schlatter

the secure connection

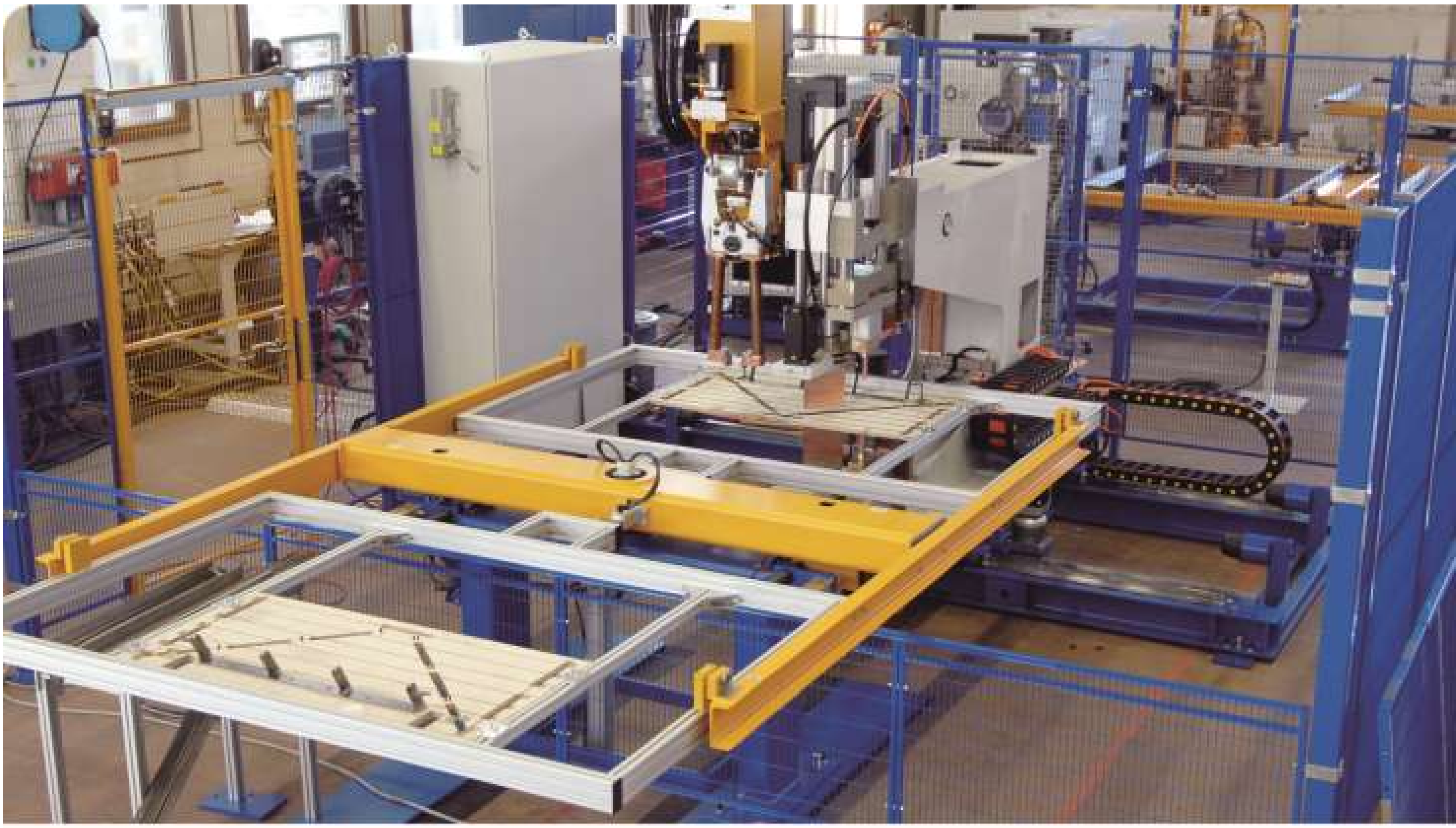
Annual Report 2017

Table of contents

The German version of the 2017 Annual Report is binding

The Schlatter Group

The Schlatter Group is one of the leading specialists in plant engineering for resistance welding systems for reinforcement mesh, industrial mesh and butt welding systems for rails as well as weaving and finishing equipment for the production of paper machine clothing, wire fabrics and wire mesh. Thanks to its many years of experience in the field of plant technology, its innovative strength and its reliable service, the Schlatter Group – which is listed on the SIX Swiss Exchange in the Swiss Reporting Standard – guarantees its customers a range of powerful and high-quality production equipment.



Resistance Welding Segment

Schlatter has a broad range of experience in the development and manufacture of welding systems for reinforcing wire mesh and industrial mesh, as well as mobile and stationary rail welding equipment.

Core Technology: Welding
Ever since its foundation, Schlatter has concentrated on electrical resistance welding – a bonding process in which metal components are heated to welding temperature with electric current and joined together by the simultaneous impact of mechanical force. Our core technology is highly versatile, enabling large numbers of welding processes to be carried out quickly, accurately and at low cost.

Wire Welding Product Area
Our machines feature high production output, flexibility, short retooling times and reliable operation, making Schlatter an expert global systems provider in the markets for both reinforcing and industrial mesh. Structured on the modular principle, our broad range of basic machines and add-on modules gives customers economic solutions customized to meet their needs.

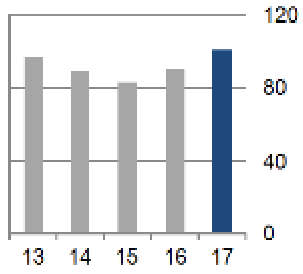
Rail Welding Product Area
In the Rail Welding Product Area, the Schlatter Group develops stationary and mobile rail welding equipment. An underlying factor to the global market leadership of the Schlatter systems is the qualitative advantages of the core technology, which are cost effective for our customers in the railway industry.

Weaving Segment

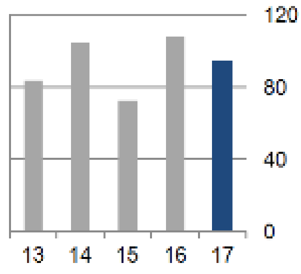
Under the Jäger brand, the Schlatter Group offers technologically advanced weaving and finishing machines for paper-machine clothing, as well as wire fabrics and mesh.

PMC (Paper Machine Clothing) Product Area
Schlatter's Jäger brand is the leading manufacturer of machines for the production of paper-machine clothing. Jäger weaving machines produce all modern multilayer weaves which are used on the world's fastest paper machines.

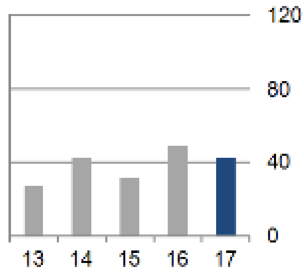
Wire Weaving Product Area
The Wire Weaving Product Area develops and builds wire- and mesh-weaving machines that are designed for top-quality weaves. The products for which these wire weaving machines are used include security weaves, airbag weaves, protective weaves and other industrial weaves. Mesh weaving machines are used for example for the production of fences, protective grills and sieve trays.



Net sales (CHF m)



Order intake (CHF m)

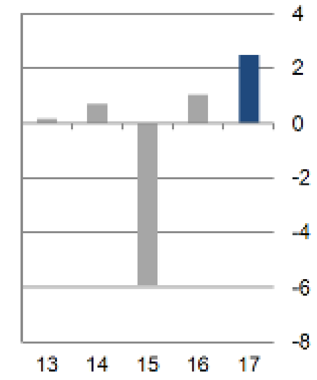


Order backlog (CHF m))

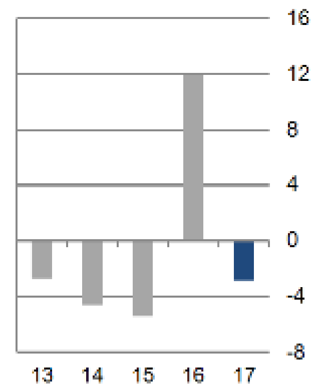
Schlatter Group

		2017	2016	2015	2014	2013 [1]
Net sales	CHF million	**101.1**	**90.5**	**83.2**	**89.5**	**96.9**
in comparison to previous year	%	**11.7**	8.8	-7.0	-7.7	-16.1
Operating result (EBIT)	CHF million	**2.5**	**1.1**	**-5.9**	**0.7**	**0.2**
in % of Net sales	%	**2.5**	1.2	-7.1	0.8	0.2
Net result	CHF million	**2.9**	**0.5**	**-6.9**	**-0.2**	**-0.4**
in % of Net result	%	**2.8**	0.6	-8.3	-0.2	-0.4
Order intake	CHF million	**94.6**	**107.7**	**72.9**	**104.7**	**84.0**
Order backlog	CHF million	**42.5**	**49.0**	**31.9**	**42.2**	**27.1**
Headcount per 31.12.	FTEs	**345**	**319**	**310**	**313**	**313**
average headcount	FTEs	**332**	312	314	309	323
Net sales per employee	CHF 1000	**305**	**290**	**265**	**290**	**300**
Interest bearing liabilities	CHF million	**0.3**	**0.5**	**0.6**	**11.3**	**7.3**
Net financial position (debt) [2]	CHF million	**11.2**	**14.0**	**2.1**	**-7.9**	**-3.0**
Gearing [3]	%	**0.0**	**0.0**	**0.0**	**57.1**	**21.5**
Free Cash Flow [4]	CHF million	**-2.8**	**11.9**	**-5.4**	**-4.6**	**-2.7**
Current assets	CHF million	**49.8**	**48.1**	**39.8**	**38.0**	**36.9**
Non current assets	CHF million	**6.3**	**7.3**	**9.3**	**11.2**	**12.6**
Liabilities	CHF million	**30.7**	**33.1**	**27.5**	**35.3**	**35.5**
Equity	CHF million	**25.4**	**22.3**	**21.6**	**13.9**	**14.0**
Equity ratio	%	**45.3**	**40.2**	**44.0**	**28.2**	**28.2**
Return on equity (ROE) [5]	%	**12.1**	**2.3**	**-38.7**	**-1.3**	**-2.8**

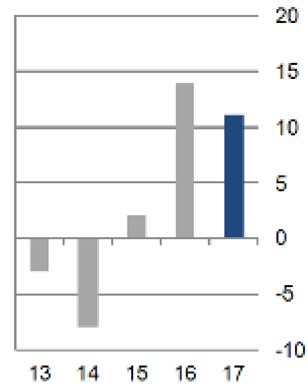
1 Restatement 2013 due to the incorrect presentation of a financial liability in connection with a reduction in rent granted in 2012 and 2013 with repayment over the remaining term of the lease.
2 Net financial position (debt): cash and cash equivalents less interest bearing liabilities
3 Gearing: Net financial debt divided by equity
4 Cash flow from operating activities less purchase of fixed assets and intangible assets, plus sale of fixed assets and intangible assets
5 Net result divided by average equity



Operating result EBIT (CHF m)



Free Cash Flow (CHF m)



Net financial position (debt) (CHF m)

		2017	2016	2015	2014	2013
Key share figures						
Share capital as of 31st December	CHF 1 000	**17 675**	17 675	17 675	13 465	13 465
Total registered shares	No.	**1 104 704**	1 104 704	1 104 704	426 250	426 250
Dividend entitled registered shares	No.	**1 104 704**	1 104 704	1 104 704	426 081	426 081
Net result per registered share [1]	CHF	**2.60**	0.46	-6.22	-0.42	-0.93
Equity per registered share [1]	CHF	**23.03**	20.17	19.55	32.54	32.81
Payout ratio	CHF	**0**[2]	0	0	0	0
Payout Ratio	%	**0**[2]	0	0	0	0
Share price development						
High	CHF	**58.00**	44.00	77.18	159.00	210.00
Low	CHF	**38.00**	29.20	28.30	108.00	110.00
Year end	CHF	**47.75**	38.75	30.00	140.00	149.50
Market capitalization						
High	CHF million	**64.1**	48.6	85.3	67.8	89.5
Low	CHF million	**42.0**	32.3	31.3	46.0	46.9
Year end	CHF million	**52.7**	42.8	33.1	59.7	63.7

[1] Calculated on the basis of dividend bearing shares
[2] According to the proposal to the Annual General Meeting on 3 May 2018

Schlatter Group increases net sales and profit

The Schlatter Group increased both net sales and profit in the financial year 2017. The current good state of the world economy and the major development initiatives of recent years are having a positive impact on the willingness to invest of our customers and on our market success; Schlatter has successfully gained market share with its newly launched products. Whereas the welding segment generated an impressive profit in the 2017 financial year, the weaving segment slipped back into the red. No fundamental change in the market environment is expected in 2018, and Schlatter's market position has been further strengthened by the product development drive. In the financial year 2018, Schlatter is targeting a profit in excess of the previous year; both segments should contribute to this increase in profitability.

Paul Zumbühl
Chairman of the Board of Directors

Werner Schmidli
Chief Executive Officer

The Schlatter Group increased net sales by 11.7% to CHF 101.1 million in the 2017 financial year (2016: CHF 90.5 million) and generated a lower order intake to the previous year of CHF 94.6 million (2016: CHF 107.7 million). As of 31.12.2017, the order backlog stood at CHF 42.5 (31.12.2016: CHF 49.0 million). The Schlatter Group posts a positive operating result (EBIT) of CHF 2.5 million for the reporting period (2016: CHF 1.1 million). With a consolidated net result of CHF 2.9 million (2016: CHF 0.5 million) , the Schlatter Group closes the financial year 2017 with a profit that significantly outstrips the previous year's result.
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Markets

Systems for the manufacture of reinforcing mesh

Following the slight recovery in the 2016 financial year, steel prices managed to maintain a rather higher level in 2017 compared to previous years. Together with the generally good state of the world economy, this had a positive effect on the investment activity of mesh producers. Furthermore, the higher oil price is fuelling expectations that in oil-producing countries, infrastructure projects postponed for prolonged periods in the past will now finally be realised.

Surplus capacity at mesh factories in Europe has given further impetus to consolidation and concentration initiatives on the part of customers. The large industrial groups that dominate the market are modernising their production facilities, particularly in northern Europe. Schlatter has benefited from this development, winning a number of large orders over the past two years.

China is the world's largest consumer of construction steel. The local construction industry is, however, almost entirely dominated by mono-rod reinforcements. While Schlatter is not expecting conventional mesh factories to grow, it is expecting a rise in the use of prefabricated concrete elements in which welded mesh plays an ever-increasing part. In southeast Asia we are seeing good demand for flexible, highly productive and rapidly upgradeable reinforcing mesh installations.

Business in Brazil for new systems came to a standstill in 2014. We are, however, currently seeing a slight recovery in the investment mood among customers in our key South American market. Several projects were won during the 2017 financial year, which makes us cautiously optimistic with respect to future developments. In various Central American countries and in the emerging markets in general, there is still a need for high-performance machines for standardized reinforcing mesh.

Installations for the production of industrial mesh

The MG950 product family, which was launched several years ago and has continually been further developed, has again won numerous orders thereby establishing a stable business base. Alongside Europe, the USA is one of the most important markets for industrial mesh.

In China, the potential in the field of industrial mesh production is growing as the level of automation and quality requirements increase. This is reflected on the one hand in a growing demand for reconditioned, used Schlatter systems and on the other hand in the demand for new systems projects.

In Russia, we are seeing a gradual recovery in the area of systems for industrial mesh production.

Since 2016, Schlatter has selectively been investing additional money and resources in the marketing of mesh production systems in markets where it previously only had a low-key presence, such as the Middle East. In 2017 financial year, the first significant sales were booked in these regions.

Rail welding

Sales of rail welding systems developed at a modest stable level. Growth in this profitable market is difficult to achieve as Schlatter operates in a small niche and any expansion of the product offering would mean competing with major groups that already enjoy an established market presence.

Equipment for the production of paper machine clothing and wire netting

The sales generated in 2017 financial year were broadly on a par with the level of the previous year. The Asian region has seen an increase in demand, with the bulk of investment in new systems taking place in China. In Western markets, the focus of customer activities remains on the optimisation of existing production sites. In previous years the market exhibited a volatile, declining trend as paper mills continued the process of consolidation. This trend appears to have run its course, and local manufacturers in China are now growing. In recent years, our machines for the production of paper machine clothing have become much more efficient compared to those of competitors. Growth in both global and online trade, together with the decommissioning of old paper mills in China for environmental reasons, is likely to result in an increase in investments in this market. Other fields of application such as newsprint are in decline. The Schlatter Group believes the market has now stabilised, and anticipates an order intake in the financial year 2018 at least matching the previous year's figure.

Spare parts and service
Business in the spare parts and service field posted a stable performance, and contributes around 30 percent to the Group's net sales. Schlatter has a great number of installations all over the world. With a view to strengthening the after-sales business, the existing potential in the wire area should be used more intensively.

Product development

The Schlatter Group channelled significant financial resources into product development in 2017. In the reporting period, this investment amounted to CHF 5.1 million (2016: CHF 5.4 million). In the 2018 financial year, a similar level of expenditure in product development is planned.

In the welding segment, the focus of innovation is on the wire product area (systems for the production of reinforcing and industrial mesh). Thanks to the development of a new machine platform, product costs are to be cut and the complexity resulting from the broad product portfolio reduced substantially. This project, which will unfold over the medium to long term, is expected to deliver lasting competitive advantages for the wire product area.

Product innovations, such as the continual development of the MG950 industrial mesh product family and the expansion of the MG800 systems family in the area of reinforcing mesh, are further points of focus. For example, the MG800 systems family, which is characterised by high flexibility, high efficiency levels and short conversion times, is to be supplemented by a much more cost-effective variant in the lower performance area. Furthermore, all projects in the market containing prototypes are to be stabilized and completed in 2018.

At the site in Münster, weaving machines were brought into line with the latest technical advances. Among other things, this included the successful launch of the new BK860 generation of rapier weaving machines for the drying area. In addition, the range of finishing machines was enhanced with a number of functional improvements to the benefit of customers

Substantial investments in production at the location in Münster

A significant investment programme to overhaul production in Münster was approved in 2017. The new production machinery will for the most part enter into operation in the financial year 2018. Parallel to this development, the manufacturing process will be increased from 2-shift to 3-shift production. This will allow Schlatter to produce itself a significant number of parts that have up until now been sourced externally, which should in turn improve both the gross margin and capacity utilisation. At the same time, assembly processes are being overhauled with a view to significantly increasing productivity.

Changes to Group Management

As of 1st January, 2017, Harald Reich was appointed Managing Director of Schlatter Deutschland GmbH & Co. KG and a member of Group Management. Frank Schröter, the former head of Schlatter Deutschland GmbH who had worked at the site in Münster for 37 years, took early retirement at the end of June 2017. Michaela Wingeier, Head of Human Resources, has accepted a new challenge outside of the Schlatter Group and will leave the company with effect of July 31, 2018. We would like to thank both Michaela Wingeier and Frank Schröter for their dedicated work and wish them all the best for the future.

There were no changes to the Board of Directors during the past financial year.

Acknowledgements

Over the past few years, the Schlatter Group was confronted with a number of major challenges. During this period, all stakeholders made important contributions to secure a lasting stability for the Group. This commitment had its first effects in the financial year 2016 and further progress has impacted the 2017 financial year. On behalf of the Board of Directors and the management, we sincerely thank our employees for their active support. We also thank our customers for the challenging and exciting projects that we were able to successfully realize together in the past financial year. You, dear shareholders, we would like to thank for the trust you have shown us with your commitment to our company.

