Schlatter on track

Comprehensive, rapidly implemented measures to counter the overvaluation of the Swiss Franc against the euro and other currencies produced the intended effect in the first half of 2016. The concerted development efforts made in past years in all product areas are having a positive impact on the Group's market performance: Schlatter has gained market share through thelaunch of new products. Steel prices posted moderate rises in the first half of 2016, partly eradicating the backlog of investment in plant for the production of reinforcing wire mesh. The situation in the paper machine clothing market also eased temporarily. The market environment remains volatile, but the sharp increase in orders received in the first half of 2016 will keep capacity utilization high in both Schlieren and Münster beyond the year-end. The company continues to expect a break-even result for the 2016 financial year.

The Schlatter Group posted an order intake of CHF 65.3 million in the first half of 2016 (1st half of 2015: CHF 38.1 million) and achieved net sales of CHF 39.8 million (1st half of 2015: CHF 42.1 million). However, order intake in the first half of 2015 was depressed by valuation adjustments of CHF 6.6 million that had been made at the beginning of 2015 on projects in progress due to the euro exchange rate as well as transaction effects of the currency upheavals. As at 30 June 2016 the order backlog stood at CHF 57.6 million (31 December 2015: CHF 31.9 million). With an operating result (EBIT) of CHF 0.4 million (1st half of 2015: CHF –2.5 million), Schlatter's results for the first half of 2016 were in line with expectations. In the first half of 2016, the Group generated a positive free cash flow of CHF 7.7 million (1st half of 2015: CHF –3.1 million).

Markets

Equipment for the production of reinforcing and industrial wire mesh

Steel prices staged a moderate recovery in the first half of 2016, with positive effects on the investment activities of mesh producers.

While investment projects are once again picking up in the northern EU countries, the effects of the economic and financial crisis are still perceptible in core markets in southern Europe. There are no grounds for expecting an actual upturn in these regions in the coming years. Demand is expected to be slightly stronger in south-east Asia as well as in certain Central American countries and in the emerging markets. Innovative new plant concepts in the field of industrial mesh enabled Schlatter to benefit from the improved momentum in the US economy.

Brazil, the most important South American market, has seen hardly any capital investment in new plants since 2014, and a recovery is still not discernible. In Russia the fall of the rouble and the politically unstable environment made companies very reluctant to undertake capital investment. In the past, China played a relatively unimportant role in the wire product area. In the short to medium term, however, it has growth potential in the field of plant for the production of industrial mesh. Schlatter entered the Chinese market in 2016 with its own distribution company. The Group has also selectively invested both money and resources in developing mesh production markets where previously the Group only had a low-key presence.

Rail welding

The market for stationary and mobile rail-welding systems was subdued in the first half of 2016. While the overall market for stationary rail welding is still regarded as satisfactory and a number of projects offer potential, companies are reluctant to invest in mobile systems.

Weaving

Following the unexpectedly sharp fall in demand in the weaving market for paper clothing machines in 2015, Schlatter secured a number of new plant projects in the first half of 2016 that had previously been postponed for long periods. In the medium term, however, business in this market will remain sluggish and volatile, as paper mills are continuing with their consolidation process. Machines for the production of paper-machine clothing have become much more efficient, and the productivity of new plants outstripsthe continuing growth in the production of packaging paper. Other fields of application – eg : newsprint – are in decline. Capital investment is generally restricted to retrofitting work and the replacement of old equipment. Thus the Schlatter Group does not expect a fundamental recovery in the medium term, though it is hopeful that revenues have hit their lowest level.

Spare parts and services

Business in spare parts and service posted a stable performance, contributing around 30 percent to Group net sales. With an enormous number of installations all over the world, Schlatter has great potential that they intend to exploit more effectively. With this in mind, the Schlatter Group has developed a package of measures that are currently being implemented.

Welding segment

Order intake in the welding segment in the first half of 2016 was up 74 percent to CHF 49.8 million (1st half of 2015: CHF 28.7 million). At CHF 31.2 million, net sales were close to the prior year's figure of CHF 33.2 million. The order backlog stood at CHF 43.8 million as at 30 June 2016 (31 December 2015: CHF 25.2 million). The welding segment posted an operating result (EBIT) for the reporting period of CHF 0.3 million (1st half of 2015: CHF –2.7 million).

