# To our shareholders

While the second half of 2013 was marked by very cautious investment activity, the market environment has gained momentum in 2014. In the first half of 2014, the Schlatter Group has shown a significantly higher order intake of CHF 61.0 million (H1 2013: CHF 51.6 million). The Schlatter Group started the current financial year with a low order backlog of CHF 27.1 million (previous year: CHF 40.0 million). This led to a shortfall in capacity utilisation in the first four months and a decline in consolidated net sales to CHF 44.8 million (H1 2013: CHF 49.9 million). The operating profit for the first half of 2014 amounted to CHF –0.6 million (H1 2013: CHF 0.1 million). The order backlog at June 30, 2014 amounts to CHF 43.4 million (30.6.2013: CHF 41.6 million). Consolidated net profit for the first half of 2014 amounted to CHF –1.0 million (H1 2013: CHF –0.2 million). The weaving segment achieved a balanced operating result; but the welding segment posted a negative result. For the second half of 2014, the Schlatter Group has good capacity utilisation. A positive result is still expected for the full year.

**Schlatter Group**

After the break-even result for the previous year, the Schlatter Group has posted a negative operating result of CHF –0.6 million for the first half of 2014, due to the weak order intake of the second half of 2013. The overall position of the Group should, however, still be regarded as positive. Order intake in the first half of 2014 progressed as expected, so that good capacity utilisation is ensured at both the Schlieren and Münster sites and a positive result can be achieved by year end. Further capacity adjustments are not planned. The primary objective is to ensure that the Schlatter Group again grows profitable. In addition to securing the order intake, the focus is therefore geared upon a rapid implementation of the product development roadmap. Bringing our innovation projects to full fruition, however, requires a little patience. We anticipate a transition period of about two years, until the major developments, particularly in the area of machinery for reinforced mesh, are ready for the market. Meanwhile the structure of the Schlatter Group is so adjusted that it can achieve positive results even in the current market conditions.

In the first half of 2014, the Schlatter Group achieved consolidated net sales of CHF 44.8 million (H1 2013: CHF 49.9 million). The decline can be put down to the weak order intake in the second half of 2013. As at June 30, 2014, the Schlatter Group had an order backlog of CHF 43.4 million (1.1.2014: CHF 27.1 million / 30.6.2013: CHF 41.6 million). The operating result (EBIT) amounted to CHF –0.6 million (H1 2013: CHF 0.1 million).

A variety of measures in procurement, logistics, production and fabrication as well as a streamlined product mix contributed to slightly increasing the gross margin.

Net working capital (excluding cash and cash equivalents, current financial assets, financial liabilities and provisions) increased in the reporting period slightly to CHF 11.9 million (31.12.2013: CHF 10.5 million). Free cash flow for the first half of 2014 amounts to CHF –1.3 million (31.12.2013: CHF –2.5 million). The resulting net debt amounted to CHF –3.6 million (31.12.2013: CHF –2.2 million).

Compared to the beginning of 2014, the headcount (excluding apprentices) was slightly lower at 301 full-time employees (previous year: 319).

**Markets**

The market environment of the turnover generating wire product segment, which has faced significant volume loss and declining margins in recent years, has somewhat stabilised. Due to the still uncertain economic environment in the Euro zone, customers in the steel industry in the area of reinforcing mesh are still under pressure and holding back on investments. The customers' confidence in the market is, however, likely to increase, and we expect a slight recovery in 2015. In the area of industrial mesh, our new flexible and productive generation of MG950 machines, recently introduced to the market, has been very positively received and triggered numerous replacement investments in Europe.

The overall market for rail welding is still considered as satisfactory by the Schlatter Group; anticipated orders for first half of the year were, however, delayed.

In the weaving segment, the expected decline in demand has been felt, and only a few new machines have been sold. The demand for refurbishment of machinery, however, has increased greatly. The Schlatter Group had adapted working capacity to this situation in good time, so that the Münster site is still able to achieve positive results.

