash equivalents	-53	-199	-641
Cash and cash equivalents as of June 30 / December 31	9,860	6,016	11,352

Abridged consolidated half-year financial statements as of June 30, 2011**Notes to the abridged consolidated half-year financial statements****1 Consolidation principles****Basis for the preparation of the abridged consolidated half-year financial statements**

The abridged consolidated half-year financial statements have been prepared according to IAS 34 'Interim Financial Reporting'. The abridged consolidated half-year financial statements do not include all of the details contained in the consolidated annual financial statements and should therefore be read in conjunction with the consolidated annual financial statements as of December 31, 2010. These abridged half-year financial statements have not been audited or reviewed by the auditors.

The accounting principles used to prepare the abridged consolidated half-year financial statements as of June 30, 2011, are consistent with those used for the financial statements as of December 31, 2010. The standards and interpretations that entered into effect on January 1, 2011 – i.e. IAS 32 – Financial Instruments: Presentation & Classification of Rights Issues (amendments); IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments; IAS 24 – Related Party Disclosures (revised 2009); IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (amendments); Improvement Project May 2010 – did not have any impact on the half-year financial statements of Schlatter Holding AG.

The preparation of the abridged consolidated half-year financial statements requires management to make estimates and assumptions that affect the reported amounts of income, expenses, assets, liabilities and contingent liabilities as of the balance sheet date. The estimates and assumptions made by management to the best of its knowledge and belief as of the balance sheet date may deviate from the actual circumstances in the future. In this case, the original estimates and assumptions will be modified as appropriate in the year in which the changes occurred.

The activities of the Schlatter Group are not subject to any significant seasonal fluctuations.

Abridged consolidated half-year financial statements as of June 30, 2011

2 Segment information

CHF 1,000	Welding	Weaving	Total segments	1st half of 2011	
				Adjustments	Total
Net sales	39,525	16,911	56,436		56,436
Other income				210	210
Unallocated costs				-388	-388
Segment result (EBIT)	-3,721	888	-2,833	-178	-3,011
Financial result				571	571
Income tax expenses				-302	-302
Net profit				91	-2,742
Segment assets	57,399	17,954	75,353	3,128	78,481

The 'Other income' of TCHF 210 shown in the 'Adjustments' column reflects license costs charged to Schlatter Industries AG by Schlatter Holding AG. The unallocated costs of TCHF 388 result from the operating costs of Schlatter Holding AG. The financial result and income tax expenses, as well as the tax assets, tax liabilities and financial liabilities, are allocated exclusively in the 'Adjustments' column. No clients account for more than 10% of a segment's income.

CHF 1,000	Welding	Weaving	Total segments	1st half of 2010	
				Adjustments	Total
Net sales	48,736	13,632	62,368		62,368
Other income				4,782	4,782
Unallocated costs				-409	-409
Segment result (EBIT)	-2,402	-112	-2,514	4,373	1,859
Financial result				1,105	1,105
Income tax expenses				-558	-558
Net profit				4,920	2,406
Segment assets	65,968	13,702	79,670	3,737	83,407

The 'Other income' of TCHF 4,782 shown in the 'Adjustments' column reflects license costs of CHF 180 charged to Schlatter Industries AG by Schlatter Holding AG on the one hand, and the TCHF 4,602 gain on the sale of the reserve land in Schlieren on the other. The unallocated costs of TCHF 409 result from the operating costs of Schlatter Holding AG.

Abridged consolidated half-year financial statements as of June 30, 2011**3 Change in scope of consolidation**

wirepartner GmbH in Dülmen, Germany, merged with Schlatter Deutschland GmbH & Co. KG in Münster, Germany, on January 1, 2011. There were no further changes to the scope of consolidation compared to December 31, 2010.

4 Statement of comprehensive income

Net sales for the first half of 2011 totaled CHF 56.4 million, a decline of 9.6% compared to the same period of the previous year (CHF 62.4 million) due to the impact of the strong Swiss franc.

Other operating income decreased from CHF 5.2 million in the first half of 2010 to CHF 0.6 million. In the first half of 2010, other operating income included CHF 4.6 million from the sale of a plot of land in Schlieren not used for operational purposes.