Wire product area

Schlatter was able to benefit from the slight market recovery thanks to its development of new plant concepts for the production of reinforcing wire mesh. The high pace of innovation in product development was maintained in the first half of 2016, and the financial resources committed to it remained at the prior year's level

The redesigned MG316 high-performance machine launched on the market in September 2015 is enjoying very successful sales. The system has now been expanded into a machine family that also covers the medium price segment.

The new MG800 series for the flexible, high-performance production of reinforcing wire mesh was launched in April at the "Wire" trade fair in Düsseldorf, and in June at a specially organized in-house trade fair in Schlieren with production demonstrations. The event generated highly positive feedback from customers, and Schlatter is confident that the MG800 series will in future become a key source of revenue in the area of reinforcing wire mesh production. The prototype will commence operations at a customer before the end of this year.

Launched on the market more than two years ago, the MG950 generation of flexible, productive industrial wire mesh machines continues to be well received, especially in Europe and the USA. This equipment generation is undergoing modular expansion in a series of further development stages, opening prospects for new sales.

With the high-performance NS240 machine, which is used for the production of a variety of items including mobile fences, or the new MG700 mesh-fence machine for the flexible production of fences, Schlatter is moving into a new market segment in the field of industrial wire mesh production.

Other areas of focus for the Schlatter Group are cutting production costs by means of appropriate product architecture, reducing project throughput times, and responding more efficiently to customer-specific requirements and adjustments.

Rail welding product area
In the stationary segment of the rail welding product area, the Schlatter Group expects the market to remain stable rather than grow. Schlatter is well-positioned in the upper price segment with the AMS200 mobile rail welding system (following its comprehensive technical revamp) and the partnerships established in recent years.

Weaving segment

The weaving segment recorded order intake of CHF 15.5 million in the first half of 2016 (1st half of 2015: CHF 9.4 million). Net sales reached CHF 8.6 million (1st half of 2015: CHF 9.0 million). As at 30 June 2016 the order backlog stood at CHF 13.8 million (31 December 2015: CHF 6.6 million). The segment reported an operating result (EBIT) of CHF 0.1 million for the period under review (1st half of 2015: CHF 0.2 million).

The investment backlog in the paper clothing machines field has been partly eliminated, and a number of new plants were sold. Schlatter expects significantly fewer new orders in the second half of 2016. The modernization of old equipment remains an important source of revenue and activity. This relates to both replacing control systems and fitting more modern, higher-performance components which – thanks to the modular system – can be incorporated into existing plants to increase output and secure productivity.

In the field of wire-weaving machines – the smaller of the weaving segment's two subdivisions – sales were in line with expectations. A number of attractive projects were acquired and successfully completed.

Continued development of high-performance plant

Following last year's significant investment in the continued development of high-performance machines in the weaving segment, these have now reached very high technical standards. Investment in product development will once again remain at an average level. Mention should be made of the BK860 rapier weaving machine, which is capable of producing weaves with higher yarn tension at higher output. This gives the customer a crucial advantage because it improves the quality of the weave. The prototype successfully commenced operations in the first half of 2016, and follow-up orders have already been placed.

Despite the current satisfactory order backlog, the market in the weaving segment will remain volatile and difficult to assess in the medium term. The actions initiated last year to increase productivity and cut costs will be continued.

New members elected to the Board of Directors at the Annual General Meeting on 3 May 2016

The Annual 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, which is also a listed machine tool manufacturer, brings the Schlatter Group many years' industrial experience of mechanical and systems engineering.

Outlook

The successful innovation initiative of the last two years and the improved market environment are helping to boost business at the Schlatter Group. Despite the challenging currency situation,Schlatter is well positioned for the second half of theyear. . Order intake was at an unusually high level in the first half of the year but can be expected to return to normal in the second. The marketing drive, which included the establishment of additional sales resources in the emerging markets and the opening of a sales and service facility in China, is being implemented on schedule, as is the package of measures to expand the service business.

Other focal points include efficiency drives to reduce throughput times in customer projects and make the organization more flexible. The Board of Directors and Group Management continue to expect a break-even result for the current financial year.

