

## Schlatter increases net sales and profit in the first half of 2018

The Schlatter Group's production capacities were well utilised in the first half of 2018, enabling it to post a substantial rise in net sales. The resulting operating profit (EBIT) was up on the prior-year figure to CHF 1.6 million (H1 2017: CHF 1.0 million). In the welding segment, however, the commissioning of new generations of plant led to increases in expenditure. Investment activity in the market for mesh welding systems was strong. The volatile but high-volume reinforced mesh welding business in particular achieved a sharp increase. In the weaving segment, our customers' utilisation of production capacity is at a high level. We are seeing encouraging demand for new high-quality machines, driven by the large volume of new paper machines ordered for Asia and particularly in China. In the near term, however, the trade tariffs that have been introduced in various regions may have a negative impact on appetite for investment in mesh welding systems and weaving systems. Management expects the result for financial year 2018 as a whole to be up on the previous year.

The Schlatter Group posted an order intake of CHF 59.4 million in the first half of 2018 (H1 2017: CHF 49.1 million) and generated net sales of CHF 53.7 million (H1 2017: CHF 47.4 million). The order backlog stood at CHF 48.2 million as at 30 June 2018 (31 December 2017: CHF 42.5 million). Schlatter's operating result (EBIT) for the first half of 2018 was up on the previous year to CHF 1.6 million (H1 2017: CHF 1.0 million). The net result for the first half of 2018 was CHF 1.8 million (H1 2017: CHF 1.3 million). Schlatter generated positive free cash flow of CHF 2.0 million in the reporting period (H1 2017: CHF 0.3 million).

### Markets

#### *Systems for the manufacture of reinforcing mesh*

The robust state of the global economy kept steel prices at a high level compared with previous years. This is having a generally positive effect on the investment activity of mesh producers.

The sound economic environment combined with a process of concentration and consolidation among our customers in Europe led to production facilities being modernised, particularly in northern Europe. This, in turn, generated a substantial volume of orders in this region in the first half of the year.

Europe, Asia and the USA are still seeing rising demand for flexible, highly productive and rapidly retoolable reinforcing mesh systems. In Central American countries and the emerging markets generally, there is a continuing need for high-performance machinery for standardised reinforcing mesh. The emerging markets are growth drivers in welding systems for reinforcing mesh and made a significant contribution to order intake in the first half of the year.

In China, the construction industry uses single-rod reinforcements almost exclusively, which is why mesh production still has only a subordinate role. On infrastructure projects in particular, there is a trend towards prefabricated concrete elements.

In Brazil, the most important South American market, a very slow recovery appears to be under way. In Russia, confidence is on the increase.

In the near term, however, the trade tariffs on steel imports that have been introduced in various regions may have a negative impact on appetite for investment in mesh welding systems.

#### *Installations for the production of industrial mesh*

Sales in Europe and the USA – two of the most important markets for industrial mesh – are at a satisfactory level. In particular, the flexible and rapidly retoolable MG950 generation of machines has been well received. There is increasing demand for integrated sector solutions for the production of a range of different end products.

In China there is an increasing need for automation in the production of industrial mesh, and this is finding expression in a moderate rise in demand for new and used Schlatter installations. We expect sales in this market to rise in future; currently, though, they are still at a low level. Investment activity in Russia remains rather subdued.

#### *Rail welding*

In the stationary segment of the rail welding product field, the Schlatter Group expects the market to remain stable rather than grow. In mobile rail welding, we have put in place a partner for more attractively priced vehicle solutions so that our solutions can also be offered in additional markets.

#### *Weaving*

The demand for paper clothing machines is directly dependent on global paper production. We currently see capacity utilisation at a high level at almost all customers and increased demand for new high-quality machines. This is being driven by the large number of new paper machines being installed in Asia and particularly in China.

Conversely, our customers are showing concerns about global trade given the debate around tariffs and the threat of a trade war.

Stagnating global trade would affect brown paper, the largest paper segment, which has caused some customers to postpone their investment decisions.

#### *Spare parts and services*

Business in the spare parts and services field was on a stable trend, contributing around 30 percent of the Group's net sales. Schlatter has a large number of installations all over the world. The Group intends to exploit this potential and is drawing up another package of measures to increase sales in this field.