The gross margin deteriorated versus the previous year as a result of the unfavorable foreign exchange situation. The Schlatter Group continued to systematically pursue various cost-reduction initiatives in the areas of procurement and administration and reduce its currency exposures. This resulted in significantly lower personnel expenses and other operating expenses. The amortization of capitalized development expenditure led to higher depreciation and amortization.

The operating result for the first half of 2011 was CHF –3.0 million (CHF 1.9 million or CHF –2.7 million excluding the sale of land).

Financial income mainly reflects gains on currency hedges. At the same time, the weak euro led to exchange rate losses on foreign currency positions in the balance sheet, which – together with interest and bank charges – accounted for a significant proportion of financial expenses.

Several Group companies reported a profit before tax. Consequently, income tax expenses were incurred despite the loss before tax posted by the Group.

The net result for the first half of 2011 was CHF –2.7 million (CHF 2.4 million).

5 Balance sheet

Equity decreased from CHF 32.9 million as of December 31, 2010, to CHF 29.7 million. The rise in net working capital also led to a slight increase in total assets to CHF 78.5 million, which explains why the equity ratio declined to 37.8% (44.3% as of December 31, 2010).

Net debt of CHF –3.2 million was recorded as of June 30, 2011 (December 31, 2010: net financial position of CHF 6.1 million). This change was mainly driven by the increase in net working capital.

The Schlatter Group pursued its share purchase plan in 2011. In the first half of the year, 2,864 shares were sold to members of the Board of Directors and the Executive Board at a discounted price. The difference between the discounted price and the market price was charged to personnel expenses.

Abridged consolidated half-year financial statements as of June 30, 2011

6 Free Cash Flow

The Schlatter Group reported a negative free cash flow of CHF –8.9 million for the first half of 2011. Following the reduction in net working capital as of December 31, 2010 (CHF 9.7 million), an increase to CHF 16.0 million was necessary during the period under review. More preliminary work had to be completed due to the increased order intake.

A cash inflow from the sale of the reserve land to the amount of CHF 8.4 million was recorded in the previous year. This cash inflow did not recur in the period under review.

7 Loan arrangements

The Schlatter Group has bilateral loan agreements that can be terminated at short notice. Its bank credit facilities (loan facilities and contingent facilities) that enable operating activities to be maintained amount to a total of CHF 40.0 million (previous year: CHF 50.0 million). Up to CHF 20.0 million (previous year: CHF 30.0 million) of this sum can be used for short-term loans. Total usage must not exceed the bank credit facility of CHF 40.0 million. The loans are not subject to any covenants.

As of June 30, 2011, the Schlatter Group had used CHF 8.4 million of the cash facilities and CHF 10.3 million of the contingent facilities.

An investment loan with a limit of CHF 6.3 million also exists, of which CHF 4.8 million (previous year: CHF 5.3 million) has been used.

8 Exchange rates

	30.6.2011	30.6.2010	31.12.2010	1st half of 2011	1st half of 2010	2010
CHF 1		Exchange rates at reference date			Average rates	
1 EUR	1.23	1.33	1.25	1.27	1.43	1.38
1 USD	0.85	1.08	0.94	0.91	1.08	1.04
1 GBP	1.36	1.63	1.45	1.46	1.65	1.61
1 BRL	0.53	0.60	0.55	0.55	0.60	0.59
1 MYR	0.27	0.33	0.31	0.30	0.32	0.32

Abridged consolidated half-year financial statements as of June 30, 2011

9 Earnings per share

	30.6.2011	30.6.2010	31.12.2010
Net profit attributable to equity holders of the parent (in CHF 1,000)	-2,742	2,406	236
Number of registered shares issued with a par value of CHF 60	292,917	292,917	292,917
Number of registered shares issued, weighted	292,917	292,917	292,917
Average number of registered shares held as treasury shares	-626	-1,845	-1,131
Total average number of dividend-bearing registered shares	292,291	291,072	291,786
Basic earnings per share (in CHF)	-9.39	8.27	0.81

As there are no conversion rights, option rights or other potential shares outstanding, earnings per share have not been diluted.

10 Contingent liabilities

There were no significant changes in contingent liabilities in the first half of 2011.

11 Events occurring after the balance sheet date

The Board of Directors approved the abridged consolidated half-year financial statements for publication on August 11, 2011.

No events occurred between June 30, 2011, and August 11, 2010, that would have required an adjustment to the book values of the Group's assets and liabilities or a disclosure in this document.