the secure connection

Annual Report

015

1916 - 2016

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Contents

The German version of the 2015 Annual Report is binding

Schlatter Group

The Schlatter Group is one of the leading specialists in plant engineering for resistance welding systems 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 Swiss Reporting Standard of SIX Swiss Exchange – guarantees its customers a range of powerful and high-quality production equipment.

Center of Excellence for Development and Design

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 metallic 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 system 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, Schlatter Group develops stationary and mobile rail welding equipment. One factor underlying Schlatter systems' global market leadership is the qualitative advantages of our core technology, which pay off in economic terms for our customers in the railway industry.

Weaving Segment

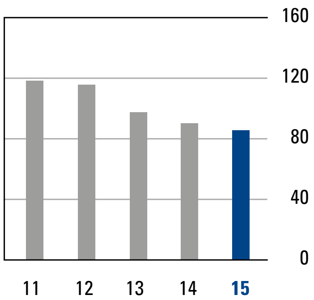
Under the Jäger brand Schlatter Group offers technologically advanced weaving and finishing machines for paper-machine clothing, as well as wire fabrics and mesh.

PMC (Paper Machine Clothing) Product Area

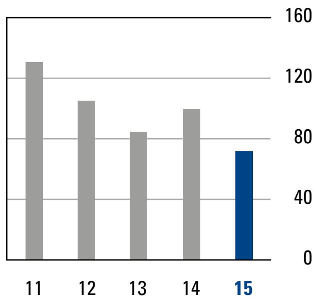
Schlatter's Jäger brand is the leading manufacturer of machines for the production of paper-machine clothing. Jäger weaving machines produce all the modern multilayer weaves that are used on the world's fastest paper machines.

Wire Weaving Product Area

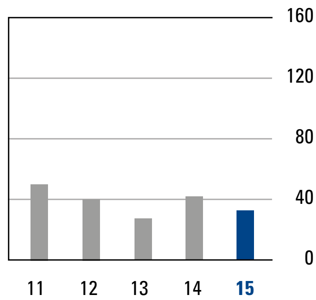
The Wire Weaving Product Area develops and builds wire- and mesh-weaving machines that are designed for top-quality weaves. The products for which these wire weaving machines are used include security weaves, airbag weaves, protective weaves and other industrial weaves. Mesh weaving machines, for example,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



Net sales (CHF m)



Order intake (CHF m)



Order backlog (CHF m)

Schlatter Group

		2015	2014	2013[1]	2012[1]	2011[2]
Net sales	CHF m	**83,2**	**89,5**	**96,9**	**115,5**	**117,7**
Change from previous year	%	– 7,0	– 7,7	– 16,1	– 1,9	– 1,6
Operating result (EBIT)	CHF m	**– 5,9**	**0,7**	**0,2**	**– 22,4**	**– 10,9**
in % of net sales	%	– 7,1	0,8	0,2	– 19,4	– 9,3
Net result	CHF m	**– 6,9**	**– 0,2**	**– 0,4**	**– 22,8**	**– 11,5**
in % of net sales	%	– 8,3	– 0,2	– 0,4	– 19,7	– 9,7
Order intake	CHF m	**72,9**	**104,7**	**84,0**	**104,6**	**130,0**
Order backlog	CHF m	**31,9**	**42,2**	**27,1**	**40,0**	**50,9**
Headcount at period end	FTEs	**310**	**313**	**313**	**357**	**461**
Average headcount	FTEs	314	309	323	424	449
Net sales per employee	CHF 1000	**265**	**290**	**300**	**272**	**262**
Interest-bearing liabilities	CHF m	**0,6**	**11,3**	**7,3**	**6,7**	**6,7**
Net financial assets/(debt) [3]	CHF m	**2,1**	**– 7,9**	**– 3,0**	**0,3**	**13,9**
Gearing [4]	%	**0,0**	**57,1**	**21,5**	**0,0**	**0,0**
Free cash flow [5]	CHF m	**– 5,4**	**– 4,6**	**– 2,7**	**– 13,0**	**– 10,9**
Current assets	CHF m	**39,8**	**38,0**	**36,9**	**46,5**	**66,6**
Non-current assets	CHF m	**9,3**	**11,2**	**12,6**	**13,7**	**18,3**
Liabilities	CHF m	**27,5**	**35,3**	**35,5**	**45,7**	**47,1**
Shareholders' equity	CHF m	**21,6**	**13,9**	**14,0**	**14,5**	**37,7**
Equity ratio	%	**44,0**	**28,2**	**28,2**	**24,1**	**44,4**
Return on equity (ROE) [6]	%	**– 38,7**	**– 1,3**	**– 2,8**	**– 87,3**	**– 33,8**

[1] Restatement 2012 and 2013 because of the incorrect presentation of a financial liability in connection with a rental reduction granted in 2012 and 2013 with repayment over the remaining term of the lease

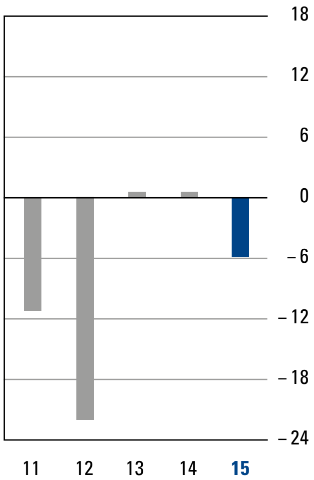
[2] Restatement 2011 (2010: IFRS)

[3] Net financial assets/(debt): cash and cash equivalents less interest-bearing liabilities

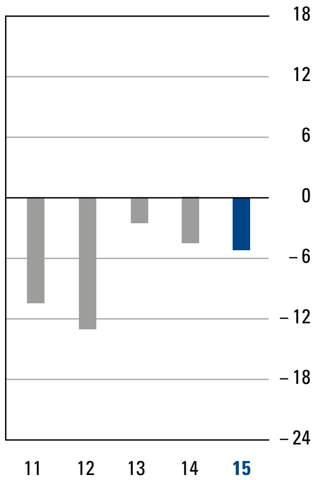
[4] Gearing: net debt divided by equity

[5] Cash flow from operating activities less the purchase of tangible fixed assets and intangible assets, plus the sale of tangible fixed assets and intangible assets

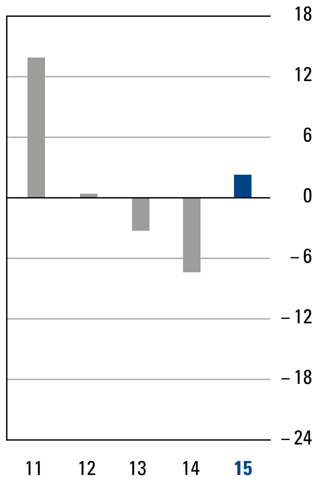
[6] Net result divided by average shareholders› equity



Operating result EBIT (CHF m)



Free Cash Flow (CHF m)



Net financial assets/(debt) (CHF m)

		2015	2014	2013	2012	2011
Key share figures						
Share capital as at 31 December	CHF 1000	**17 675**	13 465	13 465	13 465	25 575
Registered shares	Number	**1 104 704**	426 250	426 250	426 250	426 250
Dividend-bearing registered shares	Number	**1 104 704**	426 081	426 081	426 081	426 081
Net result per registered share [1]	CHF	**– 6.22**	– 0.42	– 0.93	– 53.45	– 38.38
Shareholders' equity per registered share [1]	CHF	**19.55**	32.54	32.81	33.96	105.20
Dividend per registered share	CHF	**0 [2]**	0 [2]	0	0	0
Payout ratio	%	**0 [2]**	0 [2]	0	0	0
Share price development						
High	CHF	**77.18**	159.00	210.00	237.40	273.00
Low	CHF	**28.30**	108.00	110.00	106.00	118.00
Year-end	CHF	**30.00**	140.00	149.50	113.80	166.00
Market capitalization						
High	CHF m	**85,3**	67,8	89,5	101,2	80,0
Low	CHF m	**31,3**	46,0	46,9	45,2	34,6
Year-end	CHF m	**33,1**	59,7	63,7	48,5	70,8

[1] Calculated on the basis of dividend-bearing shares

[2] According to the proposal to be submitted to the Annual General Meeting on 3 May 2016

Result adversely affected by the strength of the franc

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

Paul Zumbühl
Chairman of the Board of Directors

Werner Schmidli
Chief Executive Officer

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

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

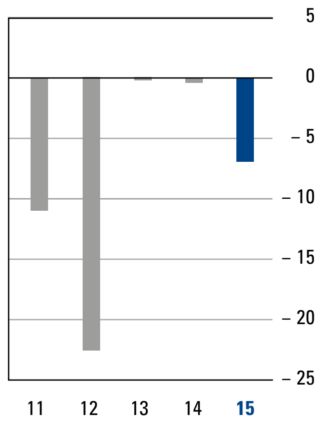
Markets

Equipment for the production of reinforcing and industrial wire mesh

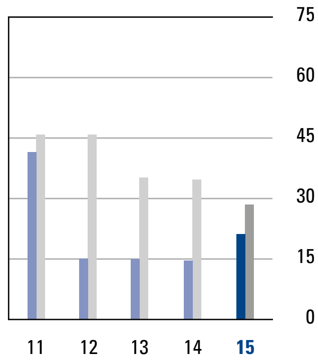
Steel prices collapsed during 2015, with negative effects on the investment activity of mesh producers. This collapse was due in particular to slackening growth in China that flooded the global market with low-cost wire rod, the starting material for the production of reinforcing wire mesh.

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

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



Net result including minority interests (CHF m)



Shareholders› equity/debt capital (CHF m)

Shareholders' equity
Liabilities

Rail welding

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

Weaving

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

Spare parts and services

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

Locations

The Schlieren and Münster sites both slipped back into the red in 2015. The Schlieren site suffered particularly from the massive overvaluation of the Swiss franc against the euro and other currencies, and from the effects of the collapse in steel prices on investment activity in the reinforcing wire mesh market. The Münster site, conversely, was hit hard by the sharp decline in the market for paper-machine clothing.

At the Schlieren site a comprehensive package of operating measures was initiated in response to the abrupt depreciation of the euro at the beginning of the year to counteract currency dislocations. These measures affect all the company's divisions. Examples include pricing, sharing the burden of currency losses with suppliers, insourcing activities, staffing measures and the capital increase undertaken to strengthen the balance sheet. This package of measures, the costs of strengthening the balance sheet and the revaluation at the beginning of 2015 of projects already initiated because of the euro exchange rate reduced the operating result (EBIT) in the Welding Segment by CHF 2.8 million in 2015.

At the Münster site a programme to cut costs and raise productivity was also launched in the second half of the year, creating the preconditions for achieving another break-even result in 2016. Restructuring provisions reduced the Weaving segment's operating result by CHF 0.4 million in 2015.

The Board of Directors and management of Schlatter Industries have been conducting an in-depth study of the effects of the strong Swiss franc on the location issue, involving a detailed analysis of Switzerland's qualities as a business location. As a result we concluded that the Schlatter Group's employees in Switzerland constitute a resource in terms of knowledge and experience that gives us a significant competitive advantage, and the geographical separation of project planning, technology and assembly in plant construction would make no sense. The Schlatter Group is therefore retaining the Schlieren site in Switzerland as the location for operations in the welding segment.

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

Positioning strengthened by product development

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

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

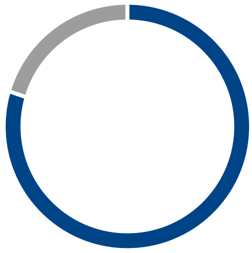
In September 2015 Schlatter instituted an in-house trade fair on the Schlieren site to introduce our new plant concepts to existing and potential customers. Customer feedback on the event was extremely positive, and orders have already been placed.

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

Capital increase

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

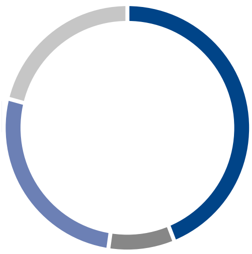
In conjunction with the ordinary capital increase, an authorised capital increase was conducted in June 2015 for a management share-ownership programme. Under this programme members of the Board of Directors and senior management receive their fees and variable remuneration for 2015 solely in shares,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



Net sales in 2015 by segment

80,1% welding

19,9% weaving



Net sales in 2015 by region

47,6% Europe

24,0% Middle East, Africa, Asia, Australia

8,0% Central and South America

20,4% North America

Changes on the Board of Directors and continuity in Group Management

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

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

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

Acknowledgements

Currency dislocations and the economic environment presented the Schlatter Group with major challenges in the 2015 financial year. All stakeholders have made important contributions to the Group's long-term stabilization. On behalf of the Board of Directors and management, we wish to thank our esteemed workforce for their unwavering support in the face of these challenges. We should mention, for example, the fact that the length of the working week was increased without compensation. We also thank our customers for the constructive cooperation in the exciting projects we were able to realize with them over the past year. And we offer you, our shareholders, sincere thanks for the trust that you place in our company by showing such great commitment. Your support enabled us to conduct a capital increase giving the Schlatter Group a net financial position as at the end of 2015, and providing us with the time to adjust to the current environment.