**Welding segment**

The welding segment showed an order intake in the first half of 2014 of CHF 51.1 million (H1 2013: CHF 36.8 million). The increase is due, amongst others, to a major order in the reinforced mesh sector. In the wire product segment, order intake is in line with expectations; in the rail welding product segment orders have been delayed. In the first six months of 2014, the segment achieved net sales of CHF 33.0 million (H1 2013: CHF 38.3 million). The decrease is the result of low capacity utilisation in the first four months of the current financial year due to the weak order intake of the previous year. The order backlog as of June 30, 2014 was significantly increased to CHF 33.6 million compared to June 30, 2013 and, in particular when compared to the beginning of the year (31.12.2013: CHF 15.3 million). The operating result (EBIT) for the first half of 2014 at CHF –0.9 million (H1 2013: CHF –0.2 million) is unsatisfactory.

**Weaving segment**

Order intake in the weaving segment, at CHF 9.9 million, was well below the previous year's figure (H1 2013: CHF 14.4 million). This reduction was already foreseeable in the previous year. The Schlatter Group had therefore already taken steps to adjust capacity. Demand from China is low after the recent boom years; currently only a limited number of new plants are being sold. However, there is a strong demand for refurbishment and upgrades. We expect an increase in orders for new installations as from 2015.

In the first six months of 2014, the segment generated net sales of CHF 11.8 million (H1 2013: CHF 11.6 million) and an operating profit (EBIT) of CHF 0.3 million (H1 2013: CHF 0.3 million). The order backlog as of June 30, 2014 amounted to CHF 9.8 million (31.12.2013: CHF 23.0 million). Thanks to the capacity adjustments, the break-even point at the Münster site could be further reduced. The weaving business continues to be volatile. Therefore in Münster, further measures will be implemented, which should increase profitability.

**Outlook**

In the first half of the year, the market environment in the welding segment has again become active, and the outstanding work load will ensure a good capacity utilisation at both the Schlieren and Münster sites until the end of the year.

Due to the current order backlog and further improvement measures to productivity and margins, we continue to strive for a positive result for 2014. In parallel, we will push forward our innovation projects with top priority.

Paul Zumbühl<br>Chairman of the Board of Directors

Werner Schmidli<br>Chief Executive Officer

## Schlatter Group key figures

| | | 1st half of 2014 | 1st half of 2013 | 2nd half of 2013 | 2013 |
|---|---|---|---|---|---|
| **Net sales** | **CHF million** | **44.8** | **49.9** | **47.0** | **96.9** |
| Change compared to previous year | % | **–10.3** | –17.8 | –14.2 | –16.1 |
| **Operating result (EBIT)** | **CHF million** | **–0.6** | **0.1** | **0.5** | **0.6** |
| in % of net sales | % | **–1.3** | 0.3 | 1.0 | 0.6 |
| **Net profit** | **CHF million** | **–1.0** | **–0.2** | **0.2** | **0.02** |
| in % of net sales | % | **–2.2** | –0.4 | 0.5 | 0.0 |
| **Net profit per share** | **CHF** | **–2.29** | **–0.46** | **0.51** | **0.06** |
| | | | | | |
| **Order intake** | **CHF million** | **61.0** | **51.6** | **32.4** | **84.0** |
| **Order backlog at period end** | **CHF million** | **43.4** | **41.6** | **27.1** | **27.1** |
| **Free cash flow**[1] | **CHF million** | **–1.3** | **–2.7** | **0.2** | **–2.5** |
| | | | | | |
| **Headcount at period end**[2] | **FTEs** | **301** | **319** | **313** | **313** |
| Average headcount | FTEs | **310** | 331 | 316 | 323 |
| **Net sales per employee**[3] | **CHF 1,000** | **289** | **302** | **297** | **300** |
| | | | | | |
| | | 30.6.2014 | 31.12.2013 | | |
| **Interest-bearing liabilities** | **CHF million** | **6.2** | **6.5** | | |
| **Net financial position (debt)**[4] | **CHF million** | **–3.6** | **–2.2** | | |
| **Gearing**[5] | **%** | **26.0** | **14.9** | | |
| | | | | | |
| **Current assets** | **CHF million** | **35.0** | **37.3** | | |
| **Non-current assets** | **CHF million** | **11.8** | **12.6** | | |
| **Liabilities** | **CHF million** | **33.0** | **35.1** | | |
| **Equity** | **CHF million** | **13.8** | **14.8** | | |
| **Equity ratio** | **%** | **29.6** | **29.7** | | |