#### **Welding segment**

Order intake in the welding segment came to CHF 49.8 million in the first half of 2018 (H1 2017: CHF 35.3 million). Net sales were up on the prior-year period to CHF 42.4 million (H1 2017: CHF 40.2 million). The order backlog stood at CHF 42.0 million as at 30 June 2018 (31 December 2017: CHF 34.5 million).

The completion of new plant concepts for the production of reinforcing wire mesh pushed up costs significantly in the first half of 2018. The new generation of the MG316 high-performance standard mesh system is now ready for the market. The flexible and automatically retoolable MG800 will also achieve technical stability in the second half of the year, enabling higher revenues to be generated on future sales.

Significant capacity was invested in developing a new, modular machine platform. This concept is intended to cut product costs and significantly reduce the complexity resulting from the broad product portfolio. This project, which will unfold over the medium to long term, is expected to deliver lasting competitive advantages for the wire product area.

Introduced several years ago, the flexible and productive MG950 generation of industrial mesh machines now enjoys good stability and high demand. This generation of machines is also being continuously expanded on a modular basis for additional applications.

## Weaving segment

The weaving segment achieved an order intake of CHF 9.6 million in the first half of 2018 (H1 2017: CHF 13.8 million). Net sales reached CHF 11.3 million (H1 2017: CHF 7.2 million). The order backlog stood at CHF 6.3 million as at 30 June 2018 (31 December 2017: CHF 8.0 million).

The weaving segment returned to profit in the first half of the year. Although order intake was down on the prior-year period, expectations for the year as a whole are upbeat. Order intake is irregular due to the small number of projects involving relatively large order volumes.

The cycle rate of machines for the production of paper machine clothing was increased further, enabling customers to improve productivity. There was increased demand for finishing machines – the step in the process where the fabric is heat-set. Schlatter now has the opportunity to deploy the newly developed heat-setting system, a core module in the finishing machines.

The wire weaving business made a sound contribution to sales in the first half of the year. Machines for the production of security and anti-mosquito fabrics in particular are in demand.

## Production

A significant investment programme to overhaul production in Münster was approved in 2017. Most of the new production machines went into operation in the first half of 2018. This was accompanied by an increase from two-shift to three-shift production. Schlatter has thus been able itself to produce a significant number of parts which in the past were sourced externally, thereby improving the gross margin and capacity utilisation. At the same time, assembly processes were overhauled with a view to sharply increasing productivity. The last machine will come on stream in autumn 2018.

## Outlook

The sound economic environment, the innovation initiative pursued in recent years and a series of cost-cutting programmes have been a boost to the Schlatter Group. The result for the first half of the year was depressed by additional costs incurred in commissioning new plant concepts.

Order intake in the welding segment increased sharply in the first half of 2018. The marketing drive in sales, which included putting in place additional sales resources in the emerging markets and opening a sales and service facility in China, is having a positive impact, and the implementation of the package of measures to expand the service business is on schedule.

Other focal points include projects to increase efficiency, programmes to cut costs and the development of a product platform. The lead time on customer projects is to be shortened and the organisation made more flexible.

The trade tariffs that have been introduced in various regions create some uncertainty. In the near term, these may have a negative impact on appetite for investment in mesh welding systems and weaving systems.

The Board of Directors and the management still expect the results for the current financial year to show an improvement over the previous year.

