schlatter
the secure connection

To our shareholders

The Schlatter Group has significantly improved its cost structure and achieved its set targets in the first half of 2013. The market environment remains in an unchanged difficult situation, following a reduction of its capacities, Schlatter is now well-positioned in its economic environment with regard to its structure and size. In the first half of 2013, the Schlatter Group achieved an order intake of CHF 51.6 million (previous year: CHF 67.6 million) which corresponds to the expectations and the capacities available after the re-orientation. The order backlog of CHF 41.6 as at 30/06/2013 lies accordingly lower than in the corresponding period of the previous year (CHF 57.7 million). The measures taken show their effect, which was also reflected in a slightly positive EBIT of CHF 0.1 million (previous year: CHF –12.0 million). The net profit for the first half of 2013 amounted to CHF –0.2 million (H1 2012: CHF –12.6 million). The Welding and Weaving segments both achieved a balanced operating result.

Schlatter Group

The starting position of Schlatter Group is now significantly better than a year ago: With a balanced operating result in the first half of 2013, Schlatter Group has reached an important milestone for sustainable recovery after the losses of previous years and the capacity adaptation initiated in 2012 at sites in Schlieren and Münster. Due to the implemented measures, the Group is now set up so that it can compete profitably even under the current difficult conditions.

In the first half of 2013, the Schlatter Group achieved consolidated net sales of CHF 49.9 million (H1 2012: CHF 60.7 million). On the one hand, the decline is due to the streamlining of the product portfolio in the Wire area and the abandonment of the new installations business in the area of radiators. On the other hand, the order intake in the Weaving segment decreased substantially in the second half of 2012. As at 30/06/2013, the Schlatter Group had an order backlog of CHF 41.6 million (previous year: CHF 57.7 million).

The operating result (EBIT) amounts to CHF 0.1 (previous year: CHF –12.0 million), whereby in the previous year, additional expenditures of CHF 6.7 arose due to devaluations. The gross margin increased slightly.

The net working capital (excluding cash and cash equivalents, short-term investments, borrowings and provision) increased due to a less favourable financing situation of the projects to CHF 11.2 million during the reporting period (31/12/2012: CHF 8.8 million). The free cash flow for the first half of 2013 amounts to CHF –2.7 million (31/12/2012: CHF –13.0 million). The resulting net debt amounts to CHF –2.2 million (31/12/2012: net financial position of CHF 0.7 million).

The workforce has been reduced by 38 full-time positions since the beginning of 2013 and was at 319 full-time employees on 30/06/2013 (previous year: 429).

Markets

The market environment of the revenue-supporting business segment Wire, which was confronted with significant volume losses and declining margins, has still not improved. Due to the continuously unstable economic environment in the Euro zone, customers in the steel-processing industry, especially in the area of reinforcement grid, are still pressurised and maintain their investments at low levels. Furthermore, Schlatter is facing industry-wide excess capacities and an intensive price war.

In the area of Rail Welding, a declining market activity has especially been noted in China. Schlatter Group considers the total market for rail welding as continuously satisfactory.

The declining activity of the Chinese markets has resulted in a decreased demand in the Weaving segment also. However, the Schlatter Group has adjusted its work capacities to this situation in good time.

Welding segment

The Welding segment posted an order intake of CHF 36.8 million in the first semester of 2013 (H1 2012: CHF 41.7 million). In the product area of Wire, as well as in the product section of Rail Welding, order intake is according to expectations. The Welding segment achieved net sales of CHF 38.3 million in the first semester of 2013 (H1 2012: CHF 38.9 million). The order backlog was approximately maintained as at 30/06/2013 with CHF 26.8 million compared to the previous year (31/12/2012: CHF 28.0 million). The operating result (EBIT) for the first half of 2013 could be increased significantly to CHF –0.2 million (H1 2012: CHF –12.6 million). The previous year was impacted by the previously mentioned one-time write-downs of CHF 6.7 million.

Weaving segment

The order intake in the Weaving segment amounted to CHF 14.4 million and lay significantly under last year's value (H1 2012: CHF 25.3 million). This decline had been predictable in the previous year, which is why in 2012 the adjustment of capacity was conducted early. The decrease is primarily due to the lower demand from China. In the first six months of 2013, the segment recorded net sales of CHF 11.6 million (H1 2012: CHF 21.8 million) and an operating profit (EBIT) of CHF 0.3 million (H1 2012: CHF 0.7 million). The order backlog as at 30/06/2013 was at CHF 14.8 million (31/12/2012: CHF 24.4 million). The reduction in volume led to a decline in profitability, but due to the capacity adjustments, the income threshold was reduced. In the Weaving segment, further measures are developed and implemented, which should serve to increase the profitability.