[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] Half year figures annualised
[4] Net financial position (debt): cash and cash equivalents plus short-term financial assets (excl. derivatives used in hedging currency) minus interest-bearing liabilities
[5] Gearing: net financial position (debt) 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 June 30, 2014**

# Consolidated Balance Sheet

**Assets**

| CHF 1,000 | 30.6.2014 | 31.12.2013 |
|---|---|---|
| Cash and cash equivalents | 2,537 | 4,251 |
| Current investments | 22 | 42 |
| Accounts receivable for goods and services | 5,370 | 4,875 |
| Current income tax receivables | 90 | 95 |
| Other receivables | 2,775 | 3,336 |
| Receivables from production orders in progress | 11,031 | 9,929 |
| Inventories | 12,933 | 14,322 |
| Accrued income | 207 | 93 |
| **Current assets** | **34,965** | **36,943** |
| | | |
| Property, plant and equipment | 7,817 | 8,303 |
| Intangible assets | 3,270 | 3,520 |
| Financial assets | 0 | 1 |
| Deferred tax assets | 743 | 729 |
| **Non-current assets** | **11,830** | **12,553** |
| | | |
| **Total assets** | **46,795** | **49,496** |

**Liabilities**

| CHF 1,000 | 30.6.2014 | 31.12.2013 |
|---|---|---|
| Accounts payable for goods and services | 7,119 | 10,051 |
| Liabilities from production orders in progress | 7,973 | 7,029 |
| Current income tax liabilities | 62 | 14 |
| Other payables | 1,769 | 1,762 |
| Accrued liabilities | 3,632 | 3,280 |
| Financial debt | 6,152 | 6,497 |
| Current provisions | 3,484 | 3,387 |
| **Current liabilities** | **30,191** | **32,020** |
| | | |
| Pension liabilities | 2,237 | 2,182 |
| Provisions | 364 | 365 |
| Deferred tax liabilities | 171 | 142 |
| **Non-current liabilities** | **2,772** | **2,689** |
| | | |
| **Total liabilities** | **32,963** | **34,709** |
| | | |
| Share capital | 13,465 | 13,465 |
| Treasury shares | –42 | –42 |
| Retained earnings | 409 | 1,364 |
| **Total equity** | **13,832** | **14,787** |
| | | |
| **Total liabilities and equity** | **46,795** | **49,496** |

**Abridged consolidated half-year statements as at June 30, 2014**

## Consolidated Income Statement

| CHF 1,000 | 1st half of 2014 | 1st half of 2013 | 2013 |
|---|---|---|---|
| **Net sales from goods and services** | **44,757** | **49,916** | **96,924** |
| Other operating income | **302** | 273 | 1,024 |
| Change in semi-/finished goods, work in process | **–2,771** | –2,331 | –2,376 |
| Material and service expenses | **–19,376** | –24,971 | –49,434 |
| Personnel expenses | **–17,139** | –16,877 | –33,741 |
| Other operating expenses | **–5,341** | –4,750 | –9,767 |
| Depreciation and amortisation | **–1,032** | –1,121 | –2,040 |
| **Operating result (EBIT)** | **–600** | **139** | **591** |
| Financial income | **240** | 464 | 597 |
| Financial expenses | **–531** | –755 | –1,220 |
| **Net profit before tax** | **–891** | **–152** | **–32** |
| Income tax expenses | **–84** | –43 | 56 |
| **Net profit** | **–975** | **–195** | **24** |
| | | | |
| Basic earnings per share (in CHF) | **–2.29** | –0.46 | 0.06 |

