schlatter

the secure connection

Annual Report

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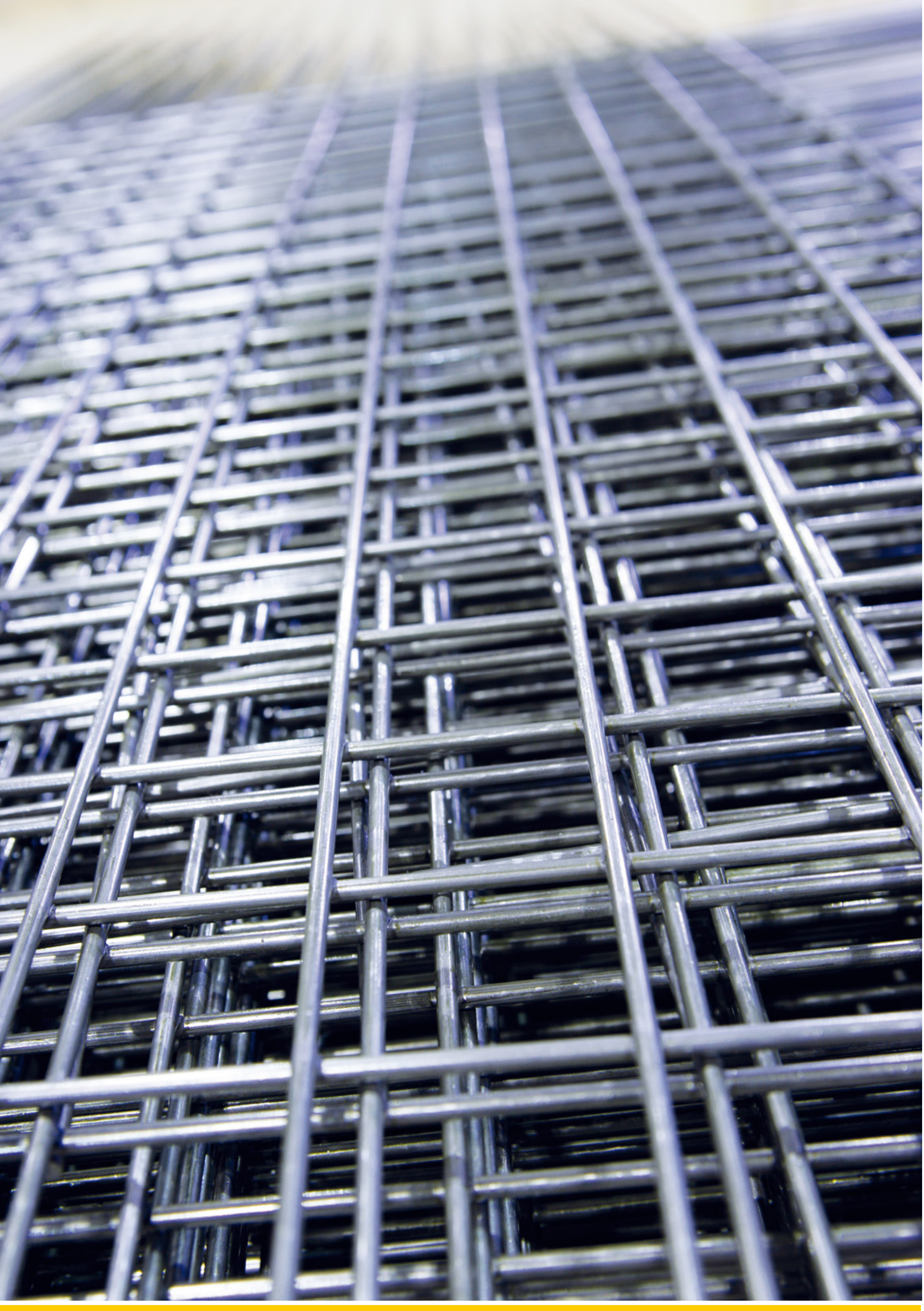


Contents

The German version of the 2016 Annual Report is binding

Schlatter Group

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

Assembly of machines in Schlieren

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.

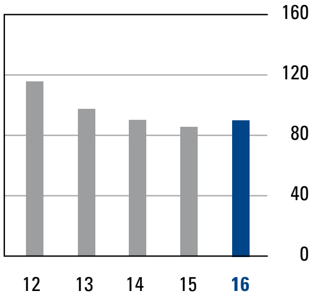
PMC (Paper Machine Clothing) Product Area

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.

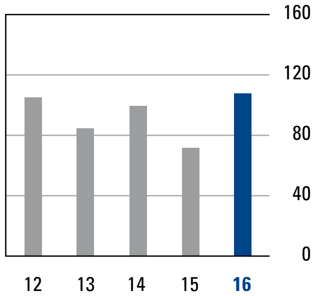
Wire Weaving Product Area

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.

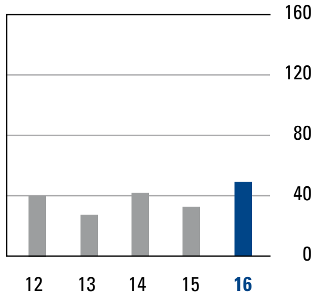
Mobile butt welding system
AMS200 – Supra Roadflex



Net sales (CHF m)



Order intake (CHF m)



Order backlog (CHF m)

Schlatter Group

		2016	2015	2014	2013[1]	2012[1]
Net sales	CHF million	**90,5**	**83,2**	**89,5**	**96,9**	**115,5**
Change compared to previous year	%	**8,8**	– 7,0	– 7,7	– 16,1	– 1,9
Operating result (EBIT)	CHF million	**1,1**	**– 5,9**	**0,7**	**0,2**	**– 22,4**
in % of net sales	%	**1,2**	– 7,1	0,8	0,2	– 19,4
Net result	CHF million	**0,5**	**– 6,9**	**– 0,2**	**– 0,4**	**– 22,8**
in % of net sales	%	**0,6**	– 8,3	– 0,2	– 0,4	– 19,7
Order intake	CHF million	**107,7**	**72,9**	**104,7**	**84,0**	**104,6**
Order backlog	CHF million	**49,0**	**31,9**	**42,2**	**27,1**	**40,0**
Headcount at period end	FTEs	**319**	**310**	**313**	**313**	**357**
Average headcount	FTEs	**312**	314	309	323	424
Net sales per employee	CHF 1,000	**290**	**265**	**290**	**300**	**272**
Interest-bearing liabilities	CHF million	**0,5**	**0,6**	**11,3**	**7,3**	**6,7**
Net financial position (debt)[2]	CHF million	**14,0**	**2,1**	**– 7,9**	**– 3,0**	**0,3**
Gearing[3]	%	**0,0**	**0,0**	**57,1**	**21,5**	**0,0**
Free cash flow[4]	CHF million	**11,9**	**– 5,4**	**– 4,6**	**– 2,7**	**– 13,0**
Current assets	CHF million	**48,1**	**39,8**	**38,0**	**36,9**	**46,5**
Non-current assets	CHF million	**7,3**	**9,3**	**11,2**	**12,6**	**13,7**
Liabilities	CHF million	**33,1**	**27,5**	**35,3**	**35,5**	**45,7**
Equity	CHF million	**22,3**	**21,6**	**13,9**	**14,0**	**14,5**
Equity ratio	%	**40,2**	**44,0**	**28,2**	**28,2**	**24,1**
Return on equity (ROE)[5]	%	**2,3**	**– 38,7**	**– 1,3**	**– 2,8**	**– 87,3**

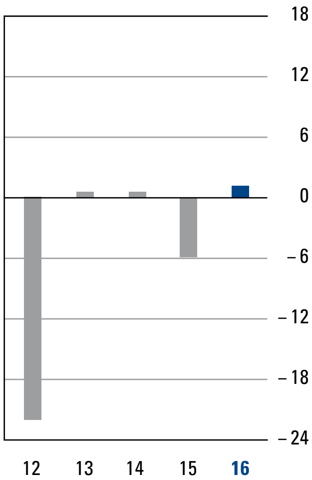
[1] Restatement 2012 and 2013 because of the incorrect presentation of a financial liability in connection with a rental reduction granted in 2012 and 2013 with repayment over the remaining term of the lease

[2] Net financial position (debt): cash and cash equivalents less interest-bearing liabilities

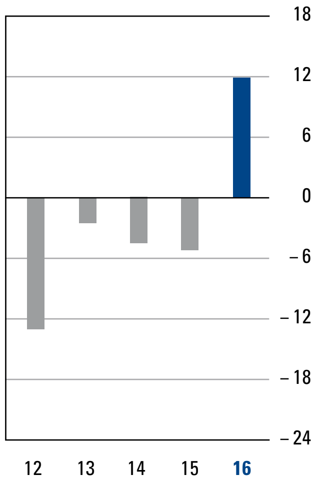
[3] Gearing: net financial debt divided by equity

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

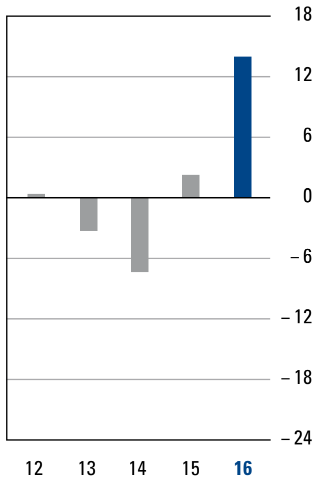
[5] Net result divided by average equity



Operating result EBIT (CHF m)



Free Cash Flow (CHF m)



Net financial position (debt) (CHF m)

		2016	2015	2014	2013	2012
Key share figures						
Share capital as of December 31	CHF 1,000	**17 675**	17 675	13 465	13 465	13 465
Total registered shares	No.	**1 104 704**	1 104 704	426 250	426 250	426 250
Registered shares entitled to dividend payments	No.	**1 104 704**	1 104 704	426 081	426 081	426 081
Net result per registered share [1]	CHF	**0.46**	– 6.22	– 0.42	– 0.93	– 53.45
Shareholders' equity per registered share [1]	CHF	**20.17**	19.55	32.54	32.81	33.96
Dividend per registered share	CHF	**0** [2]	0	0	0	0
Payout ratio	%	**0** [2]	0	0	0	0
Share price development						
High	CHF	**44.00**	77.18	159.00	210.00	237.40
Low	CHF	**29.20**	28.30	108.00	110.00	106.00
Year-end	CHF	**38.75**	30.00	140.00	149.50	113.80
Market capitalization						
High	CHF million	**48,6**	85,3	67,8	89,5	101,2
Low	CHF million	**32,3**	31,3	46,0	46,9	45,2
Year-end	CHF million	**42,8**	33,1	59,7	63,7	48,5