Outlook

The market environment weakened towards the middle of the year, which is why Schlatter Group is expecting another declining order intake in the second half of 2013. Moreover, the operating performance is due to season-related reasons slightly lower in the second semester, which will continue to render the achievement of a balanced result challenging. Due to the achieved results as well as further measures for an efficiency increase, an improved margin and a cost decrease, we continue to seek a balanced result for 2013.

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

Schlatter Group key figures

		1st half of 2013	1st half of 2012	2nd half of 2012	2012
Net sales	**CHF million**	**49.9**	**60.7**	**54.8**	**115.5**
Change compared to previous year	%	–17.8	7.6	–10.6	–1.9
Operating result (EBIT)	**CHF million**	**0.1**	**–12.0**	**–10.0**	**–22.0**
in % of net sales	%	0.3	–19.7	–18.3	–19.0
Net profit	**CHF million**	**–0.2**	**–12.6**	**–9.8**	**–22.4**
in % of net sales	%	–0.4	–20.7	–17.9	–19.4
Earnings per share	**CHF**	**–0.46**	**–29.54**	**–23.00**	**–52.54**
Order intake	**CHF million**	**51.6**	**67.6**	**37.0**	**104.6**
Order backlog at period end	**CHF million**	**41.6**	**57.7**	**40.0**	**40.0**
Free cash flow[1]	**CHF million**	**–2.7**	**–14.8**	**1.7**	**–13.0**
Headcount at period end[2]	**FTEs**	**319**	**429**	**357**	**357**
Average headcount	FTEs	331	443	405	424
Net sales per employee[3]	**CHF 1,000**	**302**	**274**	**271**	**272**
		30/06/2013	31/12/2012		
Interest-bearing liabilities	**CHF million**	**7.9**	**6.3**		
Net financial position (debt)[4]	**CHF million**	**–2.2**	**0.7**		
Gearing[5]	**%**	**14.8**	**0.0**		
Current assets	**CHF million**	**44.2**	**46.5**		
Non-current assets	**CHF million**	**12.8**	**13.7**		
Liabilities	**CHF million**	**42.2**	**45.3**		
Equity	**CHF million**	**14.8**	**14.9**		
Equity ratio	**%**	**26.0**	**24.7**		

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)[4]: cash and cash equivalents plus short-term financial assets (excluding derivatives used in hedging currency) minus interest-bearing liabilities
5 Gearing: net debt divided by equity

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 financial statements as at 30 June 2013

Consolidated Balance Sheet

Assets

CHF 1000	30/06/2013	31/12/2012
Cash and cash equivalents	5,574	6,781
Current investments	100	197
Accounts receivable for goods and services	4,808	4,726
Current income tax receivables	333	177
Other receivables	2,674	3,183
Receivables from production orders in progress	17,625	16,349
Inventories	12,726	14,973
Accrued income	368	128
Current assets	**44,208**	**46,514**
Property, plant and equipment	8,669	9,374
Intangible assets	3,417	3,574
Financial assets	1	1
Deferred tax assets	690	703
Non-current assets	**12,777**	**13,652**
Total assets	**56,985**	**60,166**

Liabilities

CHF 1000	30/06/2013	31/12/2012
Accounts payable for goods and services	12,674	10,520
Liabilities from production orders in progress	7,908	12,107
Current income tax liabilities	81	143
Other payables	2,063	2,798
Accrued liabilities	4,636	5,186
Financial debt	7,871	6,300
Current provisions	4,215	5,583
Current liabilities	**39,448**	**42,637**
Pension liabilities	2,070	1,964
Current provisions	489	559
Deferred tax liabilities	148	148
Non-current liabilities	**2,707**	**2,671**
Total liabilities	**42,155**	**45,308**
Share capital	13,465	13,465
Treasury shares	–42	–42
Retained earnings	1,407	1,435
Total equity	**14,830**	**14,858**
Total liabilities and equity	**56,985**	**60,166**

