

## Result adversely affected by the strength of the franc

Schlatter Group faced major challenges in 2015. These included the massive overvaluation of the Swiss franc against the euro and other currencies, the unexpectedly sharp downturn in the paper-machine clothing market, and the effects of the collapse in steel prices on the market for equipment for the production of reinforcing wire mesh. Schlatter immediately reacted to these events with a comprehensive package of measures. As a result, we succeeded in ending the 2015 financial year in line with the expectations announced when it began. There was a significant increase in spending on product development, however. The Schlatter Group today is considerably better positioned in terms of its products and services than in the previous year. Although 2016 is not expected to bring any fundamental change in the market environment, Schlatter's market positioning and new product launches should nonetheless enable us to increase market shares. The target for the 2016 financial year is to break even.

Ladies and gentlemen

The Schlatter Group recorded order intake of CHF 72.9 million in 2015 (2014: CHF 104.7 million), generating net earnings of CHF 83.2 million (2014: CHF 89.5 million). The order backlog as at 31 December 2015 stood at CHF 31.9 million (31 December 2014: CHF 42.2 million). With an operating result (EBIT) of CHF –5.9 million (2014: CHF 0.7 million), Schlatter ended the 2015 financial year in line with the expectations announced when it began. The operating result for the 2015 financial year includes one-time losses and extraordinary costs due to currency dislocations, the Employee Share Ownership Programme and restructuring provisions for the facility in Germany totalling CHF 3.2 million which will not be repeated in 2016.

The Schlatter Group is posting a consolidated result of CHF –6.9 million for the reporting period (2014: CHF –0.2 million).

## Markets

### *Equipment for the production of reinforcing and industrial wire mesh*

Steel prices collapsed during 2015, with negative effects on the investment activity of mesh producers. This collapse was due in particular to slackening growth in China that flooded the global market with low-cost wire rod, the starting material for the production of reinforcing wire mesh.

The effects of the economic and financial crisis continue to be felt in the European core markets for wire products. Confidence is slightly higher in the north of the EU, where capital spending projects are picking up again. But the next few years are not expected to bring an actual upturn in these regions. Demand is expected to be slightly stronger in south-east Asia, some countries in Central America, and the emerging markets in general. Innovative new plant designs in the field of industrial mesh enabled Schlatter to benefit from the improved momentum in the US economy.

In Brazil, the most important South American market, the new installations segment had come to a standstill in 2014, and as yet there are no signs of recovery. In Russia the fall of the rouble and the politically unstable environment made companies very reluctant to undertake capital investment. In the past China played a subordinate role in the wire product area. Even though economic growth is currently slackening, the continuing development of the construction industry could create new opportunities in this market in the coming years. In the short to medium term, however, China has greater growth potential in the field of installations for the production of industrial mesh. In 2016 Schlatter will selectively invest additional funds and resources in developing mesh production in markets where we have previously had only a low-key presence.

### *Rail welding*

While the market for mobile rail welding systems proved quiescent, markets in related areas – swivel plate welding machines in particular – strengthened in the first half of 2015. The Schlatter Group still rates the overall rail welding market as satisfactory, and new sales opportunities continue to present themselves in the emerging markets.

### *Weaving*

The fall in demand in the weaving market in 2015 was much sharper than expected. The market is on a volatile, declining trend as paper mills continue their consolidation process. Machines for the production of paper-machine clothing have become much more efficient, and the productivity of new plant is outstripping even the continuing growth in the production of packaging paper. Other fields of application such as newsprint are in decline. Capital investment is generally restricted to retrofitting work and the replacement of old equipment. The Schlatter Group is therefore not expecting a fundamental recovery to take place in 2016.

### *Spare parts and services*

Business in the spare parts and services field posted stable performance, contributing around 30 percent of net group earnings. With an enormous number of installations all over the world, Schlatter has great potential that we intend to exploit. We have developed a package of measures that will be implemented in 2016.

### **Welding segment**

Order intake in the welding segment fell from CHF 88.0 million in the previous year to CHF 58.4 million, net earnings declining from CHF 69.8 million to CHF 66.7 million. In currency-adjusted terms, order intake would have been CHF 65.1 million, with net earnings of CHF 73.1 million. In addition a major order to the value of CHF 13.7 million received in the previous year was not repeated in 2015. The order backlog at the year-end was CHF 25.3 million (31 December 2014: CHF 33.5 million). The welding segment posted a negative operating result (EBIT) of CHF –4.9 million in the year under review (previous year: CHF +0.1 million). The 2015 operating result includes one-time costs of CHF 2.8 million that will not be incurred again in 2016. At the Münster site the operating result for the welding area was negatively impacted by the partial reallocation of the site's structural costs to welding owing to the decline in weaving.