Outlook

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

For the current financial year the Board of Directors and Group Management are again aiming to achieve a break-even result.

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

Paul Zumbühl Chairman of the Board of Directors	Werner Schmidli Chief Executive Officer

Result adversely affected by the strength of the franc – progress with the implementation of the development and product roadmap

The significant weakening of the euro against the Swiss franc at the beginning of the year and the effects of the collapse in steel prices on the market for equipment producing reinforcing wire mesh had heavily negative consequences for the Welding Segment›s results in 2015. A comprehensive package of measures to counteract the effect of the strong Swiss franc was initiated before the end of January 2015. At the same time significant resources were made available to speed up the implementation of the development and product roadmap in the field of machines for the production of reinforcing and industrial mesh. Further measures to increase net sales and efficiency were devised, and these will be implemented during the current year. Schlatter's objective in the Welding Segment in 2016 is to break even.

Plant installation in Schlieren

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

MG316 reinforcing wire mesh welding machine

Wire Product Area

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

The emergency operating measures extend over all parts of the company. Examples include pricing, sharing the burden of currency losses with suppliers, insourcing activities and staffing measures. In the reinforcing wire mesh field, our largest in terms of sales, many markets all over the world remain sluggish. The sector continues to grapple with overcapacities and heavy price pressure. Its development is heavily dependent on whether major infrastructure and construction projects are implemented. In the countries affected by the euro crisis the sector has seen a slight increase in confidence, but it is still too soon to talk of a recovery. Another factor was the headlong collapse in steel prices, with its negative effects on the investment activity of mesh producers. Demand is slightly stronger, however, in South-East Asia, some countries in Central America and the emerging markets in general.

Schlatter has reacted to the changing business environment for our customers by developing new plant concepts for the production of reinforcing wire mesh. These include the high-performing MG316 machine whose market launch took place in September 2015, and the MG800, launched at the 2016 "Wire" trade fair in Düsseldorf. Innovative new plant concepts in the field of industrial mesh enabled Schlatter to benefit from the improved momentum in the US economy. The flexibility and productivity of the new generation of MG950 machines recently launched on the market have been well received in both Europe and the USA, triggering numerous replacement investments. The applications of these machines for industrial mesh manufacture are currently being extended on a modular basis, and in 2016 the foundations will be laid for the creation of integrated system solutions for the manufacture of end-products. Schlatter will design modules and equipment providing the customer with networked infrastructure for the manufacture of its product. These manufacturing concepts also integrate machines and equipment not solely relating to mesh production.

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

In 2016 Schlatter will selectively invest both money and resources in developing markets where we have previously had only a low-key presence.

Rail welding product area

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

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

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

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

Outlook

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

Market collapse worse than expected – focus in 2016 is on increasing efficiency and productivity at Münster site

The Weaving Segment had a very difficult year in 2015, as the collapse in demand was worse than expected. China, an important market for the entire world, is in decline. Paper-mill overcapacities have triggered a consolidation process that is not yet complete. The market as a whole is still volatile and in decline. Activities in the field of paper-machine clothing focused mainly on modernising existing plant in the reporting period, but the Weaving Segment pressed on with various innovations designed to enable customers to achieve significant increases in output. Schlatter Group does not believe the Weaving Segment will undergo a fundamental market recovery in the 2016 financial year. It will counter the difficult environment with further efficiency increases. Schlatter›s objective in the Welding Segment in 2016 is to break even once more.

Rapier weaving machine for the production of paper-machine clothing

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

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

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

Continued development of high-performance plant

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

Raising productivity in manufacturing

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

The insourcing of manufacturing capacities continued at a higher level in the year under review in order to increase capacity utilisation at the Münster site.

Outlook

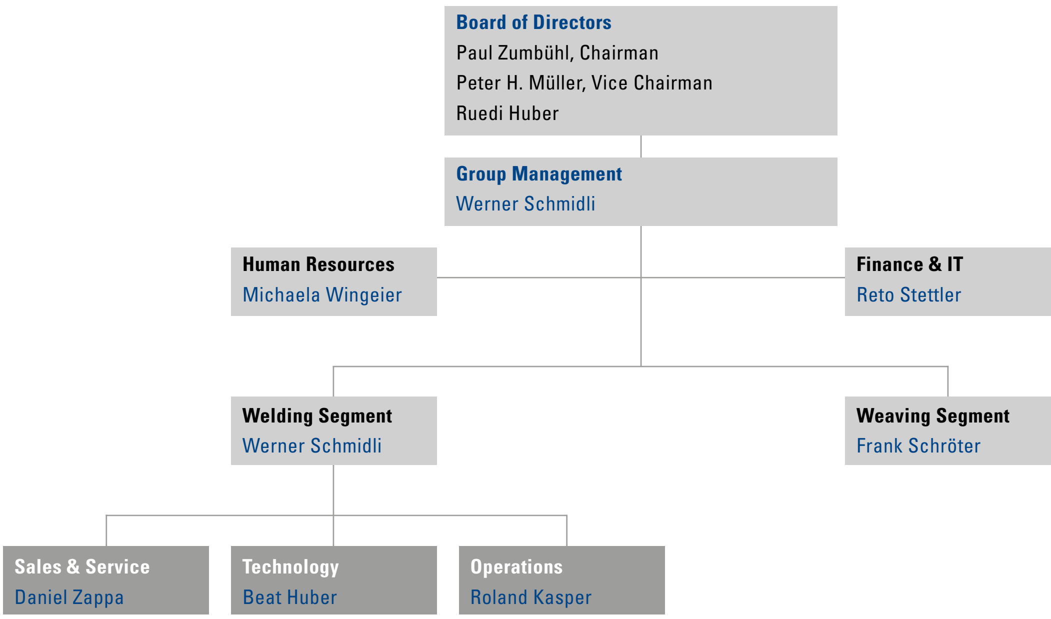
The weaving segment market is still volatile in 2016, making it hard to assess. The Schlatter Group does not believe the new financial year will bring any fundamental improvement in the market as a whole. We have therefore initiated a programme to increase productivity at the Münster site, with concomitant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

BK860 rapier weaving machine for forming fabrics

Responsible corporate management

By enacting guidelines appropriate to the size of the company, Corporate Governance at Schlatter Group ensures that business policy is transparent and prudent, 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 Corporate Governance information.

Group structure and organization chart



Member of the Group Management

Operational Group structure as at 31 December 2015

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 Schlatter Group companies. Registered shares in Schlatter Industries AG (formerly Schlatter Holding AG) were listed in 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 procedures 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 December 2015 was CHF 33.1 million.

Unlisted Group companies

Information on Schlatter Group companies can be found on pages 70 and 80 of this Annual Report.

Major shareholders

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

Shareholder structure

Number of shares	Number of shareholders
1 to 10	54
11 to 100	126
101 to 1000	120
1001 to 10 000	24
over 10 000	11

These figures are based on the registered shareholders entered in the company’s share register as at 31 December 2015. Of the 1,104,704 shares in issue, 922,572 shares (83.5%) 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 2015 Schlatter Industries AG had 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 2015 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 the 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 2015 the company still had authorized capital of CHF 14,736 valid until 5 May 2017.

Information on changes in share capital, reserves, net profit and consolidated shareholders' equity for financial year 2015 can be found on page 44 under "Consolidated statement of changes in equity". The equivalent information for the two preceding financial years can be found on page 43 of the 2014 Annual Report and page 35 of the 2013 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.

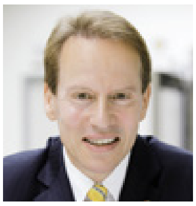
Convertible bonds and options

As at 31 December 2015 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 31 December 2015 it was composed of the persons listed below. No member of the Board of Directors has exercised an executive function within Schlatter Group in the past three years, or has a significant business relationship with any Group company.



Paul Zumbühl
Chairman

b. 1957, Swiss national, non-executive member, member of the Board since 29 October 2007, term of office until the 2016 General Meeting

Current activity
CEO of the Interroll Group, Sant'Antonino (CH) since 1 January 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 and Sales Manager, Europe, at Symalit AG, Lenzburg (CH)

Education & training
Dipl. Ing. degree in Engineering (Lucerne School of Engineering); MBA (Joint University Program of the Universities of Berne, Boston and Shanghai); Swiss certified Marketing Manager

Other activities and mandates
Member of the Board of Directors of Looser Holding AG, Arbon (CH), and of the Industry Executive Advisory Board of the "Executive MBA in Supply Chain Management" at ETH Zurich

Peter H. Müller
Vice Chairman of the Board of Directors

b. 1950, Swiss national, non-executive member, member of the Board since 16 June 2006, term of office until the 2016 General Meeting

Current activity
Investor

Career milestones
- Member of the Board of Directors of Virtamed (since 2008) and Attolight (since 2010)
- 2000: Founding of the Business Angel Clubs StartAngels Network
- Since 1994: investments in start-up companies; since 1990: Board of Directors of Zurmont Finanz (Private Equity), Zurich (CH)
- 1985–1993: Group Management, Cosa/Überseehandel AG; from 1988: CEO of the Machinery Division of post-merger Cosa Liebermann
- 1976–1984: CEO Cosa Japan, Tokyo (JP)

Education & training
1974: Dipl. Masch.-Ing. degree in Mechanical Engineering (ETH Zurich); 1974-1976: periods of training and study in New Jersey and Boston (USA)

Other activities and mandates
Trustee of the Capri Philosophical Park Foundation and Director of other unlisted companies

Ruedi Huber
Member

b. 1960, Swiss national, non-executive member, member of the Board since 11 May 2010, term of office until the 2016 General Meeting

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 & training
Matura Type C

Other activities and mandates
Member of the Board of Directors of SFS Group AG, Heerbrugg (CH), Member of the Board of Directors of Huwa Finanz- und Beteiligungs AG, Heerbrugg, and member of the boards of other unlisted companies

Changes during the reporting period
There were no changes in the composition of the Board of Directors in financial year 2015.

Changes planned for 2016
Peter Müller has decided to step down from the Board of Directors of Schlatter Industries AG, effective on the date of the next Ordinary General Meeting. We very much regret this, and we offer him our sincere thanks for his dedicated and valuable work on our Board of Directors over the last ten years.

Two new members of the Board of Directors of Schlatter Industries AG will be elected at the Ordinary General Meeting on 3 May 2016. The nominees are Nicolas Mathys, co-founder and partner of Zug Finance AG, Baar, and Michael Hauser, CEO of Tornos, another listed Swiss machine tool manufacturing company. Nicolas Mathys has been a significant Schlatter Group shareholder for many years, while Michael Hauser has many years' industrial experience in the field of mechanical and systems engineering. The Board of Directors is convinced that these two personalities will provide fresh impetus for Schlatter Group's continued long-term development.

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 Incorporation were approved at the 2015 General Meeting.

Internal organization
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 not be either a member of the Board or 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 a 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 and five telephone conferences during financial year 2015.

Number of permissible activities
No member of the Board of Directors can hold more than five other memberships of the 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 powers assigned to the Board of Directors by law and the organisational regulations remain vested in the full Board of Directors. 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 with statutory requirements. The committee has the following main tasks:

- Reviewing the structure of the accounting system (the accounting standards to be applied and assessing 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 68) 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 2015, both of them attended by the CEO and CFO.

Nomination and Compensation Committee

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

- Managing the process of selection and motions regarding new members of the Board of Directors.
- Managing the process of selection 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 financial year 2015, the CEO attending both of them.

Division of responsibilities

The Board of Directors is the company's supreme governing body, charged with supervising its 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 Chief Executive Officer (CEO), subject to any contrary provisions of the law, the Articles of Incorporation or the organization rules. The CEO ensures that decisions of the Board of Directors and the decisions that he takes within the framework of his own authorities are implemented. To this end the CEO enacts guidelines and monitors compliance with the standards by the company and its group and affiliated companies.

The Managing Directors of all Group and affiliated companies report directly to the CEO except for the Managing Directors of pure distribution companies, who report to the Group Sales Manager. The CEO or on his instructions the responsible member of the Group Management of a Group or affiliated company submits 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 of the current business situation, the balance sheet and the income statement at each meeting and by means of monthly reports.

At each meeting of the Board of Directors it is informed 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 monthly report for the Board of Directors containing information on the course of business and the key financial indicators, with references 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. It also supplies selected indicators that are required to manage the business. In addition to the budget, which is drawn up annually, a quarterly updated forecast is prepared for the whole of the current financial year and made available to the Board of Directors. The current values are compared with the budgeted figures and analysed, with descriptions of the measures taken.