Schlieren, 21 August 2018



Paul Zumbühl  
Chairman of the Board of Directors



Werner Schmidli  
Chief Executive Officer

## Key figures of the Schlatter Group

		1 <sup>st</sup> half of 2018	1 <sup>st</sup> half of 2017	2 <sup>nd</sup> half of 2017	2017
<b>Net sales</b>	<b>CHF million</b>	<b>53.7</b>	<b>47.4</b>	<b>53.7</b>	<b>101.1</b>
Change compared to previous year	%	13.3	19.1	5.9	11.7
<b>Operating result (EBIT)</b>	<b>CHF million</b>	<b>1.6</b>	<b>1.0</b>	<b>1.5</b>	<b>2.5</b>
in % of net sales	%	3.0	2.1	2.8	2.5
<b>Net result</b>	<b>CHF million</b>	<b>1.8</b>	<b>1.3</b>	<b>1.6</b>	<b>2.9</b>
in % of net sales	%	3.4	2.8	2.9	2.8
<b>Net result per registered share</b>	<b>CHF</b>	<b>1.66</b>	<b>1.19</b>	<b>1.41</b>	<b>2.60</b>
<b>Order intake</b>	<b>CHF million</b>	<b>59.4</b>	<b>49.1</b>	<b>45.5</b>	<b>94.6</b>
<b>Order backlog at period end</b>	<b>CHF million</b>	<b>48.2</b>	<b>50.9</b>	<b>42.5</b>	<b>42.5</b>
<b>Free cash flow<sup>1</sup></b>	<b>CHF million</b>	<b>2.0</b>	<b>0.3</b>		
<b>Headcount at period end<sup>2</sup></b>	<b>FTEs</b>	<b>356</b>	<b>335</b>	<b>345</b>	
Average headcount	FTEs	348	326	340	
		<b>30.6.2018</b>	31.12.2017		
<b>Interest-bearing liabilities</b>	<b>CHF million</b>	<b>0.5</b>	<b>0.3</b>		
<b>Net financial position (debt)<sup>3</sup></b>	<b>CHF million</b>	<b>13.0</b>	<b>11.2</b>		
<b>Gearing<sup>4</sup></b>	<b>%</b>	<b>0.0</b>	<b>0.0</b>		
<b>Current assets</b>	<b>CHF million</b>	<b>51.9</b>	<b>49.8</b>		
<b>Non-current assets</b>	<b>CHF million</b>	<b>6.7</b>	<b>6.3</b>		
<b>Liabilities</b>	<b>CHF million</b>	<b>31.5</b>	<b>30.7</b>		
<b>Equity</b>	<b>CHF million</b>	<b>27.1</b>	<b>25.4</b>		
<b>Equity ratio</b>	<b>%</b>	<b>46.3</b>	<b>45.3</b>		

<sup>1</sup> 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

<sup>2</sup> Total full-time equivalents incl. temporary employees, excl. apprentices

<sup>3</sup> Net financial position (debt): cash and cash equivalents less interest-bearing liabilities

<sup>4</sup> Gearing: net financial position divided by equity

### Stock exchange

The registered shares of Schlatter Industries AG are traded on SIX Swiss Exchange under securities number (Valorennummer) 227731.

Telekurs STRN

Reuters STRN.S

## Abridged consolidated half-year statements as at 30 June 2018

## Consolidated balance-sheet

## Assets

CHF 1,000	30.6.2018	31.12.2017
Cash and cash equivalents	13,509	11,460
Current investments	168	144
Accounts receivable for goods and services	5,710	4,329
Current income tax receivables	35	18
Other receivables	2,281	2,292
Receivables from production orders in progress	14,925	17,260
Inventories	14,723	14,120
Accrued income	560	131
<b>Current assets</b>	<b>51,911</b>	<b>49,754</b>
Property, plant and equipment	4,896	4,902
Intangible assets	1,356	1,230
Financial assets	0	0
Deffered tax assets	401	215
<b>Non-current assets</b>	<b>6,653</b>	<b>6,347</b>
<b>Total assets</b>	<b>58,564</b>	<b>56,101</b>

## Liabilities

CHF 1,000	30.6.2018	31.12.2017
Accounts payable for goods and services	6,934	7,769
Liabilities from production orders in progress	11,008	9,831
Current income tax liabilities	34	54
Other payables	2,862	2,845
Accrued liabilities	4,647	3,438
Financial debt	432	191
Current provisions	1,683	2,777
<b>Current liabilities</b>	<b>27,600</b>	<b>26,905</b>
Financial debt	38	76
Pension liabilities	3,461	3,304
Provisions	220	261
Deferred tax liabilities	138	117
<b>Con-current liabilities</b>	<b>3,857</b>	<b>3,758</b>
<b>Total liabilities</b>	<b>31,457</b>	<b>30,663</b>
Share capital	17,675	17,675
Capital reserves (agio)	1,767	1,767
Retained earnings	7,665	5,996
<b>Total equity</b>	<b>27,107</b>	<b>25,438</b>
<b>Total liabilities and equity</b>	<b>58,564</b>	<b>56,101</b>