### *Wire product area*

The wire product area (equipment for the production of reinforcing and industrial mesh) suffered more than others from currency dislocations. In the new installations segment the strength of the franc gave rise to site-related cost disadvantages vis-à-vis competitors in the EU area, especially in the reinforcing wire mesh field – and these proved virtually impossible to pass on to customers. The situation in industrial mesh was similar, if less acute.

In the reinforcing wire mesh field, our largest in terms of sales, many markets all over the world remain sluggish. The sector continues to grapple with overcapacities and heavy price pressure. Its development is heavily dependent on whether major infrastructure and construction projects are implemented.

Schlatter has reacted to the changing business environment for our customers by developing new plant concepts for the production of reinforcing wire mesh. These include the high-performing MG316 machine whose market launch took place in September 2015, and the MG800, launched at the 2016 "Wire" trade fair in Düsseldorf.

The flexibility and productivity of the new generation of MG950 machines recently launched on the market have been well received in both Europe and the USA, triggering numerous replacement investments. The applications of these machines for industrial mesh manufacture are currently being extended on a modular basis, and in 2016 the foundations will be laid for the creation of integrated system solutions for the manufacture of end-products. Schlatter will design modules and equipment providing the customer with networked infrastructure for the manufacture of its product. These manufacturing concepts also integrate machines and equipment not solely relating to mesh production.

One application within industrial mesh production is the manufacture of mesh fences. The development of the high-performance NS240 machine, the uses of which include the production of mobile fences, gives Schlatter a foothold in a new market segment. Applications in the MG700 mesh-fence segment have been expanded, enabling customers to manufacture still more fencing products on the same machines.

#### *Rail welding product area*

Schlatter's dominant positioning in the global market for static rail welding equipment enabled us to maintain our market share in the 2015 financial year, and the weakness of the euro had only marginal effects on profitability. Several orders for swivel plate production machines were processed, especially in the first half of the year – helping not only to increase capacity utilisation, but also to make up for currency effects on other areas.

The field of mobile rail welding systems saw an increase in competition and price pressure, caused especially by large groups active in all aspects of track superstructure who are extending their product portfolios.

In the rail welding product area the Schlatter Group expects the market to remain stable in 2016, but not to grow. Schlatter is well positioned with the partnerships established in recent years and the new AMS200 mobile rail welding system, though this has a few technical obstacles to overcome before further market opportunities can be taken. Schlatter is currently collaborating with partners on the development of lower-cost vehicles for mobile systems, which will improve sales prospects in the emerging markets.

Projected sales of mobile rail welding systems in Russia could not be achieved because of the weakness of the rouble and political difficulties.

Post-resizing capacities in the welding segment are at present well utilised, though some bottlenecks exist, mainly in the technical departments. In addition to the continued implementation of measures to cut operating costs and increase productivity, measures effective in the medium term also have priority in 2016. Besides product development and continued efficiency increases, Schlatter is also investing selectively in market development in order to maintain and increase volumes. Schlatter's objective in the welding segment in 2016 is to break even once more.

### **Weaving segment**

The weaving segment generated orders to the value of CHF 14.5 million in the financial year (2014: CHF 16.7 million), while net earnings declined to CHF 16.5 million (2014: CHF 19.6 million). The order backlog as at 31 December 2015 stood at CHF 6.6 million (31 December 2014: CHF 8.7 million). In currency-adjusted terms, order intake would have stood at CHF 17.5 million, with net earnings of CHF 18.7 million. The segment posted an operating result (EBIT) of CHF -1.0 million in 2015 (2014: CHF +0.6 million). Restructuring provisions reduced the operating result by CHF 0.4 million in 2015. Markets in Europe, Asia and America each contributed one third of net earnings in the 2015 financial year.

Customer activities in the field of paper-machine clothing focused mainly on modernising ageing plant, i.e. both replacing control systems and fitting more modern, higher-performance components which, thanks to the modular system, can be incorporated into existing plant to increase output and enhance productivity.

In the field of wire-weaving machines, the smaller of the weaving segment's two subdivisions, projected sales were achieved. A number of attractive projects were secured and successfully completed. Wire-weaving machines had a roughly 20 percent share of the segment in 2015.

#### *Continued development of high-performance plant*

In the weaving segment the Schlatter Group is investing in the continued development of high-performance plant such as the BK860 rapier weaving machine, which is capable of producing weaves with higher fabric tension at high output. This gives the customer a crucial advantage because it improves the quality of the weave.

#### *Raising productivity in manufacturing*

The manufacturing modernisation programme launched some time ago was continued in 2015. It centred on the delivery of a five-axle-processing machine for manufacturing large, complex components. The plant has been in operation since 2015, and the results achieved to date show that it reduces processing time by an average of around 30 percent. Further efficiency increases in manufacturing are planned for 2016. The insourcing of manufacturing capacities continued at a higher level in the year under review in order to increase capacity utilisation at the Münster site.