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. Members of the Board of Directors do not as a rule attend meetings of the Group Management, but they are notified on an ad-hoc basis of major business events by the CEO and CFO or invited to attend 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. Because of their effects and importance, these can pose not only a strategic risk but also operating and financial risks once their effects are significant for the company. All risks are qualitatively and quantitatively scaled 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 the Group Management

As at 31 December 2015, the Schlatter Group Management consisted of the members listed below. With the exception of Frank Schröter, the Managing Director of Schlatter Deutschland GmbH & Co. KG, the members of the Group Management also constitute the the Group Management of Schlatter Industries AG.

Werner Schmidli
CEO

b. 1965, Swiss national, with Schlatter Group since 1 August 2004

Career milestones
- Since 1 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 Stettler
CFO

b. 1975, Swiss national, with Schlatter Group since 1 January 2002

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

Education & training
Finance and accounting specialist

Other activities and mandates
None

Frank Schröter
Managing Director,
Schlatter Deutschland
GmbH & Co. KG

b. 1955, German national, with Schlatter Group since 1 July 2001

Career milestones
- Since 1982: Schlatter Deutschland GmbH & Co. KG, Münster (DE)

Education & training
Commercial diploma

Other activities and mandates
None

Michaela Wingeier
Human Resources

b. 1965, Swiss national, with Schlatter Group since 1 April 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 Zurich (CH)
- 2004–2005: Personnel Manager, Prionics, Schlieren (CH)
- 1996–2004: Group Personnel Manager, MAAG Zahnräder AG, Zurich

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

Other activities and mandates
None

Daniel Zappa
Sales & Services

b. 1972, Swiss national, with Schlatter Group since 01/08/1995

Career milestones
- Since 1 September 2012: Head of Sales & Service, Schlatter Group
- 2004–August 2012: Head of Customer Service, Schlatter Group
- Until 1 November 2003: Sales Manager, Sheet Metal Division, H.A. Schlatter AG, Schlieren (CH)
- 1999–2002: Sales Engineer, H.A. Schlatter AG

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

Other activities and mandates
None

Beat Huber
Technology

b. 1962, Swiss national, with Schlatter Group since 01/08/2000

Career milestones
- Since 1 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 Innovation, H.A. Schlatter AG, Schlieren
- 1991–2000 Head of the Main SW 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

b. 1976, Swiss national, with Schlatter Group since 01/06/2013

Career milestones
- Since 1 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
Master's in Operating & Production Engineering ETH

Other activities and mandates
None

Changes during the reporting period
There were no changes in the composition of the Group Management in financial year 2015.

Principal Group companies
- Schlatter Industries AG
  (Managing Director since 1 June 2012: Werner Schmidli)
- Schlatter Deutschland GmbH & Co. KG
  (Managing Director since 1992: Frank Schröter)

Management contracts
Neither Schlatter Industries AG nor any of its affiliated companies has entered into management contracts with third parties.

Number of permissible activities
No member of the Group Management can hold more than two other memberships of the supreme management and administrative bodies of listed companies outside the Group. In individual cases the Board of Directors can permit up to two exceptions per member. Membership of more than one such body within a single group counts as one membership. The approval of the Board of Directors must be obtained for all external memberships.

Compensation, shareholdings and loans

This information is contained in the Remuneration Report on pages 32–36 of this Annual Report. Information about shareholdings can be found in the notes to the Schlatter Industries financial statements on page 83.

Shareholders' participation rights

Voting right restrictions and representation
Each registered share carries one vote at the General Meeting. Membership rights may be exercised by anyone entered in the share register as a shareholder who has not sold his shares before the end of the 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

Independent proxy / electronic participation in the General Meeting
The Schlatter Industries AG Articles of Incorporation include no provisions differing from those of the VegüV.

Provisions of the Articles of Association with regard to quorums
The Articles of Association contain no provisions above and beyond statutory requirements.

Convocation of General Meetings
The General Meeting is convened by the Board of Directors or, if necessary, by the auditors. Liquidators and creditors' representatives 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 fiscal 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 proposals. The Board of Directors must conduct the General 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.

Agenda

Shareholders representing at least 3% of the share capital can request an item to be placed on the General Meeting agenda. 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 names, places of residence, addresses and nationalities of holders, beneficiaries and nominees of registered shares must be entered. Entry into the share register requires proof of the transfer of the shares in the correct form and in accordance with the Articles of Incorporation, or proof of beneficiary status. If a registered shareholder changes address, the company must be notified of the new address. Until the receipt of a change of address notice by the company, all correspondence is sent with legal validity to the registered shareholder's address entered in the share register. No entries are made in the Schlatter Industries AG share register during the period beginning 30 days before a General Meeting and ending on the day after it.

Change-of-control clauses, defensive measures

Duty to make an offer

The company's Articles of Incorporation exclude the duty to make an offer pursuant to Art. 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 the mandate and term of office of the auditor in charge

KPMG AG, Zurich, has acted as the statutory auditors for Schlatter Industries AG (formerly Schlatter Holding AG) since 1963. The auditors are elected by the General Meeting for a period of one year. Herbert Bussmann has been the auditor in charge since the 2010 financial year.

Audit fee

The regular audit fee paid to KPMG AG for financial year 2015 was CHF 170,940. This includes auditing services relating to the interim financial statements of May 2015 in connection with the authorized capital increase

Additional fees

KPMG AG invoiced no additional advisory fees in financial year 2015.

Information tools of the external auditors

The full Board of Directors and the Risk and Audit Committee meet the external auditors once and twice a year respectively. The CFO attends these meetings. Reporting to the Board of Directors by the external auditors takes the form of a comprehensive report on the annual financial statements plus the Auditors Reports. The Risk and Audit Committee reviews and assesses the performance, independence and fees of the external auditors and makes recommendation on their election to the Board of Directors and the General Meeting. The assessment is based on the personal discussion between the Board of Directors and the auditors and the results and the quality of the audit. The appointment of the external auditors for the financial year took place on the basis of an invitation to tender in which the Board of Directors compared the performance and costs of various bidders.

The term of office of the auditor in charge is limited to 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. 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 notifies shareholders and the capital market of facts relevant to its share price on an ad hoc basis. Information is placed on the Schlatter Group website (www.schlattergroup.com), and automatically e-mailed to subscribers to the News Service.
Registration: www.schlattergroup.com/de/investor-relations/newsservice.

The Company's official publication is the Swiss Official Gazette of Commerce. The company's Articles of Incorporation 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,
e-mail werner.schmidli@schlattergroup.com.

Agenda

- 3 May 2016 — Ordinary General Meeting
- 22 August 2016 — Publication of the results for the first half of 2016

Remuneration Report

Contents

The Remuneration Report contains information on remuneration principles, remuneration programmes and the actual remuneration of members of the Board of Directors and Group Management. The Remuneration 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

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 achievement 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 remuneration component principles.

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. In the interests of the company the Board of Directors can decide to pay members an all-inclusive sum to cover expenses incurred.

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 General Meeting for its approval 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.

In view of the need for Schlatter Group to be restructured quickly and purposefully in the interests of shareholders, the Board of Directors drew its fees for 2015 solely in shares. Directors of Schlatter Group have thus taken or expanded holdings in the company, and have undertaken not to sell the shares for three years. The issue of these shares had no effect on the company›s liquidity. The number of shares allocated was based on fixed compensation, which was higher than the previous year by KCHF 36 (Chairman) and by KCHF 34 (other members). This is because shares were allocated on the basis of Directors› regular fees – KCHF 128 for the Chairman, KCHF 64 for other members – rather than the reduced fees of KCHF 96 (Chairman) and KCHF 32 (other members) paid since July 2012. The number of shares allocated was based on the issue price of CHF 23.00 that applied to the ordinary capital increase, less a discount of 25%. As the fair value of the shares of CHF 38.50 on the day of the allocation was above the issue price, this effected a corresponding increase in Directors› fees.

On the assumption that the personnel expense for compensating Directors in shares as described above would have to be disclosed at the issue price of CHF 23.00 less a 25% discount, a gross figure of CHF 390,000 for the compensation of all Directors was proposed to the ordinary General Meeting on 5 May 2015 and approved by it. The ordinary General Meeting on 3 May 2016 must now decide once again on fixed gross remuneration for 2015, which comes to a tax value of CHF 526,736 including social welfare contributions.

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 7 and 40%. Depending on the functions of members of the Group Management, between 60 and 80% of their variable compensation is determined by the EBIT achieved, and between 20 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.

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 by the General Meeting in advance, 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.

Fixed remuneration in the reporting period was virtually unchanged year on year.

In view of the need for Schlatter Group to be restructured quickly and purposefully in the interests of shareholders, Group Management drew its variable remuneration for 2015 solely in shares. The members of the Schlatter Group Management have thus taken or expanded holdings in the company and have undertaken not to sell the shares received by them for two or three years, as the case may be. Variable remuneration in cash had the effect of increasing allocations of shares. The issue of these shares had no effect on the company›s liquidity. The numbers of shares allocated were based on the potential for variable remuneration, which is equivalent to an increase of some KCHF 71 for the CEO and a total of KCHF 199 for the other members of the Group Management. The reason for this is that unlike the previous year, the calculation of the number of shares to be allocated was based on the nominal possible potential for variable remuneration. In the previous year the variable compensation was paid out on the basis of the achievement of defined targets. The level of variable remuneration disclosed in this report represents a further year-on-year increase for the following reasons: The number of shares allocated was based on the issue price of CHF 23.00 that applied to the ordinary capital increase, less a discount of 25%. The fair value of the shares was CHF 38.50 on the day of the allocation, above the issue price, so this effected a corresponding increase in variable remuneration.

The Board of Directors has an additional sum at its disposal for the remuneration of members of the Group Management appointed after the approval of the maximum total figure. This can also be used to compensate new members of the Group Management for disadvantages suffered in 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)

Schlatter Group grants no loans or advances to members of the Board of Directors or of the Group Management.

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

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

Severance payments

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

Remuneration 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 2015 – (audited)

For reasons of transparency, the net recognition of remuneration was introduced in 2015.

CHF	Chairman P. Zumbühl	Vice Chairman P. Müller	Member R. Huber	**Total**
Shares				
Net shares (tax value) [1]	247 354	123 677	123 677	**494 708**
Social insurance contributions	15 614	8 207	8 207	**32 028**
Total	**262 968**	**131 884**	**131 884**	**526 736**

1 Value calculated on the basis of a reduction of 16.038% in respect of the three-year vesting period. The total remuneration of all three members of the board of Directors at fair value including social welfare contributions is CHF 621,232.

Compensation of members of the Group Management in 2015 – (audited)

For reasons of transparency, the net recognition of remuneration was introduced in 2015.

CHF	CEO Werner Schmidli	Group Management Total
Cash/book money		
Net salary	320 421	1 313 426
Long-service compensation net		16 416
Shares		
Net shares (tax value) [1]	275 832	709 005
Payments in kind		
Cars	7 590	33 792
Employer's pension & social insurance contributions	97 946	321 653
Employee's pension & social insurance contributions	47 578	184 890
Total	**749 367**	**2 579 182**

1 Value calculated on the basis of reductions of 11% in respect of the two-year vesting period (two members of the Group Management) and 16.038% in respect of the three-year vesting period (all other members). The total remuneration of all members of the Group Management at fair value including social welfare contributions is CHF 2,699,953.

No remuneration was paid to former members of the Board of Directors or Group Management in the reporting period.

Compensation of current members of the Board of Directors in 2014 – (audited)

CHF	Chairman P. Zumbühl	Vice Chairman P. Müller	Member R. Huber	Total
Cash/book money				
Gross fee	96 000	32 000	32 000	**160 000**
Pension expenses				
Contributions to state pension and disability insurance (AHV/IV), health and accident insurance	9 250	3 083	3 083	**15 416**
Total	**105 250**	**35 083**	**35 083**	**175 416**

Compensation of current members of the Group Management in 2014 – (audited)

CHF	CEO Werner Schmidli	Group Management Total
Cash/book money		
Gross salary	367 999	**1 503 129**
Variable salary (gross) [1]	76 029	**173 476**
Long-service compensation	14 153	**14 153**
Payments in kind		
Cars	7 138	**34 643**
Pension expenses		
Occupational pension and AHV/IV contributions	65 433	**225 468**
Health and accident insurance contributions	3 746	**30 708**
Total	**534 498**	**1 981 577**

1 Compensation in the 2014 financial year was based on the company›s earnings in the 2014 financial year (accrual method).