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

[2] According to the proposal to be submitted to the Annual General Meeting on 4 May 2017

Schlatter develops positively

Schlatter Group returned to profitability in 2016, increased order intake significantly and generated a high free cash flow. The comprehensive, rapidly implemented measures taken the previous year to counter the strength of the Swiss franc against the euro and other currencies produced the intended effect in the 2016 financial year. The concerted development efforts made in past years in all product areas are having a positive impact on the Group's market performance: Schlatter was able to gain market share through the launch of new products. In addition, steel prices rose moderately in the 2016 financial year, eradicating to some extent the backlog of investment in plant for the production of reinforcing wire mesh. No fundamental change in the market environment is expected for 2017, and both our market positioning and the launch of new products give us confidence. The sharply increased order intake guarantees full utilisation of capacity at both the Schlieren and Münster sites beyond the middle of the year. The target for the 2017 financial year is to achieve a profit that exceeds that of the previous year

Paul Zumbühl
Chairman of the Board of Directors

Werner Schmidli
Chief Executive Officer

The Schlatter Group recorded order intake of CHF 107.7 million in 2016, a rise of 47.7% on the previous year (2015: CHF 72.9 million), and increased net sales by 8.8% to CHF 90.5 million (2015: CHF 83.2 million). The order backlog stood at CHF 49.0 million as at 31 December 2016 (31 December 2015: CHF 31.9 million). The Schlatter Group is posting a positive operating result (EBIT) of CHF 1.1 million for the reporting period (2015: CHF –5.9 million). With a net result of CHF 0.5 million (2015: CHF –6.9 million), the Schlatter Group ended financial year 2016 on a small profit, in line with communicated expectations.

Markets

Equipment for the production of reinforcing wire mesh

Steel prices slumped in 2015, and this had a negative impact on the investment activity of mesh producers. Financial year 2016 then brought a slight recovery, triggering previously postponed investment in plant for the production of reinforcing wire mesh. Despite the slight improvement, however, this machinery segment will continue to grapple with surplus capacity and heavy price pressure. In oil-producing countries, state infrastructure projects have been further postponed as a result of low oil prices, and this is impacting on investment.

The effects of the economic and financial crisis continue to be felt in the core European markets for plant used in the production of reinforcing wire mesh. Surplus capacity in Europe has resulted in concentration and consolidation among our customers, and the market is increasingly dominated by large industrial groups. In an effort to remain competitive, these customers are now modernising their production facilities, particularly in northern Europe. Schlatter has benefited from this development, winning a number of large orders. However, the next few years are not expected to bring an actual upturn in these regions.

In south-east Asia there is evidence of strong demand for flexible, highly productive and rapidly upgradeable reinforcing mesh installations. In a number of Central American countries and the emerging markets generally, there is strong demand in places for high-performance machinery for standardised reinforcing mesh.

Although China is the world's largest consumer of construction steel, the construction industry is dominated almost entirely by monorod reinforcements. Despite weaker economic growth, the continuing development of the construction industry could create new opportunities in this market in the coming years.

In Brazil, the most important South American market, the new installations segment came to a standstill in 2014, and as yet there are no signs of recovery. There is a very low level of willingness to invest in Russia owing to the collapse of the rouble, the unstable political environment and the persistent economic crisis.

Equipment for the production of industrial wire mesh

Numerous orders were received in the area of industrial mesh, particularly in northern Europe with the MG950 product family, which was launched several years ago and has been continuously developed ever since. Alongside Europe, the USA is one of the most important markets for industrial mesh. Schlatter has taken advantage of stronger US economic momentum and has sold numerous industrial mesh installations.

In China, there is growing potential in the segment for equipment for the production of industrial mesh owing to rising demand for automation. This is already feeding through into rising demand for used and reconditioned Schlatter installations.

In Russia, we see a slight upturn in the industrial mesh segment in spite of restrained investment activity.

In 2016, Schlatter selectively invested both money and resources in developing mesh production in markets where we have previously had only a low-key presence. We are expecting the first sales in these regions over the course of the present financial year.

Rail welding

The market for rail welding systems proved sluggish. However, growth in this profitable market is unlikely to be achieved to any meaningful degree, as Schlatter operates in a niche and any expansion of the product offering would mean competing with major groups that enjoy an established market presence.

Weaving

Whereas the weaving segment was confronted with a very difficult market environment in 2015, it enjoyed a modest recovery in financial year 2016. This was primarily attributable to the slight pick-up in demand from Asia, with major projects being realised in China in particular. In Western markets, the focus of customer activities remains on the optimisation of existing production sites. In previous years the market exhibited a volatile, declining trend as paper mills continued their consolidation process. Machines for the production of paper machine clothing have become much more efficient, and the productivity of new installations is outstripping even the continuing growth in demand for packaging paper. Other fields of application such as newsprint are in decline. The Schlatter Group believes the market has now stabilised somewhat and expects order intake in financial year 2017 to be on a par with the previous year.

Spare parts and services

Business in the spare parts and services field posted stable performance, contributing around 30 percent of net Group sales. Schlatter has an enormous number of installations all over the world, and developed a package of measures in 2016 with a view to strengthening its after-sales business. These measures are now being implemented. The aim is to exploit the existing potential in the wire area in order to compensate for the decline in the installation base in recent years, which is the result of the decision to relinquish the radiators and metal sheet business areas.

Positioning strengthened through product development

The Schlatter Group has maintained its high rate of innovation in product development, and kept the corresponding financial resources at the high level of CHF 5.4 million in 2016 (2015: CHF 6.3 million). The plan is to spend a similar amount on development expenditure in 2017.

In the welding segment the innovation focus is on the wire product area. This includes 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 machinery for the production of reinforcing wire mesh, the MG800s – featuring high flexibility, high performance and short retooling times – was launched in 2016. In 2017, the applications for these new families of installations will be continuously expanded and the prototypes stabilised in the market.

In financial year 2016, Schlatter held two in-house trade fairs at the Schlieren site to introduce new plant concepts to its existing and potential customers. These events triggered extremely positive customer feedback and have resulted in a number of large orders. At the Münster site, weaving machines were brought into line with the latest technical advances. Among other things, this includes the successful launch of the new BK860 generation of rapier weaving machines. In addition, the range of finishing machines was enhanced with a number of functional improvements for the benefit of customers.

In the area of wire-weaving machines, development activities concentrated on mesh weaving.

Changes on the Board of Directors and Group Management

The General Meeting on 3 May 2016 elected the proposed new members of the Board of Directors by a large majority. Nicolas Mathys, co-founder and partner of Zug Finance AG, Baar, has been a major shareholder in the Schlatter Group for many years. Michael Hauser, CEO of Tornos, a listed machine tool manufacturer, brings many years' industrial experience of mechanical and systems engineering to the Schlatter Group.

Where Group Management positions are concerned, Harald Reich was appointed Managing Director of Schlatter Deutschland GmbH & Co. KG and a member of Group Management with effect from 1 January 2017. Frank Schröter, the current head of Schlatter's German business, who has worked at the Münster site for 37 years, will take early retirement at the end of June 2017. The Board of Directors and the members of the Group Management would like to thank him warmly for his major contribution and services on behalf of the Schlatter Group.

Acknowledgements

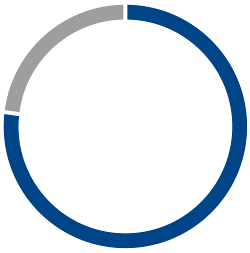
Currency dislocations and the economic environment presented the Schlatter Group with major challenges in financial year 2015. All stakeholders have made important contributions to the Group's long-term stabilisation. We are pleased that this commitment had its anticipated effect in financial year 2016. On behalf of the Board of Directors and management, we wish to thank our esteemed workforce for actively supporting the Schlatter Group as it faced the challenges. We appreciate your commitment and flexibility while capacity utilisation is at the current high level. We also thank our customers for their constructive cooperation on the

exciting projects we were able to realise with them over the past financial year. And we offer you, our shareholders, our heartfelt thanks for the trust that you have placed in our Company.

Outlook

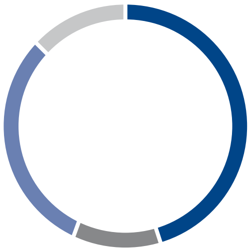
financial year 2017, the Board of Directors and Group Management are targeting an increase in profit on the previous year. The Board of Directors will recommend to the General Meeting on 4 May 2017 that the Company should not make a dividend payment for financial year 2016.

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



Net sales in 2016
by segment

- 77,2% welding
- 22,8% weaving

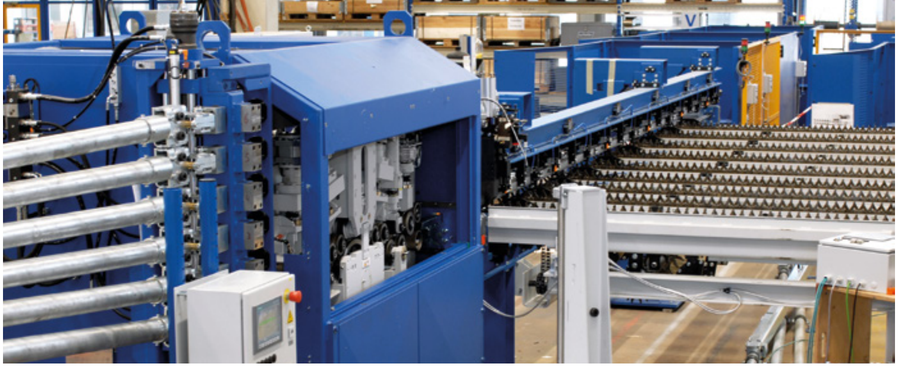


Net sales in 2016
by region

- 44,9% Europe
- 31,8% Middle East, Africa, Asia, Australia
- 10,7% Central and South America
- 12,6% North America

Cost-cutting measures and development efforts have clear impact on performance

The welding segment was the area most severely affected by currency dislocations in the previous year. The cost-cutting measures implemented in 2015 due to the strength of the franc demonstrated their impact in 2016. The concerted development efforts made in past years are having a positive effect on the Group's market performance: Schlatter has gained market share by launching new products. In addition, steel prices rose moderately in the first half of 2016, eradicating to some extent the backlog of investment in plant for the production of reinforcing wire mesh. No fundamental change in the market environment is expected for 2017, and both our market positioning and the launch of new products give us confidence. Schlatter's objective in the welding segment in 2017 is to increase net sales and report a profit.