## Abridged consolidated half-year statements as at 30 June 2018

## Consolidated income statement

CHF 1,000	1 <sup>st</sup> half of 2018	1 <sup>st</sup> half of 2017	2017
<b>Net sales from goods and services</b>	<b>53,654</b>	<b>47,387</b>	<b>101,115</b>
Other operating income	245	328	463
Change in semi-/finished goods, work in process	-662	-591	-507
Material and service expenses	-26,833	-23,347	-51,754
Personnel expenses	-19,262	-17,324	-35,533
Other operating expenses	-4,822	-4,423	-9,067
Depreciation and amortisation	-697	-1,056	-2,216
<b>Operating result (EBIT)</b>	<b>1,623</b>	<b>974</b>	<b>2,501</b>
Financial income	811	828	908
Financial expenses	-690	-334	-202
<b>Net result before tax</b>	<b>1,744</b>	<b>1,468</b>	<b>3,207</b>
Income tax expenses	90	-155	-331
<b>Net result</b>	<b>1,834</b>	<b>1,313</b>	<b>2,876</b>
<b>Basic earnings per share (CHF)</b>	<b>1.66</b>	<b>1.19</b>	<b>2.60</b>



## Abridged consolidated half-year statements as at 30 June 2018

## Consolidated statement of equity

CHF 1,000	Share capital	Capital reserves	Retained earnings	Total Share capita
<b>As at 31.12.2016</b>	<b>17,675</b>	<b>1,767</b>	<b>2,838</b>	<b>22,280</b>
Translations differences			-98	-98
Net result 1.1-30.6.2017			1,313	1,313
<b>As at 30.6.2017</b>	<b>17,675</b>	<b>1,767</b>	<b>4,053</b>	<b>23,495</b>
<b>As at 31.12.2017</b>	<b>17,675</b>	<b>1,767</b>	<b>5,996</b>	<b>25,438</b>
Translation differences			-165	-165
Net result 1.1-30.6.2018			1,834	1,834
<b>As at 30.6.2018</b>	<b>17,675</b>	<b>1,767</b>	<b>7,665</b>	<b>27,107</b>

## Abridged consolidated cash flow statement

CHF 1,000	1 <sup>st</sup> half of 2018	1 <sup>st</sup> half of 2017	2017
Cash flow from operating activities	2,629	739	-1,667
Cash flow from investment activities	-594	-402	-1,177
<b>Free cash flow</b>	<b>2,035</b>	<b>337</b>	<b>-2,844</b>
Cash flow from financing activities	20	159	-200
<b>Change in cash and cash equivalents</b>	<b>2,055</b>	<b>496</b>	<b>-3,044</b>
Cash and cash equivalents as at 1 January	11,460	14,420	14,420
Change in cash and cash equivalents	2,055	496	-3,044
Impact of exchange rate on cash and cash equivalents	-6	5	84
Cash and cash equivalents as at 30 June / 31 December	13,509	14,921	11,460

## Abridged consolidated half-year statements as at 30 June 2018

## Notes to the abridged consolidated half-year financial statements

## 1 Accounting principles

## Basis for the preparation of the abridged consolidated half-year financial statements

The abridged consolidated half-year financial statements have been prepared in accordance with the provisions of Swiss company law and are in accordance with Swiss GAAP FER 31. The abridged consolidated half-year financial statements do not include all the details as they are included in the consolidated annual financial statements, and should be read in conjunction with the consolidated annual financial statements as at 31 December 2017. These abridged half-year financial statements have not been audited or reviewed by the auditors.

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 at the balance sheet date. The estimates and assumptions made by the 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 adjusted to the respective reporting year in which the circumstances occurred.

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

## 2 Segment information

			1 <sup>st</sup> half of 2018
CHF 1,000	Welding	Weaving	Total segments
Net sales from plant business with third parties	28,865	9,163	<b>38,028</b>
Net sales from spare parts and service business with third parties	13,482	2,144	<b>15,626</b>
Total net sales	42,347	11,307	<b>53,654</b>
EBIT	1,194	429	<b>1,623</b>

			1 <sup>st</sup> half of 2017
CHF 1,000	Welding	Weaving	Total segments
Net sales from plant business with third parties	27,682	5,238	<b>32,920</b>
Net sales from spare parts and service business with third parties	12,488	1,979	<b>14,467</b>
Total net sales	40,170	7,217	<b>47,387</b>
EBIT	1,881	-907	<b>974</b>

**Abridged consolidated half-year statements as at 30 June 2018****3 Income statement**

Net sales increased year on year to CHF 53.7 million in the first half of 2018 (H1 2017: CHF 47.4 million).