The weaving segment market is still volatile in 2016, making it hard to assess. The Schlatter Group does not believe the new financial year will bring any fundamental improvement in the market as a whole. We have therefore initiated a programme to increase productivity at the Münster site, with concomitant cost-cutting measures. In the weaving field we believe sales have probably bottomed out. This assumption is based on the fact that most customers in the field of paper-machine clothing are large companies that apply a certain minimum investment level to avoid compromising the usability and technical condition of their capacities. We also believe Schlatter has good prospects of securing substantial projects in China. Net earnings in 2016 are expected to maintain the previous year's level with a break-even result once again.

### **Analysis of Switzerland as a business location**

The Board of Directors and management of Schlatter Industries have been conducting an in-depth study of the effects of the strong Swiss franc on the location issue, involving a detailed analysis of Switzerland's qualities as a business location. As a result we concluded that the Schlatter Group's employees in Switzerland constitute a

resource in terms of knowledge and experience that gives us a significant competitive advantage, and the geographical separation of project planning, technology and assembly in plant construction would make no sense. The Schlatter Group is therefore retaining the Schlieren site in Switzerland as the location for operations in the welding segment.

Last year, furthermore, Schlatter launched a procurement programme to speed up the transfer of purchasing to the eurozone – and labour-intensive work is being placed with strategic partners in eastern Europe. Cooperation between the Schlieren and Münster sites is being further intensified in order to make the value chain even more efficient, and the procedures for processing customer orders in Schlieren is being revised to increase productivity and reduce throughput times.

### **Positioning strengthened by product development**

In the past year the Schlatter Group adopted a rapid innovation rhythm in product development, increasing the financial resources allocated to it by 28 percent to CHF 6.3 million.

In the welding segment the innovation focus is on the wire product area in which last year saw the continued development of the MG950 generation of industrial mesh machines, the new MG700 fencing mesh machine, and the MG316 high-performance welding system in the field of reinforcing wire mesh. Another range of machines for the production of reinforcing wire mesh, the MG800s – featuring high flexibility, high performance and short retooling times – will be launched in 2016.

In September 2015 Schlatter instituted an in-house trade fair on the Schlieren site to introduce our new plant concepts to existing and potential customers. Customer feedback on the event was extremely positive, and orders have already been placed.

Weaving machines were further developed at the Münster site in the past financial year, bringing them in line with the latest technical advances. The BK860 rapier weaving machine, for example, underwent comprehensive technological renovation, resulting in substantial increases in performance and higher weave tensions.

## **Capital increase**

In May 2015 Schlatter Industries AG conducted an ordinary capital increase with subscription rights to existing shareholders and involving a reduction in the nominal value of each share. The transaction strengthened the Group's capital base and gave us time to adapt to the new exchange rate situation, pursue cost-cutting measures and push ahead with strategic initiatives. The transaction's successful implementation brought the Schlatter Group the maximum possible net issue proceeds of CHF 14.3 million.

In conjunction with the ordinary capital increase, an authorised capital increase was conducted in June 2015 for a management share-ownership programme. Under this programme members of the Board of Directors and senior management receive their fees and variable remuneration for 2015 solely in shares, at a 25% discount based on the issue price of the new shares (CHF 23.00). This programme motivates management to return the Schlatter Group to profit as soon as possible, and to position the company advantageously in the long term. The shares cannot be traded for two or three years. For accounting reasons this equity-neutral transaction with no effect on liquidity was booked through the income statement (personnel expenses) at the market price rather than the issue price. This led to a one-time personnel expense of CHF 1.1 million in 2015.

## **Changes on the Board of Directors and continuity in Group Management**

Peter Müller has decided to step down from the Board of Directors of Schlatter Industries AG, effective on the date of the next Ordinary General Meeting. We very much regret this, and we offer him our sincere thanks for his dedicated and valuable work on our Board of Directors over the last ten years.

Two new members of the Board of Directors of Schlatter Industries AG will be elected at the Ordinary General Meeting. The nominees are Nicolas Mathys, co-founder and partner of Zug Finance AG, Baar, and Michael Hauser, CEO of Tornos, another listed Swiss machine tool manufacturing company. Nicolas Mathys has been a significant Schlatter Group shareholder for many years, while Michael Hauser has many years' industrial experience in the field of mechanical and system engineering. The Board of Directors is convinced that these two personalities will provide fresh impetus for the Schlatter Group's continued long-term development.

There were no changes to the membership of Group Management in the 2015 financial year.