Schlieren, 22 August 2016

Paul Zumbühl
Chairman of the Board of Directors

Werner Schmidli
Chief Executive Officer

Key figures of the Schlatter Group

		1st half of 2016	1st half of 2015	2nd half of 2015	2015
Net sales	**CHF million**	**39.8**	**42.1**	**41.1**	**83.2**
Change compared to previous year	%	**–5.5**	–5.9	–8.1	–7.0
Operating result (EBIT)	**CHF million**	**0.4**	**–2.5**	**–3.4**	**–5.9**
in % of net sales	%	**1.0**	–5.9	–8.3	–7.1
Net result	**CHF million**	**0.1**	**–2.8**	**–4.1**	**–6.9**
in % of net sales	%	**0.2**	–6.7	–10.0	–8.3
Net result per registered share	**CHF**	**0.1**	**–2.64**	**–3.71**	**–6.22**
Order intake	**CHF million**	**65.3**	**38.1**	**34.8**	**72.9**
Order backlog at period end	**CHF million**	**57.6**	**38.2**	**31.9**	**31.9**
Free cash flow[1]	**CHF million**	**7.7**	**–3.1**		
Headcount at period end[2]	**FTEs**	**309**	**311**	**310**	
Average headcount	FTEs	**309**	311	317	
		30.6.2016	31.12.2015		
Interest-bearing liabilities	**CHF million**	**0.5**	**0.6**		
Net financial position (debt)[3]	**CHF million**	**9.7**	**2.1**		
Gearing[4]	**%**	**0.0**	**0.0**		
Current assets	**CHF million**	**49.3**	**39.8**		
Non-current assets	**CHF million**	**8.4**	**9.3**		
Liabilities	**CHF million**	**35.9**	**27.5**		
Euqity	**CHF million**	**21.8**	**21.6**		
Equity ratio	**%**	**37.8**	**44.0**		

1 Free cash flow: cash flow from operating activities less purchase of property, plant and equipment, intangible assets and financial assets, plus sale of property, plant and equipment, intangible assets and financial assets

2 Total full-time equivalents incl. temporary employees, excl. apprentices

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

4 Gearing: net financial position divided by equity

Stock exchange

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

Abridged consolidated half-year statements as at 30 June 2016

Consolidated balance sheet

Assets

CHF 1,000	30.6.2016	31.12.2015
Cash and cash equivalents	10,248	2,644
Current investments	13	76
Accounts receivable for goods and services	3,493	3,708
Current income tax receivables	297	5
Other receivables	1,893	2,315
Receivables from production orders in progress	15,466	18,816
Inventories	13,535	12,021
Accrued income	4,412	206
Current assets	**49,357**	**39,791**
Property, plant and equipment	5,607	5,991
Intangible assets	2,292	2,500
Financial assets	57	0
Deferred tax assets	409	813
Non-current assets	**8,365**	**9,304**
Total assets	**57,722**	**49,095**

Liabilities

CHF 1,000	30.6.2016	31.12.2015
Accounts payable for goods and services	6,185	8,575
Liabilities from production orders in progress	13,193	7,247
Current income tax liabilities	37	44
Other payables	1,556	1,306
Accrued liabilities	3,345	2,316
Financial debt	182	182
Current provisions	7,828	4,227
Current liabilities	**32,326**	**23,897**
Financial debt	318	397
Pension liabilities	2,947	2,888
Provisions	197	178
Deferred tax liabilities	130	140
Non-current liabilities	**3,592**	**3,603**
Total liabilities	**35,918**	**27,500**
Share capital	17,675	17,675
Capital reserves (agio)	11,526	11,526
Retained earnings	–7,397	–7,606
Total equity	**21,804**	**21,595**
Total liabilities and equity	**57,722**	**49,095**

Abridged consolidated half-year statements as at 30 June 2016

Consolidated income statement

CHF 1,000	**1st half of 2016**	1st half of 2015	2015
Net sales from goods and services	**39,797**	**42,127**	**83,212**
Other operating income	131	235	442
Change in semi-/finished goods, work in process	–534	–2,274	–1,631
Material and service expenses	–16,955	–19,405	–41,962
Personnel expenses	–16,606	–17,300	–34,542
Other operating expenses	–4,374	–4,746	–9,250
Depreciation and amortization	–1,061	–1,106	–2,195
Operating result (EBIT)	**398**	**–2,469**	**–5,926**
Financial income	620	108	1,365
Financial expenses	–736	–312	–2,176
Net result before tax	**282**	**–2,673**	**–6,737**
Income tax expenses	–198	–137	–133
Net result	**84**	**–2,810**	**–6,870**
Basic earnings per share (in CHF)	**0.08**	**–5.21**	–8.32