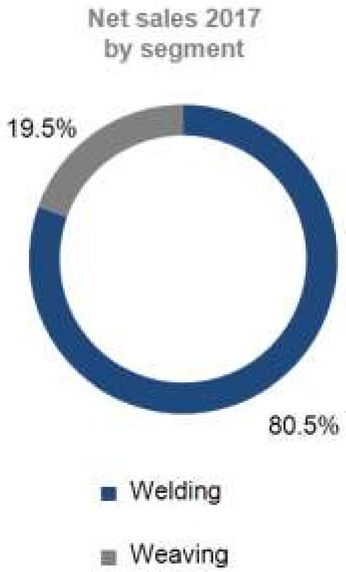
Outlook

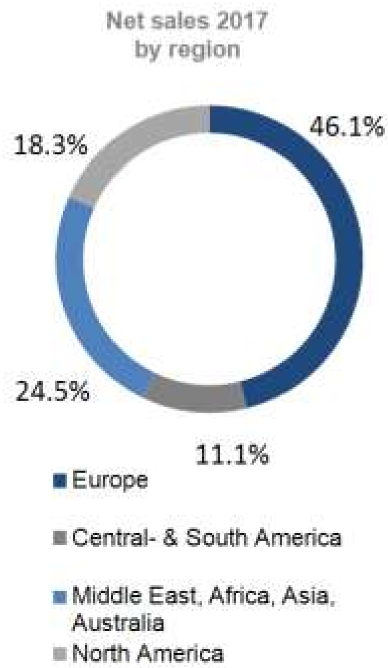
The innovation initiatives of recent years, the more buoyant market environment and the upturn in the global economy as well as the somewhat weaker Swiss franc give the Schlatter Group a boost. Despite the still exacting conditions, Schlatter is well positioned for the 2018 financial year. Following the above-average level of order intake in 2016, this rate returned to a normal level in 2017. For the financial year 2018, we expect a moderate increase. The marketing drive in sales which includes the setting-up of additional sales resources in the emerging markets and the establishment of a sales and service facility in

China, results in increasing sales in these regions. The package of measures to reduce product costs and improve the price level for weaving machines should help the weaving segment return to profitability in 2018. The Board of Directors and the management are aiming for a profit for the 2018 financial year that is higher than the previous year. The Board of Directors will propose to the Annual General Meeting on 3 May 2018 to forgo the distribution of a dividend for the 2017 financial year.

Paul Zumbühl
Chairman of the
Board of Directors

Werner Schmidli
Chief Executive
Officer





Welding segment generates higher sales and profit

The cost-cutting measures implemented in 2015 due to the strength of the Swiss franc have further confirmed their positive impact on earnings. In addition, the moderate weakening of the Swiss franc will sustain the profitability of the Welding segment in the 2018 financial year. Projects to reduce manufacturing and production costs have established themselves as a permanent task. With the development of a new machine platform, the complexity is to be reduced and product costs enduringly lowered in the long term. No fundamental change is expected in the market environment for 2018 and given the product development drive of recent years, the market positioning is promising. In the Welding segment, Schlatter is aiming for the financial year 2018, for net sales similar to the previous year and a higher profit.

In the Welding segment, net sales increased to CHF 81.4 million in the 2017 financial year (2016: CHF 69.8 million). Order intake of CHF 73.8 million was as expected below the level of the previous year (2016: CHF 86.7 million). The comparatively high order intake of the previous year included two large orders totaling CHF 17.5 million. The order backlog at the end of the year amounted to CHF 34.5 million (31.12.2016: CHF 42.1 million).

Systems for the manufacture of reinforcing mesh

In the reinforcing mesh area, our largest in terms of sales, a slight recovery has taken hold in many markets around the world. Previously postponed modernisation and replacement investments on the part of customers have now been realised. Compared to the previous year, the volume of business processed has almost doubled which has led to positive economies of scale and improved profitability.

Schlatter has reacted in recent years to the changed conditions for its customers with the development of new plant concepts for the production of reinforcing wire mesh. These include, for example, the new generation of the MG316 high-performance welding system and the MG800 system concept. The sales successes show that the system concepts meet the customers' needs.

Systems for the production of industrial mesh

The flexible and productive MG950 machine generation with its application extensions has become well established in Europe and also in the USA. The application possibilities of this plant generation for the production of industrial mesh will be further extended on a modular basis. The trend is towards integrated system solutions for the production of end products. These manufacturing concepts also integrate machines and equipment that are not restricted to production of mesh alone, which will affect the development of this business in the coming years.

One particular application within industrial mesh production are systems for producing mesh fences. Schlatter has expanded its product portfolio in recent years with the high-performance NS240 system, which can be used, for example, for the production of mobile fences, and the MG700 flexible mesh fence system for flexible applications, with which even more fence products can be produced. Along with the development of the machine platform, a new systems family is to be created in the fencing mesh area with a view to covering customer needs more comprehensively.

Rail welding product area

Thanks to its dominant market position for stationary rail welding equipment, Schlatter was able to maintain its market share in the 2017 financial year. The market volume, in this product area is however, significantly lower compared to that of mesh machines.

In the field of mobile rail welding systems, competition has increased as large corporations with a comprehensive offering in the area of track superstructure are expanding their product portfolio into mobile rail welding. These companies not only have greater market power across the entire track superstructure area, but also offer services such as contracting, company leasing or rental of equipment. It is pleasing to note that the sale of mobile rail welding systems in Russia, which had been targeted in the past, have picked up again and several contracts have been concluded. Schlatter is the first Western company to homologate mobile systems in Russia and thereby obtain state approval. This homologation is also applicable to all other CIS countries.

Outlook

With the current order backlog, the existing capacities in the Welding segment are well utilized. Bottlenecks exist in particular in the technical departments and in the commissioning of sold equipment. In addition to the further implementation of measures to increase productivity and reduce manufacturing costs, further medium-term measures have priority. Schlatter invests concertedly in product development and in the development of markets. In addition, the strengthening of after-sales is given high priority. In the Welding segment, Schlatter aims for the 2018 financial year net sales comparable to the current year and a higher profit.

Major investment programme launched for production in Münster

Despite good capacity utilization, the weaving segment realized a loss in the 2017 financial year. One reason for this development is a lack of finishing machines for technical textiles, which have a higher level of profitability than weaving machines. A combination of product cost-cutting measures and a higher price level for weaving machines should ensure a return to profitability in 2018. Net sales in the 2017 financial year were primarily generated by machinery for the manufacture of paper machine clothing. The sales volume in the wire weaving machinery area accounted for some 15 percent of the Weaving segment's net sales in 2017, which represented a slight increase. Around a third of net sales at the site in Münster is generated by the manufacture of parts and modules for the site in Schlieren.

In the 2017 financial year, the order intake in the weaving segment remained unchanged at CHF 20.8 million (2016: CHF 21.0 million). Net sales in the reporting year amounted to CHF 19.7 million (2016: CHF 20.7 million) slightly below the level of the previous year. As at December 31, 2017 the order backlog stood at CHF 8.0 million (31.12.2016: CHF 6.9 million).
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Weaving machines for paper machine clothing (PMC)

The BK860 systems model in the drying area was successfully introduced to customers. This extends the area of application of the BK860 system type from form-sieving to dry sieving. Thanks to the higher number of revolutions reached by the BK860 for dry sieving, our customers are benefiting from a major productivity leap. In the finishing area, a number of follow-up orders were booked in the 2017 financial year with the thermosetting system, which was newly developed in 2016 and offers superior process functionality as well as lower energy consumption.

Wire weaving

The GD620 woven-wire screen assembly machine overhauled in 2016 was successfully launched in the market; initial orders were delivered in the first half of 2017. This system represents the first solution offered worldwide for the fully-automatic weaving of 8mm spring steel wire for fine sieving. This has opened up new sales potential in the area of wire weaving.

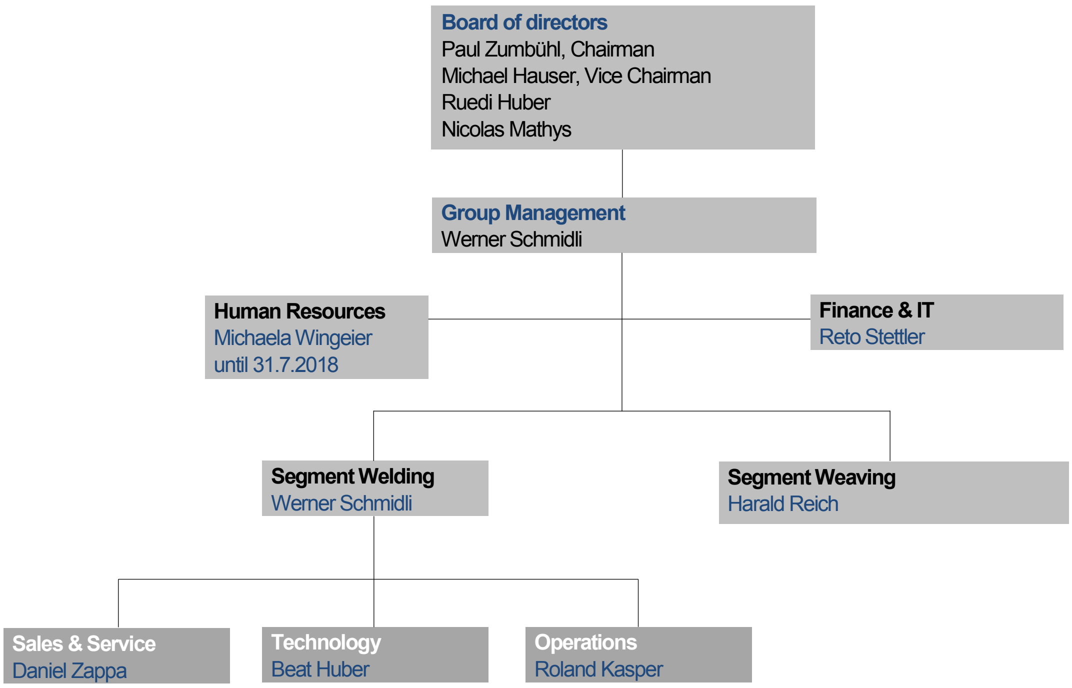
Outlook

The Schlatter Group expects a positive market environment for the new financial year. Capacities in the weaving segment are well utilized. It is expected that profitability will increase significantly and that the segment will return to the profit zone over the course of the new financial year. For 2018, Schlatter is aiming to maintain net sales at the prior-year level and achieve a profit.

Responsible corporate management

By enacting guidelines appropriate to the size of the company, Corporate Governance at the Schlatter Group ensures that business policy is transparent and cautious, and that the resources employed are used efficiently. The present Corporate Governance Report has been prepared in accordance with the requirements of the SIX Swiss Exchange guidelines for information for Corporate Governance.

Group structure and organization chart per 31.12.2017



Listed company

Schlatter Industries AG is the Schlatter Group holding company. Its registered office and headquarters are at Brandstrasse 24 in Schlieren (CH). Either directly or indirectly, the company holds all the shares in the Schlatter Group companies. Registered shares in Schlatter Industries AG (formerly Schlatter Holding AG) were listed on the Main Segment of the SIX Swiss Exchange from 1998 until 30 November 2012. It transferred to the Domestic Standard Segment on 3 December 2012 when the company adopted Swiss GAAP FER for its accounting rules instead of IFRS. Owing to the revision of regulatory standards, the shares have been traded in the Swiss Reporting Standard of the SIX Swiss Exchange since 3 August 2015.

Swiss securities no.	227731
ISIN	CH0002277314
Telekurs	STRN
Reuters	STRN.S

The Schlatter Industries AG market capitalization as at 31.12.2017 was CHF 52.7 million.

Unlisted group companies

Information on the Schlatter Group companies can be found on pages 67 and 80 of this Annual Report.

Major shareholders

Information on major shareholders can be found on page 83 of this Annual Report.

The disclosure reports published during the year under review are available on the SIX Swiss Exchange website:
www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html

Shareholder structure

Number of shares	Number of shareholders
1 to 10	47
11 to 100	114
101 to 1000	119
1 001 to 10 000	20
over 10 000	13

These figures are based on the registered shareholders entered in the company's share register as at 31.12.2017. Of the 1,104,704 shares issued, 964,047 shares (87.3%) were entered in the share register on the reporting date.

Cross shareholdings

There are no mutual interests in terms of either capital or voting rights between Schlatter Industries AG and the major shareholders listed on page 83 of this Annual Report.

Capital structure

Capital

Ordinary share capital

As at 31 December 2017 Schlatter Industries AG had an ordinary share capital of CHF 17,675,264, divided into 1,104,704 registered shares with a nominal value of CHF 16.00 each. The share capital is fully paid up. Each registered share carries one vote at the General Meeting. All shares are dividend-bearing except those held by the company or one of its subsidiaries.

As at 31 December 2017 the company had no conditional capital and had issued no participation or dividend-right certificates or bonds of any kind.

Capital changes
The proposed ordinary capital increase in conjunction with a reduction in the nominal value of shares was approved by the Ordinary General Meeting on 5 May 2015. The nominal value of the existing 426,250 shares was reduced from CHF 31.59 to CHF 16.00 per share. The resulting new share capital of CHF 6,820,000 was then increased to CHF 17,050,000 by issuing 639,375 new shares at CHF 16.00.

The Ordinary General Meeting on 5 May 2015 also approved the creation of authorized capital of up to 40,000 shares. Of these, 39,079 shares were newly issued so that the fixed remuneration of the Board of Directors and the variable remuneration of the Group Management could be paid exclusively in Schlatter shares in 2015. Ordinary share capital was thus increased by CHF 625,264 to CHF 17,675,264.

As at 31 December 2017 the company had no authorized capital available.

Information on changes in share capital, reserves, net profit and consolidated shareholders' equity for the financial year 2017 can be found on page 42 under "Consolidated statement of changes in equity". The equivalent information for the two previous financial years can be found on page 44 of the 2016 Annual report and on page 46 of the 2015 Annual Report.

Transferability restrictions and nominee registrations
Shares in Schlatter Industries AG are freely transferable. Fiduciary registration with voting rights and without restrictions is possible for Nominees.

Convertible bonds and options
As at 31 December 2017, the company had issued no convertible bonds, similar equity-linked debt instruments or options.

Board of directors

Members of the board
Under the company's Articles of Incorporation the Board of Directors consists of at least three members. As at 31st December 2017, it was composed of the persons listed below. No member of the Board of Directors has exercised an executive function within the Schlatter Group in the past three years, or has a significant business relationship with any Group company.

Statutory rules concerning activities and allowances
Article 28 of the Articles of Association regulates the number of further activities admissible for the members of the Board of Directors. The rules governing the remuneration of directors are set out in Article 30. No loans or credits may be granted to the members of the Board of Directors (Article 27).

At the General Meeting where the remuneration of the Board of Directors is determined, the members of the Board of Directors are also entitled to participate and vote.

The Articles of Association of the Company are published at the following URL:
www.schlattergroup.com/de/investor-relations/

Paul Zumbühl
Chairman

b. 1957, Swiss national, non-executive member, member of the Board since 29 October 2007, term of office until Annual General Meeting 2018

Current activity
CEO of Interroll Group, Sant'Antonino (CH) since 1.1.2000

Career milestones
- 1994 - 1999 Managing Director and CEO of Mikron Plastics Technology, member of the Group Management of the Mikron Group, Biel/Bienne(CH)
- 1988 - 1994 Managing Director of the Sarna Group, Sarnen (CH) with additional managerial functions
- 1984 - 1987 Sales Engineer as well as Sales Manager Europe at Symalit AG, Lenzburg (CH)

Education and training
Dipl. Ing. degree in Engineering (Lucerne School of Engineering); MBA (Joint University Programme of the Universities of Berne, Boston and Shanghai); AMP of the Kellogg Business School of the Northwestern University Evanston/Chicago

Other activities and mandates
Member of the Industry Executive Advisory Board of the «Executive MBA Supply Chain Management» at the ETH Zürich

Michael Hauser
Vice Chairman

b. 1961, Swiss national/German, non-executive member, member of the Board since 3 May 2016, term of office until Annual General Meeting 2018

Current activity
CEO Tornos SA, Moutier (CH) since 2011

Career milestones
- 2008 - 2010 Member of the Group Management of Georg Fischer AG and head of business area GF AgieCharmilles
- 2000 - 2008 Member of the Group Management GF AgieCharmilles and Head of Division Milling (Mikron, Bostomatic, Step-Tec)
- 1996 - 2000 Member of the Group Management Mikron Technology Group and Head of the Division Milling Machines

Education & training
Dipl. Kaufmann, University of Mannheim

Other activities and mandates
SWISSMEM, Directorate member and chairman of the section «Machine tools and manufacturing technology», CECIMO «European Committee for Cooperation of the Machine Tool Industries», delegate (member of the board until November 2017, chairman from 2009 until 2011)

Ruedi Huber
Member

b. 1960, Swiss national, non-executive member, member of the Board since 11 May 2010, term of office until Annual General Meeting 2018

Current activity
Member of various boards of directors

Career milestones
- 1996 - 2014 SFS Intec, Heerbrugg (CH)
- 1985 - 1996 Sales Engineer, SFS England and involved in setting-up SFS USA

Education and training
Matura Typ C

Other activities and mandates
Member of the Board of Directors of Huwa Finanz- und Beteiligungs AG, Heerbrugg, and member of the board of other unlisted companies

Nicolas Mathys Member

b. 1968, Swiss national, non-executive member, member of the Board since 3 May 2016, term of office until Annual General Meeting

Current activity
Partner of Zug Finance AG, Baar (CH)

Career milestones
- 2001 - 2009 Partner of Zulauf Asset Management AG
- 1998 - 2001 Portfolio Manager/Company Analyst bei Zulauf Asset Management AG
- 1993 - 1996 Project Engineer F. Hoffmann - La Roche AG, Basel

Education & training
Master of Business Administration, SDA BOCCONI, Milan; Master in Chemical Engineering, ETH Zürich

Other activities and mandates
Member of the board of several unlisted companies in Switzerland and abroad

Changes during the reporting period

During the reporting period 2017, there were no changes.

Peter Müller stepped down from the Board of Directors of Schlatter Industries AG, on 3 May 2016 effective of the date of the Annual General Meeting.

At the Annual General Meeting of 3 May 2016, two new members were recruited to the Board of Directors of Schlatter Industries. Nicholas Mathys, co-founder and Partner of Zug Finance AG, Baar, and Michael Hauser, CEO of Tornos were elected.

Elections and terms of office

Schlatter Industries AG has complied with the provisions of the Ordinance against Excessive Compensation in Listed Companies (VegüV) with regard to the election and term of office of the Board of Directors since 2009. The required changes to the Articles of Association were approved at the 2015 General Meeting.

Internal Organisation

The Board of Directors is self-constituting, subject to the mandatory authority of the General Meeting, in that it elects its own Vice Chairman and Secretary. The Secretary need neither be a member of the Board nor a shareholder. The Board of Directors adopts resolutions and carries out elections by a majority of the votes cast. In the event of a tie the Chairman has the casting vote. The Chairman convenes the Board as often as business requires. As a rule it holds six one-day or half-day meetings and a one-day meeting in camera. The Board of Directors held five meetings during the financial year 2017.