At CHF 19.3 million in the first half of 2018, personnel expense was higher than in the prior-year period (H1 2017: CHF 17.3 million). This increase was due to the larger number of employees – a reflection of the higher net sales – as well as to personnel succession arrangements, efforts to bolster expertise and currency translation effects on personnel expenses incurred abroad.

Other operating expense increased to CHF 4.8 million (H1 2017: CHF 4.4 million); depreciation and amortisation decreased to CHF 0.7 million (H1 2017: CHF 1.1 million).

Financial income consists primarily of gains on currency forwards. Financial expense mainly includes losses on currency forwards and interest expense.

The tax result primarily includes deferred tax income arising at a foreign subsidiary.

The net result for the first half of 2018 was CHF 1.8 million (H1 2017: CHF 1.3 million).

**4 Balance sheet**

The net cash position increased from CHF 11.2 million as at 31 December 2017 to CHF 13.0 million.

Net assets from construction contracts declined to CHF 14.9 million (31 December 2017: CHF 17.2 million), while net liabilities from construction contracts climbed to CHF 11.0 million (31 December 2017: CHF 9.8 million).

Equity rose to CHF 27.1 million as at 30 June 2018 (31 December 2017: CHF 25.4 million). Total assets stood at CHF 58.6 million as at 30 June 2018, compared with CHF 56.1 million as at 31 December 2017. This results in an equity ratio of 46.3% (31 December 2017: 45.3%).

**5 Free cash flow**

The Schlatter Group generated positive free cash flow of CHF 2.0 million in the first six months of the reporting period (H1 2017: CHF 0.3 million). Net working capital decreased to CHF 12.7 million in the first half of the year (31 December 2017: CHF 14.2 million). Investments increased year on year to CHF 0.6 million (H1 2017: CHF 0.4 million).

## Abridged consolidated half-year statements as at 30 June 2018

**6 Loan arrangements**

The Schlatter Group holds loan agreements that are committed until 31 December 2018. The bank facilities (credit and contingency facilities) to maintain operating activities amount to CHF 22.75 million. Up to CHF 4.5 million of this may be used for short-term loans. The interest rate is 3.5% p.a. (prior period: 3.5% p.a.). The contingency facilities are partly tied to conditions related to Swiss Export Risk Insurance (SERV) counter guarantees. Total drawings may not exceed the CHF 22.75 million bank facility. The loans are tied to financial covenants (EBITDA).

No cash facilities had been drawn down as at 30 June 2018; drawings on the contingency facilities amounted to CHF 7.3 million (31 December 2017: CHF 7.7 million).

**7 Exchange rates**

	<b>30.6.2018</b>	30.6.2017	31.12.2017	<b>1<sup>st</sup> half of 2018</b>	1 <sup>st</sup> half of 2017	2017
CHF 1	Exchange rates at balance sheet date			Average rates		
1 EUR	<b>1.15</b>	1.09	1.17	<b>1.17</b>	1.08	1.11
1 USD	<b>0.99</b>	0.96	0.97	<b>0.97</b>	0.99	0.98
1 GBP	<b>1.31</b>	1.25	1.32	<b>1.33</b>	1.25	1.27
1 BRL	<b>0.26</b>	0.29	0.31	<b>0.29</b>	0.31	0.31
1 MYR	<b>0.25</b>	0.22	0.24	<b>0.24</b>	0.23	0.23
1 CNY	<b>0.15</b>	0.14	0.15	<b>0.15</b>	0.14	0.15

**8 Earnings per share**

	<b>30.6.2018</b>	30.6.2017	31.12.2017
Net result attributable to shareholders of Schlatter Industries AG (CHF 1,000)	<b>1,834</b>	1,313	2,876
Number of registered shares issued			
With a par value of CHF 16.00	<b>1,104,704</b>	1,104,704	1,104,704
Number of registered shares, weighted	<b>1,104,704</b>	1,104,704	1,104,704
Average number of registered shares held as treasury shares	-	-	-
<b>Total average number of dividend-bearing registered share</b>	<b>1,104,704</b>	<b>1,104,704</b>	<b>1,104,704</b>
Basic earnings per share (CHF)	<b>1.66</b>	1.19	2.60

**Abridged consolidated half-year statements as at 30 June 2018****9 Events after the balance sheet date**

The abridged consolidated half-year financial statements were authorised for issue by the Board of Directors on 9 August 2018.