MRM – multi-straightening machine

In the welding segment, order intake increased to CHF 86.7 million (2015: CHF 58.4 million) and net sales to CHF 69.8 million (2015: CHF 66.7 million). The comparatively high order intake includes two large orders for a combined total of CHF 17.5 million. The order backlog at year-end amounted to CHF 42.1 million (31 December 2015: CHF 25.3 million).

Wire product area

In the reinforcing mesh area, our largest in terms of sales, a slight improvement has become apparent despite surplus capacity in many markets around the world. Thanks to a slight increase in steel prices, customers have now made previously postponed investments in modernisation and replacements. The concerted development efforts made in past years are having a positive effect on the Group's market performance: Schlatter has gained market share by launching new products. However, the installations sector continues to grapple with surplus capacity and heavy price pressure. Further projects to reduce production and product costs were initiated in the 2016 reporting period. The aim is to achieve a sustained reduction in costs over the medium and long term through the development of a new machine platform, a package of measures to reduce the complexity of installation construction, and projects to increase productivity in customer project processing.

Schlatter has reacted to the changed business environment for its customers by developing new plant concepts for the production of reinforcing wire mesh. For example, these include the new generation of high-performance MG316 machines and the MG800 installation concept launched at the "Wire" trade fair in Düsseldorf in 2016. The successful development of sales shows that the plant concepts are meeting customer needs.

The flexible and productive MG950 generation of machines with its extended application possibilities has been well received in both Europe and the USA, and a stable basis for future business has now been laid. The applications of these machines for industrial mesh manufacture are currently being extended on a modular basis. The trend is currently heading in the direction of integrated system solutions for the manufacture of end products. 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, has given Schlatter a foothold in a new market segment. Applications in the MG700 mesh-fence segment have been expanded, enabling customers to manufacture even more fencing products on the same machine.

Reinforcing wire mesh welding machine system MG800

Rail welding product area

Owing to its dominant position in the global market for static rail welding equipment, Schlatter was able to maintain its market share in financial year 2016. Thanks to this good market positioning, the Swiss franc had only a minor impact on profitability. However, the market volume in this product area is much smaller than that of mesh machinery.

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 this area. Following a number of teething difficulties and technical hurdles relating to the AMS200 mobile rail welding system, which enables closure welding and deburring to be carried out in one operation, the launch of prototypes was successfully completed.

Projected sales of mobile rail welding systems in Russia have not been achieved to date owing to the economic crisis, the weakness of the rouble and political difficulties.

Outlook

Given the current order backlog, existing capacities in the welding segment are very well utilised. Bottlenecks are particularly evident in the technical departments, in operations, and in commissioning of machinery sold. In addition to the continued implementation of measures to increase productivity and cut production costs, measures likely to prove effective over the medium term are also being prioritised. To this end, Schlatter is investing in market and product development. Considerable importance is also attached to strengthening after-sales services. Schlatter's objective in the welding segment in 2017 is to increase net sales and report a profit.

Weaving segment returns to profit

The restructuring carried out in the previous year and the higher net sales for financial year 2016 are having a positive impact on the operating result. The weaving segment returned to profit in the reporting period. A major project carried out in the paper machine clothing segment in China contributed a large portion of net sales. In Western markets, customer activities continue to focus on optimising existing production sites. The objective for 2017 is to match the net sales of the previous year and achieve a higher level of profitability.

ASM –finishing and heat-setting machine

The weaving segment generated order intake of CHF 21.0 million in financial year 2016 (2015: CHF 14.5 million). Net sales rose to CHF 20.7 million in the reporting period (2015: CHF 16.5 million). The sales growth in financial year 2016 was achieved in the paper machine clothing area; sales in the segment for wire-weaving machinery accounted for some 15% of the segment total in 2016. The order backlog stood at CHF 6.9 million as at 31 December 2016 (31 December 2015: CHF 6.6 million).

Weaving machines for paper machine clothing (PMC)

In the paper machine clothing area, the new BK860 weaving machine model has successfully proven itself. The higher number of revolutions that can be achieved in production with this machine have been verified even for high outputs, and further orders were acquired in financial year 2016. At the Münster site, weaving machines were brought into line with the latest technical advances. One notable example is the successful launch of the new BK860 generation of rapier weaving machines. The range of finishing machines was enhanced by developing a temple and a heat-setting machine. This brings functional improvements that have a positive impact on the manufacturing process and quality for our customers.

Wire weaving

In the area of wire-weaving machines, development activities concentrated on mesh weaving. The GD620 model was reworked, both improving materials handling and making it more user-friendly.

Operations

The benefits of the manufacturing productivity gains realised in recent years were felt once again in 2016. 30% of the turnover at the Münster site is generated through the manufacture of modules for the Schlieren site.

Outlook

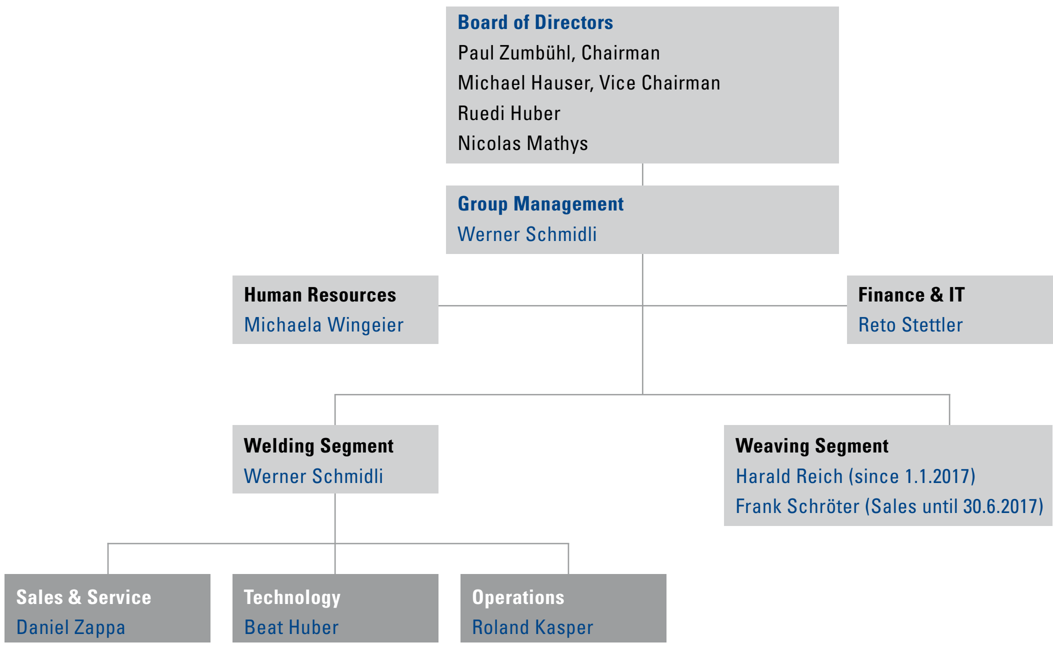
The Schlatter Group believes the market environment will remain largely unchanged in the present financial year. We believe sales have bottomed out in the weaving area. The restructuring initiated in 2015 was completed in 2016, and capacities are now fully utilised. The objective for 2017 is to match the net sales of the previous year and achieve a higher level of profitability.

BD series wire-weaving machine

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 as of December 31, 2016



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 2016 was CHF 42.8 million.

Unlisted Group companies
Information on Schlatter Group companies can be found on pages 69 and 82 of this Annual Report.

Major shareholders
Information on major shareholders can be found on page 86 of this Annual Report.

Shareholder structure

Number of shares	Number of shareholders
1 to 10	48
11 to 100	108
101 to 1000	116
1001 to 10 000	18
over 10 000	14

These figures are based on the registered shareholders entered in the company's share register as at 31 December 2016. Of the 1,104,704 shares in issue, 974,285 shares (88.2%) 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 86 of this Annual Report.

Capital structure

Capital

Ordinary share capital

As at 31 December 2016 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 2016 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 2016 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 2016 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 46 of the 2015 Annual Report and page 43 of the 2014 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.

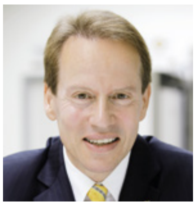
Convertible bonds and options

As at 31 December 2016 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 2016 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 2017 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 Industry Executive Advisory Board of the "Executive MBA in Supply Chain Management" at ETH Zurich

Michael Hauser
Vice Chairman

b. 1961, Swiss national/German, non-executive member, member of the Board since 3 May 2016, term of office until the 2017 General Meeting

Current activity
CEO of Tornos SA, Moutier since 2011

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

Education & training
Diplom-Kaufmann, University of Mannheim

Other activities and mandates
SWISSMEM, Council member and chairman of the "Machine tools and manufacturing technology" division; CECIMO "European Committee for Cooperation of the Machine Tool Industries", Board member and Vice-Chairman (Chairman from 2009 to 2011)

Ruedi Huber
Member

b. 1960, Swiss national, non-executive member, member of the Board since 11 May 2010, term of office until the 2017 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 Huwa Finanz- und Beteiligungs AG, Heerbrugg, and member of the boards of other unlisted companies

Nicolas Mathys
Member

b. 1968, Swiss national, non-executive member, member of the Board since 3 May 2016, term of office until the 2017 General Meeting

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

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

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

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

Changes during the reporting period

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

At the Ordinary General Meeting of 3 May 2016 the Board of Directors of Schlatter Industries AG has been expanded by the two new members Nicholas 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 two telephone conferences during financial year 2016.