Number of permissible mandates

No member of the Board of Directors may hold more than five other mandates of supreme management and administrative bodies of listed companies outside the Group. In individual cases the Board of Directors can permit up to two exceptions. Membership of more than one such body within a single group counts as one membership.

Committees of the Board of Directors

The Board of Directors has appointed a Risk and Audit Committee and a Nomination and Compensation Committee. These committees support the Board of Directors but have no decision-making authority. The duties and responsibilities assigned to the Board of Directors in accordance with the Organizational Regulations and the law remain with the Board of Directors as an overall body. As a rule, the terms of office of members of the committees of the Board of Directors coincide with their terms of office as directors of Schlatter Industries AG.

Risk and Audit Committee

Members: Paul Zumbühl (Chair), Ruedi Huber
The Risk and Audit Committee supports the Board of Directors in its supervision of the accounting function and of compliance to statutory requirements. The committee has the following main tasks:

- Reviewing the accountancy presentation (accounting standards being applied, assessment of valuation and financing principles, internal and external financial reporting) in terms of its suitability, reliability and effectiveness.
- Reviewing the annual financial statements and other financial information subject to publication.
- Monitoring and assessing corporate risks and reviewing risk-management practices.
- Monitoring business activity with regard to compliance with resolutions of the Board of Directors, internal regulations and guidelines, instructions and statutory regulations, and especially those of stock market legislation (compliance).
- Reviewing the performance, independence and remuneration of the external auditors and nominating candidates for the consideration of the Board of Directors and the General Meeting.
- Dealing with audit reports, discussing all important findings and recommendations of the external auditors with them and Group Management.
- Monitoring the implementation of recommendations by the external auditors.
- Reviewing the performance and remuneration of advisory mandates with related persons.
- Performing other tasks delegated to the committee by the Board of Directors

The Risk and Audit Committee also performs the tasks described in Note 27 (page 65) relating to financial risk management.

The committee meets as often as business requires, but at least twice a year. It holds at least one meeting a year with representatives of the external auditors. Meetings are normally attended by the CFO. Other members of the Board of Directors, the CEO, other members of the Group Management and other technical specialists can also be invited to attend. The Risk and Audit Committee held two meetings in financial year 2017, both of them attended by the CEO and CFO

Nomination and Compensation Committee

Members: Michael Hauser (Chair), Paul Zumbühl
The Nomination and Compensation Committee prepares all relevant agenda items in Nomination and Compensation areas with regard to members of the Board of Directors and Group Management. The committee has the following tasks:

- Managing the selection process and motions regarding new members of the Board of Directors.
- Managing the selection process and motions regarding the CEO.
- Reviewing the selection process for members of the Group Management (including interviews at the final selection stage) and the principal terms of their contracts of employment.
- Proposing the compensation of the Board of Directors and its committees.
- Reviewing, negotiating and proposing the compensation of the CEO.
- Reviewing and proposing the compensation of members of the Group Management at the request of the CEO.
- Reviewing, proposing and monitoring the implementation of option and share option plans for the Board of Directors, the CEO, Group Management and other employees.
- Succession planning at senior management level.
- Performing other tasks delegated to the committee by the Board of Directors.

The committee meets as often as business requires, but at least twice a year. As a rule the CEO attends meetings except when his performance is assessed and his remuneration fixed. Other members of the Board of Directors, other members of the Group Management and other technical specialists can also be invited to attend. The Nomination and Compensation Committee held two meetings in the 2017 financial year; the CEO attended both of them.

Division of responsibilities

The Board of Directors is responsible for the overall direction and supervision of the management. It determines corporate policy, business policy, the company's long-term objectives and the resources required to achieve them. The non-transferable and inalienable duties of the Board of Directors are set out in Art. 716 a of the Code of Obligations. The internal organization structure and authorities of the Board of Directors and Group Management are set out in the organization rules.

The Board of Directors delegates full managerial responsibility to the CEO, subject to any contrary provisions of the law, the Articles of Association or the organization rules. The CEO ensures that the decisions of the Board of Directors and the decisions he makes within the scope of his own authority are enforced. To this end, the CEO issues policies and controls compliance to the standards by the Company, group subsidiaries and affiliates.

With the exception of the directors of the purely distribution companies, who report to the sales manager of the group, the directors of all group subsidiaries and affiliates report directly to the CEO. The CEO or on his directive, the relevant member of the management of a group subsidiary or affiliate submits the proposals to the Board of Directors.

Information and control instruments vis-à-vis the Group Management

The Board of Directors is informed by Group Management at each meeting as well as by means of monthly reports on the current business situation as well as on the balance sheet and income statement.

The Board of Directors is informed at each meeting by the CEO and CFO of the general course of business, the most important business events and any measures taken. The CEO and CFO also prepare a written report monthly for the Board of Directors containing information on the course of business and the key financial indicators, with reference to the budget and the previous year. The monthly Management Information System report provides information on the order and earnings situation at company level and by segment, the development of liquidity, the cash flow statement and the balance sheet. Selected key figures, necessary for managing the business are also mentioned. In addition to the budget, which is drawn up annually, an updated forecast for the entire current financial year is prepared on a quarterly basis and made available to the Board of Directors. The current values are compared to the budget figures and analysed; the resulting measures taken are described.

The CFO is responsible for financial controlling in the Group. The CEO and CFO notify the Board of Directors on an ad-hoc basis of major business events. As a rule, members of the Board of Directors do not attend meetings of the Group Management, but in the event of major business events are notified on an ad-hoc basis by the CEO and CFO or invited to attend the meetings.

The Board of Directors and Group Management attach great importance to the careful handling of risks. Group Management conducts an annual risk assessment and presents it to the Board of Directors. As well as generally ensuring comprehensive insurance protection, risk management involves the systematic identification, assessment and reporting of strategic, operating and financial risks. Analysis and assessment covers general business risks affecting all corporate divisions and companies, and also the principal balance sheet positions. For each of the top seven risks a detailed analysis was conducted of the probability of its occurrence and its effects. The assessment of all the top seven risks is presented to the Board of Directors. In view of their effects and importance, the risks can not only pose a strategic risk but also an operating and financial risk should their impact be significant for the company. All risks are qualitatively and quantitatively gauged and assessed for the probability of their occurrence and their effects. On the basis of the assessed risks, control points and control processes are defined for use by the relevant process owners.

Risk management activities focus on hedging currency risks, maximizing the flexibility of the cost structure, developing markets and processing customer projects.

Group Management

Members of Group Management
As at 31 December 2017, the Schlatter Group Management consisted of the members listed below. With the exception of Harald Reich (Schlatter Deutschland GmbH & Co. KG), the members of the Group Management also constitute the Group Management of Schlatter Industries AG.

Werner Schmidli
CEO

b. 1965, Swiss national, with the Schlatter Group since 1.8.2004

Career milestones
- Since 1st June 2012: CEO Schlatter Group
- 2004 - May 2012: CFO Schlatter Group
- 2001 - 2004: CFO Integra Biosciences, Baar (CH)
- 1998 - 2001: CFO Tela-Kimberly Switzerland, Balsthal (CH)

Education & training
Lic. rer. pol. (masters degree) University of Fribourg

Other activities and mandates
None

Reto Stetler
CFO

b. 1975, Swiss national, with the Schlatter Group since 1.1.2002

Career milestones
- Since 1st June 2012: CFO Schlatter Group
- 2002 - May 2012: Head of Finance, Schlatter Schlieren
- 1991 - 2001: Head of accounting, MADAG AG, Dietikon (CH)

Education & training
Finance and accounting professional

Other activities and mandates
None

Harald Reich
Managing Director
Schlatter Deutschland GmbH & Co. KG

b. 1967, German national, with the Schlatter Group since 1.1 2017

Career milestones
- 2014 - 2016: Production Manager Bosch Rexroth AG, Homburg/Saar
- 2010 - 2014: Project Manager production cost reduction Bosch Rexroth AG, Homburg/Saar
- 2001 - 2009: various positions with Bosch Rexroth AG, Stuttgart/Lohr
- 1998 - 2001: Sales Manager robotics and software, Adept Technology GmbH, Dortmund
- 1994 - 1998; Planning and Project Manager assembly systems ITT Automotive GmbH Europe, Frankfurt

Education & training
Dipl. Ing. (FH) Elektrotechnik (Degree in electrical engineering)

Other activities and mandates
None

Michaela Wingeier
Human Resources
until 31.7.2018

b. 1965, Swiss national, with the Schlatter Group since 1.4.2011

Career milestones
- 2008 - 2011; Global HR Manager FLSmidth MAAG Gear AG, Winterthur (CH)
- 2006 - 2008: Head of Human Resources at a legal practice in Zürich (CH)
- 2004 - 2005: Personnel Manager Prionics, Schlieren (CH)
- 1996 - 2004: Group Personnel Manger MAAG Zahnräder AG, Zürich

Education & training
Degree in business studies; advanced training in Human Resources

Other activities and mandates
None

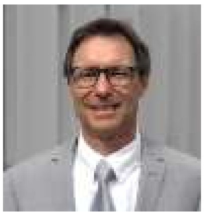
Daniel Zappa
Sales & Service Welding

b. 1972, Swiss national, with the Schlatter Group since 1.8.1995

Career milestones
- Since 1st September 2012: Head of Sales & Service Schlatter Group
- November 2003 - August 2012: Head of Customer Service Schlatter Group
- Until 31.10.2003: Verkaufsleiter Bereich Blech H.A. Schlatter AG, Schlieren (CH)
- 1999 - 2002: Sales Engineer H.A. Schlatter AG

Education & training
Dipl. Masch.-Ing. FH (degree in Mechanical Engineering); Dipl. Wirtsch.-Ing. FH (degree in Industrial Engineering)

Other activities and mandates
None



Beat Huber
Technology Welding

b. 1962, Swiss national, with the Schlatter Group since 1.8.2000

Career milestones
- Since 1st June 2012: Head of Technology Schlatter Group
- 2004 - May 2012: Head of the Department of Electrical Engineering and Control Systems, H.A. Schlatter AG, Schlieren (CH)
- 2000 - 2004: Head of the Department of Innovations, H.A. Schlatter AG, Schlieren
- 1991 - 2000: Head of the Main Development Group, ABB Industries AG, Turgi (CH)

Education & training
Dipl. El.-Ing. ETH (degree in Electrical Engineering), M.Sc. in Management (Georgia Institute of Technology)

Other activities and mandates
None

Roland Kasper
Operations Schlieren

b. 1976, Swiss national, with the Schlatter Group since 1.6.2013

Career milestones
- Since 1st June 2013: Head of Operations Schlatter Group
- 2010 - 2013: Head of Manufacturing Maschinenfabrik Rieter AG, Winterthur (CH)
- 2009 - 2010: Project Leader Graf+Cie AG, Rapperswil (CH)
- 2007 - 2009: Managing Director Graf Metallic of America Inc., Spartanburg (USA)
- 2002 - 2006: Project Leader Rieter Group, Winterthur (CH)

Education & training
Dipl. Betr.- & Prod.-Ing. ETH (Masters in Operating & Production Engineering ETH)

Other activities and mandates
None

Changes during the reporting period

Frank Schröter, Managing Director of Schlatter Deutschland GmbH & Co. KG, took early retirement as of the end of June 2017.

Harald Reich was appointed member of Group Management and Managing Director of Schlatter Deutschland GmbH & Co. KG. The German national, born 1967 took over the function per January 1, 2017. Harald Reich is a graduate engineer in electrical engineering and has worked for the last 15 years in various management and project management positions for Robert Bosch GmbH in Germany.

Michaela Wingeier, Head of Human Resources, will be taking up a new challenge outside the Schlatter Group and will therefore be leaving the Schlatter Group as of 31.7.2018.

Dominant Group companies

- Schlatter Industries AG
  (Managing Director since 1st June 2012: Werner Schmidli)
- Schlatter Deutschland GmbH & Co. KG
  (Managing Director since 1st January 2017: Harald Reich)

Management contracts

Neither Schlatter Industries AG nor any of its subsidiaries have entered into management contracts with third parties.

Number of permitted activities

No member of the Group Management may hold more than two additional mandates in the highest management and administrative bodies of listed companies outside the Group. In particular cases, the Board of Directors may allow a maximum of two exceptions per member. Several mandates within a group are counted as one activity. The approval of the Board of Directors must be obtained for all external mandates.

Compensation, shareholdings and loans

The relevant information is disclosed in the Remuneration Report on pages 30 to 33 of this Annual Report. Information on shareholdings can be found in the Notes to the Financial Statements of Schlatter Industries on page 83.

In addition, we refer to the Articles of Association of the Company, which are published under the following URL:
www.schlattergroup.com/de/investor-relations/

Shareholders' participation rights

Voting right restrictions and representation

Each share entitles to one vote at the Annual General Meeting. Membership rights may be exercised by anyone who is registered as a shareholder in the share register 30 days before the General Meeting and has not sold his shares by the conclusion of the Annual General Meeting. A shareholder may be represented by another shareholder or a third party. Representatives of registered shareholders must present a written power of attorney.

Independant proxy / electronic participation in the General Meeting

The Articles of Association of Schlatter Industries AG do not stipilate any deviating provisions from the provisions of the VegüV.

Statutory Quorum

There are no statutory quorums exceeding the legal requirements.

Convocation of the General Meeting

The General Meeting is convened by the Board of Directors or, if necessary, by the auditors. Liquidators and representatives of the creditors also have the right to convene a General Meeting. The General Meeting takes place at the company's registered office or at another location in Switzerland or elsewhere. The ordinary General Meeting is held each year within six months of the end of the financial year. Extraordinary meetings are held as required.

The convocation of an Extraordinary General Meeting can also be requested by one or more shareholders who together represent at least 10 percent of the share capital, provided they submit their request in writing and specify the items they wish to be placed on the agenda and their motions. The Board of Directors must hold the Meeting within two months.

The General Meeting is called by the Board of Directors at least 20 days prior to the date of the meeting by way of a notice published in the Company's official publication. Registered shareholders are invited by letter to their last address entered in the share register.

The General Meeting shall be convened at least 20 days before the date of the meeting by a single announcement in the official journal of the Company. The registered shareholders are invited by letter sent to their last registered address in the share register.

Agenda
Shareholders representing at least 3% of the share capital can request an item to be placed on agenda of the General Meeting. The request must be submitted in writing to the Board of Directors 45 days before the General Meeting, specifying the subject to be discussed and the proposals to be put to the meeting.

Entry in the share register
The Company maintains a share register in which the owners, beneficiaries and nominees of the registered shares are to be entered with name, residence, address and nationality. The entry in the share register presupposes proof of the correct and statutory transfer of the share ownership or the creation of an usufruct. If a registered shareholder changes his address, he must notify the company of the new address. Until receipt of a corresponding notification by the Company, all correspondence to the registered shareholder shall be validly sent to his address entered in the share register. No entries will be made in the share register of Schlatter Industries AG during the period running from 30 days before a General Meeting until the day following the General Meeting.

Change of control clauses, defensive measures

Mandatory bid
The Company has excluded in its Articles of Association the obligation to make an offer under Articles 32 and 52 of the Swiss Federal Act on Stock Exchanges and Securities Trading (Opting Out).

Change of control clauses
There are no change-of-control clauses in favour of members of the Board of Directors or Group Management.

Auditors

Duration of mandate and term of office of lead auditor
Since 1963, KPMG AG, Zurich, has acted as the statutory auditors for Schlatter Industries AG (formerly Schlatter Holding AG). The auditors are elected by the General Meeting for a period of one year. Since the financial year 2017, the lead auditor is Roman Wenk.

Audit fee
The ordinary audit fee of KPMG AG for the financial year 2017 was CHF 130,250 (previous year: CHF 128,000).

Additional fees
KPMG AG invoiced no additional advisory fees in the financial year 2017.

Information tools of the external auditors
The Risk and Audit Committee meets once a year with the external auditors. The CFO attends these meetings. Reporting by the external auditors to the Board of Directors consists of a comprehensive report prepared after the closing of the annual financial statements as well as the auditors' reports. The review and assessment of performance, independence and remuneration as well as the election recommendations of the external auditors to the attention of the Board of Directors and the General Meeting respectively are carried out by the Risk and Audit Committee. The discussions between the Board of Directors and the auditors, the results of the audit and the quality of the audit compose the assessment criteria. The appointment of the external auditors for the financial year is based on a call for tenders where the Board of Directors compared the services and costs of various bidders.

The term of office of the lead auditor is a maximum of seven years.

Information policy

Schlatter Industries AG pursues an open information policy. The financial year of Schlatter Industries AG coincides with the calendar year. The Schlatter Group prepares its annual and interim financial statements in accordance with Swiss GAAP FER; until and including the 2012 interim financial statements, they were prepared in accordance with IFRS.

Schlatter Industries AG informs its shareholders and the capital market via ad-hoc information of facts relevant to its share price. The Information is placed on the Schlatter Group website (www.schlattergroup.com), and is automatically e-mailed to subscribers to the News Service.
Registration under: www.schlattergroup.com/en/investor-relations/newsservice.

The Company's official publication is the Swiss Official Gazette of Commerce. The company's Articles of Association are available on the Schlatter Group website.

Responsibility for Investor Relations lies with Werner Schmidli, Chief Executive Officer of Schlatter Group: Phone +41 44 732 71 70, or
e-mail werner.schmidli@schlattergroup.com.

Agenda
- 3 May 2018 Ordinary General Meeting
- 21 August 2018 Publication of interim results for first half of 2018

Compensation Report

Contents

The Compensation Report contains information on remuneration principles, remuneration programmes and the actual remuneration of members of the Board of Directors and Group Management. The Compensation Report follows the principles of the Swiss Code of Obligations, the Ordinance against Excessive Compensation in Listed Companies (VegüV) dated 20 November 2013 that came into force on 1 January 2014, and the guidelines of the SIX Swiss Exchange on Corporate Governance information.

Basic principles

The Schlatter Group's remuneration principles provide a transparent, competitive and performance-oriented framework for salary differentiation. Both basic annual salaries and variable remuneration components partly depend on annual performance appraisals and the realization of the Group result. The responsibilities, authorities and determination procedures can be found in the provisions of the relevant regulations and the Articles of Incorporation (http://www.schlattergroup.com/de/investor-relations/ corporate_governance/statuten). They are also set out in the following principles for remuneration components.

Compensation of members of the Board of Directors

Members of the Board of Directors receive fixed remuneration for their activity. Additional fees can be paid for committee memberships or the performance of special tasks and assignments. Remuneration can also be paid wholly or partly in shares. The Board of Directors can decide to pay members an all-inclusive sum to cover expenses incurred in the interests of the Company.

Annual compensation is fixed once a year by the Board of Directors at the request of the Nomination and Compensation Committee. It is put to the approval of the General Meeting in advance. If the General Meeting rejects the proposal, the Board of Directors can put new proposals to the same General Meeting for its approval. If the Board of Directors puts no new proposals to the General Meeting or if the new ones are also rejected, the Board of Directors must convene a new General Meeting within three months.

The members of the Board of Directors whose remuneration is being fixed are entitled to attend and vote.

Compensation of members of the Group Management

The compensation of members of the Group Management takes account of their duties, their performance and the course of business. It provides for fixed annual compensation, increased by a potential variable component of between 15% and 40%. Depending on the role of members of the Group Management, 60% of their variable compensation is determined by the EBIT achieved, and 40% by other financial indicators such as average net working capital, net sales and order intake. Variable compensation may not exceed 120% (CEO) and 100% (other members of the Group Management) of fixed annual remuneration. Variable remuneration can be paid wholly or partly in shares.