**Abridged consolidated half-year statements as at June 30, 2014**

## Consolidated statement of equity

| CHF 1,000 | Share capital | Treasury shares | Other retained earnings | **Total equity** |
|---|---|---|---|---|
| **As at 31.12.2012 FER** | **13,465** | **–42** | **1,435** | **14,858** |
| Translation differences | | | 169 | **169** |
| Net profit 1.1.–30.6.2013 | | | –195 | **–195** |
| Merger loss Schlatter Holding/Schlatter Industries | | | –2 | **–2** |
| **As at 30.6.2013 FER** | **13,465** | **–42** | **1,407** | **14,830** |
| | | | | |
| **As at 31.12.2013 FER** | **13,465** | **–42** | **1,364** | **14,787** |
| Translation differences | | | 20 | **20** |
| Net profit 1.1.–30.6.2014 | | | –975 | **–975** |
| **As at 30.6.2014 FER** | **13,465** | **–42** | **409** | **13,832** |

**Abridged consolidated half-year statements as at 30 June 2014**

## Abridged consolidated cash flow statement

| CHF 1,000 | 1st half of 2014 | 1st half of 2013 | 2013 |
|---|---|---|---|
| Cash flow from operating activities | –961 | –2,581 | –1,736 |
| Cash flow from investment activities | –295 | –82 | –565 |
| **Free cash flow** | **–1,256** | **–2,663** | **–2,301** |
| Cash flow from financing activities | –444 | 1,387 | –272 |
| **Change in cash and cash equivalents** | **–1,700** | **–1,276** | **–2,573** |
| Cash and cash equivalents as at January 1 | 4,251 | 6,781 | 6,781 |
| Change in cash and cash equivalents | –1,700 | –1,276 | –2,573 |
| Impact of exchange rate on cash and cash equivalents | –14 | 69 | 43 |
| Cash and cash equivalents as at June 30 / December 31 | 2,537 | 5,574 | 4,251 |

**Abridged consolidated half-year statements as at June 30, 2014**

# 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 December 31, 2013. 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.

**Abridged consolidated half-year statements as at June 30, 2014**

## 2 Segment information

| CHF 1,000 | Welding | Weaving | **Total segments** | 1st half of 2014 Total |
|---|---|---|---|---|
| Net sales to third parties | 33,017 | 11,740 | **44,757** | 44,757 |

| CHF 1,000 | Welding | Weaving | **Total segments** | 1st half of 2013 Total |
|---|---|---|---|---|
| Net sales to third parties | 38,348 | 11,568 | **49,916** | 49,916 |

## 3 Income statement

Net sales of the first half of 2014 amounted to CHF 44.8 million (H1 2013: CHF 49.9 million). The decrease is mainly explained by the low capacity utilisation in the first half year in the welding segment due to the low order backlog at December 31, 2013.

The gross margin (net sales plus other operating revenue minus inventory-changes and material / service expenses) continues to show an upward trend. Comprehensive measures to improve the margin, particularly in the areas of procurement, logistics, manufacturing and fabrication and a streamlined product mix have contributed to this.

Personnel costs are slightly higher than in the same period for 2013. Causes include wage increases and the short-time work compensation obtained in the previous year in Germany.

The increase in other operating expenses is due in part to higher maintenance costs for buildings and facilities. In addition, higher rental expenses were incurred, as the temporary deferment of rent for the last two years has expired. Furthermore, the biennial trade fair "Wire" in Düsseldorf led to additional costs.

Depreciation and amortisation remained at a similar level to in the same period of 2013.

**Abridged consolidated half-year statements as at June 30, 2014**

The low order backlog as at December 31, 2013 and the associated weak sales in the first half year resulted in an EBIT of CHF –0.6 million (EBIT H1 2013: CHF 0.1 million). This result is in line with expectations.

Financial income consists primarily of gains from foreign exchange forward transactions and unrealised gains on various transactions. Financial expenses consist primarily of interest expense and losses from forward exchange contracts.