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 67) 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 2016, both of them attended by the CEO and CFO.

Nomination and Compensation Committee

Members: Michael Hauser (Chair), Paul Zumbühl

The Nomination and Compensation Committee prepares all relevant agenda items in 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 2016, 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 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 2016, the Schlatter Group Management consisted of the members listed below. With the exceptions of Frank Schröter and Harald Reich (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

Until 31.12.2016
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

Harald Reich
Since 1.1.2017
Managing Director
Schlatter Deutschland
GmbH & Co. KG

b. 1967, German, with Schlatter Group since 1 January 2017

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

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

Other activities and mandates
None

Michaela Wingeier
Human Resources

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
Welding

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
Welding

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
Schlieren

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 2016.

Planned changes for 2017
Frank Schröter, Managing Director of Schlatter Deutschland GmbH & Co. KG, will take early retirement at the end of June 2017.

Harald Reich was appointed Managing Director of Schlatter Deutschland GmbH & Co. KG and a member of Group Management as per January 1, 2017. Reich (a German national born in 1967) will take up his new post on 1 January 2017. In the last 15 years, Harald Reich – who holds an electrical engineering degree – was employed in various company and project management positions at Robert Bosch GmbH in Germany.

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

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 32–35 of this Annual Report. Information about shareholdings can be found in the notes to the Schlatter Industries financial statements on page 86.

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 2016 was CHF 128,000.

Additional fees

KPMG AG invoiced no additional advisory fees in financial year 2016.

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/en/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

- 4 May 2017 Ordinary General Meeting
- 22 August 2017 Publication of the results for the first half of 2017

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

The Schlatter Group›s remuneration principles provide a transparent, competitive and performance-oriented framework for salary differentiation. Both basic annual salaries and variable remuneration components partly depend on annual performance appraisals and the 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. The Board of Directors can decide to pay members an all-inclusive sum to cover expenses incurred in the interests of the Company.

Annual compensation is fixed once a year by the Board of Directors at the request of the Nomination and Compensation Committee. It is put to the 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.
A reduced Board of Directors fee was paid in 2012 and 2013. Remuneration was then paid in shares as described below in 2015. In 2016, the Board of Directors was again paid the normal fee in cash.

In view of the need for the Schlatter Group to be restructured quickly and systematically in the interests of shareholders, the Board of Directors drew its fees for 2015 solely in shares. The Directors have undertaken not to sell the shares thus received for three years. The number of shares granted was calculated 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 at the grant date, above the issue price, so this effected a corresponding increase in Directors› fees.

Compensation of members of the Group Management

The compensation of members of the Group Management takes account of their duties, their performance and the course of business. It provides for fixed annual compensation, increased by a potential variable component of between 15% and 40%. Depending on the role of members of the Group Management, between 40% and 80% of their variable compensation is determined by the EBIT achieved, and between 20% and 60% by other financial indicators such as average net working capital, net sales and order intake. Variable compensation may not exceed 120% (CEO) and 100% (other members of the Group Management) of fixed annual remuneration. Variable remuneration can be paid wholly or partly in shares.

This compensation applies to all activities in all the Group›s legal entities. In addition, members of the Group Management can receive lump sums to cover expenses. Even though these do not count as remuneration, they must be reported in the Remuneration Report. No lump sums were paid to cover expenses in 2016.

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.

In 2016, fixed remuneration for the Group Management was slightly lower than in 2015. Following the exceptional situation in the previous year where it was paid in shares, variable remuneration was again measured according to the criteria described above and paid in cash in 2016.

The management has undertaken not to sell the shares thus received for three years. Variable remuneration in cash had the effect of increasing allocations of shares. The number of shares granted was calculated 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 at the grant date, 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 as a consequence of changing jobs. The additional sum is limited to 40% of the last total sum approved for the fixed remuneration of the Group Management.

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

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

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

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

Severance payments

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

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 2016 – (audited)

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

Compensation of members of the Board of Directors stepping down in 2016 – (audited)

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

Compensation of current members of the Board of Directors in 2015 – (audited)

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 2016 – (audited)

CHF	CEO Werner Schmidli	**Group Management total**
Cash/book money		
Net salary	318 969	1 301 592
Variable salary (net) [1]	170 370	450 210
Payments in kind		
Cars	7 680	35 330
Employer's pension & social insurance contributions	78 348	290 093
Employee's pension & social insurance contributions	60 661	208 417
Total	**636 028**	**2 285 643**

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

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

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

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**
Benefit expenses		
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 a reduction 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.

Bericht der Revisionsstelle

An die Generalversammlung der Schlatter Industries AG, Schlieren

Wir haben den beigefügten Vergütungsbericht der Schlatter Industries AG für das am 31. Dezember 2016 abgeschlossene Geschäftsjahr geprüft. Die Prüfung beschränkte sich dabei auf die Angaben nach Art. 14 – 16 der Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften (VegüV) in den als geprüft bezeichneten Abschnitten und Tabellen auf den Seiten 34 und 35 des Vergütungsberichts.

Verantwortung des Verwaltungsrates

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

Verantwortung des Prüfers

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

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

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

Prüfungsurteil

Nach unserer Beurteilung entspricht der Vergütungsbericht der Schlatter Industries AG für das am 31. Dezember 2016 abgeschlossene Geschäftsjahr dem Gesetz und den Art. 14 – 16 der VegüV.

KPMG AG

Herbert Bussmann
Zugelassener Revisionsexperte
Leitender Revisor

Anita Benz
Zugelassene Revisionsexpertin

Zürich, 8. März 2017

Schlatter Group Financial Report 2016

Commentary on the consolidated income statement and balance sheet

Introduction

The measures taken in the previous year to restore profitability and the healthy order book in both the welding and the weaving segment had a positive impact on the balance sheet and income statement in financial year 2016. In combination with the increase in net sales, this enabled the Group to report a profit.

The change in the net financial position was particularly positive: net working capital was reduced thanks to the healthy level of payments received on customer projects. As a result, cash and cash equivalents increased sharply.

Consolidated income statement

Net sales of CHF 90.5 million were generated in the reporting period (previous year: CHF 83.2 million). The rise is due to the excellent order intake in the first half of the year, which had a positive impact on net sales in the second half.

Other operating income came to CHF 0.3 million (previous year: CHF 0.4 million).

The gross margin (net sales including other operating income less raw material and service expense) rose to 49.2% in the reporting period (previous year: 48.1%). In 2016, the gross margin was depressed by the market launch of new product lines and prototypes.

Personnel expense was reduced to CHF 32.8 million (previous year: CHF 34.5 million). In financial year 2015, personnel expense was adversely affected by the recognition of the non-cash share-ownership programme for the management.

The systematic implementation of measures to cut costs enabled a further reduction in other operating expense to CHF 8.5 million (previous year: CHF 9.3 million).

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

The consolidated operating result (EBIT) for financial year 2016 was CHF 1.1 million (previous year: CHF -5.9 million). The prior-year result was weighed down by extraordinary costs of CHF 3.2 million. In the reporting period, the Group returned to the black thanks to the measures taken.

The financial result for the reporting period is a negative CHF 0.3 million (previous year: CHF -0.8 million).

It consists mostly of foreign exchange gains and losses on hedges, interest costs and bank charges.

Net income tax expense amounted to CHF 0.3 million in the reporting period (previous year: net expense of CHF 0.1 million). It mainly includes tax expenses for profits realised at sites abroad.

Consolidated balance sheet

Assets

Thanks to the healthy level of payments received on customer projects, net working capital was down to CHF 7.4 million at the end of 2016 (previous year: CHF 17.6 million). Accordingly, net assets from construction contracts amounted to CHF 14.0 million (previous year: CHF 18.8 million). Inventories amounted to CHF 13.2 million at the balance sheet date (previous year: CHF 12.0 million). Net liabilities from construction contracts stood at CHF 11.2 million (previous year: CHF 7.2 million). The resulting underfunding on customer projects is still CHF 2.8 million compared with CHF 11.6 million in the previous year.

Thanks to the healthy cash flow, cash and cash equivalents including short-term financial assets showed a sharp rise to CHF 14.4 million (previous year: CHF 2.7 million). As a result, the net financial position increased to CHF 14.0 million as at 31 December 2016 (previous year: CHF 2.1 million). Receivables from goods and services decreased slightly to CHF 3.6 million (previous year: CHF 3.7 million), while other receivables increased slightly to CHF 2.5 million (previous year: CHF 2.4 million).

Non-current assets amounted to CHF 7.3 million at the balance sheet date (previous year: CHF 9.3 million). Investments continued to be made with a degree of caution.

Liabilities and equity

Liabilities rose to CHF 33.1 million in the reporting period due mainly to the higher net liabilities from construction contracts (previous year: CHF 27.6 million). Payables from goods and services dropped to CHF 6.7 million (previous year: CHF 8.6 million), whereas other liabilities increased to CHF 5.0 million (previous year: CHF 1.3 million).

Total assets amounted to CHF 55.4 million at the end of 2016 (previous year: CHF 49.1 million), while the equity ratio stood at 40.2% at year-end (previous year: 44.0%).

Consolidated nominal equity amounted to CHF 22.3 million as at 31 December 2016 (previous year: CHF 21.6 million).

Consolidated income statement

CHF 1,000	Notes	2016	2015
Net sales from goods and services		**90 486**	**83 212**
Other operating income	19	275	442
Change in inventories of finished/unfinished goods, work in progress		– 2 816	– 1 631
Raw material and service expense		– 43 397	– 41 962
Personnel expense	20	– 32 758	– 34 542
Other operating expense	21	– 8 542	– 9 250
Depreciation and amortisation	9, 10	– 2 182	– 2 195
Operating result (EBIT)		**1 066**	**– 5 926**
Financial income	23	1 279	1 365
Financial expense	23	– 1 579	– 2 176
Net result before taxes		**766**	**– 6 737**
Income tax	24	– 260	– 133
Net result		**506**	**– 6 870**
Basic earnings per registered share (in CHF)	25	0.46	– 8.32

There are no potential shares which could result in dilution.