This compensation applies to all activities in all the Group's legal entities. In addition, members of the Group Management can receive lump sums to cover expenses. Even though these do not count as remuneration, they must be reported in the Remuneration Report. No lump sums were paid to cover expenses in 2017.

The compensation of the CEO is determined annually by the Board of Directors at the request of the Nomination and Compensation Committee. That of other Group Management members is determined annually by the Board of Directors at the request of the Nomination and Compensation Committee in collaboration with the CEO. Total fixed compensation must be approved annually in advance by the General Meeting, variable compensation in arrears. If the General Meeting rejects the proposal, the Board of Directors can put new proposals to the same General Meeting for its approval. If the Board of Directors puts no new proposals to the General Meeting or if the new ones are also rejected, the Board of Directors must convene a new General Meeting within three months.

The fixed compensation for the acting Group Management was slightly lower in 2017 than in 2016. The variable compensation for the acting members of the Group Management in 2017 was about a quarter less than in 2016 due to the achievement of targets.

For the remuneration of members of the Group Management appointed after the approval of the relevant maximum amount, an additional amount is available to the Board of Directors. It may also be used to compensate new members of the Group Management for disadvantages suffered as a consequence of changing jobs. The additional sum is limited to 40% of the last total sum approved for the fixed remuneration of the Group Management.

Loans and advances to the Board of Directors and Group Management – (audited)

The Schlatter Group grants neither loans nor advances to members of the Board of Directors or Group Management.

Compensation, loans and advances to related persons – (audited)

Schlatter Group has neither paid remuneration nor granted loans or advances to related persons.

Severance payments

The Schlatter Group makes no severance payments to members of the Board of Directors or Group Management.

Compensation of members of the Board of Directors and Group Management

Compensation is subject to the approval of the General Meeting.

Compensation of current members of the Board of Directors in 2017 – (audited)

CHF	Chairman P. Zumbühl	Vice Chairman M. Hauser	Member R. Huber	Member N. Mathys	**Total**
Cash/book money					
Net salary	120 000	60 000	60 000	60 000	**300 000**
Social insurance contributions	18 581	9 290	9 290	9 290	**46 451**
Total	138 581	69 290	69 290	69 290	**346 451**

Compensation of current members of the Board of Directors in 2016 (audited)

CHF	Chairman P. Zumbühl	Member R. Huber	Member M. Hauser	Member N. Mathys	**Total**
Cash/book money					
Net salary	120 000	60 000	40 000	40 000	**260 000**
Social insurance contributions	18 463	9 229	6 152	6 152	**39 996**
Total	**138 463**	**69 229**	**46 152**	**46 152**	**299 996**

Compensation of member of the Board of Directors stepping down in 2016 − (audited)

CHF	P. Müller
Cash/book money	
Net salary	**20 000**
Social insurance contributions	**1 902**
Total	**21 902**

Compensation of members of the Group Management in 2017 – (audited)

CHF	CEO Werner Schmidli	**GL Total**
Cash / book money		
Net salary	319 897	**1 272 028**
Variable salary (net) [1]	126 488	**335 325**
Payments in kind		
Vehicle	7 680	**32 642**
Expenses for social security		
Employer's pension & social insurance contributions	72 389	**246 337**
Employee's pension & social insurance contributions	56 370	**197 805**
Total	**582 824**	**2 084 137**

Compensation of members of the Group Management stepping down in 2017 – (audited)

CHF	Frank Schröter	**Total**
Cash/book money		
Net salary	103 749	**103 749**
Variable salary (net) [1]	40 417	**40 417**
Payments in kind		
Vehicle	6 129	**6 129**
Employer's pension & social insurance contributions	20 326	**20 326**
Employee's pension & social insurance contributions	0	**0**
Total	**170 621**	**170 621**

[1] Compensation in the financial year 2017 was based on the Company's earnings in the financial year 2017 (accrual method).

Compensation of members of the Group Management in 2016 – (audited)

CHF	CEO Werner Schmidli	**Group Mgmt Total**
Cash/book money		
Net salary	318 969	**1 301 592**
Variable salary (net) [1]	170 370	**450 210**
Payments in kind		
Vehicle	7 680	**35 330**
Expenses for social security		
Employer's pension & social insurance contributions	78 348	**290 093**
Employee's pension & social insurance contributions	60 661	**208 417**
Total	**636 028**	**2 285 642**

[1] Compensation in the financial year 2016 was based on the Company's earnings in the financial year 2016 (accrual method).

KPMG

Bericht der Revisionsstelle

An die Generalversammlung der Schlatter Industries AG, Schlieren

Wir haben den beigefügten Vergütungsbericht der Schlatter Industries AG für das am 31. Dezember 2017 abgeschlossene Geschäftsjahr geprüft. Die Prüfung beschränkte sich dabei auf die Angaben nach Art. 14 – 16 der Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften (VegüV) in den als geprüft bezeichneten Abschnitten und Tabellen auf den Seiten 31 bis 33 des Vergütungsberichts.

Verantwortung des Verwaltungsrates

Der Verwaltungsrat ist für die Erstellung und sachgerechte Gesamtdarstellung des Vergütungsberichts in Übereinstimmung mit dem Gesetz und der Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften (VegüV) verantwortlich. Zudem obliegt ihm die Verantwortung für die Ausgestaltung der Vergütungsgrundsätze und die Festlegung der einzelnen Vergütungen.

Verantwortung des Prüfers

Unsere Aufgabe ist es, auf der Grundlage unserer Prüfung ein Urteil zum beigefügten Vergütungsbericht abzugeben. Wir haben unsere Prüfung in Übereinstimmung mit den Schweizer Prüfungsstandards durchgeführt. Nach diesen Standards haben wir die beruflichen Verhaltensanforderungen einzuhalten und die Prüfung so zu planen und durchzuführen, dass hinreichende Sicherheit darüber erlangt wird, ob der Vergütungsbericht dem Gesetz und den Art. 14 – 16 der VegüV entspricht.

Eine Prüfung beinhaltet die Durchführung von Prüfungshandlungen, um Prüfungsnachweise für die im Vergütungsbericht enthaltenen Angaben zu den Vergütungen, Darlehen und Krediten gemäss Art. 14 – 16 VegüV zu erlangen. Die Auswahl der Prüfungshandlungen liegt im pflichtgemässen Ermessen des Prüfers. Dies schliesst die Beurteilung der Risiken wesentlicher – beabsichtigter oder unbeabsichtigter – falscher Darstellungen im Vergütungsbericht ein. Diese Prüfung umfasst auch die Beurteilung der Angemessenheit der angewandten Bewertungsmethoden von Vergütungselementen sowie die Beurteilung der Gesamtdarstellung des Vergütungsberichts.

Wir sind der Auffassung, dass die von uns erlangten Prüfungsnachweise ausreichend und geeignet sind, um als Grundlage für unser Prüfungsurteil zu dienen.

Prüfungsurteil

Nach unserer Beurteilung entspricht der Vergütungsbericht der Schlatter Industries AG für das am 31. Dezember 2017 abgeschlossene Geschäftsjahr dem Gesetz und den Art. 14 – 16 der VegüV.

KPMG AG

Roman Wenk
Zugelassener Revisionsexperte
Leitender Revisor

Anita Benz
Zugelassene Revisionsexpertin

Zürich, 16. März 2018

Schlatter Group Financial Report 2017

Comments to the consolidated income statement and balance sheet

Introduction

The continued good order situation and the progress made in increasing profitability had a positive effect on the balance sheet and the income statement.

Equity could again be strengthened and the available liquidity continues to be sufficient.

Consolidated income statement

The net sales generated in the reporting period amounted to CHF 101.1 million (previous year: CHF 90.5 million). The renewed increase results from the good order backlog as well as the increased efforts to process projects efficiently.

Other operating income was CHF 0.5 million (previous year: CHF 0.3 million).

The gross margin (net revenue including other operating income less costs of materials and services) decreased to 48.8% (previous year: 49.2%). The market launch of new product lines and prototypes in the Welding segment as well as the lack of high margin finishing machines in the Weaving segment still weighed on the gross margin.

Personnel expenses increased to CHF 35.5 million (previous year: CHF 32.8 million). The number of fixed and temporary employees increased during the reporting period due to higher output and strategic projects. In addition, accruals for pension obligations and existing time accounts for employees had to be built. The higher Euro exchange rate also led to higher personnel costs in CHF of foreign subsidiaries.

Other operating expenses increased to CHF 9.1 million (previous year: CHF 8.5 million). The high capacity utilization in the reporting period also led to higher operating expenses.

In the reporting period depreciation and amortisation remained unchanged at CHF 2.2 million (previous year: CHF 2.2 million).

The consolidated operating result (EBIT) for the financial year 2017 was CHF 2.5 million (previous year: CHF 1.1 million). The continued efforts to increase net sales contributed to this satisfying increase.

The financial result for the reporting year is CHF 0.7 million (previous year: CHF -0.3 million). The financial result consists of foreign exchange gains (book and realized), interest costs and bank charges.

The income tax result for the reporting year is CHF -0.3 million (previous year: CHF -0.3 million). It mainly comprises income tax expenses on profits realised by subsidiaries and withholding tax paid on the transfer of dividends from Schlatter North America.

Consolidated balance sheet

Assets

Mainly as a result of the increased net sales, the net working capital per end of 2017 increased to CHF 14.2 million (previous year: CHF 7.4 million). Accordingly, net assets from construction contracts amounted to CHF 17.3 million (previous year: CHF 14.0 million). Inventories as of the balance sheet date amounted to CHF 14.1 million (previous year: CHF 13.2 million). Net liabilities from construction contracts amount to CHF 9.8 million (previous year: CHF 11.2 million). The resulting underfunding on customer projects amounts to CHF 7.4 million compared to CHF 2.8 million in the previous year.

Cash and cash equivalents, including short-term financial assets fell to CHF 11.5 million (previous year: CHF 14.4 million). The net financial position per 31.12.2017 decreased to CHF 11.2 million (previous year: CHF 14.0 million). Receivables from goods and services increased to CHF 4.3 million (previous year: CHF 3.6 million). Other receivables declined slightly to CHF 2.3 million (previous year: CHF 2.5 million).

Non-current assets as of the balance sheet date reduced further and amounted to CHF 6.3 million (previous year: CHF 7.3 million).

Liabilities and equity

Liabilities fell to CHF 30.7 million (previous year: CHF 33.1 million). Payables from goods and services rose to CHF 7.8 million (previous year: CHF 6.7 million), whereas other liabilities declined to CHF 2.8 million (previous year: CHF 5.0 million).

Per end of 2017, total liabilities and equity amounted to CHF 56.1 million (previous year: CHF 55.4 million). The equity ratio at the end of the year was 45.3% (previous year: 40.2%).

The consolidated nominal equity per 31.12.2017 amounted to CHF 25.4 million (previous year 22.3 million).

Consolidated income statement

CHF 1000	Notes	2017	2016
Net sales from goods and services		**101 115**	**90 486**
Other operating income	19	**463**	275
Change in inventories of finished/unfinished goods, work in progress		**- 507**	- 2 816
Raw material and service expense		**- 51 754**	- 43 397
Personnel expense	20	**- 35 533**	- 32 758
Other operating expense	21	**- 9 067**	- 8 542
Depreciation and amortisation	9, 10	**- 2 216**	- 2 182
Operating result (EBIT)		**2 501**	**1 066**
Financial income	23	**908**	1 279
Financial expense	23	**- 202**	- 1 579
Net result before taxes		**3 207**	**766**
Income tax	24	**- 331**	- 260
Net result		**2 876**	**506**
Basic earnings per registered share (in CHF)	25	**2.60**	0.46

Consolidated balance sheet

Assets

CHF 1000	Notes	2017	2016
Cash and cash equivalents	4	11 460	14 420
Short-term financial assets	5, 11	144	77
Receivables from goods and services	6	4 329	3 643
Income tax receivables		18	153
Other receivables	6	2 292	2 496
Net assets from construction contracts	7	17 260	13 952
Inventories	8	14 120	13 189
Prepayments and accrued income		131	218
Current assets		**49 754**	**48 148**
Tangible fixed assets	9	4 902	4 928
Intangible assets	10	1 230	1 969
Deferred tax assets		215	364
Non-current assets		**6 347**	**7 261**
Total assets		**56 101**	**55 409**

Liabilities and equity

CHF 1000	Notes	2017	2016
Payables from goods and services	14	7 769	6 718
Net liabilities from construction contracts	7	9 831	11 183
Income tax liabilities		54	16
Other liabilities	15	2 845	4 955
Accrued liabilities and deferred income	15	3 438	3 349
Financial liabilities	13	191	224
Provisions	17	2 777	3 434
Short-term liabilities		**26 905**	**29 879**
Financial liabilities	13	76	240
Pension benefit obligations	16	3 304	2 704
Provisions	17	261	187
Deferred tax liabilities		117	119
Long-term liabilities		**3 758**	**3 250**
Liabilities		**30 663**	**33 129**
Share capital	18	17 675	17 675
Capital reserves (premium)		1 767	1 767
Retained earnings		5 996	2 838
Total equity		**25 438**	**22 280**
Total liabilities and equity		**56 101**	**55 409**

Consolidated statement of changes in equity

CHF 1000	Share capital	Capital reserves	Retained earnings	**Total equity**
As at 1 January 2016	17 675	11 526	-7 606	**21 595**
Exchange differences			179	**179**
Elimination of retained earnings against capital reserves		-9 759	9 759	**0**
Net result 2016			506	**506**
As at 31 December 2016	17 675	1 767	2 838	**22 280**
Exchange differences			282	**282**
Net result 2017			2 876	**2 876**
As at 31 December 2017	17 675	1 767	5 996	**25 438**

Consolidated cash flow statement

CHF 1000	Notes	2017	2016
Net result		**2 876**	**506**
Unrealised foreign exchange losses / (gains)	23	- 54	284
Depreciation/amortisation	9,10	1 914	2 182
Impairment of intangible assets	10	302	0
Gain on the disposal of tangible fixed assets	19	- 30	- 1
Interest expense / (income)	23	- 4	- 6
Tax expense	24	331	260
(Reversal) / recognition of provisions	17	- 639	- 783
(Reversal) / recognition of deferred taxes		- 253	0
(Reversal) / recognition of pension benefit obligations		330	- 157
Change in net working capital			
(Increase) / decrease in receivables from goods and services		- 3 464	4 893
(Increase) / decrease in other receivables/prepayments and accrued income		410	- 146
(Increase) / decrease in inventories		- 593	- 1 145
Increase / (decrease) in payables from goods and services		- 476	2 086
Increase / (decrease) in other liabilities/accrued liabilities and deferred income		- 2 171	4 718
Income taxes paid		- 10	- 223
Non-cash items		- 136	0
Cash flow from operating activities		**- 1 667**	**12 468**
Purchase of tangible fixed assets	9	- 992	- 449
Addition of intangible assets	10	- 218	- 147
Purchase of financial assets	11	- 4	- 15
Disposal of tangible fixed assets	9	30	8
Disposal of financial assets	11	0	14
Interest received	23	7	7
Cash flow from investing activities		**- 1 177**	**- 582**
Repayment of financial liabilities		- 197	- 115
Interest paid		- 3	- 1
Cash flow from financing activities		**- 200**	**- 116**
Net change in cash and cash equivalents		**- 3 044**	11 770
Cash and cash equivalents at 1 January		**14 420**	2 644
Effect of exchange rate movements on cash and cash equivalents		84	6
Cash and cash equivalents at 31 December		**11 460**	14 420

Notes to the consolidated financial statements

General information

Schlatter Industries AG, together with its subsidiaries (together "Schlatter" or the "Group"), is a global plant engineering company providing end-to-end solutions in connection with resistance welding and weaving machines for technical applications.

The consolidated financial statements of the Schlatter Group comprise Schlatter Industries AG and its subsidiaries. Schlatter Industries AG is the Group's parent, a limited company under Swiss law which is entered in the commercial register in Zurich (Switzerland) and has its registered office in Schlieren (Switzerland). Schlatter Industries AG is listed on the Swiss Reporting Standard segment of SIX Swiss Exchange.

The Group's consolidated financial statements were prepared in accordance with the provisions of Swiss company law and comply with all Swiss GAAP Accounting and Reporting Recommendations (FER). They present a true and fair view of the financial position, results of operations and cash flows.

Accounting principles

Basis of preparation

The consolidated financial statements are based on the audited individual financial statements of the Group companies prepared as at 31 December in accordance with uniform principles.

The consolidated financial statements were approved for publication by the Board of Directors of Schlatter Industries AG on March 16, 2018. They are still subject to approval by the General Assembly of May 3 2018.

These consolidated financial statements were prepared in Swiss francs (CHF), rounded to the nearest thousand (KCHF), according to the historical cost convention, with the exception of derivative financial instruments and other financial assets measured at fair value.

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less expected costs to sell.

The preparation of financial statements in accordance with Swiss GAAP FER requires management to make estimates and assumptions and also exercise its discretion when applying the accounting principles. This affects the reported amounts of income, expenses, assets, liabilities and contingent liabilities at the date of preparation. If such estimates and assumptions made by management to the best of their knowledge at that date subsequently deviate from the actual circumstances, the original estimates and assumptions are adjusted accordingly in the reporting period in which the circumstances changed.

The following accounting policies have been consistently applied in all periods presented and by all Group companies.

Scope and methods of consolidation

The consolidated financial statements are based on the individual financial statements of all Group companies in which the Group holds directly or indirectly more than 50% of the voting rights or which it otherwise controls, prepared as at 31 December in accordance with uniform principles. The companies included in the scope of consolidation are shown in note 32.

The capital consolidation takes place according to the Anglo-Saxon purchase method. The equity of the Group companies at the time of acquisition or at the time of establishment is offset against the book value of the investment in the parent company. At this time, assets and liabilities of the Group company are valued at current values in accordance with uniform Group-wide principles. Any remaining difference between the purchase price and the equity of the acquired company after this revaluation is charged or credited directly to the Group's reserves as goodwill. Based on the method of full consolidation, assets and liabilities, as well as expenses and income of the consolidated companies are recognized in full. The share of minority shareholders in equity and earnings is shown separately in the consolidated balance sheet and income statement. Intra-group assets and liabilities as well as expenses and income from intercompany transactions are eliminated. Intercompany profits included in inventories from Group production on the balance sheet date are eliminated. Joint ventures in which Schlatter Industries AG holds an interest of exactly 50% are proportionately consolidated.

Investments with voting rights between 20% and 50% are not consolidated. These are accounted for using the equity method. They are recognized at pro rata equity as of the balance sheet date and reported in the consolidated balance sheet under financial assets and in the notes as equity investments. The pro rata annual result from the equity valuation of associated companies is carried to the consolidated income statement in the financial result, respectively as income (expense). Investments of less than 20% are valued at cost of acquisition less any necessary value adjustments. The disclosure is also made under non-consolidated participations.

Currency conversion

Foreign currency transactions at Group subsidiaries are converted into the functional currency at the daily rate; monetary assets and liabilities in foreign currencies are converted into the functional currency at the closing rate at the balance sheet date. The resulting foreign exchange gains or losses are recognized in the income statement. Non-monetary assets and liabilities stated at historical cost are converted at the foreign exchange rate at the date of the transaction.