Report of the Statutory Auditor on the remuneration report

To the General Meeting of Shareholders of Schlatter Industries Ltd, Schlieren

We have audited the accompanying remuneration report dated 11 March 2016 of Schlatter Industries Ltd for the year ended 31 December 2015. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance) contained in the sections and tables labeled "audited" on pages 34 to 35 of the compensation report

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report for the year ended 31 December 2015 of Schlatter Industries Ltd complies with Swiss law and articles 14–16 of the Ordinance.

KPMG AG

Herbert Bussmann Licensed Audit Expert Auditor in Charge	Anita Benz Licensed Audit Expert

Zurich, 11 March 2016

Schlatter Group
Financial Report 2015

Commentary on the consolidated income statement and balance sheet

Introduction

In financial year 2015, the balance sheet and income statement were negatively impacted by the appreciation of the Swiss franc. At the beginning of the financial year, the work in progress already recognized in the income statement had to be written down due to the changes in exchange rates. The income statement was also adversely affected by transaction effects, as it was only possible to adapt the cost base in line with the new exchange rate environment to a limited extent and after a time lag.

In the first half of 2015, an ordinary capital increase with subscription rights was conducted, entitling shareholders to subscribe on a two-for-three basis. This involved a reduction in the nominal value from CHF 31.59 to CHF 16.00 per share and saw 639,375 new shares issued at the issue price of CHF 23.00, bringing the Schlatter Group a cash inflow of CHF 14.3 million.

Through the authorized capital increase conducted in conjunction with this, distributable reserves were converted into 39,079 new shares in order to facilitate a management share-ownership programme. Under this programme, members of the Board of Directors and the Group Management received their fees and variable remuneration for 2015 solely in shares, at a discount of 25% to the issue price of CHF 23.00. The shares cannot be traded for two or three years. For accounting reasons, this transaction, which has no impact on equity or cash flows, had to be recognized in the income statement (personnel expense) at the market price. This led to a one-time increase in personnel expense of CHF 1.1 million in 2015.

Consolidated income statement

Net sales of CHF 83.2 million were generated in the reporting period (previous year: CHF 89.5 million). With the majority of the sales revenue in euros, the decline is primarily attributable to the appreciation of the Swiss franc against the euro and other currencies. At CHF 41.1 million, net sales in the second half of 2015 were only slightly lower than in the first half of the year (CHF 42.1 million). On a constant currency basis, net sales would have amounted to CHF 91.8 million.

Other operating income came to CHF 0.4 million (previous year: CHF 0.5 million).

The gross margin (net sales including other operating income less raw material and service expense) declined to 48.1% in the reporting period (previous year: 52.3%). The reduction is mainly attributable to one-time expenses in connection with the remeasurement of work in progress at the beginning of the year.

Personnel expense increased year on year to CHF 34.5 million (previous year: CHF 33.4 million) due to the recognition of the non-cash share-ownership programme for the management.

At CHF 9.3 million, other operating expense was sharply down on the prior-year figure thanks to the immediate action taken (previous year: CHF 10.6 million).

Depreciation and amortization in the reporting period amounted to CHF 2.2 million (previous year: CHF 2.1 million).

The consolidated operating result (EBIT) for financial year 2015 was a negative CHF

5.9 million (previous year: CHF 0.7 million). The result reflects the impact of the appreciation of the Swiss franc and the difficulties in the paper-machine clothing and reinforcing wire mesh markets. The reported result includes one-time losses and extraordinary costs due to currency dislocations, the employee share-ownership programme and restructuring provisions for the facility in Germany totalling CHF 3.2 million which will not be incurred again in 2016.

The financial result for the reporting period is a negative CHF 0.8 million (previous year: CHF –0.7 million). It consists mostly of foreign exchange gains and losses on hedges, interest costs and bank charges.

Net income tax expense amounted to CHF 0.1 million in the reporting period (previous year: net expense of CHF 0.2 million). It mainly includes tax expenses for profits realized at sites abroad.

Consolidated balance sheet

Assets

Net working capital amounted to CHF 17.6 million at the end of 2015 (previous year: CHF 16.8 million). Net assets from construction contracts increased from CHF 14.9 million in 2014 to CHF 18.8 million due to the delayed delivery of a large project. Inventories amounted to CHF 12.0 million at the balance sheet date (previous year: CHF 13.1 million). The net liability from construction contracts stood at CHF 7.2 million (previous year: CHF 7.0 million). The resulting underfunding on customer projects is now CHF 11.6 million (previous year: underfunding of CHF 7.9 million).

Cash and cash equivalents including short-term financial assets declined to CHF 2.7 million (previous year: CHF 3.4 million). Receivables from goods and services dropped to CHF 3.7 million (previous year: CHF 4.0 million), while other receivables remained unchanged at CHF 2.4 million (previous year: CHF 2.4 million).

Non-current assets amounted to CHF 9.3 million at the balance sheet date (previous year: CHF 11.2 million). Investments continued to be made with a considerable degree of caution.

Liabilities and equity

Liabilities declined to CHF 27.5 million due mostly to the repayment of short-term liabilities to banks (previous year: CHF 35.3 million). Payables from goods and services rose to CHF 8.6 million at the reporting date (previous year: CHF 6.1 million).

The Schlatter Group reported a net financial position of CHF 2.1 million at the end of 2015 (previous year: net debt of CHF 7.9 million). To optimize the financial result, the proceeds from the capital increase not currently required for operations were used to repay short-term bank loans.

Total assets amounted to CHF 49.1 million at the end of 2015 (previous year: CHF 49.2 million), while the equity ratio stood at 44.0% at year-end (previous year: 28.2%).

Thanks to the successful capital increase, consolidated nominal equity amounted to CHF 21.6 million at 31 December 2015 (previous year: CHF 13.9 million).

Consolidated income statement

CHF 1,000	Notes	2015	2014
Net sales from goods and services		**83 212**	**89 488**
Other operating income	19	**442**	527
Change in inventories of finished/unfinished goods, work in progress		**– 1 631**	– 4 000
Raw material and service expense		**– 41 962**	– 39 170
Personnel expense	20	**– 34 542**	– 33 351
Other operating expense	21	**– 9 250**	– 10 632
Depreciation and amortization	9, 10	**– 2 195**	– 2 147
Operating result (EBIT)		**– 5 926**	**715**
Financial income	23	**1 365**	697
Financial expense	23	**– 2 176**	– 1 409
Net result before taxes		**– 6 737**	**3**
Income taxes	24	**– 133**	– 180
Net result		**– 6 870**	**– 177**
Basic earnings per registered share (in CHF)	25	**– 8.32**	– 0,42

There are no potential shares which could result in dilution.

Consolidated balance sheet

Assets

CHF 1,000	Notes	31.12.2015	31.12.2014
Cash and cash equivalents	4	2 644	3 398
Short-term financial assets	5, 11	76	23
Receivables from goods and services	6	3 708	3 958
Income tax receivables		5	11
Other receivables	6	2 315	2 419
Net assets from construction contracts	7	18 816	14 877
Inventories	8	12 021	13 089
Prepayments and accrued income		206	229
Current assets		**39 791**	**38 004**
Tangible fixed assets	9	5 991	7 425
Intangible assets	10	2 500	2 870
Financial assets	11	0	62
Deferred tax assets	12	813	835
Non-current assets		**9 304**	**11 192**
Total assets		**49 095**	**49 196**

Liabilities and equity

CHF 1,000	Notes	31.12.2015	31.12.2014
Payables from goods and services	14	8 575	6 114
Net liabilities from construction contracts	7	7 247	7 011
Income tax liabilities		44	137
Other liabilities	15	1 306	1 644
Accrued liabilities and deferred income	15	2 316	2 891
Financial liabilities	13	182	10 705
Provisions	17	4 227	3 053
Short-term liabilities		**23 897**	**31 555**
Financial liabilities	13	397	631
Pension benefit obligations	16	2 888	2 682
Provisions	17	178	303
Deferred tax liabilities	12	140	161
Long-term liabilities		**3 603**	**3 777**
Liabilities		**27 500**	**35 332**
Share capital	18	17 675	13 465
Own shares		0	– 42
Capital reserves (premium)		11 526	0
Retained earnings		– 7 606	441
Total equity		**21 595**	**13 864**
Total liabilities and equity		**49 095**	**49 196**

Consolidated statement of changes in equity

CHF 1,000	Share capital	Own shares	Capital reserves	Retained earnings	**Total equity**
As at 1 January 2014	**13 465**	**– 42**	**0**	**557**	**13 980**
Exchange differences				61	**61**
Net result for 2014				– 177	**– 177**
As at 31 December 2014 under FER	**13 465**	**– 42**	**0**	**441**	**13 864**
Exchange differences				– 1 177	**– 1 177**
Net result				– 6 870	**– 6 870**
Nominal capital reduction	– 6 645		6 645		**0**
Ordinary capital increase	10 230		4 037		**14 267**
Authorized capital increase	625		– 625		**0**
Share-based payment			1 505		**1 505**
Disposal of own shares		42	– 36		**6**
As at 31 December 2015 under FER	**17 675**	**0**	**11 526**	**– 7 606**	**21 595**

Consolidated cash flow statement

CHF 1,000	Notes	2015	2014
Net result		**– 6 870**	**– 177**
Depreciation/amortization	9,10	2 196	2 147
Unrealized foreign exchange losses	23	227	565
Gain on the disposal of tangible fixed assets	19	– 7	– 31
Interest expense, net	23	162	253
Tax expense	24	133	180
(Reversal)/recognition of provisions	17	1 138	– 366
(Reversal)/recognition of pension benefit obligations	16	470	559
Change in net working capital			
(Increase)/decrease in receivables from goods and services		– 4 034	– 4 048
(Increase)/decrease in other receivables/prepayments and accrued income		– 132	462
(Increase)/decrease in inventories		641	1 213
(Increase)/decrease in payables from goods and services		2 747	– 3 711
(Increase)/decrease in other liabilities/accrued liabilities and deferred income		– 1 036	– 920
Income taxes paid		– 217	– 23
Cash flow from operating activities		**– 4 581**	**– 3 897**
Purchase of tangible fixed assets	9	– 390	– 471
Addition of intangible assets	10	– 416	– 228
Purchase of financial assets	11	– 69	– 150
Disposal of tangible fixed assets	9	9	34
Disposal of financial assets	11	67	107
Interest received	23	10	9
Cash flow from investing activities		**– 789**	**– 699**
Capital increase		14 267	0
Disposal of own shares		6	0
Share-based payment		1 505	0
Issuance of financial liabilities		0	4 103
Repayment of financial liabilities		– 10 757	– 105
Interest paid		– 172	– 228
Cash flow from financing activities		**4 849**	**3 770**
Net change in cash and cash equivalents		**– 521**	**– 826**
Cash and cash equivalents at 1 January		**3 398**	**4 251**
Effect of exchange rate movements on cash and cash equivalents		– 233	– 27
Cash and cash equivalents at 31 December		**2 644**	**3 398**

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 around 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 for 2015 were authorized for issue by the Board of Directors of Schlatter Industries AG on 11 March 2016. They still have to be approved by the General Meeting on 3 May 2016.
These consolidated financial statements were prepared in Swiss francs (CHF), rounded to the nearest thousand (KCHF), and under 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 policies. 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 principles were applied consistently 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 prepared as at 31 December in accordance with uniform principles for all Group companies in which the Group directly or indirectly holds more than 50% of the voting rights or which it otherwise controls. The companies included in the scope of consolidation are shown in note 32.

Acquisition accounting uses the purchase method, whereby the equity of the Group companies at the date of acquisition or establishment is eliminated against the carrying amount of the investment at the parent. At that date, the Group company's assets and liabilities are measured at current values in accordance with uniform Group principles. Any remaining difference between the purchase price and the equity of the acquiree following this remeasurement is charged or credited directly to the Group reserves as goodwill. Based on the full consolidation method, the assets, liabilities, income and expenses of consolidated companies are recognized in full. Minority interests in equity and in profit or loss are presented separately in the consolidated balance sheet and consolidated income statement. Intercompany assets and liabilities are eliminated, as are income and expenses from intercompany transactions. Intercompany profits included in inventories manufactured by the Group at the balance sheet date are eliminated. Joint ventures in which Schlatter Industries AG holds an interest of precisely 50% are proportionately consolidated.

Investments where 20% to 50% of the voting rights are held are not consolidated; they are accounted for using the equity method at the balance sheet date and presented in the consolidated balance sheet under financial assets and in the notes to the financial statements as equity-accounted investments. The share of profit or loss for the year is presented in the consolidated income statement within the financial result or in income (expense) from equity-accounted associates. Investments where an interest of less than 20% is held are measured at cost less any necessary write-downs. They are likewise presented under unconsolidated investments.

Currency conversion

Foreign currency transactions at the Group companies 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.

The foreign currency financial statements of foreign Group companies are converted into Swiss francs for consolidation purposes 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.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value. They comprise cash on hand, post office and bank balances, and fixed-term deposits with a term of up to three months 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 in the balance sheet at nominal value less any necessary valuation allowances.