Consolidated balance sheet

Assets

CHF 1,000	Notes	31.12.2016	31.12.2015
Cash and cash equivalents	4	14 420	2 644
Short-term financial assets	5, 11	77	76
Receivables from goods and services	6	3 643	3 708
Income tax receivables		153	5
Other receivables	6	2 496	2 315
Net assets from construction contracts	7	13 952	18 816
Inventories	8	13 189	12 021
Prepayments and accrued income		218	206
Current assets		**48 148**	**39 791**
Tangible fixed assets	9	4 928	5 991
Intangible assets	10	1 969	2 500
Deferred tax assets		364	813
Non-current assets		**7 261**	**9 304**
Total assets		**55 409**	**49 095**

Liabilities and equity

CHF 1,000	Notes	31.12.2016	31.12.2015
Payables from goods and services	14	6 718	8 575
Net liabilities from construction contracts	7	11 183	7 247
Income tax liabilities		16	44
Other liabilities	15	4 955	1 306
Accrued liabilities and deferred income	15	3 349	2 316
Financial liabilities	13	224	182
Provisions	17	3 434	4 227
Short-term liabilities		**29 879**	**23 897**
Financial liabilities	13	240	397
Pension benefit obligations	16	2 704	2 888
Provisions	17	187	178
Deferred tax liabilities		119	140
Long-term liabilities		**3 250**	**3 603**
Liabilities		**33 129**	**27 500**
Share capital	18	17 675	17 675
Capital reserves (premium)		1 767	11 526
Retained earnings		2 838	– 7 606
Total equity		**22 280**	**21 595**
Total liabilities and equity		**55 409**	**49 095**

Consolidated statement of changes in equity

CHF 1,000	Share capital	Own shares	Capital reserves	Retained earnings	**Total equity**
As at 1 January 2015 under FER	**13 465**	**– 42**	**0**	**441**	**13 864**
Exchange differences				– 1 177	**– 1 177**
Net result for 2015				– 6 870	**– 6 870**
Nominal capital reduction	– 6 645		6 645		**0**
Ordinary capital increase	10 230		4 037		**14 267**
Authorised 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**
Exchange differences				179	179
Elimination of retained earnings against capital reserves			– 9 759	9 759	0
Net result for 2016				506	506
As at 31 December 2016 under FER	**17 675**	**0**	**1 767**	**2 838**	**22 280**

Consolidated cash flow statement

CHF 1,000	Notes	2016	2015
Net result		**506**	**– 6 870**
Depreciation/amortisation	9,10	**2 182**	2 196
Unrealised foreign exchange losses	23	**284**	227
Gain on the disposal of tangible fixed assets	19	**– 1**	– 7
Interest expense, net	23	**– 6**	162
Tax expense	24	**260**	133
(Reversal)/recognition of provisions	17	**– 783**	1 138
(Reversal)/recognition of pension benefit obligations	16	**– 157**	470
Change in net working capital			
(Increase)/decrease in receivables from goods and services		**4 893**	– 4 034
(Increase)/decrease in other receivables/prepayments and accrued income		**– 146**	– 132
(Increase)/decrease in inventories		**– 1 145**	641
Increase/(decrease) in payables from goods and services		**2 086**	2 747
Increase/(decrease) in other liabilities/accrued liabilities and deferred income		**4 718**	– 1 036
Income taxes paid		**– 223**	– 217
Cash flow from operating activities		**12 468**	**– 4 581**
Purchase of tangible fixed assets	9	**– 449**	– 390
Addition of intangible assets	10	**– 147**	– 416
Purchase of financial assets	11	**– 15**	– 69
Disposal of tangible fixed assets	9	**8**	9
Disposal of financial assets	11	**14**	67
Interest received	23	**7**	10
Cash flow from investing activities		**– 582**	**– 789**
Capital increase		**0**	14 267
Disposal of own shares		**0**	6
Share-based payment		**0**	1 505
Repayment of financial liabilities		**– 115**	– 10 757
Interest paid		**– 1**	– 172
Cash flow from financing activities		**– 116**	**4 849**
Net change in cash and cash equivalents		**11 770**	**– 521**
Cash and cash equivalents at 1 January		**2 644**	**3 398**
Effect of exchange rate movements on cash and cash equivalents		**6**	– 233
Cash and cash equivalents at 31 December		**14 420**	**2 644**

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 were authorized for issue by the Board of Directors of Schlatter Industries AG on 8 March 2017. They still have to be approved by the General Meeting on 4 May 2017.

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 losses on bad debt and the change in valuation allowance are included in other operating expenses.

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 5 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. 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 organisation 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, plus wire-weaving machines.

Breakdown by business unit

			2016
CHF 1,000	Welding	Weaving	**Total segments**
Net sales from plant business with third parties	46 402	16 403	**62 805**
Net sales from spare parts and service business with third parties	23 412	4 269	**27 681**
Total net sales	69 814	20 672	**90 486**
EBIT	– 257	1 323	**1 066**

			2015
CHF 1,000	Welding	Weaving	**Total segments**
Net sales from plant business with third parties	42 657	12 132	**54 789**
Net sales from spare parts and service business with third parties	24 003	4 420	**28 423**
Total net sales	66 660	16 552	**83 212**
EBIT	– 4 884	– 1 042	**– 5 926**

2 Changes in the scope of consolidation

Schlatter (China), Shanghai was established in financial year 2016 and consolidated as of 31 December 2016.

3 Loan arrangements

In the reporting period, it was agreed with the banks that the loan agreements would be extended until 31 December 2017.

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	2016	2015
Cash	160	53
Bank, post office accounts	14 260	2 591
Cash and cash equivalents	**14 420**	**2 644**

By currency in CHF 1,000		
CHF	8 556	380
EUR	3 357	1 679
USD	1 845	456
GBP	428	43
Other	234	86
Total	**14 420**	**2 644**

Cash and cash equivalents are freely usable.

5 Short-term financial assets

CHF 1,000	2016	2015
Fixed-term deposits with a term of 3 to 12 months	77	76
Short-term financial assets	**77**	**76**

6 Receivables

CHF 1,000	2016	2015
Receivables from goods and services due from third parties, gross	4 025	4 049
Valuation allowances	– 382	– 341
Receivables from goods and services, net	3 643	3 708
Other receivables	2 496	2 315
Receivables	**6 139**	**6 023**

Receivables from goods and services amounted to KCHF 3,643 (previous year: KCHF 3,708). Valuation allowances of KCHF 341 (previous year: KCHF 341) consist mostly of global valuation allowances

Allowance account

By currency in CHF 1,000	2016	2015
Specific allowance		
Balance at 1 January	– 45	– 78
Additional allowance	– 13	– 18
Reversal of allowance	32	38
Losses on receivables (use of allowance)	0	6
Exchange differences	1	7
Balance at 31 December	**– 25**	**– 45**
Global allowance		
Balance at 1 January	– 296	– 266
(Increase)/decrease in allowance	– 62	– 33
Exchange differences	1	3
Balance at 31 December	**– 357**	**– 296**

Other receivables

CHF 1,000	2016	2015
Value-added taxes	1 725	1 511
Withholding taxes	0	34
Miscellaneous	771	770
Total	**2 496**	**2 315**

In addition to VAT receivables, other receivables of KCHF 2,496 (previous year: KCHF 2,315) also include payments on account for and receivables from employee insurance schemes, payments on account for suppliers and various smaller items.

Other receivables entail a low level of credit risk and mainly 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	2016	2015
Contract costs incurred up to the reporting date, including recognised profits and losses on current projects	71 650	70 973
Progress billings and advance payments	– 68 881	– 59 403
Construction contracts in progress, net	**2 769**	**11 569**

In net terms, construction contracts in progress were underfunded by KCHF 2,769 (previous year: KCHF 11,569). Thanks to an encouraging trend in payments received on customer projects, the net balance decreased sharply.

Construction contracts are reported in the balance sheet as follows:

CHF 1,000	2016	2015
Net assets from construction contracts	13 952	18 816
Net liabilities from construction contracts	– 11 183	– 7 247
Recognised revenue from construction contracts	64 331	56 252

8 Inventories

CHF 1,000	2016	2015
Raw materials, merchandise	9 604	8 345
Work in progress	930	2 270
Unfinished and finished goods	2 655	1 406
Inventories, net	**13 189**	**12 021**

Inventories increased in value due to the healthy order book and now amount to KCHF 13,189 net (previous year: KCHF 12,021).

The valuation allowance on inventories changed as follows:

CHF 1,000	2016	2015
Balance at 1 January	8 331	8 318
Recognition of valuation allowances	– 69	667
Reversal of valuation allowances	– 300	– 1
Scrapping, liquidations	– 942	– 401
Exchange differences	– 9	– 252
Balance at 31 December	**7 011**	**8 331**

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 2015	98	7 255	14 593	10 010	41	**31 997**
Additions	0	11	105	235	39	**390**
Disposals	0	0	– 2 010	– 1 680	0	**– 3 690**
Reclassifications	0	135	0	0	– 79	**56**
Exchange differences	0	– 27	– 891	– 410	– 1	**– 1 329**
As at 31 December 2015	**98**	**7 374**	**11 797**	**8 155**	**0**	**27 424**
Additions	0	19	150	235	45	**449**
Disposals	0	0	– 7	– 301	0	**– 308**
Reclassifications	0	0	– 1	0	0	**– 1**
Exchange differences	3	14	– 68	3	0	**– 48**
As at 31 December 2016	**101**	**7 407**	**11 871**	**8 092**	**45**	**27 516**
Accumulated depreciation						
As at 1 January 2015	0	– 3 240	– 12 560	– 8 772	0	**– 24 572**
Depreciation	0	– 843	– 363	– 329	0	**– 1 535**
Impairment	0	0	0	0	0	**0**
Disposals	0	22	2 010	1 600	0	**3 632**
Reclassifications	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**
Depreciation	0	– 845	– 361	– 303	0	**– 1 509**
Impairment	0	0	0	301	0	**301**
Disposals	0	0	0	0	0	**0**
Reclassifications	0	0	0	0	0	**0**
Exchange differences	0	– 16	63	6	0	**53**
As at 31 December 2016	**0**	**– 5 015**	**– 10 473**	**– 7 100**	**0**	**– 22 588**
Net carrying amount at 1 January 2015	98	4 015	2 033	1 238	41	**7 425**
Net carrying amount at 31 December 2015	98	3 220	1 622	1 051	0	**5 991**
Net carrying amount at 31 December 2016	**101**	**2 392**	**1 398**	**992**	**45**	**4 928**

CHF 1,000	Land	Buildings	Technical equipment and machinery	Other tangible fixed assets	Assets under con-struction	**Total tangible fixed assets**
Additional information for 2016						
Fire insurance values of the assets	0	9 714	15 420	10 258	0	**35 392**
nvestment commitments entered into	0	0	0	0	0	**0**
Pledges as collateral	0	0	0	0	0	**0**
CHF 1,000						
Additional information for 2015						
Fire insurance values of the assets	0	9 512	15 135	8 262	0	**32 909**
Investment commitments entered into	0	0	0	0	0	**0**
Pledges as collateral	0	0	0	0	0	**0**

Additions to tangible fixed assets amounted to KCHF 449 (previous year: KCHF 390). The investments are distributed across various smaller items.