For consolidation purposes, the foreign currency financial statements of foreign Group subsidiaries are converted into Swiss francs as follows:

- assets and liabilities at the rate at the balance sheet date;
- equity at historical rates;
- the income and cash flow statement at the average rate for the financial year
- movements in the statements of changes in fixed assets and provisions at the average rate for the financial year

The exchange differences resulting from the use of the aforementioned exchange rates are taken to equity and credited or charged to the Group reserves at the balance sheet date.

Derivative financial instruments

The Group uses derivative financial instruments primarily to hedge its exposure to currency and interest rate risks arising from operating, financing and investing activities. Derivative financial instruments are measured in accordance with the same principles as the hedged item. Gains and losses from currency hedges are shown in the financial result.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value. They comprise cash on hand, bank and postal accounts, and fixed term deposits with a the origin a maximum of three months' maturity from the acquisition date.

Securities

Securities classified as current assets are stated at their current value. If there is no current value, securities are stated at no more than cost less any impairment.

Own shares

Own shares are recognized at cost at the acquisition date. They are presented as a deduction from equity. In the event of their sale at a later date, the gain or loss is credited directly to the capital reserves.

Receivables

Receivables are carried to the balance sheet at nominal value less any necessary valuation allowances. The losses on bad debt and the change in valuation allowance are included in other operating expenses.

The valuation allowance is made up of individual allowances for specifically identified items for which there is objective evidence that the outstanding amount will not be received in full and global allowances for groups of receivables with a similar risk profile. Global valuation allowances cover losses which have occurred, but are not yet known. They are based on historical data on receivables payment statistics.

If it can be assumed with reasonable certainty that a receivable will definitely not be recovered, it is cancelled from the books or offset against the specific valuation allowance recognized for it.

Inventories and construction contracts

Inventories are valued using the principle of lower of cost or market, i.e. at the lower of acquisition price, respectively manufacturing costs and net realisable value. Net realisable value is the expected average selling price less the cost of completion and the selling costs incurred up to the date of sale. Manufacturing costs include direct material and labour costs plus an appropriate share of indirect labour costs. It is usually measured on the basis of the weighted average price.

Revenue from customer contracts that qualify under FER 22 as long-term construction contracts (construction of a specific plant for a third party, with the duration of production / service extended over a long period and the order is significant to the organization) is recognized using the percentage-of-completion method. The income to be recognized and the resulting gross profit are determined on the basis of the degree of completion (proportion of the production costs incurred to date compared to the estimated total production costs of the contract). Foreseeable losses that result from the estimated total manufacturing costs - including expected warranty, warranty work and subsequent work until end of warranty period - exceeding the contract price are recognized immediately in full and carried to profit or loss.

Part payments received from customers are offset against the capitalized construction work of the respective project. If a positive balance results after offsetting, this is shown in the balance sheet in current assets.as net assets from construction contracts. Resulting negative balances are reported as net liabilities from construction contracts in current liabilities.

Tangible fixed assets

Tangible fixed assets are valued at acquisition or manufacturing costs less the cumulated depreciation and any impairment losses. Acquisition and manufacturing costs include the expenses directly attributable to the acquisition, which are incurred in order to bring the asset to its operational condition for its intended use. All fixed assets are used to manufacture goods or provide services. No fixed assets are held for investment purposes. Interest expenses during the construction phase of fixed assets are not capitalized.

Components of a fixed asset with different useful lives are recognized individually and depreciated separately.

Subsequent expenditures for an existing fixed asset are capitalized if they significantly increase its fair value or value in use or extend its useful life significantly. Maintenance and repair work are charged directly to the income statement.

Tangible fixed assets are depreciated on a straight-line basis over their expected useful life. The useful life is 30 to 50 years for buildings, 15 years for fittings, 4 to 15 years for operating equipment and machinery, 4 to 10 years for moveable property and vehicles and 3 to 5 years for IT. Capitalized development projects are written down over 5 years.

Improvements to tenancies are written off over a maximum of the duration of the respective lease.

Depreciation of a fixed asset begins when it actually becomes operational; assets under construction are not depreciated, but are regularly tested for indications of impairment.

The net carrying amount and the useful life of fixed assets are reviewed annually and adjusted where necessary. Gains and losses on the disposal of fixed assets are recognized in profit or loss.

Leases

Leases where substantially all the risks and rewards pass to the Group company at inception of the contract are treated as finance leases, i.e. the asset is recognized at the lower of the present value of the minimum lease payments and the fair value of the leased asset and depreciated on a straight-line basis. They are depreciated over the shorter of the lease term and their estimated useful life (see also “Tangible fixed fixed assets”).

The owed lease payments are shown as current or non-current financial liabilities. The periodically paid lease installments consist of an interest component that is carried to profit and loss and an amortization component (reduction in the recognized financial liability) that does not affect profit or loss.

The Schlatter Group recognises a lease as a finance lease when the term of the lease exceeds three quarters of the useful life of the asset or the present value of the agreed lease payments exceeds 90% of the fair value of the leased tangible fixed asset.

Lease payments for operating leases are charged directly to the income statement on a straight-line basis over the term of the lease.

Goodwill

Goodwill is the difference between the cost (sum of the purchase price, the amount of minority interests in the acquired company and the fair value of the previously held equity interest) and the fair value of the assets acquired less liabilities and contingent liabilities (net assets acquired). Any goodwill that arises is eliminated against equity (retained earnings) at the acquisition date.

In the case of the sale of a subsidiary, the goodwill eliminated against equity at the acquisition date is taken into account in order to determine the gain or loss recognized in profit or loss.

The effects of a theoretical capitalization of goodwill on the balance sheet and income statement, with scheduled depreciation and any impairment over a useful life of five years are disclosed in the notes. For associated companies, goodwill is included in the book value of the investment.

Intangible assets

Acquired intangible assets include software, brand names, licences, patents, rights of use and similar rights. They are recognized at cost less any necessary amortization, but no more than the realisable value (the higher of net fair value and value in use), and amortized on a straight-line basis or systematically over a conservatively estimated useful life, usually of three to ten years.

Internally generated intangible assets (expenses for development work undertaken in order to acquire or gain new technologies and gain new scientific knowledge) are recognized if they meet the criteria in FER 10, paragraph 4.

Capitalized development costs are amortized over the remaining useful life of no more than five years. They are tested for impairment on an annual basis.

Financial assets

Long-term financial receivables from associated organizations, financial assets held with third parties and securities are stated at cost less any impairment.

Interests in associated organizations are measured and recognized using the equity method.

Impairment of non-current non-financial assets

At the balance sheet date, all tangible fixed and intangible assets are reviewed for indications whether the carrying amount of the asset exceeds its recoverable amount (the higher of fair value and value in use) (impairment). In the event of impairment, the carrying amount is reduced to the recoverable amount and the impairment loss charged to profit or loss for the period.

When calculating value in use, the estimated future cash flows are discounted using a pre-tax interest rate. This pre-tax interest rate takes into account, on the one hand, the current market value estimate over the time value of the money and, on the other hand, the risks inherent to the asset, insofar as these are not already taken into account in the cash flows.

Impairment losses on fixed assets may be reversed when there are indications that all or part of the impairment no longer exists and/or the estimates used to determine recoverable amount have changed. The carrying amount may be increased to no more than the amount that would have arisen had no impairment loss been recognized for the asset in previous years.

Payables from goods and services and other liabilities

Liabilities are recognised at amortized cost, which as a rule corresponds to their nominal value.

Financial liabilities

Financial liabilities are recognized initially at fair value. Subsequent measurement is at amortized cost, whereby any difference between the carrying amount and the repayment amount over the term of the utilization of the borrowed funds is recognized in the income statement using the effective interest method.

Provisions

Provisions are recognized in the balance sheet when a past event gives rise to a legal or constructive obligation, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate to the amount of the obligation can be made.

They are measured on the basis of the probable cash outflows and based on a reassessment increased, retained or reversed. If the time impact is considerable, long-term provisions are stated at the present value of the probable future cash outflows.

Provisions for restructuring are only recognized when there is a formal plan defining reliably the related costs, and a binding announcement has been made or a legally binding contract exists.

Provisions for warranty risks from the sale of goods and services are recognized based on the information about warranties from earlier periods.

Income taxes

Income tax includes current and deferred income taxes. Current income taxes are calculated on taxable profit or loss, based on the tax rates expected at the balance sheet date and include expenses for prior-period taxes. The resulting liabilities are recognized separately.

Deferred income taxes are recognized on temporary differences between the carrying amounts of assets and liabilities measured in accordance with uniform Group principles and their tax base value. An average expected tax rate is used to calculate the annually recognized deferred income taxes. Deferred income tax liabilities are presented separately under long-term provisions.

Deferred income tax assets are not recognized for tax loss carryforwards.

Off balance sheet transactions

Contingent liabilities and other off-balance sheet obligations are measured and disclosed at the balance sheet date. When contingent liabilities and other off-balance sheet obligations lead to an outflow of funds without any useable inflow of funds and that outflow of funds is probable and can be estimated, a provision is recognized.

Pension benefits

The pension obligations of Group companies for old age, death or disability are governed by local regulations and practices in the respective countries. One of the two most important companies is located in Switzerland, where employee benefits are combined in an independent foundation.

Abroad, a small number of extracurricular pension plans are operated over and above the statutory minimum. The actual economic effects of all pension plans on the Group are calculated at the balance sheet date.

Any benefit arising from employer contribution reserves is recognized as an asset. The activation of a further economic benefit (from an over collateralization in the pension fund) is neither intended nor are the prerequisites given therefor. An economic obligation is recognized as a liability if the conditions for the formation of a provision are met.

Equity

Share capital
Shares are a component of equity, as they are not refundable and there is no guarantee of a dividend.

Own shares
Own shares are presented as a deduction from equity. Purchases and disposals are presented as a change in equity. Disposals of, reductions in and issuance of own shares are recognized directly in capital reserves.

Equity transaction costs
Transaction costs of an equity transaction are recognized as a deduction from equity, taking into account any tax effects. Equity transaction costs include only those costs that are directly attributable to equity transactions and would not otherwise have materialized.

Dividends
Dividends are presented as a liability as soon as the resolution has been apporved by the Annual General Meeting.

Net sales and revenue recognition

Net sales include all revenue from goods and services less deductions such as rebates, other agreed discounts and value-added tax. Revenue from the sale of goods is recognized as income when the significant risks and rewards incidental to ownership pass to the buyer.

Provided that the requirements are met (see “Inventories and construction contracts”), revenue resulting from construction contracts is recognized using the percentage-of-completion method. No revenue is recognized in the event of significant doubt about the recoverability of outstanding payments or about rights to return of goods.

Financial result

The financial result comprises interest payments on liabilities, interest income, dividend income, foreign exchange gains and losses and bank charges.

Borrowing costs and interest income are recognized in profit or loss in the period in which they incur, based on the effective interest method. Dividend income is recognized in profit or loss on the due date of their payment.

Annotations to the consolidated financial statements

1 Segment information

Segment reporting is by business area. The business areas are managed globally; the organisation is structured accordingly by business area. The segments comprise the business areas welding and weaving. The welding segment produces equipment for end-to-end solutions for the manufacture of reinforcing and industrial wire mesh as well as rail welding systems. The weaving segment produces equipment for the manufacture of technical fabrics for the paper industry, plus wire-weaving machines.

Breakdown by business area

2017

CHF 1000	Welding	Weaving	**Total segments**
Net sales from plant business with third parties	57 337	15 521	**72 858**
Net sales from spare parts/service business with third parties	24 043	4 214	**28 257**
Total net sales	81 380	19 735	**101 115**
EBIT	3 039	- 538	**2 501**

2016

CHF 1000	Welding	Weaving	**Total segments**
Net sales from plant business with third parties	46 402	16 403	**62 805**
Net sales from spare parts/service business with third parties	23 412	4 269	**27 681**
Total net sales	69 814	20 672	**90 486**
EBIT	- 257	1 323	**1 066**

2 Changes in the scope of consolidation

There were no changes during the financial period.

In the financial year 2016, Schlatter (China), Shanghai, was established and fully consolidated per 31.12.2016.

3 Loan arrangements

In the reporting period, an extension to the loan agreements was agreed with the banks until 31 December 2018. The management believes that the funding of operating activities is secure and the existing facilities are sufficient.

Detailed information is provided in note 13 “Financial liabilities”.

4 Cash and cash equivalents

CHF 1000	2017	2016
Cash	149	160
Bank, post office accounts	11 311	14 260
Cash and cash equivalents	**11 460**	**14 420**

By currency in CHF 1000		
CHF	5 838	8 556
EUR	2 779	3 357
USD	1 830	1 845
GBP	698	428
Other	315	234
Total	**11 460**	**14 420**

Cash and cash equivalents are freely useable.

5 Short-term financial assets

CHF 1000	2017	2016
Fixed-term deposits with a term of 3 to 12 months	87	77
Foreign exchange derivatives	57	0
Short-term financial assets	**144**	**77**

6 Receivables

CHF 1000	2017	2016
Receivables from goods and services due from third parties, gross	4 690	4 025
Valuation allowances	- 361	- 382
Receivables from goods and services, net	4 329	3 643
Other receivables	2 292	2 496
Receivables	6 621	**6 139**

Receivables from goods and services amounted to KCHF 4 329 (previous year: KCHF 3 643). Valuation allowances to the amount of KCHF 361 (previous year: KCHF 382) consist mostly of global allowances.

Allowance accounts

CHF 1000	2017	2016
Specific allowance		
Balance at 1 January	- 25	- 45
Additional allowance	- 51	- 13
Reversal of allowance	7	32
Exchange difference	1	1
Balance at 31 December	- 68	- 25
Global allowance		
Balance at 1 January	- 357	- 296
(Increase) / decrease in allowance	86	- 62
Exchange difference	- 22	1
Balance at 31 December	- 293	**- 357**

Other receivables

CHF 1000	2017	2016
Value-added taxes	1 373	1 725
Withholding taxes	0	0
Miscellaneous	919	771
Total	2 292	**2 496**

In addition to VAT receivables, other receivables to the amount of KCHF 2 292 (previous year:
KCHF 2 496) also include down payments and receivables from employee insurance schemes as well as various smaller items.

Other receivables entail a low level of credit risk; they mainly include receivables from the state, primarily in Germany and Switzerland.

7 Construction contracts

CHF 1000	2017	2016
Contract costs incurred up to the reporting date, including recognised profits and losses on current projects	99 382	71 650
Progress billings and advance payments	- 91 953	- 68 881
Construction contracts in progress, net	**7 429**	**2 769**

In net terms, construction contracts in progress were underfunded by KCHF 7 429 (previous year: KCHF 2 769). Due to higher net sales, underfunding has increased over the previous year.

Construction contracts are reported in the balance sheet as follows:

CHF 1000	2017	2016
Net assets from construction contracts	17 260	13 952
Net liabilities from construction contracts	- 9 831	- 11 183
Recognised revenue from construction contracts	74 332	**64 331**

8 Inventories

CHF 1000	2017	2016
Raw materials, merchandise	10 324	9 604
Work in progress	1 132	930
Semi-finished and finished goods	2 664	2 655
Inventories, net	**14 120**	**13 189**

Due to the healthy order book, inventories increased in value to KCHF 14 120 (previous year: KCHF 13 189).

Despite higher inventories, inventory write-downs declined as higher net sales led to a higher inventory turnover. The valuation allowance developed as follows:

CHF 1000	2017	2016
Balance at 1 January	7 011	8 331
Recognition of valuation allowances	644	- 69
Reversal of valuation allowances	- 820	- 300
Scrapping, liquidations	- 227	- 942
Exchange differences	158	- 9
Balance at 31 December	**6 766**	**7 011**

9 Tangible fixed assets

CHF 1000	Land	Buildings	Technical equipment/ machinery	Other tang. fixed assets	Assets under constr.	**Total tang. fix. assets**
Cost						
As at 1 January 2016	98	7 374	11 797	8 155	0	**27 424**
Additions	0	19	150	235	45	**449**
Disposals	0	0	- 7	- 301	0	**- 308**
Reclassifications	0	0	- 1	0	0	**- 1**
Exchange differences	3	14	- 68	3	0	**- 48**
As at 31 December 2016	**101**	**7 407**	**11 871**	**8 092**	**45**	**27 516**
Additions	0	9	632	351	0	**992**
Disposals	0	0	- 140	- 19	0	**- 159**
Reclassifications	0	0	0	45	- 45	**0**
Exchange differences	- 5	0	777	262	0	**1 034**
As at 31 December 2017	**96**	**7 416**	**13 140**	**8 731**	**0**	**29 383**
Accumulated depreciation						
As at 1 January 2016	0	-4 154	-10 175	-7 104	0	**-21 433**
Depreciation	0	- 845	- 361	- 303	0	**-1 509**
Impairment	0	0	0	301	0	**301**
Disposals	0	0	0	0	0	**0**
Reclassifications	0	0	0	0	0	**0**
Exchange differences	0	-16	63	6	0	**53**
As at 31 December 2016	**0**	**-5 015**	**-10 473**	**-7 100**	**0**	**-22 588**
Depreciation	0	-578	-307	-317	0	**-1 202**
Impairment	0	0	0	0	0	**0**
Disposals	0	0	140	19	0	**159**
Reclassifications	0	0	0	0	0	**0**
Exchange differences	0	21	-658	-213	0	**- 850**
As at 31 December 2017	**0**	**-5 572**	**-11 298**	**-7 611**	**0**	**-24 481**
Net carrying amount at 1 Jan. 2016	98	3 220	1 622	1 051	0	**5 991**
Net carrying amount at 31 Dec. 2016	101	2 392	1 398	992	45	**4 928**
Net carrying amount at 31 Dec. 2017	**96**	**1 844**	**1 842**	**1 120**	**0**	**4 902**

CHF 1000	Land	Buildings	Technical equipment/ machinery	Other tang. fixed assets	Assets under constr.	**Total tang. fix. assets**
Additional information for 2017						
Fire insurance values of the assets	0	9 628	16 507	10 914	0	**37 049**
Investment commitments entered into	0	0	0	0	0	**0**
Pledged as collateral	0	0	0	0	0	**0**

CHF 1000						
Additional information for 2016						
Fire insurance values of the assets	0	9 714	15 420	10 258	0	**35 392**
Investment commitments entered into	0	0	0	0	0	**0**
Pledged as collateral	0	0	0	0	0	**0**

Additions to fixed assets amounted to KCHF 992 (previous year: KCHF 449). In addition to a production machine, investments include various smaller positions.

Schlatter does not hold any assets under finance lease. There are no loans secured by mortgage.