The valuation allowance comprises 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 received, it is derecognized or offset against the specific valuation allowance recognized for it.

Inventories and construction contracts

Inventories are measured using the lower of cost or market principle, i.e. at the lower of cost or 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.

Production cost comprises direct materials and labour costs plus an appropriate share of indirect labour costs. It is usually measured on a weighted average basis.

Revenue from customer contracts that qualify as long-term construction contracts under FER 22 (it is highly probable that the contractor will perform the contract and income and expenses can be estimated reliably) is recognized using the percentage-of-completion method, whereby the revenue required to be recognized and the resulting gross profit or loss are determined based on the stage of completion (proportion that production costs incurred bear to estimated total production costs up to the date of acceptance by the customer). Foreseeable losses resulting from an excess of estimated total production costs – including expected warranties, warranty work and rectification performed free of charge up to the end of the warranty period – over the price of the contract are recognized in profit or loss in full and immediately.

Part payments received from customers are offset against the project work recognized as an asset. If setoff results in a positive net amount, this is presented in the balance sheet within current assets as net assets from construction contracts. Any negative net amounts are presented within short-term liabilities as a net liability from construction contracts.

Tangible fixed assets

Tangible fixed assets are stated at acquisition or production cost less accumulated depreciation and any impairment losses. Cost includes expenses directly attributable to the acquisition that are incurred to bring the asset to working condition for its intended use. All tangible fixed assets are used to manufacture goods or provide services. No tangible fixed assets are held for investment purposes. Borrowing cost during the construction phase of tangible fixed assets is not capitalized.
Components of a tangible fixed asset with different useful lives are recognized individually and depreciated separately.

Subsequent expenditures for an existing tangible fixed asset are capitalized if they increase its fair value or value in use significantly or extend its useful life significantly. Maintenance and repair work is 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 furniture and vehicles and 3 to 5 years for IT. Capitalized development projects are written down over five years.

Depreciation of a tangible 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 tangible fixed assets are reviewed annually and adjusted where necessary. Gains and losses on the disposal of tangible 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 assets").

The lease payments payable are presented as short- or long-term financial liabilities. The lease payments paid in the period comprise an interest component that is recognized in profit or loss and a repayment component (reduction in the recognized financial liability) that does not affect profit or loss.

The Schlatter Group assumes that a lease is a finance lease if 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 total of the purchase price, the amount of the minority interests in the acquiree 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.

If a subsidiary is sold, 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 the theoretical recognition of goodwill, including amortization and any impairment, on the balance sheet and income statement over a useful life of five years are disclosed in the notes to the financial statements. In the case of associates, goodwill is included in the carrying amount of the investment.

Intangible assets

Acquired intangible assets comprise software, brand names, licences, patents, rights of use and similar rights. They are recognized at cost less any necessary amortization, at no more than 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 over 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 assets are reviewed for indications that 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 reflects current market assessments of the time value of money and the risks inherent in the asset to the extent that these are not already reflected in the cash flows.

Impairment losses on non-current assets may be reversed if there are indications that some or all of the impairment loss 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 prior years.

Payables from goods and services and other liabilities

Liabilities are stated at amortized cost, which usually corresponds to their nominal value.

Financial liabilities

Financial liabilities are recognized initially at fair value less directly attributable transaction costs and subsequently at amortized cost, in which case any difference between the carrying amount and the repayment amount is recognized in the income statement over the term of the borrowings using the effective interest method.

Provisions

Provisions are recognized in the balance sheet if 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 can be made of the amount of the obligation.

They are measured on the basis of the probable cash outflows and increased, retained or reversed based on the re-assessment. If the time value of money is material, long-term provisions are stated at the present value of the probable future cash outflows.

Restructuring provisions are only recognized if the related costs can be determined reliably due to there being a plan, and an obligation exists due to there being an agreement or announcement.

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

Income taxes

Income taxes comprise 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 including expenses for prior-period taxes. The resulting liabilities are recognized in full under accrued liabilities and deferred income.

Deferred income taxes are recognized for differences between the carrying amounts of assets and liabilities measured in accordance with uniform Group principles and their tax base. An average expected tax rate is used to calculate the deferred income taxes required to be recognized on an annual basis. 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 each balance sheet date. If 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 Group companies' pension benefit obligations for retirement, death or disability are based on the local regulations and practices in the countries in question. One of the two most significant companies is located in Switzerland, where pension benefits are combined in an independent foundation.

Abroad, a small number of 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. It is not intended to recognize any further economic benefit (from a plan surplus), nor are the requirements for doing so met. An economic obligation is recognized if the requirements for recognizing a provision are met.

Equity

Share capital

Shares are a component of equity, as they are not repayable 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 the 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 only include costs directly attributable to the equity transaction that otherwise would not have arisen.

Dividends

Dividends are presented as a liability as soon as they have been resolved by the General Meeting.

Net sales and revenue recognition

Net revenue includes 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. Revenue from the sale of services is recognized in the income statement according to the stage of completion. No revenue is recognized if there is significant doubt about the recoverability of outstanding payments or about rights to return 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 are incurred, based on the effective interest method. Dividend income is recognized in profit or loss at the due date.
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are recognized as part of the acquisition or production cost of that asset. A qualifying asset is an asset that necessarily takes a relatively long period of time to be prepared for its intended use or sale.

Notes to the consolidated financial statements

1 Segment Information

The segment reporting is by business area. The business areas are managed globally; the organization is structured accordingly by business area. The segmentation comprises the welding and weaving business areas. 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.

Breakdown by business unit

			2015
CHF 1,000	Welding	Weaving	**Total segments**
Net sales from third parties	66 660	16 552	**83 212**
EBIT	– 4 884	– 1 042	**– 5 926**

			2014
CHF 1,000	Welding	Weaving	**Total segments**
Net sales from third parties	69 857	19 631	**89 488**
EBIT	101	614	**715**

2 Changes in the scope of consolidation

At its meeting on 21 February 2013, the Board of Directors approved the merger between Schlatter Holding AG and Schlatter Industries AG retroactively as of 1 January 2013. Schlatter Holding AG was thus renamed Schlatter Industries AG.

3 Loan arrangements

In the reporting period, it was agreed with the banks that the loan agreements would be extended until 31 December 2016 with the current facilities maintained and no financial covenants imposed.

The management believes that funding for 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 1,000	2015	2014
Cash	53	86
Bank, post office accounts	2 591	3 312
Cash and cash equivalents	**2 644**	**3 398**

By currency in CHF 1,000		
CHF	380	182
EUR	1 679	2 166
USD	456	938
GBP	43	16
Other	86	96
Total	**2 644**	**3 398**

Cash and cash equivalents are freely usable.

5 Short-term financial assets

The securities held for sale in the previous year included fixed-income funds that were held by a subsidiary as a short-term investment.

CHF 1,000	2015	2014
Fixed-term deposits with a term of 3 to 12 months	76	12
Securities held for sale	0	11
Short-term financial assets	**76**	**23**

6 Receivables

CHF 1,000	2015	2014
Receivables from goods and services due from third parties, gross	4 049	4 302
Valuation allowances	– 341	– 344
Receivables from goods and services, net	3 708	3 958
Other receivables	2 315	2 419
Receivables	**6 023**	**6 377**

Receivables from goods and services amounted to KCHF 3,708 (previous year: KCHF 3,958). Valuation allowances of KCHF 341 (previous year: KCHF 344) consist mostly of global valuation allowances.

Allowance account

By currency in CHF 1,000	2015	2014
Specific allowance		
Balance at 1 January	– 78	– 123
Additional allowance	– 18	– 197
Reversal of allowance	38	79
Losses on receivables (use of allowance)	6	160
Exchange differences	7	3
Balance at 31 December	**– 45**	**– 78**
Global allowance		
Balance at 1 January	– 266	– 295
(Increase)/decrease in allowance	– 33	30
Exchange differences	3	– 1
Balance at 31 December	**– 296**	**– 266**

Other receivables

CHF 1,000	2015	2014
Value-added taxes	1 511	1 093
Withholding taxes	34	0
Miscellaneous	770	1 326
Total	**2 315**	**2 419**

In addition to VAT receivables, other receivables of KCHF 2,315 (previous year: KCHF 2,419) also include payments on account for and receivables from employee insurance schemes, payments on account for suppliers and various smaller items.

While other receivables entail a low level of credit risk, they include receivables from government, primarily in Germany and Switzerland. These receivables have never led to defaults in the past. Despite there being a concentration, the risk of default is low due to the fact that the debtors are of prime standing.

7 Construction contracts

CHF 1,000	2015	2014
Contract costs incurred up to the reporting date, including recognized profits and losses on current projects	70 973	74 001
Progress billings and advance payments	– 59 403	– 66 135
Construction contracts in progress, net	**11 569**	**7 866**

In net terms, construction contracts in progress were underfunded by KCHF 11,569 (previous year: KCHF 7,866). The further increase compared with the previous year is the result of a less favourable but secure funding situation on customer projects.

Construction contracts are reported in the balance sheet as follows:

CHF 1,000	2015	2014
Net assets from construction contracts	18 816	14 877
Net liabilities from construction contracts	– 7 247	– 7 011
recognized revenue from construction contracts	56 252	**61 310**

8 Inventories

CHF 1,000	2015	2014
Raw materials, merchandise	8 345	9 904
Work in progress	2 270	1 903
Unfinished and finished goods	1 406	1 282
Inventories, net	**12 021**	**13 089**

Inventories were further reduced in value and now amount to KCHF 12,021 net (previous year: KCHF 13,089).

The valuation allowance on inventories changed as follows:

CHF 1,000	2015	2014
Balance at 1 January	8 318	8 612
Recognition of valuation allowances	667	420
Reversal of valuation allowances	– 1	– 172
Scrapping, liquidations	– 401	– 545
Exchange differences	– 252	3
Balance at 31 December	**8 331**	**8 318**

9 Tangible fixed assets

CHF 1,000	Land	Buildings	Technical equipment and machinery	Other tangible fixed assets	Assets under con-struction	**Total tangible fixed assets**
Cost						
As at 1 January 2014	89	7 137	14 658	9 862	0	**31 746**
Additions	0	82	152	199	38	**471**
Disposals	0	0	0	0	0	**0**
Reclassification	0	0	0	– 33	0	**– 33**
Exchange differences	9	36	– 218	– 17	3	**– 187**
As at 31 December 2014	**98**	**7 255**	**14 592**	**10 011**	**41**	**31 997**
Additions	0	11	105	235	39	**390**
Disposals	0	– 22	– 2 010	– 1 602	0	**– 3 634**
Reclassification	0	157	0	– 78	– 79	**0**
Exchange differences	0	– 27	– 890	– 411	– 1	**– 1 329**
As at 31 December 2015	**98**	**7 374**	**11 797**	**8 155**	**0**	**27 424**
Accumulated depreciation						
As at 1 January 2014	0	– 2 730	– 12 294	– 8 419	0	**– 23 443**
Depreciation	0	– 474	– 443	– 385	0	**– 1 302**
Disposals	0	0	0	30	0	**30**
Reclassification	0	0	0	0	0	**0**
Exchange differences	0	– 36	177	2	0	**143**
As at 31 December 2014	**0**	**– 3 240**	**– 12 560**	**– 8 772**	**0**	**– 24 572**
Depreciation	0	– 843	– 363	– 329	0	**– 1 535**
Disposals	0	22	2 010	1 600	0	**3 632**
Reclassification	0	– 94	0	94	0	**0**
Exchange differences	0	1	738	303	0	**1 042**
As at 31 December 2015	**0**	**– 4 154**	**– 10 175**	**– 7 104**	**0**	**– 21 433**
Net carrying amount at 1 January 2014	89	4 407	2 364	1 443	0	**8 303**
Net carrying amount at 31 December 2014	98	4 015	2 032	1 239	41	**7 425**
Net carrying amount at 31 December 2015	**98**	**3 220**	**1 622**	**1 051**	**0**	**5 991**

CHF 1,000	Land	Buildings	Technical equipment and machinery	Other tangible fixed assets	Assets under con-struction	**Total tangible fixed assets**
Additional information for 2015						
Fire insurance values of the assets		9 512	15 135	8 262	0	**32 909**
Investment commitments entered into		0	0	0	0	**0**
Pledges as collateral		0	0	0	0	**0**
CHF 1,000						
Additional information for 2014						
Fire insurance values of the assets		7 756	18 411	9 791	0	**35 958**
Investment commitments entered into		0	0	0	0	**0**
Pledges as collateral		0	0	0	0	**0**

Additions to tangible fixed assets amounted to KCHF 390 (previous year: KCHF 471). The investments are distributed across various smaller items. At various locations, old operating equipment and machinery that had been written down and was no longer required was scrapped, resulting in a significant reduction in the gross amount of tangible fixed assets.