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 147 (previous year: KCHF 416) are primarily attributable to software purchases. At the end of 2016, a capitalised development project related to rail welding was recognised in the balance sheet in the amount of KCHF 604 (previous year: KCHF 905). 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 2015	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**
Additions	0	64	83	**147**
Disposals	0	– 379	0	**– 379**
Reclassification	0	205	– 205	**0**
Exchange differences	– 5	– 24	0	**– 29**
As at 31 December 2016	**8 645**	**7 278**	**178**	**16 101**
Accumulated amortisation				
As at 1 January 2015	– 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**
Additions	– 363	– 311	**0**	**– 674**
Impairment	0	0	**0**	**0**
Disposals	0	379	0	**379**
Reclassifications	0	0	0	**0**
Exchange differences	3	22	0	**25**
As at 31 December 2016	**– 7 867**	**– 6 265**	**0**	**– 14 132**
Net carrying amount at 1 January 2015	1 537	1 257	76	**2 870**
Net carrying amount at 31 December 2015	1 143	1 057	300	**2 500**
Net carrying amount at 31 December 2016	**778**	**1 013**	**178**	**1 969**

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 2015	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**
Additions	15	0	0	**15**
Repayments	– 14	0	0	**– 14**
Exchange differences	0	0	0	**0**
As at 31 December 2016	**77**	**0**	**0**	**77**

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

12 Deferred taxes

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

CHF 1,000	**2016**	2015
After 1 year	**1 803**	14 484
After 2 years	**58 378**	1 803
After 3 years	**54 494**	58 378
After 4 years	**0**	54 494
After 5 years	**1 931**	0
After 6 years	**8 445**	1 931
After 7 years	**1 130**	8 445
After more than 10 years	**0**	0
Will not expire	**1 866**	42
Total	**128 047**	**139 577**

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 47,078 may be used at cantonal and municipal tax level.

13 Financial liabilities

CHF 1,000	2016	2015
Short-term financial liability	224	182
Fixed advances/current account	0	0
Short-term financial liabilities	**224**	**182**
of which in CHF	182	182
of which in EUR	42	0
Total short-term financial liabilities by currency	224	182

CHF 1,000	2016	2015
Long-term financial liability	240	397
Long-term financial liabilities	**240**	**397**
of which in CHF	240	397
of which in EUR	0	0
Total long-term financial liabilities by currency	240	397

Planned maturities in CHF 1,000	2016	2015
Up to 1 year	224	182
1 to 5 years	240	397
More than 5 years	0	0
Total financial liabilities	**464**	**579**

Terms of credit

The Schlatter Group holds loan agreements that are committed up until 31 December 2017. The bank facilities (credit and contingency facilities) to maintain operating activities amounted to CHF 22.75 million (previous year: CHF 26.25 million), of which up to CHF 7.0 million (previous year: CHF 12.5 million) 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 22.75 million bank facility. The loans are tied to financial covenants (EBITDA).

14 Payables from goods and services

CHF 1,000	2016	2015
CHF	3 282	3 564
EUR	3 377	4 978
USD	32	26
Other	27	7
Payables from goods and services	**6 718**	**8 575**

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	2016	2015
Value-added taxes	28	38
Employee insurance/social security	117	292
Advance payments by customers	4 274	0
Liabilities to the Schlatter Group pension fund	171	179
Miscellaneous liabilities	365	797
Other liabilities	**4 955**	**1 306**
Holiday and overtime accruals	1 346	896
Other accrued liabilities and deferred income	2 003	1 420
Accrued liabilities and deferred income	**3 349**	**2 316**
Other liabilities, accrued liabilities and deferred income	**8 304**	**3 622**

The “Advance payments by customers” item consists mostly of an advance payment by a customer that is no longer able to continue a project signed by both parties due to payment difficulties.

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 64 on currency forwards (previous year: KCHF 384).

CHF 1,000			Maturity	Trade price	Forward price	**Value in CHF at maturity**	Valuation difference
Open currency forwards at 31 December 2016							
Sell	EUR	3,270	04.01.17	1.0687	1.0719	**3 495**	– 11
Sell	USD	400	15.03.17	1.0036	1.0128	**401**	– 4
Sell	USD	1,500	17.05.17	0.9842	1.0088	**1 476**	– 37
Sell	USD	1,100	28.06.17	1.0025	1.0059	**1 103**	– 4
Sell	USD	1,000	01.11.17	0.9807	0.9971	**981**	– 16
Sell	USD	1,000	20.12.17	1.0016	0.9934	**1 002**	– 8
Total valuation differences							**– 64**

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 31.12.2016	31.12.2016	Economic share of the organization 31.12.2015	Change year on year recognized in profit or loss in FY	Amounts related to the period	Pension benefit expense within personnel expense 2016	2015
Plan of Schlatter Industries AG[1]	0	0	0	0	1 177	1 177	1 196
Plan of Schlatter Deutschland GmbH & Co. KG	– 2 704	– 2 704	– 2 861	157	863	706	737
Total	– 2 704	– 2 704	– 2 861	157	**2 040**	**1 883**	**1 933**

[1] Defined contribution plan

17 Provisions

CHF 1,000	Warranties	Restructuring	Project risks	Other	2016 Total	2015 Total
As at 1 January	710	373	2 638	684	**4 405**	3 356
Recognised	50	1	2 165	87	**2 303**	1 527
Used	–	– 376	– 2 327	– 62	**– 2 765**	– 389
Reversed	–	–	– 311	– 10	**– 321**	0
Exchange differences	– 2	2	–	– 1	**– 1**	– 89
As at 31 December	**758**	**0**	**2 165**	**698**	**3 621**	**4 405**
of which short-term provisions	673	0	2 165	640	**3 478**	4 227

Provisions declined to KCHF 3,621 as at 31 December 2016 (previous year: KCHF 4,405).

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 change in other provisions contains a number of smaller items such as provisions for anniversary bonuses granted to employees.

Project risks requiring a provision are recorded on the projects at the periodically updated budgeted costs and recognised 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 2,165, is included in the "Project risks" column (previous year: KCHF 2,638).

18 Share capital / own shares and reserves

CHF	2016	2015
Number of outstanding registered shares at 1 January		426 250
Capital increase		
through issue of subscription rights on existing shares	–	638 985
through free placement of new shares	–	390
through authorised capital increase	–	39 079
Number of outstanding registered shares at 31 December	1 104 704	1 104 704
Share capital at 1 January	17 675 264	13 465 238
Nominal value per share (CHF)	16.00	16.00
Share capital at 31 December (CHF)	**17 675 264**	**17 675 264**

The share capital at 31 December 2016 amounted to KCHF 17,675 (previous year: KCHF 17,675) and was composed of 1,104,704 registered shares with a nominal value of CHF 16.00 (previous year: 1,104,704 registered shares with a nominal value of CHF 16.00) 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 capitalisation of Schlatter Industries AG at 31 December 2016 was CHF 42.8 million (previous year: CHF 33.1 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: 1,104,704). The Company did not hold any own shares at the balance sheet date (previous year: 0).

19 Übrige betriebliche Erlöse

CHF 1,000	2016	2015
Lease income	78	122
Commission income	0	64
Gain on the disposal of tangible fixed assets	1	7
Other income	196	249
Total	**275**	**442**

20 Personnel expense

CHF 1,000	2016	2015
Wages and salaries	27 428	28 416
Social security expense	3 076	3 560
Pension benefit expense for defined benefit plans	1 031	2 114
Other personnel expense	1 223	452
Total	**32 758**	**34 542**
Average headcount (full-time equivalents)	312	314
Headcount at 31 December	319	310

The decrease in pension benefit expense is due predominantly to the further adjustment to the discount rate for future pension obligations at the Münster site. At the German Group company, the statutory reduction in the discount rate was allocated over a longer time period. Despite the long-term reduction in the discount rate, this statutory adjustment resulted in a one-time increase in the discount rate and therefore a reduction in pension benefit expense in the reporting period.

The rise in other personnel expense is due primarily to the increase in provisions for prior-year holiday entitlement and overtime worked.

21 Other operating expense

CHF 1,000	2016	2015
Losses on receivables, change in allowance for doubtful accounts	– 54	– 127
Loss on the disposal of tangible fixed assets	1	0
Maintenance costs	974	956
Rental, leasing	2 600	2 623
Sales and marketing	1 471	1 515
Administration and consultancy	928	1 442
Insurance, levies, taxes on capital	355	365
Information technology	819	782
Other	1 448	1 694
Total	**8 542**	**9 250**

22 Research and development expense

Research and development expense of KCHF 5,385 was charged to current profit or loss (previous year: KCHF 6,347). These funds are being used to implement the long-term development roadmap, which continued to be driven forward at full speed in financial year 2016.