10 Intangible assets

CHF 1000	Capitalised development projects	Other acquired intangible assets	Intangible assets under development	**Total intangible assets**
Cost				
As at 1 January 2016	8 650	7 412	300	**16 362**
Additions	0	64	83	**147**
Disposals	0	- 379	0	**- 379**
Reclassification	0	205	- 205	**0**
Exchange differences	- 5	- 24	0	**- 29**
As at 31 December 2016	**8 645**	**7 278**	**178**	**16 101**
Additions	0	195	23	**218**
Disposals	0	0	0	**0**
Reclassification	0	140	- 140	**0**
Exchange differences	45	282	0	**327**
As at 31 December 2017	**8 690**	**7 895**	**61**	**16 646**
Accumulated amortisation				
As at 1 January 2016	-7 507	-6 355	0	**-13 862**
Additions	- 363	- 311	0	**- 674**
Impairment	0	0	0	**0**
Disposals	0	379	0	**379**
Reclassification	0	0	0	**0**
Exchange differences	3	22	0	**25**
As at 31 December 2016	**-7 867**	**-6 265**	**0**	**-14 132**
Disposals	- 364	- 348	0	**- 712**
Impairment	- 302	0	0	**- 302**
Disposals	0	0	0	**0**
Reclassification	0	0	0	**0**
Exchange differences	- 32	- 238	0	**- 270**
As at 31 December 2017	**-8 565**	**-6 851**	**0**	**-15 416**
Net carrying amount at 01.01.2016	1 143	1 057	300	**2 500**
Net carrying amount at 31.12.2016	778	1 013	178	**1 969**
Net carrying amount at 31.12.2017	**125**	**1 044**	**61**	**1 230**

The additions to intangible assets of KCHF 218 (previous year: KCHF 147) are primarily attributable to software purchases. The development project in the area of rail welding capitalized in the balance sheet at the end of 2016 to the amount of KCHF 604 was fully amortisised during the reporting period.

11 Financial assets

Open derivative financial instruments

	31.12.2017			31.12.2016		
CHF 1000	Active value	Passive value	Purpose	Active value	Passive value	Purpose
Forward exchange transactions	**57**	**28**	Hedging	0	64	Hedging

12 Deferred taxes

No tax losses carried forward are recognized as assets. The existing losses carried forward expire as follows:

CHF 1000	**2017**	2016
After 1 year	**52 130**	1 803
After 2 years	**54 495**	58 378
After 3 years	**0**	54 494
After 4 years	**1 919**	0
After 5 years	**8 412**	1 931
After 6 years	**1 175**	8 445
After 7 years	**0**	1 130
After more than 10 years	**0**	0
Not subject to expiry	**2 085**	1 866
Total	**120 216**	**128 047**

The loss carryforwards were incurred primarily at Schlatter Industries AG. Due to the holding company tax privilege in accordance with § 73 StG ZH and the corresponding exemption for cantonal and municipal income tax purposes, loss carryforwards generated by the former Schlatter Holding AG up to and including the 2012 tax period can, however, only be claimed for direct federal tax purposes. As a result, losses carried forward of KCHF 40 675 may be claimed on the level of cantonal and municipal taxes.

The average tax rate applied for deferred taxes in the 2017 reporting period was 20.6% (previous year: 17.2%).

13 Financial liabilities

CHF 1000	2017	2016
Short-term financial liability	191	224
Fixed advances/current account	0	0
Short-term financial liabilities	**191**	**224**
thereof CHF	191	182
thereof Eur	0	42
Total short-term financial liabilities by currency	191	224

CHF 1000	2017	2016
Long-term financial liability	76	240
Long-term financial liabilities	**76**	**240**
thereof CHF	76	240
thereof Eur	0	0
Total long-term financial liabilities by currency	76	240

Planned maturities in CHF 1000	2017	2016
Up to 1 year	191	224
1 to 5 years	76	240
More than 5 years	0	0
Total financial liabilities	**267**	**464**

Terms of credit

The Schlatter Group has loan agreements, which are committed until 31.12.2018. The bank facilities (credit and contingency facilities) for maintaining the operating business amount to CHF 22.75 million (previous year: CHF 22.75 million). These can be used up to an amount of CHF 4.5 million (previous year: CHF 7.0 million) for short-term loans. The interest rate is 3.5% p.a. (previous year: 3.5% p.a.). The contingency facilities are partly linked to conditions in connection with bond guarantees issued by the Swiss Export Risk Insurance (SERV). The total usage may not exceed the bank limit of CHF 22.75 million. The loans are tied to financial covenants (EBITDA).

14 Payables from goods and services

CHF 1000	2017	2016
CHF	2 708	3 282
EUR	5 008	3 377
USD	19	32
Others	34	27
Payables from goods and services	**7 769**	**6 718**

Accounts payable are considered at the balance sheet date which can give rise to sharp fluctuations.

15 Other liabilities, accrued liabilities and deferred income

CHF 1000	2017	2016
Value-added taxes	-1	28
Employee insurances/socail security	178	117
Advance payments from customers	2 082	4 274
Liabilities towards the Schlatter Group pension fund	183	171
Miscellaneous liabilities	403	365
Other liabilities	**2 845**	**4 955**
Holiday and overtime accruals	1 824	1 346
Other accrued liabilities and deferred income	1 614	2 003
Accrued liabilities and deferred income	**3 438**	**3 349**
Other liabilities, accrued liabilities and deferred income	**6 283**	**8 304**

The item "Advance payments from customers" includes a position of CHF 1.2 million for a down-payment from a customer, which, due to financial difficulties can no longer continue with the project contractually agreed by both parties.

The other accrued liabilities consist mainly of accrued costs for machinery already invoiced in the Weaving segment as well as accruals for variable salary payments in Schlieren and Münster.

16 Pension benefit obligations

In accordance with legal requirements, the Group company in Switzerland has its own pension fund, independent of the Group. This provides benefits in the event of old age, death or disability. Financing is basically provided by employee and employer contributions.

In Germany and the other countries in which the Schlatter Group is present with its own subsidiary, there are state social security schemes and additional employee benefit plans in compliance with local laws.

Economic benefit/economic obligation and pension benefit expense

CHF 1000	Excess / deficit 31.12.2017	Economic share of the organisation 31.12.2017	31.12.2016	Change to previous yr recognised in P&L of year	Amounts related to the period	Pension benefit expense in personnel expense 2017	2016
Plan Schlatter Industries AG [1]	7 061	0	0	0	1 229	1 229	1 177
Plan Schlatter Deutschland GmbH & Co. KG	-3 304	-3 304	-2 704	- 600	153	753	706
Total	**3 757**	**-3 304**	**-2 704**	**- 600**	**1 382**	**1 982**	**1 883**

[1] Defined contribution plan

17 Provisions

CHF 1000	Warranties	Restruc-turing	Project risks	Other	Total
As at 1 January 2016	710	373	2 638	684	**4 405**
Recognised	50	1	2 165	87	**2 303**
Used	0	- 376	-2 327	- 62	**-2 765**
Reversed	0	0	- 311	- 10	**- 321**
Exchange differences	- 2	2	0	- 1	**- 1**
As at 31 December 2016	**758**	**0**	**2 165**	**698**	**3 621**
Recognised	1 067	0	1 123	106	**2 296**
Used	- 866	0	-1 932	- 137	**-2 935**
Reversed	0	0	0	0	**0**
Exchange differences	42	0	0	14	**56**
As at 31 December 2017	**1 001**	**0**	**1 356**	**681**	**3 038**
thereof short-term provisions	856	0	1 356	565	**2 777**

Provisions per 31.12.2017 have declined to KCHF 3 038 (previous year: KCHF 3 621).

The provisions for warranty work to be performed are determined by an empirical value over several years. The due date complies with the contractually agreed warranty period.

The change in other provisions includes a number of smaller items such as provisions for jubilee compensations to employees.

Project risks requiring a provision are registered in the project with the periodically updated plan costs and posted to profit or loss using the percentage of completion method. Exceptions are projects that are completed and delivered but whose commercial conclusion is still open due to the technical solution provided. Likewise, risks on prototypes sold but not yet delivered are also included. The relevant amount, KCHF 1 356, is included in the column "Project Risks", (previous year: KCHF 2 165).

18 Share capital / own shares and reserves

Share capital per 31.12.2017 amounted to KCHF 17,675 (previous year: KCHF 17,675) and consists of 1,104,704 registered shares with a nominal value of CHF 16.00 (previous year: 1,104,704 registered shares with a nominal value of CHF 16.00).

The registered shares of Schlatter Industries AG are listed in the Swiss Reporting Standard of SIX Swiss Exchange (securities number 227731, ISIN CH0002277314, Telekurs STRN, Reuters STRN.S). The market capitalisation of Schlatter Industries AG per 31.12.2017 was CHF 52.7 million (previous year: CHF 42.8 million).

Share capital is fully paid up. Each share entitles the holder to participate in the company's annual general meeting and disposes of one vote. 1,104,704 registered shares are dividend bearing shares (previous year: 1,104,704). At the balance sheet date, the company did not hold any own shares (previous year: 0).

19 Other operating income

CHF 1000	**2017**	2016
Lease income	**79**	78
Commission income	**11**	0
Gain on disposal of tangible fixed assets	**30**	1
Other income	**343**	196
Total	**463**	**275**

20 Personnel expenses

CHF 1000	**2017**	2016
Wages and salaries	**29 216**	27 428
Social security expenses	**3 246**	3 076
Pension benefit expense for defined benefit plans	**1 537**	1 031
Other personnel expenses	**1 534**	1 223
Total	**35 533**	**32 758**

Average headcount (full-time equivalents)	**332**	312
Headcount at 31 December	**345**	319

Due to the higher number of employees, wages and salaries have increased. The increase in pension benefit expense is predominantly due to the further reduction of the discount rate for future pension obligations at the Münster location, which led to an increase in personnel expenses in the reporting period.

The increase in other personnel expenses is primarily attributable to the increase in provisions for holiday entitlements as well as overtime and extra work.

The higher EUR exchange rate also led to higher personnel costs in CHF at the foreign locations.

21 Other operating expenses

CHF 1000	**2017**	2016
Losses on receivables, change in allowance for doubtful accounts	120	- 54
Loss on disposal of tangible fixed assets	0	1
Maintenance costs	1 131	974
Rent, leasing	2 587	2 600
Sales and marketing	1 669	1 471
Administration and consultancy	959	928
Insurance, levies, taxes on capital	285	355
Information technology	814	819
Other	1 502	1 448
Total	**9 067**	**8 542**

22 Research and development

The current result was burdened with research and development expenses of KCHF 5,098 (previous year: KCHF 5,385). These funds are used to implement the long-term development roadmap, which was further pushed in the 2017 financial year.

23 Financial result

CHF 1000	2017	2016
Interest income	7	7
Gain on disposal of financial assets	0	0
Non-realised gains on currency hedges	29	301
Non-realised foreign exchange gains	25	0
Realised foreign exchange gains	841	970
Other	6	1
Financial income	**908**	**1 279**

CHF 1000	2017	2016
Interest expense	3	1
Non-realised losses on currency hedges	0	279
Non-realised foreign exchange losses	0	284
Realised foreign exchange losses	46	860
Other	153	155
Financial expenses	**202**	**1 579**

Interest income includes returns on bank accounts and time deposits. The foreign exchange gains and losses resulted from hedging transactions in the foreign currencies EUR and USD and from revaluations of balance sheet items due to the volatility of foreign currencies. Currency gains, including gains from currency hedges amount to KCHF 895 (previous year: KCHF 1,271) and currency losses KCHF 46 (previous year: KCHF 1,423). Other financial expenses include bank charges, fees, bank guarantee costs, etc. which can not be allocated to a specific customer project.

24 Income taxes

CHF 1000	2017	2016
Income taxes		
Current income taxes	176	50
Deferred taxes	155	210
Total income taxes	**331**	**260**

In individual Group companies, income tax expense occurred due to the positive result in the reporting period.

Analysis of the income tax burden:

CHF 1000	2017	2016
Profit before income tax	3 207	766
Expected income tax rate	20.7%	20.0%
Expected income tax	663	153
Effect of use of non-activated loss carryforwards	- 1 367	- 242
Effect of non-recognition of loss carryforwards	192	302
Other effects/eliminations	843	47
Effective income tax recognised in income statement	**331**	**260**
Effective income tax rate	10.3%	33.9%

25 Earnings per share

CHF 1000	2017	2016
Net result attributable to shareholders of Schlatter Industries AG	2 876	506
Number of issued registered shares at nominal value of CHF 16.00 per 31 December	1 104 704	1 104 704
Number of shares issued, weighted	1 104 704	1 104 704
Average number of registered shares held as own stock	0	0
Total average number of dividend bearing registered shares	**1 104 704**	**1 104 704**
Basic earnings per registered share (in CHF)	2.60	0.46

As no conversion or option rights or other potential shares are outstanding, there is no dilution of earnings per share.

26 Share-based payment

No share-based payment was paid in the financial years 2017 and 2016.

27 Risk management

The Board of Directors has ultimate responsibility for risk management and sets the goals. In addition to strategic, operational and compliance objectives, goals for financial reporting are also included. The Board of Directors has appointed a committee - a Risk and Audit Committee consisting of two members - responsible for the development and monitoring of risk management principles. The Committee reports regularly to the Board of Directors but has no decision-making authority. The duties and responsibilities assigned to the Board of Directors in accordance with the Organizational Regulations and the Law remain with the Board of Directors as an overall body.

The principles established for risk management are designed to identify and analyze the risks to which the Group is exposed and to define appropriate limits. The intention is to establish controls as well as monitor risks and the compliance with the limits. The principles of risk management and the processes used are reviewed on a regular basis to cover changes in market conditions and the activities of the Group. The aim is to develop a disciplined and constructive control environment through existing training and management guidelines and processes, which ensures a disciplined and conscious approach to risks.

The Risk and Audit Committee oversees the management in monitoring compliance with policies and processes. The suitability in relation to the risks to which the Group is exposed is constantly reviewed. The Risk and Audit Committee is assisted by the company management, which supervises a level orientated observance of processes and risks.

28 Leasing

Operating Lease

Unrecognized lease obligations (future minimum lease payments) amount to:

CHF 1000	**2017**	2016
Due within 1 year	**3 419**	3 307
Due within 2 to 5 years	**9 173**	3 979
Due in more than 5 years	**12 475**	0
Total	**25 067**	**7 286**

The largest items of operating lease relate to rental expenses for office, production and warehouse space in Schlieren (CH) and Münster (DE). Rental expenses for vehicles and a number of other smaller leases are also included in this item.

In the reporting period, the rental agreement for the property in Schlieren was extended until 31.5.2029. There is a one-sided right of termination for Schlatter Industries AG as of 31.5.2026. The lease for the property in Münster was terminated as of 31.12.2018, the date of expiration has not yet been determined.

29 Transactions with related parties

Related parties include the subsidiaries (see note 32, page 67), the members of the Board of Directors and Group Management, significant shareholders (see page 83), associated companies, as well as the pension plans of the Group (see page 61).

A detailed disclosure of compensation can be found in the Remuneration Report on the pages 30 ff.

Frank Schröter, Member of the Group Management until 30 June 2017, and Harro Schröter, Commercial Director of Schlatter Germany until 30 June 2017, are the sole shareholders of MMI GmbH & Co. KG. This company owns the commercial real estate in Münster and Meppen, which Schlatter Germany GmbH & Co. KG has leased. The lease in Münster has been terminated by the MMI GmbH & Co. KG as of 31.12.2018, the date of expiration has not yet been determined. The annual rent amounts to KEUR 394. The rental contract for the property in Meppen can be terminated with three months notice at the end of each half-year. The annual rent is 46 KEUR.

30 Assets pledged or assigned

Per 31.12.2017, UBS AG and Zürcher Kantonalbank have a lien on all current and future bank deposits and securities that are held on their accounts and custody accounts. As at the balance sheet date, the value was KCHF 7,488 (previous year: KCHF 12,066).

31 Contingent liabilities

Warranty guarantees to the amount of KCHF 582 (previous year: KCHF 3,487) with regard to delivery date and systems' performance may become due in the event of non-performance by Schlatter Industries AG. In addition, there are contingent liabilities for supplier loans in the amount of KCHF 652 (previous year: KCHF 709).

The security guarantee for the rent amounts to KCHF 1,271 (previous year: KCHF 1,263).

32 Group companies

Per 31.12.2017, Schlatter Industries AG, with its registered office in Schlieren, Switzerland (CH), held the following fully consolidated Group companies:

Name	Registered office	Share of capital	Share of voting rights	Primary business
Schlatter Deutschland GmbH & Co. KG	DE-Münster	100%	100%	P, R, D, S
Schlatter North America	US-Rockford	100%	100%	D, S
Schlatter France S.a.r.l.	FR-Noisy-le-Grand	100%	100%	D, S
Schlatter do Brasil Ind. e Com.	BR-Sao Bernardo do Campo	100%	100%	D, S
Schlatter South East Asia Sdn. Bhd.	MY-Ipoh	100%	100%	D, S
Schlatter (China) Ltd. [1)]	CN-Shanghai	100%	100%	D, S

[1)] established 4th July 2016

P = Production
R = research and development
D = distribution
S = service

33 Exchange rates

	2017		2016	
CHF 1	Closing rates	Average rates	Closing rates	Average rates
1 EUR	**1.17**	**1.11**	1.07	1.09
1 USD	**0.97**	**0.98**	1.02	0.99
1 GBP	**1.32**	**1.27**	1.25	1.34
1 BRL	**0.31**	**0.31**	0.31	0.28
1 MYR	**0.24**	**0.23**	0.23	0.24
1 CNY	**0.15**	**0.15**	0.15	0.15

34 Events after the balance sheet date

The consolidated financial statements were approved for publication by the Board of Directors on the date of release of the annual results on March 16, 2018. It is subject to approval by the General Assembly on 3rd May 2018.

No events occurred between December 31, 2017 and the date of publication of the annual results on March 20, 2018, which would have required an adjustment of the carrying amounts of assets and liabilities of the Group or which would have needed to be disclosed here.

KPMG

Bericht der Revisionsstelle

An die Generalversammlung der Schlatter Industries AG, Schlieren

Bericht zur Prüfung der Konzernrechnung

Prüfungsurteil

Wir haben die Konzernrechnung der Schlatter Industries AG und ihrer Tochtergesellschaften (der Konzern) – bestehend aus der Konzernbilanz zum 31. Dezember 2017, der Konzernerfolgsrechnung, dem Konzerneigenkapitalnachweis und der Konzerngeldflussrechnung für das dann endende Jahr sowie dem Konzernanhang, einschliesslich einer Zusammenfassung bedeutsamer Rechnungslegungsmethoden – geprüft.

Nach unserer Beurteilung vermittelt die Konzernrechnung (Seiten 40 bis 68) ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens- und Finanzlage des Konzerns zum 31. Dezember 2017 sowie dessen Ertragslage und Geldflüsse für das dann endende Jahr in Übereinstimmung mit den Swiss GAAP FER und entspricht dem schweizerischen Gesetz.

Grundlage für das Prüfungsurteil

Wir haben unsere Prüfung in Übereinstimmung mit dem schweizerischen Gesetz und den Schweizer Prüfungsstandards (PS) durchgeführt. Unsere Verantwortlichkeiten nach diesen Vorschriften und Standards sind im Abschnitt "Verantwortlichkeiten der Revisionsstelle für die Prüfung der Konzernrechnung" unseres Berichts weitergehend beschrieben. Wir sind von dem Konzern unabhängig in Übereinstimmung mit den schweizerischen gesetzlichen Vorschriften und den Anforderungen des Berufsstands und wir haben unsere sonstigen beruflichen Verhaltenspflichten in Übereinstimmung mit diesen Anforderungen erfüllt.

Wir sind der Auffassung, dass die von uns erlangten Prüfungsnachweise ausreichend und geeignet sind, um als Grundlage für unser Prüfungsurteil zu dienen.

Berichterstattung über besonders wichtige Prüfungssachverhalte aufgrund Rundschreiben 1/2015 der Eidgenössischen Revisionsaufsichtsbehörde

Fertigungsaufträge

Besonders wichtige Prüfungssachverhalte sind solche Sachverhalte, die nach unserem pflichtgemässen Ermessen am bedeutsamsten für unsere Prüfung der Konzernrechnung des aktuellen Zeitraums waren. Diese Sachverhalte wurden im Zusammenhang mit unserer Prüfung der Konzernrechnung als Ganzes und bei der Bildung unseres Prüfungsurteils hierzu berücksichtigt, und wir geben kein gesondertes Prüfungsurteil zu diesen Sachverhalten ab.