Abridged consolidated half-year financial statements as at 30 June 2013

Consolidated Income Statement

CHF 1000	1st half of 2013	1st half of 2012	2012
Net sales from goods and services	**49 916**	**60,742**	**115 537**
Other operating income	**273**	172	441
Material and service expenses	**–27,302**	–36,720	–70,679
Personnel expenses	**–16,877**	–24,089	–45,327
Other operating expenses	**–4,750**	–6,565	–14,698
Depreciation and amortisation	**–1,121**	–5,512	–7,275
Operating result (EBIT)	**139**	–11,972	–22,001
Financial income	**464**	623	1,307
Financial expenses	**–755**	–674	–1,341
Profit before tax	**–152**	**–12,023**	**–22,035**
Income tax expenses	**–43**	–564	–352
Net profit	**–195**	**–12,587**	**–22,387**
Basic earnings per share (in CHF)	**–0.46**	–29.54	–52.54

Abridged consolidated half-year financial statements as at 30 June 2013

Consolidated statement of equity

CHF 1000	Share capital	Treasury shares	Capital reserves	Translation differences	Fair value reserve	Other retained earnings	**Total equity**
As at 31/12/2011 IFRS	**25,575**	**–42**	**26,116**	**–3,220**	**206**	**–7,543**	**41,092**
Reconciliation IFRS to FER						–3,396	**–3,396**
Transfer to retained earnings				3,220	–206	–3,014	**0**
As at 31/12/2011 FER	**25,575**	**–42**	**26,116**	**0**	**0**	**–13,953**	**37,696**
Translation differences						–167	**–167**
Net profit 01/01-30/06/2012[1]						–12,587	**–12,587**
As at 30/06/2012 FER	**25,575**	**–42**	**26,116**	**0**	**0**	**–26,707**	**24,942**
As at 31/12/2012 FER	**13,465**	**–42**	**0**	**0**	**0**	**1,435**	**14,858**
Translation differences						169	**169**
Net profit 01/01-30/06/2013						–195	**–195**
Merger loss Schlatter Holding / Schlatter Industries						–2	**–2**
As at 30/06/2013 FER	**13,465**	**–42**	**0**	**0**	**0**	**1,407**	**14,830**

[1] According to interim financial statements published in the previous year, profit as at 30/06/2012 amounted to IFRS TCHF **–**12,559. The deviation to the profit FER as at 30/06/2012 is explained in note 7.

Abridged consolidated half-year financial statements as at 30 June 2013

Abridged consolidated cash flow statement

CHF 1000	**1st half of 2013**	1st half of 2012	2012
Cash flow from operating activities	**–2,581**	–12,242	–10,488
Cash flow from investment activities	**-82**	–2,511	–2,554
Free cash flow	**–2,663**	**–14,753**	**–13,042**
Cash flow from financing activities	**1,387**	–2,800	–680
Change in cash and cash equivalents	**–1,276**	**–17,553**	**–13,722**
Cash and cash equivalents as at January 1	**6,781**	20,580	20,580
Impact of exchange rate on cash and cash equivalents	**69**	–22	–77
Cash and cash equivalents as at June 30 / December 31	**5,574**	3,005	6,781

Abridged consolidated half-year financial statements as at 30 June 2013

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 is 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 31/12/2012. These abridged half-year financial statements have not been audited or reviewed by the auditors.

To ensure comparability with the previous period, the IFRS-based half-year figures published as at 31/12/2012 were adjusted to the provisions of Swiss GAAP FER. Please refer to note 7 for details.

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 financial statements as at 30 June 2013

2 Segment information

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

				1st half of 2012
CHF 1,000	Welding	Weaving	**Total Segments**	Total
Net sales to third parties	38,901	21,841	**60,742**	60,742

3 Change in scope of consolidation

Due to the decision of the Board of Directors of 21/02/2013, Schlatter Holding AG acquired Schlatter Industries AG retroactively as at 01/01/2013 based on the balance sheet as at 31/12/2012 through merger by absorption (parent-subsidiary merger). Subsequently, Schlatter Holding AG was renamed Schlatter Industries AG

4 Income statement

Net sales for the first half of 2013 amounted to CHF 49.9 million (H1 2012: CHF 60.7 million). The decrease is mainly explained by the decline in the Weaving segment, whose sales over the first half of 2012 decreased by CHF 10.3 million.

The gross margin increased slightly over the same period, and after adjusting of a single devaluation in the first half of 2012 in the warehouse of CHF 2.8 million. The increase in gross margin was achieved despite decreasing production depth, which is reducing the gross margin.

Personnel expenses reflect the implemented restructuring in recent months. The headcount adjusted to market volume reduced manpower costs significantly compared to the same period of 2012.

Thanks to various restructuring measures, operating expenses in the first half of 2013 were reduced by CHF 1.8 million compared to 2012.

