

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.

Ladies and Gentlemen

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). As at December 31, 2016, the order backlog stood at CHF 49.0 million (December 31, 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), Schlatter Group ended the 2016 financial year with a small profit, in line with communicated expectations.

Markets

Equipment for the production of reinforcing mesh

After a slump in steel prices during 2015, which had a negative impact on investment in installations for the production of reinforcement mesh, they then recovered slightly in the 2016

financial year. This has triggered investment in deferred projects for the production of reinforcement mesh. Despite this slight improvement, this installations area continues to be confronted by excess capacity and considerable price pressure. In oil-producing countries, state infrastructure projects have been further postponed as a result of low oil prices, which is weighing further on investment.

The effects of the economic and financial crisis continue to be felt in the core European markets in the field of installations for 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. 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, there are still no grounds for expecting a genuine upturn in these regions in the coming years.

In south-east Asia there is evidence of strong demand for flexible, highly productive and rapidly upgradeable reinforcement 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.

China is the world's largest consumer of construction steel. However, the construction industry is almost entirely dominated 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 as a result of the collapse of the rouble, the unstable political environment, and the persistent economic crisis.

Equipment for the production of industrial mesh

In the area of industrial mesh, numerous orders were received, particularly in northern Europe, for 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.

China has a growing potential in the field of installation for the production of industrial mesh, as automation demands are growing. This is already feeding through into rising demand for used and reconditioned Schlatter installations.

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

In 2016, Schlatter selectively invested both money and resources in developing mesh production in markets where they 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 subdued. 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 the 2016 financial year. 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, however, and anticipates order intake in the 2017 financial year matching the previous year's figure.

Spare parts and services

Business in the spare parts and services area posted stable performance, contributing around 30% 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

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 reinforcement wire mesh. Another range of machinery for the production of reinforcement 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 the 2016 financial year, 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 included 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.

Welding segment

In the welding segment, order intake increased to CHF 86.7 million (2015: CHF 58.4 million), while net sales rose 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 (December 31, 2015: CHF 25.3 million).

Wire product area

The wire product area (equipment for the production of reinforcing and industrial mesh) suffered more than others from currency dislocations in the previous year. The cost-cutting measures implemented in the financial year of 2015, against the backdrop of the strong franc, confirmed their impact in 2016.

In addition, further projects to reduce manufacturing and product costs were initiated in the reporting year. The aim is for costs to be brought down further in a lasting way in 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.

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. Many postponed modernisation and replacement investments on the part of customers have now been realised. However, the installations sector continues to grapple with surplus capacity and heavy price pressure.

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.

Rail welding product area

Thanks to its dominant position in the global market for static rail welding equipment, Schlatter was able to maintain its market share in the 2016 financial year. Thanks to the 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 as a result of the economic crisis, the weakness of the rouble and political difficulties.

Outlook for welding segment

Given the current order intake, 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 operating costs, measures likely to prove effective in the medium term area 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

In the weaving segment, order intake increased to CHF 21.0 million (2015: CHF 14.5 million). Net sales rose to CHF 20.7 million (2015: CHF 16.5 million). The order backlog as at December 31, 2016 stood at CHF 6.9 million (December 31, 2015: CHF 6.6 million).

The higher net sales and the restructuring carried out in the previous year had a corresponding positive effect on the operating result in the reporting year. The growth in sales in the 2016 financial year was achieved through machinery for the production of paper machine clothing; the sales volume in the wire-weaving machine area accounted for some 15% of the weaving segment's net sales in 2016.

In the area of machinery for the production of paper machine clothing, 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 the 2016 financial year.

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 parts and modules for the Schlieren site.

Outlook for weaving segment

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.

Changes on the Board of Directors and Group Management

The General Meeting on May 3, 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, another 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 as per January 1, 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 to the Schlatter Group.

Acknowledgements

Currency dislocations and the economic environment presented the Schlatter Group with major challenges in the 2015 financial year. All shareholders made important contributions to the Group's long-term stabilisation during that period. We are pleased that this commitment has had its anticipated effect in the 2016 financial year. On behalf of the Board of Directors and Group Management we offer you, our shareholders, our heartfelt thanks for the trust that you have placed in our company.

We look forward to welcoming you at the General Meeting in Schlieren on May 4, 2017. You can download the full 2016 Annual Report from our website www.schlattergroup.com, or order it using the enclosed form.

Outlook

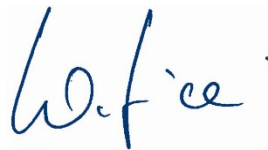
The successful innovation initiative of recent years and the improved market environment are helping to boost business at the Schlatter Group. Schlatter is well positioned for the 2017 financial year, despite the challenging currency situation and the strong franc in particular. After the above-average increase in order intake in 2016, it is expected to return to normal in the financial year of 2017. The marketing drive, which has included the establishment of additional sales resources in the emerging markets and the opening of a sales and service facility in China, continues to be implemented as per schedule. The package of measures to expand the service business is likewise still being rolled out. Other focal points include efficiency drives to shorten throughput times in customer projects and make our organisation more flexible. For the 2017 financial year, 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 May 4, 2017, that the company should not make a dividend payment for the 2016 financial year.

Schlieren, March 21, 2017



Paul Zumbühl
Chairman of the Board of Directors



Werner Schmidli
Chief Executive Officer

Key figures of the Schlatter Group

		2016	2015
Net sales	CHF million	90.5	83.2
Change compared to previous year	%	8.8	-7.0
Operating result (EBIT)	CHF million	1.1	-5.9
in % of net sales	%	1.2	-7.1
Net result	CHF million	0.5	-6.9
in % of net sales	%	0.6	-8.3
Order intake	CHF million	107.7	72.9
Order backlog	CHF million	49.0	31.9
Headcount at period end	FTEs	319	310
Average headcount	FTEs	312	314
Net sales per employee	CHF 1,000	290	265
Interest-bearing liabilities	CHF million	0.5	0.6
Net financial position (debt)¹	CHF million	14.0	2.1
Gearing²	%	0.0	0.0
Free cash flow³	CHF million	11.9	-5.4
Current assets	CHF million	48.1	39.8
Non-current assets	CHF million	7.3	9.3
Liabilities	CHF million	33.1	27.5
Equity	CHF million	22.3	21.6
Equity ratio	%	40.2	44.0
Return on equity (ROE)⁴	%	2.3	-38.7
Key share figures			
Share capital as of December 31	CHF 1,000	17,675	17,675
Total registered shares	No.	1,104,704	1,104,704
Registered shares entitled do dividend payments	No.	1,104,704	1,104,704
Net result per registered share ⁵	CHF	0.46	-6.22
Equity per registered share ⁵	CHF	20.17	19.55
Dividend per registered share	CHF	0 ⁶	0
Payout ratio	%	0 ⁶	0
Share price development			
High	CHF	44.00	77.18
Low	CHF	29.20	28.30
Year-end	CHF	38.75	30.00
Market capitalization			
High	CHF million	48.6	85.3
Low	CHF million	32.3	31.3
Year-end	CHF million	42.8	33.1

¹ Net financial position (debt): cash and cash equivalents less interest-bearing liabilities

² Gearing: net financial position divided by equity

³ Cash flow from operating activities less purchase of tangible fixed assets and intangible assets, plus sale of tangible fixed assets and intangible assets

⁴ Net result divided by average equity

⁵ Determined on the basis of dividend-entitled shares

⁶ In accordance to the proposal to the Annual General Meeting of May 4, 2017

2016 Annual Report of Schlatter Industries AG

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