KPMG

Fertigungsaufträge

Prüfungssachverhalt

Die Fertigungsaufträge werden nach der Percentage-of-Completion-Methode (POC-Methode) erfasst, sofern die Voraussetzungen gemäss Swiss GAAP FER dazu erfüllt sind. Bei der POC-Methode wird nebst den Anschaffungs- und Herstellungskosten, sowie weiteren auftragsbezogenen Aufwendungen, auch ein allfälliger Gewinn anteilmässig zum Fertigstellungsgrad berücksichtigt, sofern dessen Realisierung mit genügender Sicherheit feststeht. Das Nettoguthaben beziehungsweise die Nettoverbindlichkeit von Fertigungsaufträgen sowie die Umsatzerfassung aus Fertigungsaufträgen sind abhängig

- von der mitlaufenden Projektkalkulation (mit Berücksichtigung der Projektrisiken),
- vom Fertigstellungsgrad (Istkosten im Verhältnis zu den erwarteten Gesamtkosten) sowie
- von der Finanzierung der einzelnen Projekte.

Es besteht das Risiko, dass aufgrund einer falschen Einschätzung der erwarteten Gesamtkosten die Forderungen und Verbindlichkeiten und eine möglicherweise erforderliche Rückstellung für vorhersehbare Verluste aus Fertigungsaufträgen falsch bewertet sind. Entsprechend wären der Umsatz aus Fertigungsaufträgen beziehungsweise das Konzernergebnis zu hoch oder zu tief ausgewiesen.

Für Fertigungsaufträge von neuen Maschinentypen mit wenigen Erfahrungswerten in der Herstellung und Inbetriebnahme (z.B. Prototypen oder Projekte mit hohem technischen Erneuerungsgrad), werden im Bedarfsfall zusätzlich Projektrisikorückstellungen gebildet. Die Evaluierung der Rückstellungshöhe erfordert erhebliches Ermessen und unterliegt einer hohen Schätzungsunsicherheit.

Aus diesen Gründen war die Beurteilung der Angemessenheit der Bewertung der Fertigungsaufträge und Projektrisikorückstellungen aus unserer Sicht von besonderer Bedeutung.

Unsere Vorgehensweise

Durch Befragungen von Mitarbeitenden und dem Nachvollzug ausgewählter Kontrollaktivitäten haben wir uns davon überzeugt, dass eine geeignete Auftragsorganisation als zentrale Voraussetzung zur Anwendung der POC-Methode vorhanden ist.

Wir haben evaluiert, wie sich die Projekte, die Projektkalkulationen und die Projektrisikorückstellungen im Vergleich zu vergangenen Perioden entwickelt haben und ob in der Vergangenheit getroffene Annahmen rückblickend vertretbar waren.

Zur Beurteilung der Angemessenheit der für die Projektbewertung massgebenden Projektkalkulationen haben wir stichprobenweise

- die geschätzten Restkosten anhand von Besprechungen mit den Projekt- und Finanzverantwortlichen sowie
- durch Einsicht in zu Grunde liegende Kalkulationen

kritisch hinterfragt.

Des Weiteren wurden die geschätzten Auftragserlöse stichprobenweise mit Verträgen abgestimmt und Berechnungen nachvollzogen. Für sich abzeichnende Verluste haben wir überprüft, ob unabhängig vom Fertigungsgrad Rückstellungen in vollem Umfang der erwarteten Verluste gebildet wurden.

Für Fertigungsaufträge von neuen Maschinentypen mit wenigen Erfahrungswerten haben wir mittels einer Sensitivitätsanalyse die Auswirkung unterschiedlicher Annahmen auf das Konzernergebnis überprüft und kritisch gewürdigt.

Weitere Informationen zu Fertigungsaufträgen sind an folgenden Stellen im Anhang der Konzernrechnung enthalten:

— Fertigungsaufträge Note 7

— Rückstellungen Note 17

— Rechnungslegungsgrundsätze Seite 46 - 47

Verantwortlichkeiten des Verwaltungsrates für die Konzernrechnung

Der Verwaltungsrat ist verantwortlich für die Aufstellung einer Konzernrechnung, die in Übereinstimmung mit den Swiss GAAP FER und den gesetzlichen Vorschriften ein den tatsächlichen Verhältnissen entsprechendes Bild vermittelt, und für die internen Kontrollen, die der Verwaltungsrat als notwendig feststellt, um die Aufstellung einer Konzernrechnung zu ermöglichen, die frei von wesentlichen – beabsichtigten oder unbeabsichtigten – falschen Darstellungen ist.

Bei der Aufstellung der Konzernrechnung ist der Verwaltungsrat dafür verantwortlich, die Fähigkeit des Konzerns zur Fortführung der Geschäftstätigkeit zu beurteilen, Sachverhalte in Zusammenhang mit der Fortführung der Geschäftstätigkeit – sofern zutreffend – anzugeben sowie dafür, den Rechnungslegungsgrundsatz der Fortführung der Geschäftstätigkeit anzuwenden, es sei denn, der Verwaltungsrat beabsichtigt, entweder den Konzern zu liquidieren oder Geschäftstätigkeiten einzustellen, oder hat keine realistische Alternative dazu.

Verantwortlichkeiten der Revisionsstelle für die Prüfung der Konzernrechnung

Unsere Ziele sind, hinreichende Sicherheit darüber zu erlangen, ob die Konzernrechnung als Ganzes frei von wesentlichen – beabsichtigten oder unbeabsichtigten – falschen Darstellungen ist, und einen Bericht abzugeben, der unser Prüfungsurteil beinhaltet. Hinreichende Sicherheit ist ein hohes Mass an Sicherheit, aber keine Garantie dafür, dass eine in Übereinstimmung mit dem schweizerischen Gesetz und den PS durchgeführte Prüfung eine wesentliche falsche Darstellung, falls eine solche vorliegt, stets aufdeckt. Falsche Darstellungen können aus dolosen Handlungen oder Irrtümern resultieren und werden als wesentlich angesehen, wenn von ihnen einzeln oder insgesamt vernünftigerweise erwartet werden könnte, dass sie die auf der Grundlage dieser Konzernrechnung getroffenen wirtschaftlichen Entscheidungen von Nutzern beeinflussen.

Als Teil einer Prüfung in Übereinstimmung mit dem schweizerischen Gesetz und den PS üben wir während der gesamten Prüfung pflichtgemässes Ermessen aus und bewahren eine kritische Grundhaltung. Darüber hinaus:

— identifizieren und beurteilen wir die Risiken wesentlicher – beabsichtigter oder unbeabsichtigter – falscher Darstellungen in der Konzernrechnung, planen und führen Prüfungshandlungen als Reaktion auf diese Risiken durch sowie erlangen Prüfungsnachweise, die ausreichend und geeignet sind, um als Grundlage für unser Prüfungsurteil zu dienen. Das Risiko, dass aus dolosen Handlungen resultierende wesentliche falsche Darstellungen nicht aufgedeckt werden, ist höher als ein aus Irrtümern resultierendes, da dolose Handlungen betrügerisches Zusammenwirken, Fälschungen, beabsichtigte Unvollständigkeiten, irreführende Darstellungen oder das Ausserkraftsetzen interner Kontrollen beinhalten können.

— gewinnen wir ein Verständnis von dem für die Prüfung relevanten internen Kontrollsystem, um Prüfungshandlungen zu planen, die unter den gegebenen Umständen angemessen sind, jedoch nicht mit dem Ziel, ein Prüfungsurteil zur Wirksamkeit des internen Kontrollsystems des Konzerns abzugeben.

— beurteilen wir die Angemessenheit der angewandten Rechnungslegungsmethoden sowie die Vertretbarkeit der dargestellten geschätzten Werte in der Rechnungslegung und damit zusammenhängenden Angaben.

— schlussfolgern wir über die Angemessenheit der Anwendung des Rechnungslegungsgrundsatzes der Fortführung der Geschäftstätigkeit durch den Verwaltungsrat sowie auf der Grundlage der erlangten Prüfungsnachweise, ob eine wesentliche Unsicherheit im Zusammenhang mit Ereignissen oder Gegebenheiten besteht, die bedeutsame Zweifel an der Fähigkeit des Konzerns zur Fortführung der Geschäftstätigkeit aufwerfen kann. Falls wir die Schlussfolgerung treffen, dass eine wesentliche Unsicherheit besteht, sind wir verpflichtet, in unserem Bericht auf die dazugehörigen Angaben im Anhang der Konzernrechnung aufmerksam zu machen oder, falls diese Angaben unangemessen sind, unser Prüfungsurteil zu modifizieren. Wir ziehen unsere Schlussfolgerungen auf der Grundlage der bis zum Datum unseres Berichts erlangten Prüfungsnachweise. Zukünftige Ereignisse oder Gegebenheiten können jedoch die Abkehr des Konzerns von der Fortführung der Geschäftstätigkeit zur Folge haben.

— beurteilen wir die Gesamtdarstellung, den Aufbau und den Inhalt der Konzernrechnung einschliesslich der Angaben im Anhang sowie, ob die Konzernrechnung die zugrunde liegenden Geschäftsvorfälle und Ereignisse in einer Weise wiedergibt, dass eine sachgerechte Gesamtdarstellung erreicht wird.

— erlangen wir ausreichende geeignete Prüfungsnachweise zu den Finanzinformationen der Einheiten oder Geschäftstätigkeiten innerhalb des Konzerns, um ein Prüfungsurteil zur Konzernrechnung abzugeben. Wir sind verantwortlich für die Anleitung, Überwachung und Durchführung der Prüfung der Konzernrechnung. Wir tragen die Alleinverantwortung für unser Prüfungsurteil.

Wir tauschen uns mit dem Verwaltungsrat bzw. dessen zuständigem Ausschuss aus, unter anderem über den geplanten Umfang und die geplante zeitliche Einteilung der Prüfung sowie über bedeutsame Prüfungsfeststellungen, einschliesslich etwaiger bedeutsamer Mängel im internen Kontrollsystem, die wir während unserer Prüfung erkennen.

Wir geben dem Verwaltungsrat bzw. dessen zuständigem Ausschuss auch eine Erklärung ab, dass wir die relevanten beruflichen Verhaltensanforderungen zur Unabhängigkeit eingehalten haben und uns mit ihnen über alle Beziehungen und sonstigen Sachverhalte austauschen, von denen vernünftigerweise angenommen werden kann, dass sie sich auf unsere Unabhängigkeit und – sofern zutreffend – damit zusammenhängende Schutzmassnahmen auswirken.

Wir bestimmen von den Sachverhalten, über die wir uns mit dem Verwaltungsrat bzw. dessen zuständigem Ausschuss ausgetauscht haben, diejenigen Sachverhalte, die am bedeutsamsten für die Prüfung der Konzernrechnung des aktuellen Zeitraums waren und daher die besonders wichtigen Prüfungssachverhalte sind. Wir beschreiben diese Sachverhalte in unserem Bericht, es sei denn, Gesetze oder andere Rechtsvorschriften schliessen die öffentliche Angabe des Sachverhalts aus oder wir bestimmen in äusserst seltenen Fällen, dass ein Sachverhalt nicht in unserem Bericht mitgeteilt werden soll, weil vernünftigerweise erwartet wird, dass die negativen Folgen einer solchen Mitteilung deren Vorteile für das öffentliche Interesse übersteigen würden.

Bericht zu sonstigen gesetzlichen und anderen rechtlichen Anforderungen

In Übereinstimmung mit Art. 728a Abs. 1 Ziff. 3 OR und dem Schweizer Prüfungsstandard 890 bestätigen wir, dass ein gemäss den Vorgaben des Verwaltungsrates ausgestaltetes internes Kontrollsystem für die Aufstellung der Konzernrechnung existiert.

Wir empfehlen, die vorliegende Konzernrechnung zu genehmigen.

KPMG AG

Roman Wenk
Zugelassener Revisionsexperte
Leitender Revisor

Anita Benz
Zugelassene Revisionsexpertin

Zürich, 16. März 2018

Financial Reporting of Schlatter Industries AG for 2017

Income statement of Schlatter Industries AG, Schlieren

CHF 1000	Note	2017	2016
Net sales from goods and services		79 899	68 508
Change in inventories		- 806	- 2 811
Other operating income		355	198
Total Betriebsertrag		**79 448**	**65 895**
Raw material expense		- 47 797	- 39 668
Personnel expense		- 21 759	- 20 993
Other operating expense	2.11	- 4 949	- 4 650
Depreciation and impairment of tangible fixed assets		- 740	- 1 017
Amortisation and impairment of intangible assets		- 909	- 554
Total operating expenses		**- 76 154**	**- 66 882**
Operating result		**3 294**	**- 987**
Financial income		4 016	1 280
Financial expense		- 798	- 1 468
Profit/loss before taxes		**6 511**	**- 1 175**
Direct taxes		- 116	45
Profit/loss		**6 395**	**- 1 130**

Balance sheet of Schlatter Industries AG, Schlieren

Assets

CHF 1000	Note	31.12.2017	31.12.2016
Cash and cash equivalents		10 035	13 626
Securities	2.1	29	0
Receivables from goods and services	2.2	3 082	2 778
Receivables from goods and services from subsidiaries		666	328
Other short-term receivables		908	1 281
Other short-term receivables from subsidiaries		5 685	1 237
Net assets from construction contracts		10 666	10 740
Inventories	2.3	9 547	9 488
Accrued income and deferred liabilities		21	21
Accrued income and deferred liabilities with subsidiaries		112	0
Total current assets		**40 751**	**39 499**
Participations	2.4	3 908	3 908
Tangible fixed assets	2.5	2 201	2 699
Intangible fixed assets	2.6	874	1 617
Total non-current assets		**6 983**	**8 224**
Total assets		**47 734**	**47 723**

Liabilities and equity

CHF 1000	Note	31.12.2017	31.12.2016
Payables for goods and services		5 232	5 591
Payables for goods and services to subsidiaries		1 964	3 903
Net liabilities from construction contracts		9 495	10 722
Short-term interest bearing liabilities		191	224
Other short-term liabilities	2.7	2 329	4 504
Other short-term liabilities from subsidiaries	2.7	41	37
Short-term provisions	2.8	2 326	3 080
Accrued liabilities and deferred income	2.9	2 465	2 294
Accrued liabilities to and deferred income from subsidiaries		163	71
Total short-term liabilities		**24 206**	**30 426**
Long-term interest bearing liabilities		76	240
Total long-term liabilities		**76**	**240**
Total liabilities		**24 282**	**30 666**
Share capital	2.10	17 675	17 675
Legal capital reserves			
- Other capital reserves		512	512
Voluntary retained earnings			
- Net profit / loss			
• Carryforward		- 1 130	0
• Profit / loss of the year		6 395	- 1 130
Total equity		**23 452**	**17 057**
Total liabilities and equity		**47 734**	**47 723**

Notes to the financial statements of Schlatter Industries AG, Schlieren

1 Principles

1.1 General

The present financial statements were prepared in accordance with the provisions of Swiss accounting law (Title 32 of the Swiss Code of Obligations). The main valuation principles used, which are not prescribed by law, are described below.

1.2 Derivative financial instruments

Derivative financial instruments are used to hedge exposure to and reduce currency and interest rate risks from operating, financing and investing activities. The initial recognition and valuation takes place at no more than cost. Subsequent valuation is recognized in profit or loss at market prices.

1.3 Inventories and construction contracts

Inventories are valued using the principle of lower of cost or market, i.e. at the lower of acquisition price, respectively manufacturing costs and net realisable value. Net realisable value is the expected average selling price less the cost of completion and the selling costs incurred up to the date of sale.

Longer-term construction contracts are valued according to the percentage-of-completion method (POC method), provided the corresponding prerequisites are met. With the POC method, in addition to the acquisition and production costs, a portion of the profit is recognized in accordance with the progress of the work, provided that its realization is established with sufficient certainty. The progress of work is determined on the basis of the costs incurred in relation to the expected total costs (cost-to-cost). Any foreseeable loss is recognised immediately and in full.

Part payments received from customers are offset against the capitalized construction work of the respective project. If a positive balance results after offsetting, this is shown in the balance sheet in current assets.as net assets from construction contracts. Resulting negative balances are reported as net liabilities from construction contracts in current liabilities.

1.4 Tangible fixed assets

Fixed assets are valued at acquisition or manufacturing costs less the cumulated depreciation and any impairment losses. Fixed assets are depreciated on a straight-line basis over the expected useful life. The useful life for buildings is 30 to 50 years, for facilities 15 years, for plant and machinery 4 to 15 years, for moveable property and vehicles 4 to 10 years, for IT 3 to 5 years.

Tenant improvements are depreciated over the duration of the respective rental agreement.

1.5 Intangible assets

Acquired intangibles are recognized at cost less any necessary amortisation, but no more than the realisable value (the higher of net fair value and value in use). Amortisation is calculated on a straight-line basis or over a conservatively estimated useful life, usually of three to ten years.

Internally generated intangible assets are recognised provided they meet the following criteria:

- The internally generated intangible asset is identifiable and controlled by the company.
- The internally generated intangible asset will bring measurable benefits to the company over several years.
- The expenses incurred to create the internally generated intangible assets can be recorded and measured separately.
- It is likely that the resources needed for completion and marketing will be available or made available.

Capitalised development costs are amortised over the remaining useful life of no more than 5 years.

Intangible assets are periodically reviewed and tested for impairment.

1.6 Own Shares

Own treasury shares are recognised at the acquisition date at cost as a deduction from equity. In the event of subsequent sale, the gain or loss is credited or charged directly to the legal capital reserve.

1.7 Net sales from goods and services.

Revenues from product sales are recognized as income when the significant rewards and risks incidental to ownership pass to the buyer. Provided prerequisites are met, revenues resulting from construction contracts are recognized using the percentage of completion method. Revenues from the sale of services are recognised in the income statement according to work progress. No revenues are recognized if there are significant doubts as to the recoverability of outstanding payments or to the rights regarding the return of goods.

1.8 Leases

Leasing and rental agreements are accounted for in accordance with legal ownership. Accordingly, expenses as lessee or tenant are carried to the profit and loss statement in the corresponding period. The leased or rented items are, however, not recognized in the balance sheet.

2 Disclosures concerning balance sheet and income statement items

2.1 Securities

Open derivative financial instruments

	31.12.2017			31.12.2016		
CHF 1000	Active value	Passive value	Purpose	Active value	Passive value	Purpose
Forward exchange transactions	**57**	**28**	Hedging	0	64	Hedging

Securities include the positive market value of derivative financial instruments.