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

10 Intangible assets

Additions to intangible assets of KCHF 416 (previous year: KCHF 228) are primarily attributable to software purchases. At the end of 2015, a capitalized development project related to rail welding was recognized in the balance sheet in the amount of KCHF 905 (previous year: KCHF 1,207). The development project is being written down over a period of five years starting at the beginning of 2014 and is tested periodically for impairment.

CHF 1,000	Capitalized development projects	Other acquired intangible assets	Intangible assets under development	**Total intangible assets**
Cost				
As at 1 January 2014	8 714	7 460	73	**16 247**
Additions	0	194	34	**228**
Disposals	0	0	0	**0**
Reclassification	0	31	– 31	**0**
Exchange differences	– 13	– 87	0	**– 100**
As at 31 December 2014	**8 701**	**7 598**	**76**	**16 375**
Additions	0	125	291	**416**
Disposals	0	68	– 68	**0**
Reclassification	0	0	1	**1**
Exchange differences	– 51	– 379	0	**– 430**
As at 31 December 2015	**8 650**	**7 412**	**300**	**16 362**
Accumulated amortization				
As at 1 January 2014	– 6 801	– 5 926	0	**– 12 727**
Additions	– 370	– 475	0	**– 845**
Impairment	0	0	0	**0**
Disposals	0	0	0	**0**
Reclassifications	0	0	0	**0**
Exchange differences	4	63	0	**67**
As at 31 December 2014	**– 7 167**	**– 6 338**	**0**	**– 13 505**
Additions	– 361	– 300	**0**	**– 661**
Impairment	0	0	**0**	**0**
Disposals	0	0	0	**0**
Reclassifications	0	0	0	**0**
Exchange differences	21	283	0	**304**
As at 31 December 2015	**– 7 507**	**– 6 355**	**0**	**– 13 862**
Net carrying amount at 1 January 2014	1 913	1 534	73	**3 520**
Net carrying amount at 31 December 2014	1 534	1 260	76	**2 870**
Net carrying amount at 31 December 2015	**1 143**	**1 057**	**300**	**2 500**

Goodwill

The goodwill of KCHF 388 reported as at 31 December 2011 in accordance with IFRSs was eliminated against retained earnings as at 1 January 2011 due to the switch to financial accounting and reporting in accordance with Swiss GAAP FER.
Effects of the theoretical recognition of goodwill on the balance sheet and income statement:

CHF 1,000	2015	2014
Goodwill		
Reported profit/loss for the period	– 6 870	– 177
Theoretical annual amortization of goodwill	0	– 36
Theoretical profit/loss for the period	**– 6 870**	**– 213**
Goodwill paid at 1 January	**388**	**388**
Theoretical accumulated amortization over 5 years	– 388	– 352
Theoretical annual amortization of goodwill	0	– 36
Theoretical exchange differences	0	0
Theoretical accumulated amortization at 31 December	**– 388**	**– 388**
Theoretical net carrying amount of goodwill at 31 December	**0**	**0**
Reported equity at 31 December	**21 595**	**13 864**
Theoretical effect of adjustment to goodwill at 1 January	0	36
Theoretical effect of recognition of goodwill on income statement	0	– 36
Theoretical equity at 31 December	**21 595**	**13 864**

11 Financial assets

CHF 1,000	Total short-term financial assets	Fixed-term deposits > 12 months	Total long-term financial assets	**Total financial assets**
Cost/fair value				
As at 1 January 2014	42	1	1	**43**
Additions	87	63	63	**150**
Repayments	– 106	– 1	– 1	**– 107**
Exchange differences	0	– 1	– 1	– 1
As at 31 December 2014	**23**	**62**	**62**	**85**
Additions	69	0	0	**69**
Repayments	–11	– 56	– 56	– 67
Exchange differences	–5	– 6	– 6	**– 11**
As at 31 December 2015	**76**	**0**	**0**	**76**

Financial assets comprise a rental security deposit and a security deposit for a leased item of production machinery respectively.

12 Deferred taxes

No tax loss carryforwards are recognized as assets. The existing loss carryforwards expire as follows:

CHF 1,000	2015	2014
After 1 year	14 484	6 736
After 2 years	1 803	14 484
After 3 years	58 378	1 803
After 4 years	54 494	58 378
After 5 years	0	54 494
After 6 years	1 931	0
After 7 years	8 445	1 931
After more than 10 years	0	0
Will not expire	42	10
Total	**139 577**	**137 836**

The loss carryforwards arose primarily at Schlatter Industries AG.

Due to the holding company's tax privilege under section 73 of the Canton of Zurich Tax Act (StG ZH) and the exemption for cantonal and local authority income tax purposes, however, loss carryforwards generated by the then Schlatter Holding AG up to and in the 2012 tax period can only be used in future for the purposes of direct federal tax. This means that loss carryforwards of KCHF 56,272 may be used at cantonal and municipal tax level.

13 Financial liabilities

CHF 1,000	2015	2014
Short-term financial liability	182	105
Fixed advances/current account	0	10 600
Short-term financial liabilities	**182**	**10 705**
of which in CHF	182	10 705
of which in EUR	0	0
Total short-term financial liabilities by currency	182	10 705

CHF 1,000	2015	2014
Long-term financial liability	397	631
Long-term financial liabilities	**397**	**631**
of which in CHF	397	631
of which in EUR	0	0
Total long-term financial liabilities by currency	397	631

Planned maturities in CHF 1,000	2015	2014
Up to 1 year	182	10 705
1 to 5 years	397	296
More than 5 years	0	335
Total financial liabilities	**579**	**11 336**

Terms of credit

The Schlatter Group holds loan agreements that are committed up until 31 December 2016. The bank facilities (credit and contingency facilities) to maintain operating activities amounted to CHF 26.25 million (previous year: CHF 26.25 million). As before, up to CHF 12.5 million of this may be used for short-term loans. The contingency facilities are partly tied to conditions related to Swiss Export Risk Insurance (SERV) counter guarantees. Total drawings may not exceed the CHF 26.25 million bank facility. The loans are not tied to any financial covenants.

14 Payables from goods and services

CHF 1,000	2015	2014
CHF	3 564	3 743
EUR	4 978	2 299
USD	26	0
Other	7	72
Payables from goods and services	**8 575**	**6 114**

Payables from goods and services are an end-of-period amount which may be subject to sharp fluctuations.

15 Other liabilities, accrued liabilities and deferred income

CHF 1,000	2015	2014
Value-added taxes	38	49
Employee insurance/social security	292	130
Advance payments by customers	0	179
Liabilities to the Schlatter Group pension fund	179	170
Miscellaneous liabilities	797	1 116
Other liabilities	**1 306**	**1 644**
Holiday and overtime accruals	896	1 059
Other accrued liabilities and deferred income	1 420	1 832
Accrued liabilities and deferred income	**2 316**	**2 891**
Other liabilities, accrued liabilities and deferred income	**3 622**	**4 535**

Other accrued liabilities and deferred income consist mainly of accrued costs for machinery already invoiced in the weaving segment and accruals for variable salary payments at the Schlieren and Münster sites.

The “Other accrued liabilities and deferred income” item contains valuation losses of KCHF 384 on currency forwards (previous year: KCHF 187).

CHF 1,000	Maturity	Trade price	Forward price	Value in CHF at maturity	Valuation difference
Open currency forwards at 31 December 2015					
Sell EUR 7 959	20.01.16	1.0805	1.0887	**8 600**	– 65
Sell USD 2 500	08.01.16	0.9544	1.0013	**2 386**	– 116
Sell USD 400	27.01.16	0.8786	1.0004	**351**	– 48
Sell USD 250	24.02.16	0.8767	0.9992	**219**	– 30
Sell USD 1 150	16.03.16	0.9692	0.9983	**1 115**	– 33
Sell USD 200	27.04.16	0.9672	0.9964	**193**	– 6
Sell USD 200	15.06.16	0.9646	0.9939	**193**	– 6
Sell USD 400	27.07.16	0.8673	0.9917	**347**	– 49
Sell USD 250	21.09.16	0.8635	0.9886	**216**	– 31
Total valuation differences					**– 384**

16 Pension benefit obligations

The Group company in Switzerland has its own pension institution that is independent of the Group, as required by law. This provides benefits in the event of retirement, death or disability. It is generally funded through employee and employer contributions.

In Germany and in other countries where the Schlatter Group has its own companies, there are government social security schemes and additional employee benefit plans in accordance with local law.

Economic benefit/economic obligation and pension benefit expense

CHF 1,000	Deficit 31.12.2015	31.12.2015	Economic share of the organization 31.12.2014	Change year on year recognized in profit or loss in FY	Amounts related to the period	Pension benefit expense within personnel expense 2015	2014
Plan of Schlatter Industries AG[1]	0	0	0	0	1 196	1 196	1 186
Plan of Schlatter Deutschland GmbH & Co. KG	–2 888	–2 888	–2 682	– 206	531	737	802
Total	**–2 888**	**–2 888**	**–2 682**	**– 206**	**1 727**	**1 933**	**1 988**

[1] Defined contribution plan

17 Provisions

CHF 1,000	Warranties	Restructuring	Project risks	Other	**Total 2015**	Total 2014
As at 1 January	1180	0	1630	546	**3356**	3752
recognized	0	369	1008	150	**1527**	193
Used	– 389	0	0	0	**– 389**	– 157
Reversed	0	0	0	0	0	– 402
Exchange differences	– 81	4	0	– 12	**– 89**	– 30
As at 31 December	**710**	**373**	**2638**	**684**	**4405**	**3 356**
of which short-term provisions	638	373	2638	578	**4227**	3053

Provisions rose to KCHF 4,405 as at 31 December 2015 (previous year: KCHF 3,356). Provisions for work to be performed under warranties are calculated from historical statistics covering several years. The maturity is based on the contractual warranty period.

The restructuring provisions recognized were allocated to the Münster site and relate to severance payments for employees who will leave the Münster site in the course of 2016 due to the restructuring programme initiated.

The change in other provisions contains a number of small items.

Project risks requiring a provision are recorded on the projects at the periodically updated budgeted costs and recognized in profit or loss using the percentage-of-completion method. The exception are projects that have been completed and delivered but not yet concluded commercially due to the technical solution delivered. Risks associated with prototypes that have been sold but not yet delivered are also recorded. The relevant amount, KCHF 2,638, is included in the "Project risks" column (previous year: KCHF 1,630).

18 Share capital/own shares and reserves

CHF	2015	2014
Number of outstanding registered shares at 1 January	426 250	426 250
Capital increase		
through issue of subscription rights on existing shares	638 985	0
through free placement of new shares	390	0
through authorised capital increase	39 079	
Number of outstanding registered shares at 31 December	1 104 704	426 250

Share capital at 1 January	13 465 238	13 465 238
Nominal value per share (CHF)	16.00	31.59
Share capital at 31 December (CHF)	**17 675 264**	**13 465 238**

The share capital at 31 December 2015 amounted to KCHF 17,675 (previous year: KCHF 13,465) and was composed of 1,104,704 registered shares with a nominal value of CHF 16.00 (previous year: 426,250 registered shares with a nominal value of CHF 31.59) per share.

The Schlatter Industries AG registered shares are listed in the Swiss Reporting Standard segment of SIX Swiss Exchange (Swiss securities number 227731, ISIN CH0002277314, Telekurs STRN, Reuters STRN.S). The market capitalization of Schlatter Industries AG at 31 December 2015 was CHF 33.1 million (previous year: CHF 59.7 million).

The share capital is fully paid up. Each share entitles the holder to participate in the Company's General Meeting and conveys one vote. 1,104,704 registered shares are dividend-bearing shares (previous year: 426,081). The Company did not hold any own shares at the balance sheet date (previous year: 169).

19 Other operating income

CHF 1,000	2015	2014
Lease income	122	122
Commission income	64	31
Gain on the disposal of tangible fixed assets	7	31
Other income	249	343
Total	**442**	**527**

20 Personnel expense

CHF 1,000	2015	2014
Wages and salaries	28 416	27 998
Social security expense	3 560	3 072
Pension benefit expense for defined benefit plans	2 114	1 571
Other personnel expense	452	710
Total	**34 542**	**33 351**

Average headcount (full-time equivalents)	314	309
Headcount at 31 December	310	313

The change in pension benefit expense is attributable to an increase in provisions for future pension obligations at the Münster site due to a reduction in the discount rate.