## Acknowledgements

Currency dislocations and the economic environment presented the Schlatter Group with major challenges in the 2015 financial year. All stakeholders have made important contributions to the Group's long-term stabilisation. On behalf of the Board of Directors and Group Management we offer you, our shareholders, heartfelt thanks for the trust that you have placed in the company. Your support enabled us to conduct a capital increase giving the Schlatter Group a net financial position as at the end of 2015, and providing us with the time to adjust to the current environment.

We look forward to welcoming you to the General Meeting in Schlieren on 3 May 2016. You can download the full 2015 Annual Report from our website [www.schlattergroup.com](http://www.schlattergroup.com), or order it using the enclosed form.

## Outlook

The Schlatter Group initiated measures to respond to the changed market environment at an early stage. Although the exchange rate situation between the euro and the Swiss franc remains a factor, it is far more important to the Schlatter Group to be able to increase volumes in plant construction and after-sales service. We accordingly invested substantial funds in the implementation of our development and products roadmap in 2015, and this should have positive effects in 2016. Schlatter has also initiated a sales campaign in order to increase net earnings. This entails a number of measures, including the establishment of additional sales resources in the emerging markets and the opening of a sales and service facility in China. In addition a comprehensive package of measures has been devised to intensify service business. For the current financial year the Board of Directors and Group Management are again aiming to achieve a break-even result.

The Board of Directors will recommend to the General Meeting on 3 May 2016 that the company should not make a dividend payment for the 2015 financial year.

Schlieren, March 14, 2016



Paul Zumbühl  
Chairman of the Board of Directors



Werner Schmidli  
Chief Executive Officer

## Key figures of the Schlatter Group

		2015	2014
<b>Net sales</b>	CHF million	<b>83.2</b>	<b>89.5</b>
Change compared to previous year	%	-7.0	-7.7
<b>Operating result (EBIT)</b>	CHF million	<b>-5.9</b>	<b>0.7</b>
in % of net sales	%	-7.1	0.8
<b>Net result</b>	CHF million	<b>-6.9</b>	<b>-0.2</b>
in % of net sales	%	-8.3	-0.2
<b>Order intake</b>	CHF million	<b>72.9</b>	<b>104.7</b>
<b>Order backlog</b>	CHF million	<b>31.9</b>	<b>42.2</b>
<b>Headcount at period end</b>	FTEs	<b>310</b>	<b>313</b>
Average headcount	FTEs	314	309
<b>Net sales per employee</b>	CHF 1,000	<b>265</b>	<b>290</b>
<b>Interest-bearing liabilities</b>	CHF million	<b>0.6</b>	<b>11.3</b>
<b>Net financial position (debt)<sup>1</sup></b>	CHF million	<b>2.1</b>	<b>-7.9</b>
<b>Gearing<sup>2</sup></b>	%	<b>0.0</b>	<b>57.1</b>
<b>Free cash flow<sup>3</sup></b>	CHF million	<b>-5.4</b>	<b>-4.6</b>
<b>Current assets</b>	CHF million	<b>39.8</b>	<b>38.0</b>
<b>Non-current assets</b>	CHF million	<b>9.3</b>	<b>11.2</b>
<b>Liabilities</b>	CHF million	<b>27.5</b>	<b>35.3</b>
<b>Equity</b>	CHF million	<b>21.6</b>	<b>13.9</b>
<b>Equity ratio</b>	%	<b>44.0</b>	<b>28.2</b>
<b>Return on equity (ROE)<sup>4</sup></b>	%	<b>-38.7</b>	<b>-1.3</b>
<b>Key share figures</b>			
Share capital as of December 31	CHF 1,000	17,675	13,465
Total registered shares	Anzahl	1,104,704	426,250
of which entitled to dividend payments	Anzahl	1,104,704	426,081
Net result per registered share <sup>5</sup>	CHF	-6.22	-0.42
Equity per registered share <sup>5</sup>	CHF	19.55	32.54
Dividend per registered share	CHF	0 <sup>6</sup>	0
Payout ratio	%	0 <sup>6</sup>	0
<b>Share price development</b>			
High	CHF	77.18	159.00
Low	CHF	28.30	108.00
Year-end	CHF	30.00	140.00
<b>Market capitalization</b>			
High	CHF million	85.3	67.8
Low	CHF million	31.3	46.0
Year-end	CHF million	33.1	59.7

<sup>1</sup> Net financial position (debt): cash and cash equivalents less interest-bearing liabilities

<sup>2</sup> Gearing: net financial position divided by equity

<sup>3</sup> Cash flow from operating activities less purchase of tangible fixed assets and intangible assets, plus sale of tangible fixed assets and intangible assets

<sup>4</sup> Net result divided by average equity

<sup>5</sup> Determined on the basis of dividend-entitled shares

<sup>6</sup> In accordance to the proposal to the Annual General Meeting of May 3, 2016

## 2015 Annual Report of Schlatter Industries AG

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