2.2 Receivables from goods and services

CHF 1000	**31.12.2017**	31.12.2016
Receivables from third parties	**3 344**	2 924
Valuation allowance	**- 262**	- 146
Total	**3 082**	**2 778**

2.3 Inventories

CHF 1000	**31.12.2017**	31.12.2016
Raw materials, merchandise	**10 986**	11 636
Work in progress	**1 055**	903
Semi- finished and finished goods	**2 193**	1 899
Valuation allowance	**- 4 687**	- 4 950
Total	**9 547**	**9 488**

2.4 Participations

			Capital in 1000		Share in capital & voting rights in %	
Name	Registered Office		31.12.17	31.12.16	31.12.17	31.12.16
Schlatter Deutschland GmbH & Co. KG	DE-Münster	EUR	3 579	3 579	100	100
Schlatter France S.a.r.l.	FR-Noisy-le-Grand	EUR	23	23	100	100
Schlatter North America	US-Rockford	USD	10	10	100	100
Schlatter do Brasil Ind. E Com. de Maquinas de Soldar Ltda.	BR-São Bernardo do Campo	BRL	50	50	100	100
Schlatter South East Asia Sdn.Bhd.	MY-Ipoh	MYR	500	500	100	100
Schlatter (China) Ltd.	CN-Shanghai	CNY	300	300	100	100

2.5 Tangible fixed assets

CHF 1000	**31.12.2017**	31.12.2016
Buildings	**1 527**	2 062
Technical equipment and machinery	**302**	389
Furnitures and vehicles	**113**	91
IT equipment	**259**	157
Total	**2 201**	**2 699**

2.6 Intangible assets

CHF 1000	31.12.2017	31.12.2016
Capitalised developments costs	-	604
Acquired intangible assets	813	836
Intangible assets under development	61	177
Total	**874**	**1 617**

The development project in the area of rail welding capitalized in the balance sheet at the end of 2016 to the amount of kCHF 604 was fully amortisised during the reporting period.

2.7 Other short-term liabilities

CHF 1000	31.12.2017	31.12.2016
Liabilities towards third parties	2 146	4 333
Liabilities towards pension institutions	183	171
Liabilities towards subsidiaries	41	37
Total	**2 370**	**4 541**

2.8 Short-term provisions

CHF 1000	31.12.2017	31.12.2016
Warranty work	418	418
Project risks	1 356	2 165
Other short-term provisions	552	497
Total	**2 326**	**3 080**

2.9 Accrued liabilities and deferred income

CHF 1000	31.12.2017	31.12.2016
Fair value of currency derivatives	-	64
Holiday and overtime accruals	1 602	1 182
Bonus accrual	476	532
Other accrued liabilities and deferred income	387	516
Total	**2 465**	**2 294**

2.10 Share capital

CHF 1000	2017	2016
Number of outstanding registered shares per 1. January 2017	1 104 704	1104 704
Number of outstanding registered shares per 31. Dec. 2017	1 104 704	1 104 704
Share capital per 1. January 2017	17 675 264	17 675 264
Nominal value per share (CHF)	16.00	16.00
Share capital per 31. December 2017 (CHF)	**17 675 264**	**17 675 264**

2.11 Other operating expenses

CHF 1000	31.12.2017	31.12.2016
Losses on receivables/allowance for doubtful accounts	124	- 29
Repairs, maintenance	183	130
Leasing	34	50
Rental expenses	1 675	1 678
Sales and marketing	1 062	1 023
Administration	259	242
Consulting expenses	298	252
Insurance expenses	131	100
Information technology	528	555
Taxes on capital	52	5
Other operating expenses	591	595
Service costs subsisiaries	12	49
Total	**4 949**	**4 650**

3 Additional disclosures

3.1 Full-time positions

As in the previous year, the average number of full-time jobs in the reporting period exceeded 50 but was no more than 250.

3.2 Remaining amount of lease obligations

CHF 1000	31.12.2017	31.12.2016
Up to 1 year	1 962	1 973
1 - 5 years	3 899	2 782
More than 5 years	12 475	0
Total	**18 336**	**4 755**

The lease for the property in Schlieren was extended until 2029.

3.3 Assets pledged to secure own liabilities and assets subject to retention of title

As at 31 December 2017, UBS AG and Zürcher Kantonalbank had a lien on all current and future bank deposits and securities that are held on their accounts and custody accounts. As at the balance sheet date, the value was kCHF 7 488 (previous year: kCHF 12 066).

3.4 Contingent liabilities

CHF 1000	31.12.2017	31.12.2016
Contingent liabilities from supplier credits	652	709
Warranties	582	3 487
Rent deposits	1 271	**1 263**

3.5 Major shareholders

	2017		2016	
	Number of shares	Share of voting rights	Number of shares	Share of voting rights
Huwa Finanz- und Beteiligungs AG, Au SG (CH)	**219 545**	**19.87%**	219 545	19.87%
Nicolas Mathys, Baar (CH)	**210 000**	**19.01%**	191 000	19.01%
Metall Zug AG, Zug (CH)	**200 229**	**18.13%**	200 229	18.13%
Main Line Development Inc, Hamilton (BM)	**64 870**	**5.87%**	64 870	5.87%
Brita Meier, Uitikon Wald (CH)	**51 420**	**4.65%**	51 420	4.65%
Civen Ltd., Kingstown (St. Vinc. & The Grenadines)	**33 901**	**3.07%**	33 901	3.07%

3.6 Equity interests of members of the Board of Directors and Group Management

	31.12.2017		31.12.2016	
	Number of shares	Share of voting rights	Number of shares	Share of voting rights
Paul Zumbühl, Chairman Board	**12 096**	**1.1%**	12 096	1.1%
Nicolas Mathys, member Board	**210 000**	**19.0%**	210 000	19.0%
Ruedi Huber, member Board	**3 826**	**0.4%**	3 826	0.4%
Werner Schmidli, CEO	**11 099**	**1.0%**	11 099	1.0%
Daniel Zappa, Sales	**5 071**	**0.5%**	5 071	0.5%
Roland Kasper, Operations	**2 609**	**0.2%**	2 609	0.2%
Beat Huber, Technology	**109**	**0.0%**	2 609	0.2%
Resigned members of the Board of Directors and Group Management				
Frank Schröter, Segment Weaving	**3 798**	**0.3%**	6 931	0.6%
Peter Müller, vice president Board of Directors	**17 080**	**1.6%**	17 080	1.6%

Motion for the appropriation of retained earnings

The Board of Directors proposes to the Annual General Meeting the following appropriation of profits:

CHF 1000	2017
Retained earnings from previous year	- 1 130
Profit / loss of the year	6 395
Net income	**5 265**

Appropriation

Allocation to the statutory retained earnings	320
Carried forward to new account	**4 945**

The Board of Directors proposes that the Annual General Meeting waive the payment of a dividend for the 2017 financial year and carry forward the net income to new account.

Bericht der Revisionsstelle

An die Generalversammlung der Schlatter Industries AG, Schlieren

Bericht zur Prüfung der Jahresrechnung

Prüfungsurteil

Wir haben die Jahresrechnung der Schlatter Industries AG – bestehend aus der Bilanz zum 31. Dezember 2017 und der Erfolgsrechnung für das dann endende Jahr sowie dem Anhang, einschliesslich einer Zusammenfassung bedeutsamer Rechnungslegungsmethoden – geprüft.

Nach unserer Beurteilung entspricht die Jahresrechnung (Seiten 76 bis 83) für das am 31. Dezember 2017 endende Jahr dem schweizerischen Gesetz und den Statuten.

Grundlage für das Prüfungsurteil

Wir haben unsere Prüfung in Übereinstimmung mit dem schweizerischen Gesetz und den Schweizer Prüfungsstandards (PS) durchgeführt. Unsere Verantwortlichkeiten nach diesen Vorschriften und Standards sind im Abschnitt "Verantwortlichkeiten der Revisionsstelle für die Prüfung der Jahresrechnung" unseres Berichts weitergehend beschrieben. Wir sind von der Gesellschaft unabhängig in Übereinstimmung mit den schweizerischen gesetzlichen Vorschriften und den Anforderungen des Berufsstands und wir haben unsere sonstigen beruflichen Verhaltenspflichten in Übereinstimmung mit diesen Anforderungen erfüllt.

Wir sind der Auffassung, dass die von uns erlangten Prüfungsnachweise ausreichend und geeignet sind, um als Grundlage für unser Prüfungsurteil zu dienen.

Berichterstattung über besonders wichtige Prüfungssachverhalte aufgrund Rundschreiben 1/2015 der Eidgenössischen Revisionsaufsichtsbehörde

Fertigungsaufträge

Besonders wichtige Prüfungssachverhalte sind solche Sachverhalte, die nach unserem pflichtgemässen Ermessen am bedeutsamsten für unsere Prüfung der Jahresrechnung des aktuellen Zeitraums waren. Diese Sachverhalte wurden im Zusammenhang mit unserer Prüfung der Jahresrechnung als Ganzes und bei der Bildung unseres Prüfungsurteils hierzu berücksichtigt, und wir geben kein gesondertes Prüfungsurteil zu diesen Sachverhalten ab.

Fertigungsaufträge

Prüfungssachverhalt

Die Fertigungsaufträge werden nach der Percentage-of-Completion-Methode (POC-Methode) erfasst, sofern die Voraussetzungen gemäss dem Schweizerischen Obligationenrecht (OR) dazu erfüllt sind. Bei der POC-Methode wird nebst den Anschaffungs- und Herstellungskosten, sowie weiteren auftragsbezogenen Aufwendungen, auch ein allfälliger Gewinn anteilmässig zum Fertigstellungsgrad berücksichtigt, sofern dessen Realisierung mit genügender Sicherheit feststeht. Das Nettoguthaben beziehungsweise die Nettoverbindlichkeit von Fertigungsaufträgen sowie die Umsatzerfassung aus Fertigungsaufträgen sind abhängig

- von der mitlaufenden Projektkalkulation (mit Berücksichtigung der Projektrisiken),
- vom Fertigstellungsgrad (Istkosten im Verhältnis zu den erwarteten Gesamtkosten) sowie
- von der Finanzierung der einzelnen Projekte.

Es besteht das Risiko, dass aufgrund einer falschen Einschätzung der erwarteten Gesamtkosten die Forderungen und Verbindlichkeiten und eine möglicherweise erforderliche Rückstellung für vorhersehbare Verluste aus Fertigungsaufträgen falsch bewertet sind. Entsprechend wären der Umsatz aus Fertigungsaufträgen beziehungsweise das Jahresergebnis zu hoch oder zu tief ausgewiesen.

Für Fertigungsaufträge von neuen Maschinentypen mit wenigen Erfahrungswerten in der Herstellung und Inbetriebnahme (z.B. Prototypen oder Projekte mit hohem technischen Erneuerungsgrad), werden im Bedarfsfall zusätzlich Projektrisikorückstellungen gebildet. Die Evaluierung der Rückstellungshöhe erfordert erhebliches Ermessen und unterliegt einer hohen Schätzungsunsicherheit.

Aus diesen Gründen war die Beurteilung der Angemessenheit der Bewertung der Fertigungsaufträge und Projektrisikorückstellungen aus unserer Sicht von besonderer Bedeutung.

Unsere Vorgehensweise

Durch Befragungen von Mitarbeitenden und dem Nachvollzug ausgewählter Kontrollaktivitäten haben wir uns davon überzeugt, dass eine geeignete Auftragsorganisation als zentrale Voraussetzung zur Anwendung der POC-Methode vorhanden ist.

Wir haben evaluiert, wie sich die Projekte, die Projektkalkulationen und die Projektrisikorückstellungen im Vergleich zu vergangenen Perioden entwickelt haben und ob in der Vergangenheit getroffene Annahmen rückblickend vertretbar waren.

Zur Beurteilung der Angemessenheit der für die Projektbewertung massgebenden Projektkalkulationen haben wir stichprobenweise

- die geschätzten Restkosten anhand von Besprechungen mit den Projekt- und Finanzverantwortlichen sowie
- durch Einsicht in zu Grunde liegende Kalkulationen

kritisch hinterfragt.

Des Weiteren wurden die geschätzten Auftragserlöse stichprobenweise mit Verträgen abgestimmt und Berechnungen nachvollzogen. Für sich abzeichnende Verluste haben wir überprüft, ob unabhängig vom Fertigungsgrad Rückstellungen in vollem Umfang der erwarteten Verluste gebildet wurden.

Für Fertigungsaufträge von neuen Maschinentypen mit wenigen Erfahrungswerten haben wir mittels einer Sensitivitätsanalyse die Auswirkung unterschiedlicher Annahmen auf das Jahresergebnis überprüft und kritisch gewürdigt.

Weitere Informationen zu Fertigungsaufträgen sind an folgenden Stellen im Anhang der Jahresrechnung enthalten:

— Rechnungslegungsgrundsätze Seite 78

Verantwortlichkeiten des Verwaltungsrates für die Jahresrechnung

Der Verwaltungsrat ist verantwortlich für die Aufstellung einer Jahresrechnung in Übereinstimmung mit den gesetzlichen Vorschriften und den Statuten und für die internen Kontrollen, die der Verwaltungsrat als notwendig feststellt, um die Aufstellung einer Jahresrechnung zu ermöglichen, die frei von wesentlichen – beabsichtigten oder unbeabsichtigten – falschen Darstellungen ist.

Bei der Aufstellung der Jahresrechnung ist der Verwaltungsrat dafür verantwortlich, die Fähigkeit der Gesellschaft zur Fortführung der Geschäftstätigkeit zu beurteilen, Sachverhalte in Zusammenhang mit der Fortführung der Geschäftstätigkeit – sofern zutreffend – anzugeben sowie dafür, den Rechnungslegungsgrundsatz der Fortführung der Geschäftstätigkeit anzuwenden, es sei denn, der Verwaltungsrat beabsichtigt, entweder die Gesellschaft zu liquidieren oder Geschäftstätigkeiten einzustellen, oder hat keine realistische Alternative dazu.

Verantwortlichkeiten der Revisionsstelle für die Prüfung der Jahresrechnung

Unsere Ziele sind, hinreichende Sicherheit darüber zu erlangen, ob die Jahresrechnung als Ganzes frei von wesentlichen – beabsichtigten oder unbeabsichtigten – falschen Darstellungen ist, und einen Bericht abzugeben, der unser Prüfungsurteil beinhaltet. Hinreichende Sicherheit ist ein hohes Mass an Sicherheit, aber keine Garantie dafür, dass eine in Übereinstimmung mit dem schweizerischen Gesetz und den PS durchgeführte Prüfung eine wesentliche falsche Darstellung, falls eine solche vorliegt, stets aufdeckt. Falsche Darstellungen können aus dolosen Handlungen oder Irrtümern resultieren und werden als wesentlich angesehen, wenn von ihnen einzeln oder insgesamt vernünftigerweise erwartet werden könnte, dass sie die auf der Grundlage dieser Jahresrechnung getroffenen wirtschaftlichen Entscheidungen von Nutzern beeinflussen.

Als Teil einer Prüfung in Übereinstimmung mit dem schweizerischen Gesetz und den PS üben wir während der gesamten Prüfung pflichtgemässes Ermessen aus und bewahren eine kritische Grundhaltung. Darüber hinaus:

— identifizieren und beurteilen wir die Risiken wesentlicher – beabsichtigter oder unbeabsichtigter – falscher Darstellungen in der Jahresrechnung, planen und führen Prüfungshandlungen als Reaktion auf diese Risiken durch sowie erlangen Prüfungsnachweise, die ausreichend und geeignet sind, um als Grundlage für unser Prüfungsurteil zu dienen. Das Risiko, dass aus dolosen Handlungen resultierende wesentliche falsche Darstellungen nicht aufgedeckt werden, ist höher als ein aus Irrtümern resultierendes, da dolose Handlungen betrügerisches Zusammenwirken, Fälschungen, beabsichtigte Unvollständigkeiten, irreführende Darstellungen oder das Ausserkraftsetzen interner Kontrollen beinhalten können.

— gewinnen wir ein Verständnis von dem für die Prüfung relevanten internen Kontrollsystem, um Prüfungshandlungen zu planen, die unter den gegebenen Umständen angemessen sind, jedoch nicht mit dem Ziel, ein Prüfungsurteil zur Wirksamkeit des internen Kontrollsystems der Gesellschaft abzugeben.

— beurteilen wir die Angemessenheit der angewandten Rechnungslegungsmethoden sowie die Vertretbarkeit der dargestellten geschätzten Werte in der Rechnungslegung und damit zusammenhängenden Angaben.

— schlussfolgern wir über die Angemessenheit der Anwendung des Rechnungslegungsgrundsatzes der Fortführung der Geschäftstätigkeit durch den Verwaltungsrat sowie auf der Grundlage der erlangten Prüfungsnachweise, ob eine wesentliche Unsicherheit im Zusammenhang mit Ereignissen oder Gegebenheiten besteht, die bedeutsame Zweifel an der Fähigkeit der Gesellschaft zur Fortführung der Geschäftstätigkeit aufwerfen kann. Falls wir die Schlussfolgerung treffen, dass eine wesentliche Unsicherheit besteht, sind wir verpflichtet, in unserem Bericht auf die dazugehörigen Angaben im Anhang der Jahresrechnung aufmerksam zu machen oder, falls diese Angaben unangemessen sind, unser Prüfungsurteil zu modifizieren. Wir ziehen unsere Schlussfolgerungen auf der Grundlage der bis zum Datum unseres Berichts erlangten Prüfungsnachweise. Zukünftige Ereignisse oder Gegebenheiten können jedoch die Abkehr der Gesellschaft von der Fortführung der Geschäftstätigkeit zur Folge haben.

Wir tauschen uns mit dem Verwaltungsrat bzw. dessen zuständigem Ausschuss aus, unter anderem über den geplanten Umfang und die geplante zeitliche Einteilung der Prüfung sowie über bedeutsame Prüfungsfeststellungen, einschliesslich etwaiger bedeutsamer Mängel im internen Kontrollsystem, die wir während unserer Prüfung erkennen.

Wir geben dem Verwaltungsrat bzw. dessen zuständigem Ausschuss auch eine Erklärung ab, dass wir die relevanten beruflichen Verhaltensanforderungen zur Unabhängigkeit eingehalten haben und uns mit ihnen über alle Beziehungen und sonstigen Sachverhalte austauschen, von denen vernünftigerweise angenommen werden kann, dass sie sich auf unsere Unabhängigkeit und – sofern zutreffend – damit zusammenhängende Schutzmassnahmen auswirken.

Wir bestimmen von den Sachverhalten, über die wir uns mit dem Verwaltungsrat bzw. dessen zuständigem Ausschuss ausgetauscht haben, diejenigen Sachverhalte, die am bedeutsamsten für die Prüfung der Jahresrechnung des aktuellen Zeitraums waren und daher die besonders wichtigen Prüfungssachverhalte sind. Wir beschreiben diese Sachverhalte in unserem Bericht, es sei denn, Gesetze oder andere Rechtsvorschriften schliessen die öffentliche Angabe des Sachverhalts aus oder wir bestimmen in äusserst seltenen Fällen, dass ein Sachverhalt nicht in unserem Bericht mitgeteilt werden soll, weil vernünftigerweise erwartet wird, dass die negativen Folgen einer solchen Mitteilung deren Vorteile für das öffentliche Interesse übersteigen würden.

Bericht zu sonstigen gesetzlichen und anderen rechtlichen Anforderungen

In Übereinstimmung mit Art. 728a Abs. 1 Ziff. 3 OR und dem Schweizer Prüfungsstandard 890 bestätigen wir, dass ein gemäss den Vorgaben des Verwaltungsrates ausgestaltetes internes Kontrollsystem für die Aufstellung der Jahresrechnung existiert.

Ferner bestätigen wir, dass der Antrag über die Verwendung des Bilanzgewinnes dem schweizerischen Gesetz und den Statuten entspricht, und empfehlen, die vorliegende Jahresrechnung zu genehmigen.

KPMG AG

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