21 Other operating expense

CHF 1,000	2015	2014
Losses on receivables, change in allowance for doubtful accounts	– 127	148
Maintenance costs	0	0
Rental, leasing	956	910
Sales and marketing	2 623	3 677
Administration and consultancy	1 515	1 871
Insurance, levies, taxes on capital	1 442	1 183
Information technology	365	241
Other	782	824
Übrige	1 694	1 778
Total	**9 250**	**10 632**

22 Research and development expense

Research and development expense of KCHF 6,347 was charged to current profit or loss (previous year: KCHF 4,075). These funds are being used to implement the long-term development roadmap, which was driven forward at full speed in 2015.

23 Financial result

CHF 1,000	2015	2014
Interest income	10	9
Gain on the disposal of financial assets	8	8
Realized gains on currency hedges	74	70
Realized foreign exchange gains	1 266	597
Other	7	13
Financial income	**1 365**	**697**

CHF 1,000	2015	2014
Interest expense	172	262
Realized losses on currency hedges	292	50
Unrealized foreign exchange losses	227	565
Realized foreign exchange losses	1 306	302
Other	179	230
Financial expense	**2 176**	**1 409**

Interest income comprises income on bank accounts and fixed-term deposits. Interest expense results mainly from fixed advances drawn. Foreign exchange gains and losses arose on hedges of foreign currency transactions in EUR and USD and on remeasurements of balance sheet items due to exchange rate volatility. Foreign exchange gains, including gains on currency hedges amounted to KCHF 1,340 (previous year: KCHF 667) and foreign exchange losses to KCHF 1,825 (previous year: KCHF 917). Other financial expense contains bank charges, fees, bank guarantee costs, etc. that cannot be attributed to a particular customer project.

24 Income taxes

CHF 1,000	2015	2014
Income taxes		
Current income taxes	144	232
Deferred taxes	– 11	– 52
Total income taxes	**133**	**180**

Some Group companies incurred a tax expense due to the profit in the reporting period.

Effect of not recognizing loss carryforwards:

2015

CHF 1,000	Profit/loss	Tax rate	Income tax
Average applicable tax rate and income taxes on the ordinary result before loss carryforwards	**– 6 737**	18.3 %	**– 1 236**
Effect of not recognizing loss carryforwards of Schlatter Industries AG	**4 513**	21.0 %	**948**
Effect of not recognizing loss carryforwards of Schlatter Industries Deutschland GmbH & Co. KG	**2 630**	16.0 %	**421**
Effective tax rate and income taxes recognized in the income statement	**406**	32.8 %	**133**

2014

CHF 1,000	Profit/loss	Tax rate	Income tax
Average applicable tax rate and income taxes on the ordinary result before loss carryforwards	**3**	– 1777.0 %	**– 53**
Effect of not recognizing loss carryforwards of Schlatter Industries AG	**1 111**	21.0 %	**233**
Effective tax rate and income taxes recognized in the income statement	**1 114**	16.2 %	**180**

Based on absolute amounts (i.e. disregarding minus signs), the average applicable tax rate on the ordinary result, before loss carryforwards are taken into account, is 18.8% rather than –1777.0%.

25 Earnings per share

CHF 1,000	2015	2014
Net result attributable to shareholders of Schlatter Industries AG (in CHF 1,000)	– 6 870	– 177
Number of registered shares issued with a nominal value of CHF 16.00 at 31 December	1 104 704	426 250
Number of shares issued, weighted	827 600	426 250
Average number of registered shares held as own stock	– 1 905	– 169
Total average number of dividend-bearing registered shares	**825 695**	**426 081**
Basic earnings per registered share (in CHF)	– 8.32	– 0.42

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

26 Share-based payment

Given that the Board of Directors and the Group Management are implementing the Schlatter Group's restructuring programme quickly and systematically in the interests of shareholders, fees respectively variable remuneration for 2015 were paid out solely in shares. For this, distributable reserves were converted into 39,079 new shares by way of an authorised capital increase. The number of shares granted was calculated based on the issue price of the authorised capital increase of CHF 23.00 less a discount of 25%. The Board of Directors and Group Management have undertaken not to sell the shares received for three and two years respectively. Personnel expense was recognized at the market price at the grant date of CHF 38.50 per share and therefore amounted to CHF 1.5 million.

27 Risk management

The Board of Directors has ultimate responsibility for risk management and sets the objectives. As well as strategic, operational and compliance-related objectives, this also includes the financial reporting. The Board of Directors has set up a Risk and Audit Committee, composed of two members, that is responsible for developing and monitoring principles for risk management. The Committee does not have any decision-making powers and reports to the Board of Directors on a regular basis. The duties and powers assigned to the Board of Directors in accordance with the organizational regulations and the law remain with the full Board of Directors.

The principles established for risk management are geared to identifying and analysing the risks to which the Group is exposed and defining appropriate limits. The intention is to establish controls and monitor risks and compliance with the limits. The risk management principles and the processes applied are reviewed on a regular basis so as to take into account changes in market conditions and the Group's activities. The aim is to develop a disciplined and constructive control environment through the training and management guidelines and processes in place, thereby ensuring that risks are handled in a disciplined and deliberate manner.

The Risk and Audit Committee oversees the management in monitoring compliance with the principles and processes. Their adequacy is continually reviewed in light of the risks to which the Group is exposed. The Risk and Audit Committee is assisted in this by the Company's management, which monitors compliance with processes and risks at the appropriate level.

28 Leases

Operating leases

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

The largest items of operating lease expense relate to lease expenses for office,

CHF 1,000	2015	2014
Due within 1 year	3 329	4 612
Due in 2 to 5 years	5 989	12 290
Due in more than 5 years	0	9 349
Total	**9 318**	**26 251**

production and warehouse space in Schlieren (Switzerland) and Münster (Germany). Lease expenses for vehicles and a number of other smaller lease agreements are also included in this item.

The remaining term of the lease for the property in Schlieren is still over three years and ends on 31 May 2019. For the property in Münster, there is a lease that may be terminated by giving twelve months' notice effective at the end of any month.

29 Related party transactions

Related parties include the subsidiaries (see note 32, page 70), the members of the Board of Directors and Group Management, significant shareholders (see page 83), the associates and the Group's pension plans.

Detailed disclosures on remuneration can be found in the remuneration report on pages 32 ff.

Frank Schröter, a member of the Group Management and responsible for the weaving segment, and Harro Schröter, Commercial Director of Schlatter Deutschland, are the sole partners in MMI GmbH & Co. KG. This company owns the commercial properties in Münster and Meppen leased by Schlatter Deutschland GmbH & Co. KG. The property in Münster has been leased under an eight-year lease agreement and at an annual rent of KEUR 430. The lease agreement ends on 1 October 2016 and contains a two-time option for Schlatter Deutschland GmbH & Co. KG to extend the lease, in each case by five years. The lease on the property in Meppen may be terminated by giving three months' notice effective from any half year-end. The annual rent is KEUR 89.

Contributions to pension plans amounted to KCHF 1,196 (previous year: KCHF 1,186).

30 Assets pledged or assigned

As at 31 December 2015, UBS AG and Zürcher Kantonalbank had a lien on all current and future bank deposits and securities in those accounts and custody accounts. The value at the balance sheet date was KCHF 887 (previous year: KCHF 762).

31 Contingent liabilities

Warranties with regard to system delivery dates and performance exist in the amount of KCHF 2,271 (previous year: KCHF 3,814) and, if not fulfilled by Schlatter Industries AG, may require indemnification to be provided.

Rental security deposits amounted to KCHF 1,263 (previous year: KCHF 1,275).

32 Group companies

As at 31 December 2015, the Group held the following consolidated Group companies:

Name	Registered office	Share of capital %	Share of voting rights %	Primary business
Schlatter Deutschland GmbH & Co. KG	Münster, Germany	100 %	100 %	P, R, D, S
Schlatter North America	Rockford, USA	100 %	100 %	D, S
Schlatter France S.a.r.l.	Noisy-le-Grand, France	100 %	100 %	D, S
Schlatter do Brasil Ind. e Com.	São Bernardo do Campo, Brazil	100 %	100 %	D, S
Schlatter South East Asia Sdn. Bhd.	Ipoh, Malaysia	100 %	100 %	D, S

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

33 Exchange rates

	2015		2014	
CHF 1	Closing rates	Average rates	Closing rates	Average rates
EUR 1	**1.08**	**1.07**	1.20	1.21
USD 1	**0.99**	**0.96**	0.99	0.92
GBP 1	**1.47**	**1.47**	1.54	1.51
BRL 1	**0.25**	**0.30**	0.37	0.39
MYR 1	**0.23**	**0.25**	0.28	0.28

34 Events after the balance sheet date

The consolidated financial statements were authorised for issue by the Board of Directors on 11 March 2016. They still have to be approved by the General Meeting on 3 May 2016.

No events occurred between 31 December 2015 and 14 March 2016 that would have required an adjustment to the carrying amounts of the Group's assets and liabilities or would have to be disclosed here.

Report of the Statutory Auditor on the Consolidated Financial Statements

To the General Meeting of Shareholders of Schlatter Industries Ltd, Schlieren

As statutory auditor, we have audited the accompanying consolidated financial statements of Schlatter Industries Ltd, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes for the year ended 31 December 2015.

Board of Directors' Responsibility

The board of directors is responsible for the preparation of the consolidated financial statements in accordance with Swiss GAAP FER and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the board of directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

Herbert Bussmann Licensed Audit Expert Auditor in Charge	Anita Benz Licensed Audit Expert

Zurich, 11 March 2016

Financial Reporting of Schlatter Industries AG for 2015

Income statement of Schlatter Industries AG, Schlieren

CHF 1,000	Note	31.12.15	31.12.14
Net sales from goods and services		64 930	66 463
Change in inventories		– 1 836	–3 992
Other operating income		265	312 *
Total operating income		**63 359**	**62 783**
Raw material expense		– 39 442	–35 576
Personnel expense		– 19 544	–20 282
Other operating expense	2.11	– 5 104	–6 829
Depreciation, amortization and write-downs of non-current assets	2.12	– 7 378	–1 307
Total operating expense		**– 71 468**	**–63 994**
Operating result		**– 8 109**	**–1 211**
Financial income		1 833	628
Financial expense		– 2 135	–1 336
Profit/loss for the financial year before taxes		**– 8 411**	**–1 919**
Direct taxes		– 34	–12
Profit/loss for the financial year		**– 8 445**	**–1 931**

* The prior-year figures were adjusted in line with the new format; see note 3.8 in the notes to the financial statements.

Balance sheet of Schlatter Industries AG, Schlieren

Assets

CHF 1,000	Note	31.12.2015	31.12.2014
Cash and cash equivalents		1 031	859
Receivables from goods and services	2.1	2 487	2 393
Receivables from goods and services due from investments		980	996
Other short-term receivables		1 298	988
Other short-term receivables due from investments		2 449	192
Net assets from construction contracts		16 113	12 211 *
Inventories	2.2	7 807	9 054 *
Prepayments and accrued income		54	0
Total current assets		**32 219**	**26 692**
Investments	2.3	3 864	9 632
Tangible fixed assets	2.4	3 489	4 453
Intangible assets	2.5	2 045	2 283
Total non-current assets		**9 398**	**16 368**
Total assets		**41 617**	**43 060**

Liabilities and equity

CHF 1,000	Note	31.12.2015	31.12.2014
Payables from goods and services		7 265	4 233
Payables from goods and services due to investments		2 898	3 083
Net liabilities from construction contracts		6 385	6 655
Short-term interest-bearing liabilities		183	10 705
Other short-term liabilities	2.6	858	1 134
Other short-term liabilities due to investments		65	82
Short-term provisions	2.7	3 622	2 470
Accrued liabilities and deferred income	2.8	1 663	1 802
Accrued liabilities to and deferred income from investments		94	138
Total short-term liabilities		**23 033**	**30 302**
Long-term interest-bearing liabilities		397	631
Total long-term liabilities		**397**	**631**
Total liabilities		**23 430**	**30 932**
Share capital	2.9	17 675	13 465
Legal capital reserves			
– Other capital reserves		10 271	0
Voluntary retained earnings			
– Net retained profits/net accumulated losses			
• Carryforward		– 1 314	618 *
• Profit or loss for the financial year		– 8 445	– 1 931
Own shares	2.10		– 24 *
Total equity		**18 187**	**12 128**
Total liabilities and equity		**41 617**	**43 060**

* The prior-year figures were adjusted in line with the new format; see note 3.8 in the notes to the financial statements.

Notes to the financial statements of Schlatter Industries AG, Schlieren

1 Principles

1.1 General

These financial statements were prepared in accordance with the provisions of Swiss accounting legislation (Title 32 of the Swiss Code of Obligations). The significant measurement principles that have been applied but are not prescribed by law are described below.

1.2 Derivative financial instruments

Derivative financial instruments are used to hedge exposure to currency and interest rate risks arising from operating, financing and investing activities. They are initially recognized and measured at no more than cost and subsequently measured at market prices.