Abridged consolidated half-year statements as at 30 June 2016

Consolidated statement of equity

CHF 1,000	Share capital	Treasury shares	Capital reserves	Retained earnings	Total share capital
As at 31.12.2014	**13,465**	**–42**	**0**	**441**	**13,864**
Translations differences				–1,453	**–1,453**
Net result 1.1-30.6.2015				–2,810	**–2,810**
Capital reduction	–6,645		6,645		**0**
Capital increase	10,230		4,087		**14,317**
Authorized capital increase	625	–625			**0**
Share-based compensation			636		**636**
Sale of treasury shares		42	–36		**6**
As at 30.6.2015	**17,675**	**–625**	**11,332**	**–3,822**	**24,560**
As at 31.12.2015	**17,675**	**0**	**11,526**	**–7,606**	**21,595**
Translation differences				125	125
Net result 1.1-30.6.2016				84	84
As at 30.6.2016	**17,675**	**0**	**11,526**	**–7,397**	**21,804**

Abridged consolidated half-year statements as at 30 June 2016

Abridged consolidated cash flow statement

CHF 1,000	1st half of 2016	1st half of 2015	2015
Cash flow from operating activities	8,087	–3,119	-4,581
Cash flow from investment activities	–419	–350	–789
Free cash flow	7,668	–3,469	**–5,370**
Cash flow from financing activities	–79	4,162	4,849
Change in cash and cash equivalents	7,589	657	**–521**
Cash and cash equivalents as at 1 January	2,644	3,398	3,398
Change in cash and cash equivalents	7,589	657	**–521**
Impact of exchange rate on cash and cash equivalents	15	–286	–233
Cash and cash equivalents as at 30 June / 31 December	10,248	3,769	2,644

Abridged consolidated half-year statements as at 30 June 2016

Notes to the abridged consolidated half-year financial statements

1 Accounting principles

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

The abridged consolidated half-year financial statements have been prepared in accordance with the provisions of Swiss company law and are in accordance with Swiss GAAP FER 12. The abridged consolidated half-year financial statements do not include all the details as they are included in the consolidated annual financial statements, and should be read in conjunction with the consolidated annual financial statements as at 31 December 2015. These abridged half-year financial statements have not been audited or reviewed by the auditors.

The preparation of the abridged consolidated half-year financial statements requires management to make estimates and assumptions that affect the reported amounts of income, expenses, assets, liabilities and contingent liabilities at the balance sheet date. The estimates and assumptions made by the management to the best of its knowledge and belief as of the balance sheet date may deviate from the actual circumstances in the future. In this case, the original estimates and assumptions will be adjusted to the respective reporting year in which the circumstances occurred.

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

2 Segment information

1st half of 2016

CHF 1,000	Welding	Weaving	**Total segments**	Total
Net sales to third parties	31,199	8,598	**39,797**	39,797

1st half of 2015

CHF 1,000	Welding	Weaving	**Total segments**	Total
Net sales to third parties	33,150	8,977	**42,127**	42,127

Abridged consolidated half-year statements as at 30 June 2016

3 Income statement

Net sales for the first half of 2016 were down on the prior-year period to CHF 39.8 million (1st half of 2015: CHF 42.1 million). The package of measures immediately introduced in January 2015 to cushion against the appreciation of the Swiss Franc is having the positive effect anticipated, and Schlatter was able to increase its gross margin.

Due to the absence of the management share-ownership programme executed in financial year 2015 in connection with the capital increase, which for accounting reasons required a one-time charge to be recognized in the income statement, personnel expense was down sharply to CHF 16.6 million (1st half of 2015: CHF 17.3 million).

Other operating expense showed a further decline compared with the first half of 2015 to CHF 4.4 million (1st half of 2015: CHF 4.7 million).

Depreciation and amortization remained at a similar level to the same period of 2015.

Financial income consists primarily of gains on currency forwards and realized foreign exchange gains on various transactions. Financial expense mainly includes interest expense and losses on currency forwards.

Some Group companies generated a pre-tax profit, which resulted in income tax expense.

Net result as at 30 June 2016 was CHF 0.1 million (30 June 2015: net loss of CHF 2.8 million).