23 Financial result

CHF 1,000	2016	2015
Interest income	7	10
Gain on the disposal of financial assets	0	8
Realised gains on currency hedges	301	74
Realised foreign exchange gains	970	1 266
Other	1	7
Financial income	**1 279**	**1 365**

CHF 1,000	2016	2015
Interest expense	1	172
Realised losses on currency hedges	279	292
Unrealised foreign exchange losses	284	227
Realised foreign exchange losses	860	1 306
Other	155	179
Financial expense	**1 579**	**2 176**

Interest income comprises income on bank accounts and fixed-term deposits. Interest expense for 2015 was mainly the result of fixed advances drawn down, of which there were none in 2016. 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 1,271 (previous year: KCHF 1,340) and foreign exchange losses to KCHF 1,423 (previous year: KCHF 1,825). 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	2016	2015
Income taxes		
Current income taxes	50	144
Deferred taxes	210	– 11
Total income taxes	**260**	**133**

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

Effect of not recognising loss carryforwards:

2016

CHF 1,000	Profit/loss	Tax rate	Income tax
Average applicable tax rate and income taxes on the ordinary result before loss carryforwards	341	37,5 %	128
Effect of not recognising loss carryforwards of Schlatter Industries AG	1 175	21,0 %	247
Effective tax rate and income taxes recognised in the income statement	1 516	24,7 %	375

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**
Average applicable tax rate and income taxes on the ordinary result before loss carryforwards	**4 513**	21,0 %	**948**
Effect of not recognising loss carryforwards of Schlatter Deutschland GmbH & Co. KG	**2 630**	16,0 %	**421**
Effective tax rate and income taxes recognised in the income statement	**406**	32,8 %	**133**

25 Earnings per share

CHF 1,000	2016	2015
Net result attributable to shareholders of Schlatter Industries AG (in CHF 1,000)	506	– 6 870
Number of registered shares issued with a nominal value of CHF 16.00 at 31 December	1 104 704	1 104 704
Number of shares issued, weighted	1 104 704	827 600
Average number of registered shares held as own stock	0	– 1 905
Total average number of dividend-bearing registered shares	**1 104 704**	**825 695**
Basic earnings per registered share (in CHF)	0.46	– 8.32

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 and 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 CHF 23.00 that applied to the ordinary capital increase, 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. In 2015, personnel expense was recognised at the market price at the grant date of CHF 38.50 per share and therefore amounted to CHF 1.5 million. No share-based payment was awarded in 2016.

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 organisational 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

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

CHF 1,000	2016	2015
Due within 1 year	3 307	3 329
Due in 2 to 5 years	3 979	5 989
Due in more than 5 years	0	0
Total	**7 286**	**9 318**

The largest items of operating lease expense relate to lease expenses for office, 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 lease for the property in Schlieren ends on 31 May 2019. Negotiations are under way regarding the continuation of the lease. 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 69), the members of the Board of Directors and Group Management, significant shareholders (see page 86), 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 lease on the property in Münster may be terminated by giving twelve months' notice effective at the end of any month. The annual rent is KEUR 394. 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 17.

Contributions to pension plans amounted to KCHF 1,177 (previous year: KCHF 1,196).

30 Assets pledged or assigned

As at 31 December 2016, 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 12,066 (previous year: KCHF 887).

31 Contingent liabilities

Warranties with regard to system delivery dates and performance exist in the amount of KCHF 3,487 (previous year: KCHF 2,271) and, if not fulfilled by Schlatter Industries AG, may require indemnification to be provided. In addition, contingent liabilities from supplier loans exist in the amount of KCHF 709 (previous year: KCHF 104).

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

32 Group companies

As at 31 December 2016, the following consolidated Group companies were held by the parent, Schlatter Industries AG, which has its registered office in Schlieren, Switzerland:

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
Schlatter (China) Ltd.[1]	Shanghai, China	100 %	100 %	D, S

1) New equity investment, established on 4 July 2016

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

33 Exchange rates

	2016		2015	
CHF 1	Closing rates	Average rates	Closing rates	Average rates
1 EUR	**1.07**	**1.09**	1.08	1.07
1 USD	**1.02**	**0.99**	0.99	0.96
1 GBP	**1.25**	**1.34**	1.47	1.47
1 BRL	**0.31**	**0.28**	0.25	0.30
1 MYR	**0.23**	**0.24**	0.23	0.25
1 CNY	**0.15**	**0.15**	–	–

34 Events after the balance sheet date

On 8 March 2017, the Board of Directors authorised the consolidated financial statements for issue on the date of publication of the annual results. They still have to be approved by the General Meeting on 4 May 2017.

No events occurred between 31 December 2016 and the publication of the annual results on 21 March 2017 that would have required an adjustment to the carrying amounts of the Group's assets and liabilities or would have to be disclosed here.

Bericht der Revisionsstelle

An die Generalversammlung der Schlatter Industries AG, Schlieren

Bericht zur Prüfung der Konzernrechnung

Prüfungsurteil

Wir haben die Konzernrechnung der Schlatter Industries AG und ihrer Tochtergesellschaften (der Konzern) – bestehend aus der Konzernbilanz zum 31. Dezember 2016, der Konzernerfolgsrechnung, dem Konzerneigenkapitalnachweis und der Konzerngeldflussrechnung für das dann endende Jahr sowie dem Konzernanhang, einschliesslich einer Zusammenfassung bedeutsamer Rechnungslegungsmethoden – geprüft.

Nach unserer Beurteilung vermittelt die Konzernrechnung (Seiten 42 bis 70) ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens- und Finanzlage des Konzerns zum 31. Dezember 2016 sowie dessen Ertragslage und Geldflüsse für das dann endende Jahr in Übereinstimmung mit den Swiss GAAP FER und entspricht dem schweizerischen Gesetz.

Grundlage für das Prüfungsurteil

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

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

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

Fertigungsaufträge

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

Fertigungsaufträge

Prüfungssachverhalt

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

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

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

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

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

Unsere Vorgehensweise

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

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

Zur Beurteilung der Angemessenheit der für die Projekt-bewertung massgebenden Projektkalkulationen haben wir stichprobenweise

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

kritisch hinterfragt.

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

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

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

— Fertigungsaufträge Note 7

— Rückstellungen Note 17

— Rechnungslegungsgrundsätze Seite 48 - 49

Verantwortlichkeiten des Verwaltungsrates für die Konzernrechnung

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

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

Verantwortlichkeiten der Revisionsstelle für die Prüfung der Konzernrechnung

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

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

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

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

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

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

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

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

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

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

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

Bericht zu sonstigen gesetzlichen und anderen rechtlichen Anforderungen

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

Wir empfehlen, die vorliegende Konzernrechnung zu genehmigen.

KPMG AG

Herbert Bussmann Zugelassener Revisionsexperte Leitender Revisor	Anita Benz Zugelassene Revisionsexpertin

Zürich, 8. März 2017

Financial Reporting of Schlatter Industries AG for 2016

Income statement of Schlatter Industries AG, Schlieren

CHF 1,000	Note	31.12.16	31.12.15
Net sales from goods and services		**68 508**	64 930
Change in inventories		**– 2 811**	– 1 836
Other operating income		**198**	265
Total operating income		**65 895**	**63 359**
Raw material expense		**– 39 668**	– 39 442
Personnel expense		**– 20 993**	– 19 544
Other operating expense	2.11	**– 4 650**	– 5 104
Depreciation, amortisation and impairment of non-current assets	2.12	**– 1 571**	– 7 378
Total operating expense		**– 66 882**	– 71 468
Operating result		**– 987**	– 8 109
Financial income		**1 280**	1 833
Financial expense		**– 1 468**	**– 2 135**
Profit/loss for the financial year before taxes		**– 1 175**	– 8 411
Direct taxes		**45**	**– 34**
Loss for the financial year		**– 1 130**	– 8 445

Balance sheet of Schlatter Industries AG, Schlieren

Assets

CHF 1,000	Anhang	31.12.2016	31.12.2015
Cash and cash equivalents		13 626	1 031
Receivables from goods and services	2.1	2 778	2 487
Receivables from goods and services due from investments		328	980
Other short-term receivables		1 281	1 298
Other short-term receivables due from investments		1 237	2 449
Net assets from construction contracts		10 740	16 113
Inventories		9 488	7 807
Prepayments and accrued income		21	54
Total current assets		**39 499**	**32 219**
Investments	2.3	3 908	3 864
Tangible fixed assets	2.4	2 699	3 489
Intangible assets	2.5	1 617	2 045
Total non-current assets		**8 224**	**9 398**
Total assets		**47 723**	**41 617**

Liabilities and equity

CHF 1,000	Anhang	31.12.2016	31.12.2015
Payables from goods and services		5 591	7 265
Payables from goods and services due to investments		3 903	2 898
Net liabilities from construction contracts		10 722	6 385
Short-term interest-bearing liabilities		224	183
Other short-term liabilities	2.6	4 504	858
Other short-term liabilities due to investments		37	65
Short-term provisions	2.7	3 080	3 622
Accrued liabilities and deferred income	2.8	2 294	1 663
Accrued liabilities to and deferred income from investments		71	94
Total short-term liabilities		**30 426**	**23 033**
Long-term interest-bearing liabilities		240	397
Total long-term liabilities		**240**	**397**
Total liabilities		**30 666**	**23 430**
Share capital	2.9	17 675	17 675
Legal capital reserves			
– Other capital reserves	2.10	512	10 271
Voluntary retained earnings			
– Net retained profits/net accumulated losses			
• Carryforward		0	– 1 314
• Profit or loss for the financial year		– 1 130	– 8 445
Total equity		**17 057**	**18 187**
Total liabilities and equity		**47 723**	**41 617**

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.

Intangible assets are periodically tested for impairment.