Some Group companies generated a profit before tax, resulting in a small income tax expense.

Net profit as at June 30, 2014 amounted to CHF –1.0 million (30.6.2013: CHF –0.2 million).

## 4 Balance sheet

Shareholders' equity as at June 30, 2014 amounted to CHF 13.8 million, below the value at the end of 2013 (CHF 14.8 million). Total assets as at June 30, 2014 amounted to CHF 46.8 million compared to CHF 49.5 million at year end. This results in an equity ratio of 29.6% (31.12.2013: 29.9%).

Net debt as at June 30, 2014 amounted to CHF 3.6 million. At December 31, 2013, they amounted to CHF 2.2 million.

In the first half of 2014, no shares were issued under the share ownership programme to the Board or the Executive Committee.

## 5 Free cash flow

In the first six months of the fiscal year, the Schlatter Group generated a negative free cash flow of CHF –1.3 million (H1 2013: CHF –2.7 million). Since the beginning of 2014, net working capital increased by 1.4 million to CHF 11.9 million. Investments amounted to CHF 0.3 million (H1 2013: CHF 0.1 million).

**Abridged consolidated half-year statements as at June 30, 2014**

## 6 Credit conditions

The Schlatter Group has credit agreements which are granted until November 30, 2014. The bank credit facilities (loan facilities and contingent facilities), permitting operating activities to be maintained, amount to a total of CHF 26.25 million. These may be used for short-term loans up to an amount of CHF 12.5 million. The eventual limits are partially tied to conditions associated with bond guarantees of the Swiss Export Risk Insurance SERV. Total usage must not exceed the bank credit facility of CHF 26.25 million. The loans are subject to covenants.

Maintaining this line of credit is conditional to compliance with the following covenants:

as at June 30, 2014 (cumulated): EBITDA at least CHF 1.3 million
as at September 30, 2014 (cumulated): EBITDA at least CHF 2.0 million

The condition was not fulfilled as at June 30, 2014. The credit granting banks have waived their right to terminate the agreement.

As at June 30, 2014, the credit facilities were being used to the amount of 6.2 million (31.12.2013: CHF 6.5 million) for loan facilities and CHF 11.4 million for contingent facilities (31.12.2013: CHF 13.3 million).

## 7 Exchange rates

| | **30.6.2014** | 30.6.2013 | 31.12.2013 | **1st half of 2014** | 1st half of 2013 | 2013 |
|---|---|---|---|---|---|---|
| CHF 1 | Exchange rates at balance sheet date | | | Average rates | | |
| 1 EUR | **1.22** | 1.23 | 1.23 | **1.22** | 1.23 | 1.23 |
| 1 USD | **0.91** | 0.94 | 0.90 | **0.89** | 0.94 | 0.93 |
| 1 GBP | **1.52** | 1.44 | 1.47 | **1.49** | 1.45 | 1.45 |
| 1 BRL | **0.40** | 0.43 | 0.38 | **0.39** | 0.46 | 0.44 |
| 1 MYR | **0.28** | 0.30 | 0.28 | **0.27** | 0.31 | 0.30 |

## 8 Earnings per share

| | **30.6.2014** | 30.6.2013 | 31.12.2013 |
|---|---|---|---|
| Net profit attributable to shareholders of Schlatter Industries AG (in CHF 1,000) | **–975** | –195 | 24 |
| Number of registered shares issued with a par value of CHF 31.59 | **426,250** | 426,250 | 426,250 |
| Number of registered shares issued, weighted | **426,250** | 426,250 | 426,250 |
| Average number of registered shares held as treasury shares | **–169** | –169 | –169 |
| **Total average number of dividend-bearing registered shares** | **426,081** | **426,081** | **426,081** |
| | | | |
| Basic earnings per share (in CHF) | **–2.29** | –0.46 | 0.06 |

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

**Abridged consolidated half-year statements as at June 30, 2014**

## 9 Events occurring after the balance sheet date

The abridged consolidated half-year financial statements were approved for publication by the Board of Directors on August 15, 2014.



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