1.3 Inventories and construction contracts

Inventories are measured using the lower of cost or market principle, i.e. at the lower of cost or 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.

Provided that the requirements are met, longer-term construction contracts are measured using the percentage-of-completion (POC) method whereby, in addition to the cost, a portion of the profit is recognized by reference to the stage of completion if it is sufficiently certain that it will be realized. The stage of completion is determined based on the proportion that costs incurred bear to the expected total costs (cost-to-cost method). Any foreseeable loss is recognized immediately and in full.

Part payments received from customers are offset against the project work recognized as an asset. If setoff results in a positive net amount, this is presented in the balance sheet within current assets as net assets from construction contracts. Any negative net amounts are presented within short-term liabilities as a net liability from construction contracts.

1.4 Tangible fixed assets

Tangible fixed assets are stated at acquisition or production cost less accumulated depreciation and any impairment losses. 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 furniture and vehicles and 3 to 5 years for IT. 5 Fire insurance values of tangible fixed assets

1.5 Intangible assets

Acquired intangible assets are recognized at cost less any necessary amortization and at no more than realisable value (the higher of fair value and value in use), and are amortized on a straight-line basis or over a carefully estimated useful life, usually over three to ten years.

Internally generated intangible assets are recognized if they meet the following criteria:

The internally generated intangible asset is identifiable and is controlled by the entity
The internally generated intangible asset will yield measurable benefits for the entity over several years
The expenses incurred to create the internally generated intangible asset can be recognized and measured separately
It is likely that the resources needed to complete and sell the asset will be or will be made available.

Capitalized development costs are amortized over the remaining useful life of no more than five years.

1.6 Own shares

At the acquisition date, own shares are recognized at cost as a deduction from equity. In the event of their sale at a later date, the gain or loss is credited or charged directly to the legal capital reserve.

1.7 Net sales from goods and services

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, revenue resulting from construction contracts is recognized using the percentage-of-completion method. Revenue from the sale of services is recognized in the income statement according to the stage of completion. No revenue is recognized if there is significant doubt about the recoverability of outstanding payments or about rights to return goods.

1.8 Leases

Lease and rental agreements are accounted for according to legal ownership. Accordingly, in the financial statements of the lessee or tenant, the expenses are recognized on an accrual basis; the leased or rented items themselves are not recognized, however.

2 Disclosures on balance sheet and income statement items

2.1 Receivables from goods and services

CHF 1,000	31.12.2015	31.12.2014
Receivables from third parties	2 661	2 590
Valuation allowance	– 174	– 198
Total	**2 487**	**2 392**

2.2 Inventories

CHF 1,000	31.12.2015	31.12.2014
Raw materials, merchandise	10 432	11 670
Work in progress	2 256	1 861
Unfinished and finished goods	383	321
Valuation allowance	– 5 264	– 4 798
Total	**7 807**	**9 054**

2.3 Investments

			Capital in 1,000		Capital and voting rights in %	
Name	Registered office		31.12.15	31.12.14	31.12.15	31.12.14
Schlatter Deutschland GmbH & Co. KG	Münster, Germany	EUR	3 579	3 579	100	100
Schlatter France S.a.r.l.	Noisy-le-Grand, France	EUR	23	23	100	100
Schlatter North America	Rockford, USA	USD	10	10	100	100
Schlatter do Brasil Ind. e Com. de Máquinas de Soldar Ltda	São Bernardo do Campo, Brazil	BRL	50	50	100	100
Schlatter South East Asia Sdn.Bhd.	Ipoh, Malaysia	MYR	500	500	100	100

2.4 Tangible fixed assets

CHF 1,000	31.12.2015	31.5.2014
Buildings	2 865	3 668
Technical equipment and machinery	422	531
Furniture and vehicles	130	102
IT equipment	72	152
Total	**3 489**	**4 453**

2.5 Intangible assets

CHF 1,000	31.12.2015	31.12.2014
Capitalized development costs	905	1 207
Acquired intangible assets	840	999
Intangible assets under development	300	77
Total	**2 045**	**2 283**

As at 31 December 2015, a capitalized development project related to rail welding was recognized in the balance sheet in the amount of KCHF 905 (previous year: KCHF 1,207). The development project is being written down over a period of five years starting at the beginning of 2014 and is tested periodically for impairment.

2.6 Other short-term liabilities

CHF 1,000	31.12.2015	31.12.2014
Liabilities to third parties	598	964
Liabilities to the pension institution	195	170
Liabilities to investments	65	82
Total	**858**	**1 216**

2.7 Short-term provisions

CHF 1,000	31.12.2015	31.12.2014
Warranty work	418	418
Project risks	2 638	1'630
Other short-term provisions	566	421
Total	**3 622**	**2 469**

2.8 Accrued liabilities and deferred income

CHF 1,000	31.12.2015	31.12.2014
Fair value of currency derivatives	384	188
Holiday and overtime accruals	778	927
Bonus accrual	132	350
Other accrued liabilities and deferred income	369	337
Total	**1 663**	**1 802**

2.9 Share capital

On 5 May 2015, the Company's General Meeting resolved to implement an ordinary capital increase in conjunction with a reduction in the nominal value.

638,985 new registered shares were subscribed by shareholders exercising subscription rights under the rights offer, while 390 new registered shares were allocated under the free placement. In addition, distributable reserves were converted into 39,079 new shares by way of an authorised capital increase. As a result of the capital increase, and following the reduction in the nominal value per registered share from CHF 31.59 to CHF 16.00, the share capital entered in the commercial register increased to CHF 17,675,264, composed of 1,104,704 registered shares with a nominal value of CHF 16.00 each.

	2015	2014
Number of outstanding registered shares at 1 January 2015	426 250	426 250
Capital increase		
through issue of subscription rights on existing shares	639 375	–
authorised capital increase	39 079	
Number of outstanding registered shares at 31 December 2015	1 104 704	426 250
Share capital at 1 January 2015	13 465 238	13 465 238
Capital increase	10 855 264	–
Nominal capital reduction to eliminate a deficit	– 6 645 238	–
Nominal value per share (CHF)	16.00	31.59
Share capital at 31 December 2015 (CHF)	**17 675 264**	**13 465 238**

2.10 Own shares

The Company did not hold any own shares at 31 December 2015 (31 December 2014: 169). The 169 own shares were sold at CHF 36.00 per share on 22 June 2015.

2.11 Other operating expense

CHF 1,000	2015	2014
Losses on receivables/allowance for doubtful accounts	– 69	26
Repairs, maintenance	106	151
Leasing	65	78
Rental expense	1 737	2 813
Sales and marketing	995	1 063
Administration	279	239
Consultancy expense	724	316
Insurance expense	111	109
Information technology	490	536
Taxes on capital	–14	–10
Other operating expense	620	1069
Service costs, investments	60	439
Total	**5 104**	**6 829**

2.12 Depreciation, amortization and write-downs of non-current assets

The charges include the fall in the value of the investments in Schlatter Deutschland GmbH & Co. KG (by KCHF 5,552) and Schlatter Malaysia (by KCHF 216) due, respectively, to the income value calculation based on the current business plans and the depreciation of the euro (EUR) and the Malaysian ringgit (MYR)

3 Additional disclosures

3.1 Full-time equivalents

As in the previous year, the average number of full-time equivalents in the reporting period was over 50 but not over 250.

3.2 Remaining amount of lease obligations

CHF 1,000	31.12.2015	31.12.2014
Up to 1 year	2 000	2 959
1–5 years	4 806	11 669
More than 5 years	0	9 349
Total	**6 806**	**23 977**

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

As at 31 December 2015, UBS AG and Zürcher Kantonalbank had a lien on all current and future bank deposits and securities in those accounts and custody accounts. The value at the balance sheet date was KCHF 887 (previous year: KCHF 762).

3.4 Contingent liabilities

CHF 1,000	2015	2014
Contingent liabilities (buyback guarantees)	104	98
Warranties	2 271	3 814
Rental security deposits	1 263	1 275

3.5 Significant shareholders

	2015		2014	
	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 %	–	–
Metall Zug AG, Zug (CH)	200 229	18.13 %	–	–
Nicolas Mathys, Baar (CH)	191 000	17.29 %	52 556	12.33 %
Main Line Development Inc, Hamilton (BM)	64 870	5.87 %	40 870	9.59 %
Brita Meier, Uitikon Wald (CH)	51 420	4.65 %	20 568	4.83 %
Civen Ltd., Kingstown (St. Vincent & The Grenadines)	33 901	3.07 %	13 561	3.18 %
HMZ Beteiligungen AG, Heerbrugg (CH)	1	0.00 %	205 566	48.23 %

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

	31.12.2015		31.12.2014	
	Number of shares	Share of voting rights	Number of shares	Share of voting rights
Paul Zumbühl, Chairman of the Board of Directors	12 096	1.1 %	837	0.2 %
Peter Müller, Vice-Chairman of the Board of Directors	17 080	1.6 %	6 657	1.6 %
Rudolf Huber, Member of the Board of Directors	3 826	0.4 %	–	0.0 %
Werner Schmidli, CEO	11 099	1.0 %	1 027	0.2 %
Frank Schröter, Weaving Segment	6 931	0.6 %	1 546	0.4 %
Daniel Zappa, Sales	5 071	0.5 %	1 071	0.3 %
Beat Huber, Engineering	2 609	0.2 %	–	0.0 %
Roland Kasper, Operations	2 609	0.2 %	–	0.0 %

3.7 Ownership rights of the Group Management and the Board of Directors

In 2015, distributable reserves were converted into 39,079 new shares by way of an authorized capital increase in order to facilitate a share-ownership programme for the management and Board of Directors. The Board of Directors and part of the Group Management received their fees and variable remuneration for 2015 solely in shares. The number of shares was determined based on the issue price of the ordinary capital increase of CHF 23 less a discount of 25%.

	2015		2014	
	Number	Value	Number	Value
Granted to Board of Directors	15 304	589 217	0	0
Granted to Group Management	23 775	915 340	0	0

3.8 Adoption of new accounting legislation

For 2015, the financial statements have for the first time been prepared in accordance with the provisions of Swiss accounting legislation (Title 32 of the Swiss Code of Obligations). To ensure comparability, the prior-year disclosures in the balance sheet and the income statement were restated in line with the new provisions regarding format. The balance sheet and income statement items affected are marked with an asterisk (*).

Report of the Statutory Auditor on the Financial Statements

To the General Meeting of Shareholders of Schlatter Industries Ltd, Schlieren

As statutory auditor, we have audited the accompanying financial statements of Schlatter Industries Ltd, which comprise the balance sheet, income statement and notes for the year ended 31 December 2015.

Board of Directors' Responsibility

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2015 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We recommend that the financial statements submitted to you be approved.

KPMG AG

Herbert Bussmann
Licensed Audit Expert
Auditor in Charge

Anita Benz
Licensed Audit Expert

Zurich, 11 March 2016

www.schlattergroup.com

Switzerland	**Schlatter Industries AG** Brandstrasse 24 CH-8952 Schlieren	T +41 44 732 71 11 F +41 44 732 45 50 info@schlattergroup.com
Germany	**Schlatter Deutschland GmbH & Co. KG** Dahlweg 105 DE-48153 Münster	T +49 251 7792 0 F +49 251 7792 100 deutschland@schlattergroup.com
France	**Schlatter France S.a.r.l.** Immeuble ATRIA, 2, rue du Centre FR-93885 Noisy-le-Grand	T +33 1 4305 4545 F +33 1 4931 0305 france@schlattergroup.com
USA	**Schlatter North America** 4640 Colt Road US-Rockford, IL 61109	T +1 815 874 9471 F +1 815 874 8585 north-america@schlattergroup.com
Brazil	**Schlatter do Brasil Ind. e Com. de Máquinas de Soldar Ltda.** Rua Silva Bueno, 107, Alvinópolis BR-09891-470 São Bernardo do Campo	T +55 11 4125 4443 F +55 11 4124 8755 brasil@schlattergroup.com
Malaysia	**Schlatter South East Asia Sdn. Bhd.** No 61 Jalan Perindustrian Silibin 1, Kawasan Perindustrian Ringan Silibin, MY-30100, Ipoh, Perak	T +605 5287600, 5267600 F +605 5283600 sea@schlattergroup.com

Concept / editing
Lehmann Horat Partners AG, Zurich
www.lhpartners.ch

Visual design / pre-production
Virtual Design Unit GmbH, Zurich
www.virtualdesignunit.com

Photos
Peter Ruggle, St. Gallen
www.peter-ruggle.ch

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Meinders & Elstermann GmbH, Belm
www.me-druckhaus.de

Schlatter Industries AG 2015 Annual Report

Schlatter Industries AG

Brandstrasse 24
8952 Schlieren, Switzerland
T +41 44 732 71 11
F +41 44 732 45 50
www.schlattergroup.com

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