4 Balance sheet

The net cash position rose from CHF 2.1 million as at 31 December 2015 to CHF 9.7 million. In the first half of the year, Schlatter was able to increase progress payments on customer projects: net assets from construction contracts stood at CHF 15.5 million (31 December 2015: CHF 18.8 million) and net liabilities from construction contracts at CHF 13.2 million compared with CHF 7.2 million as at 31 December 2015.

In the reporting period, a provision of CHF 4.0 million had to be recognized for the risk of a liability event. As there is insurance cover in place for this, the insurance payout was recognized on an accrual basis in prepayments and accrued income, as a result of which this has no impact on the income statement.

Equity increased slightly to CHF 21.8 million as at 30 June 2016 compared with CHF 21.6 million as at 31 December 2015. Total assets as at 30 June 2016 were CHF 57.7 million, compared with CHF 49.1 million at the end of 2015. This results in an equity ratio of 37.8% (31 December 2015: 44.0%).

Abridged consolidated half-year statements as at 30 June 2016

5 Free cash flow

The Schlatter Group generated a positive free cash flow of CHF 7.7 million in the first six months of the reporting period (1st half of 2015: CHF –3.1 million). Net working capital declined to CHF 10.8 million due to the high level of payments received in the first half of the year (31 December 2015: CHF 17.6 million). Investments remained unchanged year on year at CHF 0.4 million (H1 2015: CHF 0.4 million).

6 Loan arrangements

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

No cash facilities had been drawn down as at 30 June 2016; drawings on the contingency facilities amounted to CHF 10.1 million, however (31 December 2015: CHF 9.1 million).

7 Exchange rates

	30.6.2016	30.6.2015	31.12.2015	**1st half of 2016**	1st half of 2015	2015
CHF 1	Exchange rates at balance sheet date			Average rates		
1 EUR	**1.09**	1.04	1.08	**1.10**	1.06	1.07
1 USD	**0.98**	0.93	0.99	**0.98**	0.95	0.96
1 GBP	**1.31**	1.47	1.47	**1.41**	1.44	1.47
1 BRL	**0.30**	0.30	0.25	**0.26**	0.33	0.30
1 MYR	**0.24**	0.25	0.23	**0.24**	0.26	0.25

8 Earnings per share

	30.6.2016	30.6.2015	31.12.2015
Net result attributable to shareholders of Schlatter Industries AG (CHF 1,000)	**84**	–2,810	–6,870
Number of registered shares issued with a par value of CHF 16.00	**1,104,704**	1,104,704	1,104,704
Number of registered shares, weighted	**1,104,704**	540,134	827,600
Average number of registered shares held as treasury shares	**–**	–379	–1,905
Total average number of dividend-bearing registered shares	**1,104,704**	**539,755**	**825,695**
Basic earnings per share (CHF)	**0.08**	–5.21	–8.32

Abridged consolidated half-year statements as at 30 June 2016

9 Contingent liabilities

On 19 June 2014, a civil action was filed against Schlatter North America in the USA. On 21 August 2013, a serious occupational accident occurred at an American customer's reinforcing mesh plant.

The action was filed against nine parties involved in the design, construction and operation of the factory, including Schlatter North America. During the construction of the factory from 1991 to 1992, Schlatter North America was responsible for designing and procuring the plant and equipment.

Over the past two years, witnesses for all parties have been heard and expert opinions prepared, and it was not evident that there was a risk of Schlatter having to pay compensation. Based on the latest assessment, Schlatter believes that there is the risk of a compensation payment; this is estimated to be CHF 4.0 million and is covered by liability insurance. In the half-year financial statements, a provision was therefore recognized to this amount and an equal amount recognized on an accrual basis in prepayments and accrued income for the expected insurance payout. The amount of the actual compensation payment is uncertain and may ultimately be higher or lower. The amount of CHF 4.0 million is a best estimate taking into account all available information.

In addition, there is the risk that the injured party could also file an action against Schlatter North America and other parties for punitive damages. Such an action, or the potential punitive damages arising from it, would not be covered by any insurance policy. Any potential penalty may depend on the severity of the offence, taking into account the defendant's assets. At the present time, it is impossible to predict whether such an action will be filed and how a court would rule.

As a precautionary measure, all parties filed cross claims against every other party. At the present time, it is impossible to estimate how this will affect any potential liability risk for the Schlatter Group.

10 Events after the balance sheet date

The abridged consolidated half-year financial statements were authorized for issue by the Board of Directors on 12 August 2016.

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