Depreciation and amortisation have decreased compared with the values adjusted by the special items (CHF 3.9 million) of the comparative period in 2012 by CHF 0.5 million.

Abridged consolidated half-year financial statements as at 30 June 2013

The slightly positive EBIT amounting to CHF 0.1 million increased significantly compared to the value adjusted by the extraordinary depreciations and value adjustments of the corresponding period in 2012 (EBIT H1 2012 : CHF –12.0 million after special charges of CHF 6.7 million and CHF 5.3 million before special charges).

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

Some group companies generated a profit before tax, which led to a small income tax expense.

The net profit as at 30/06/2013 was CHF –0.2 million (30/06/2012: CHF –12.6 million).

5 Balance sheet

Shareholders' equity as at 30/06/2013 is approximately equivalent with its CHF 14.8 million to the value as at end of 2012 (CHF 14.9 million). Total assets as at 30/06/2013 amounted toCHF 57.0 million compared to CHF 60.2 million as at 31/12/2012. This results in an equity ratio of 26.0% (31/12/2012: 24.7%).

Net debt as at 30/06/2013 amounted to CHF –2.2 million. As at 31/12/2012 there was a net financial position of CHF 0.7 million

In the first half of 2013, no shares were transferred under the stock option plan to the Board or Management.

6 Free cash flow

In the first six months of the reporting period, Schlatter Group generated a negative free cash flow of CHF –2.7 million. Net working capital increased since the start of 2013 from CHF 2.4 million to CHF 11.2 million. Capital expenditures amounted to CHF 0.1 million (H1 2012: CHF 2.5 million). The decrease is mainly explained by the waiver of the capitalisation of development costs.

7 Adjustments IFRS to FER

CHF 1,000	**1st half of 2012 IFRS**	**1st half of 2012 FER**	**Change**
Income tax expenses	**–536**	–564	–28
Net profit	**–12,559**	**–12,587**	**–28**
Earnings per share	**–29.48**	**–29.54**	**–0.06**

From the conversion from IFRS to Swiss GAAP FER in fiscal year 2012, in addition to the effect on income tax expense, there were no further effects on the Group's profit. The change had no further effects on the change in equity between 01/01/2012 and 31/12/2012.

Abridged consolidated half-year financial statements as at 30 June 2013

8 Credit conditions

Schlatter Group has credit agreements which are granted until 30/11/2013. Its bank credit facilities (loan facilities and contingent facilities) that enable operating activities to be maintained amount to a total of CHF 28.0 million (previous year: CHF 35.0 million). These may be used for short-term loans up to an amount of CHF 12.5 million (previous year: CHF 15.0 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 28.0 million. The loans are subject to covenants.

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

as at 30/06/2013 (cumulated): EBITDA at least CHF 0
as at 30/09/2013 (cumulated): EBITDA at least CHF 0

The condition was fulfilled as at 30/06/2013. According to current planning it can be assumed that the condition will be fulfilled also as at 30/09/2013.

As at 30/06/2013, cash facilities were being used in the amount of CHF 7.8 million (previous year: CHF 4.0 million) and CHF 12.6 million of the contingent facilities (previous year: CHF 26.8 million).

9 Exchange rates

	30/06/2013	30/06/2012	31/12/2012	**1st half of 2013**	1st half of 2012	2012
CHF 1	Exchange rates at reference date			Average rates		
1 EUR	**1.23**	1.20	1.21	**1.23**	1.20	1.21
1 USD	**0.94**	0.97	0.91	**0.94**	0.93	0.94
1 GBP	**1.44**	1.50	1.48	**1.45**	1.46	1.49
1 BRL	**0.43**	0.46	0.45	**0.46**	0.50	0.48
1 MYR	**0.30**	0.30	0.30	**0.31**	0.30	0.30

10 Result per share

	30/06/2013	30/06/2012	31/12/2012
Net profit attributable to shareholders of Schlatter Industries AG (in CHF 1,000)	**–195**	–12,587	–22,387
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)	**–0.46**	–29.54	–52.54

Due to the resolution of the extraordinary General Meeting of 06/12/2012, the nominal value of a share was reduced by means of a declarative capital reduction from CHF 60.00 to CHF 31.59.

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

Abridged consolidated half-year financial statements as at 30 June 2013

11 Contingent liabilities

In the first half of 2013, there were no significant changes.

12 Events occurring after the balance sheet date

The abridged consolidated half-year financial statements were approved for publication by the Board on 15/08/2013.

Schlatter Industries AG

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