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	31.12.2016	31.12.2015
Receivables from third parties	2 924	2 661
Valuation allowance	– 146	– 174
Total	**2 778**	**2 487**

2.2 Inventories

CHF 1,000	31.12.2016	31.12.2015
Raw materials, merchandise	11 636	10 432
Work in progress	903	2 256
Unfinished and finished goods	1 899	383
Valuation allowance	– 4 950	– 5 264
Total	**9 488**	**7 807**

2.3 Investments

			Capital in 1,000		Capital and voting rights in %	
Name	Registered office		31.12.16	31.12.15	31.12.16	31.12.15
Schlatter Deutschland GmbH & Co. KG	DE-Münster	EUR	3 579	3 579	100	100
Schlatter France S.a.r.l.	FR-Noisy-le-Grand	EUR	23	23	100	100
Schlatter North America	US-Rockford	USD	10	10	100	100
Schlatter do Brasil Ind. e Com. de Máquinas de Soldar Ltda	BR-São Bernardo do Campo	BRL	50	50	100	100
Schlatter South East Asia Sdn.Bhd.	MY-Ipoh	MYR	500	500	100	100
Schlatter (China) Ltd.	CN-Shanghai	CNY	300	–	100	–

2.4 Tangible fixed assets

CHF 1,000	31.12.2016	31.12.2015
Buildings	2 062	2 865
Technical equipment and machinery	389	422
Furniture and vehicles	91	130
IT equipment	157	72
Total	**2 699**	**3 489**

2.5 Intangible assets

CHF 1,000	31.12.2016	31.12.2015
Capitalised development costs	604	905
Acquired intangible assets	836	840
Intangible assets under development	178	300
Total	**1 618**	**2 045**

As at 31 December 2016, a capitalised development project related to rail welding was recognised in the balance sheet in the amount of KCHF 604 (previous year: KCHF 905). 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	31.12.2016	31.12.2015
Liabilities to third parties	4 333	598
Liabilities to the pension institution	171	195
Liabilities to investments	37	65
Total	**4 541**	**858**

2.7 Short-term provisions

CHF 1,000	31.12.2016	31.12.2015
Warranty work	418	418
Project risks	2 165	2 638
Other short-term provisions	497	566
Total	**3 080**	**3 622**

2.8 Accrued liabilities and deferred income

CHF 1,000	31.12.2016	31.12.2015
Fair value of currency derivatives	64	384
Holiday and overtime accruals	1 182	778
Bonus accrual	532	132
Other accrued liabilities and deferred income	516	369
Total	**2 294**	**1 663**

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. Owing to 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.

	2016	2015
Number of outstanding registered shares at 1 January 2016	1 104 704	426 250
Capital increase		
through issue of subscription rights on existing shares	0	639 375
authorised capital increase	0	39 079
Number of outstanding registered shares at 31 December 2016	1 104 704	1 104 704
Share capital at 1 January 2016	17 675 264	13 465 238
Capital increase	0	10 855 264
Nominal capital reduction to eliminate a deficit	0	– 6 645 238
Nominal value per share (CHF)	16.00	16.00
Share capital at 31 December 2016 (CHF)	**17 675 264**	**17 675 264**

2.10 Other capital reserves

By resolution of the General Meeting on 3 May 2016, capital reserves of KCHF 9,759 were released for the purpose of eliminating them against net accumulated losses.

2.11 Other operating expense

CHF 1,000	2016	2015
Losses on receivables/allowance for doubtful accounts	– 29	– 69
Repairs, maintenance	130	106
Leasing	50	65
Rental expense	1 678	1 737
Sales and marketing	1 023	995
Administration	242	279
Consultancy expense	252	724
Insurance expense	100	111
Information technology	555	490
Taxes on capital	5	–14
Other operating expense	595	620
Service costs, investments	49	60
Total	**4 650**	**5 104**

2.12 Depreciation, amortisation and impairment of non-current assets

The charges in 2015 included 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). In financial year 2016, only the normal depreciation, amortisation and impairment charges on tangible fixed assets and intangible assets were recognised.

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	31.12.2016	31.12.2015
Up to 1 year	1 973	2 000
1–5 years	2 782	4 806
More than 5 years	0	0
Total	**4 755**	**6 806**

The lease for the property in Schlieren ends on 31 May 2019. Negotiations are under way regarding the continuation of the lease.

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

As at 31 December 2016, 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 12,066 (previous year: KCHF 887).

3.4 Contingent liabilities

CHF 1,000	2016	2015
Contingent liabilities from supplier loans	709	104
Warranties	3 487	2 271
Rental security deposits	1 263	1 263

3.5 Significant shareholders

	2016		2015	
	Number of shares	Share of voting rights	Number of shares	Share of voting rights
Huwa Finanz- und Beteiligungs AG, Au SG (CH)	**219 545**	**19,87 %**	219 545	19,87 %
Nicolas Mathys, Baar (CH)	**210 000**	**19,01 %**	191 000	17,29 %
Metall Zug AG, Zug (CH)	**200 229**	**18,13 %**	200 229	18,13 %
Main Line Development Inc, Hamilton (BM)	**64 870**	**5,87 %**	64 870	5,87 %
Brita Meier, Uitikon Wald (CH)	**51 420**	**4,65 %**	51 420	4,65 %
Civen Ltd., Kingstown (St. Vincent & The Grenadines)	**33 901**	**3,07 %**	33 901	3,07 %

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

	31.12.2016		31.12.2015	
	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 %**	12 096	1,1 %
Nicolas Mathys, Member of the Board of Directors	**210 000**	**19,0 %**	191 000	17,3 %
Ruedi Huber, Member of the Board of Directors	**3 826**	**0,4 %**	3 826	0,4 %
Werner Schmidli, CEO	**11 099**	**1,0 %**	11 099	1,0 %
Frank Schröter, Weaving segment	**6 931**	**0,6 %**	6 931	0,6 %
Daniel Zappa, Sales	**5 071**	**0,5 %**	5 071	0,5 %
Beat Huber, Engineering	**2 609**	**0,2 %**	2 609	0,2 %
Roland Kasper, Operations	**2 609**	**0,2 %**	2 609	0,2 %
Members of the Board of Directors and Group Management who have stepped down				
Peter Müller, Vice-Chairman of the Board of Directors	**17 080**	**1,6 %**	17 080	1,6 %

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 authorised capital increase in order to facilitate a share-ownership programme for the management and Board of Directors, with a lock-up period of two and three years respectively. 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 CHF 23.00 that applied to the ordinary capital increase, less a discount of 25%. No ownership rights were granted to the Board of Directors or management in 2016.

	2016 Number	Value	2015 Number	Value
Granted to Board of Directors	**0**	**0**	15 304	589 217
Granted to Group Management	**0**	**0**	23 775	915 340

Bericht der Revisionsstelle

An die Generalversammlung der Schlatter Industries AG, Schlieren

Bericht zur Prüfung der Jahresrechnung

Prüfungsurteil

Wir haben die Jahresrechnung der Schlatter Industries AG – bestehend aus der Bilanz zum 31. Dezember 2016 und der Erfolgsrechnung für das dann endende Jahr sowie dem Anhang, einschliesslich einer Zusammenfassung bedeutsamer Rechnungslegungsmethoden – geprüft.

Nach unserer Beurteilung entspricht die Jahresrechnung (Seiten 78 bis 86) für das am 31. Dezember 2016 endende Jahr dem schweizerischen Gesetz und den Statuten.

Grundlage für das Prüfungsurteil

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

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

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

Fertigungsaufträge

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

Fertigungsaufträge

Prüfungssachverhalt

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

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

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

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

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

Unsere Vorgehensweise

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

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

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

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

kritisch hinterfragt.

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

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

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

— Rechnungslegungsgrundsätze Seite 80

Verantwortlichkeiten des Verwaltungsrates für die Jahresrechnung

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

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

Verantwortlichkeiten der Revisionsstelle für die Prüfung der Jahresrechnung

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

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

- identifizieren und beurteilen wir die Risiken wesentlicher – beabsichtigter oder unbeabsichtigter – falscher Darstellungen in der Jahresrechnung, planen und führen Prüfungshandlungen als Reaktion auf diese Risiken durch sowie erlangen Prüfungsnachweise, die ausreichend und geeignet sind, um als Grundlage für unser Prüfungsurteil zu dienen. Das Risiko, dass aus dolosen Handlungen resultierende wesentliche falsche Darstellungen nicht aufgedeckt werden, ist höher als ein aus Irrtümern resultierendes, da dolose Handlungen betrügerisches Zusammenwirken, Fälschungen, beabsichtigte Unvollständigkeiten, irreführende Darstellungen oder das Ausserkraftsetzen interner Kontrollen beinhalten können.
- gewinnen wir ein Verständnis von dem für die Prüfung relevanten internen Kontrollsystem, um Prüfungshandlungen zu planen, die unter den gegebenen Umständen angemessen sind, jedoch nicht mit dem Ziel, ein Prüfungsurteil zur Wirksamkeit des internen Kontrollsystems der Gesellschaft abzugeben.
- beurteilen wir die Angemessenheit der angewandten Rechnungslegungsmethoden sowie die Vertretbarkeit der dargestellten geschätzten Werte in der Rechnungslegung und damit zusammenhängenden Angaben.
- schlussfolgern wir über die Angemessenheit der Anwendung des Rechnungslegungsgrundsatzes der Fortführung der Geschäftstätigkeit durch den Verwaltungsrat sowie auf der Grundlage der erlangten Prüfungsnachweise, ob eine wesentliche Unsicherheit im Zusammenhang mit Ereignissen oder Gegebenheiten besteht, die bedeutsame Zweifel an der Fähigkeit der Gesellschaft zur Fortführung der Geschäftstätigkeit aufwerfen kann. Falls wir die Schlussfolgerung treffen, dass eine wesentliche Unsicherheit besteht, sind wir verpflichtet, in unserem Bericht auf die dazugehörigen Angaben im Anhang der Jahresrechnung aufmerksam zu machen oder, falls diese Angaben unangemessen sind, unser Prüfungsurteil zu modifizieren. Wir ziehen unsere Schlussfolgerungen auf der Grundlage der bis zum Datum unseres Berichts erlangten Prüfungsnachweise. Zukünftige Ereignisse oder Gegebenheiten können jedoch die Abkehr der Gesellschaft von der Fortführung der Geschäftstätigkeit zur Folge haben.

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

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

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

Bericht zu sonstigen gesetzlichen und anderen rechtlichen Anforderungen

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

Wir empfehlen, die vorliegende Jahresrechnung zu genehmigen.

KPMG AG

Herbert Bussmann
Zugelassener Revisionsexperte
Leitender Revisor

Anita Benz
Zugelassene Revisionsexpertin

Zürich, 8. März 2017

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