

Schaffner Group
Half-Year Report
2016/17

Schaffner is growing and increasing profitability

The Schaffner Group returned to growth in the first half of 2016/17. The EMC and Automotive divisions – which make up three-quarters of Group sales – achieved double-digit profit margins. The Power Magnetics division is proceeding with its successive turnaround.

In the first half of 2016/17, the Schaffner Group increased its net sales compared to the same period last year by 2.2 % to CHF 94.6 million (H1 2015/16: CHF 92.6 million). In local currencies, the increase amounted to 4.5 %. Operating profit (EBIT) rose substantially to CHF 6.0 million (CHF 1.6 million), while the EBIT margin was raised by 4.6 percentage points to 6.4 % (1.8 %). Net profit improved to CHF 4.2 million (CHF 0.4 million) and earnings per share (EPS) to CHF 6.57 (CHF 0.70).

Growth drivers in the first half of 2016/17 were the core markets: automotive electronics with a rise of 14 %, machine tools with an increase of 45 % and power supplies for electronic devices with growth of 7 %. After a slump in the second half of the previous year, the energy-efficient drive systems and rail technology core markets also showed slight improvements. As in the first half of 2015/16, 22 % of Group sales came from North America, while Europe accounted for 41 % (40 %) and Asia for 37 % (38 %). In the first half of fiscal 2016/17, Schaffner received new orders worth CHF 99.7 million (CHF 94.2 million). The book-to-bill ratio for the Group was 1.05 (1.02).

The **EMC division** profited from the bolstered sales force in North America. Large projects were also acquired in Germany and China. The number of new customers increased on a global level and the Group's leading market position was strengthened. The Power Quality business, which is part of the EMC division, successfully launched the second generation of harmonic filters and expanded its sales and service organization. In the first half of 2016/17, segment sales remained more or less unchanged from the prior-year level at CHF 45.7 million (CHF 45.4 million). Segment profit, on the other hand, nearly doubled to CHF 6.2 million (CHF 3.2 million), while the profit margin increased by 6.6 percentage points to 13.6 % (7.0 %). As a result of further progress in operational excellence, production costs were reduced slightly despite a marginal increase in raw material prices.

The **Power Magnetics division** is still in turnaround mode. Sales in China in the core market rail technology and in the wind turbine market saw positive developments. After completion of the plant merger in North America, the delivery situation gradually improved. The European plant in Hungary is expected to reach its targeted performance capabilities in the coming year. The building of the center of excellence for power magnetics solutions in Büren, Germany, is progressing as planned. In the first half of 2016/17, a sequential comparison of segment sales versus the preceding period showed an improvement of 16 % from CHF 20.2 million to CHF 23.4 million (H1 2015/16: CHF 25.2 million), while segment losses before restructuring costs were nearly halved from CHF –6.2 million to CHF –3.5 million (H1 2015/16: CHF –3.0 million).

The **Automotive division** reported sustained high demand for antennas for keyless entry systems, accounting for over 90 % of segment sales. Segment sales for the first half of 2016/17 rose to CHF 25.4 million (CHF 22.0 million). Segment profit amounted to CHF 5.9 million (CHF 4.7 million) and the profit margin was confirmed at a high level of 23.1 % (21.4 %). Growth opportunities were identified by the division in the market for EMC filters for electric vehicles. The share of sales for filters in electromobility is to be specifically expanded. A multiyear contract with a European premium automobile manufacturer has already been concluded. Initial deliveries are planned for fiscal year 2017/18. Schaffner is expecting the electric vehicles market to make a significant contribution to segment sales from fiscal year 2018/19 onwards.

Outlook

Demand for electrical energy and expectations regarding the reliability and efficiency of electronic systems continue to rise around the world. The core markets – automotive electronics, rail technology, energy-efficient drive systems, power supplies for electronic devices, machine tools and electromobility – offer long-term opportunities for organic growth within the scope of the Group's strategic targets. Although global economic development is difficult to predict due to political and macroeconomic risks, its strong position in attractive niche markets and solid orders in the EMC and Automotive divisions make the Schaffner Group confident of continuing its recovery and exceeding the results of the same period last year in the second half of 2016/17. Following the turnaround of the Power Magnetics division, Schaffner looks forward to achieving its medium-term targets (organic growth > 5 % and EBIT > 8 %).

Luterbach, 11 May 2017



Urs Kaufmann
Chairman of the Board



Kurt Ledermann
Interim Chief Executive Officer

Consolidated balance sheet

In CHF '000	31.3.2017	30.9.2016
Intangible assets	684	1,051
Property, plant and equipment	22,890	22,500
Other non-current financial assets	1,792	1,978
Deferred tax assets	10,764	10,889
Total non-current assets	36,130	36,418
Prepaid expenses and deferred income	1,884	1,344
Inventories	33,684	30,840
Other current financial assets	977	2,037
Other receivables	3,045	2,021
Trade receivables	37,909	36,310
Cash and cash equivalents	18,532	13,770
Total current assets	96,031	86,322
Total assets	132,161	122,740
Exchange differences	-17,460	-17,751
Retained earnings	5,640	1,469
Treasury shares	-93	-67
Share premium	41,548	41,874
Share capital	20,668	20,668
Total shareholders' equity	50,303	46,193
Deferred tax liabilities	315	251
Non-current provisions	4,645	5,428
Non-current borrowings	36,797	29,540
Total non-current liabilities	41,757	35,219
Accrued expenses	9,580	8,989
Current provisions	1,534	4,668
Other payables	3,900	4,231
Trade payables	25,087	23,172
Current borrowings	0	268
Total current liabilities	40,101	41,328
Total liabilities	81,858	76,547
Total liabilities and shareholders' equity	132,161	122,740

Since the beginning of fiscal year 2015/16 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. Additionally, since the beginning of fiscal year 2016/17, external development costs of products are no longer capitalized. For comparability the prior-year results have been restated to match the presentation of the period under review.

Consolidated income statement

In CHF '000	H1 2016/17	H1 2015/16
Net sales of goods and services	94,579	92,575
Cost of sales	-66,292	-67,511
Gross profit	28,287	25,064
Marketing and selling expense	-8,161	-9,265
Research and development expense	-8,411	-8,292
General and administrative expense	-5,678	-5,882
Operating profit (EBIT)	6,037	1,625
Finance income	1,181	318
Finance expense	-1,637	-1,359
Profit before tax (EBT)	5,581	584
Income tax	-1,410	-142
Net profit for the period	4,171	442
Earnings per share in CHF		
Basic	6.57	0.70
Diluted	6.56	0.69

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Condensed consolidated cash flow statement

In CHF '000	H1 2016/17	H1 2015/16
Cash flow from operating activities	-838	-2,729
Purchase of property, plant and equipment	-2,203	-1,842
Purchase of intangible assets	-70	-75
Change in current financial assets	1,040	2,414
Other investing activities	192	-21
Cash flow from investing activities	-1,041	476
Repayment of excess share premium	0	-4,133
Changes in treasury shares	-352	50
Proceeds from borrowings	7,012	0
Repayment of borrowings	0	-1,847
Other financing activities	-91	-93
Cash flow from financing activities	6,569	-6,023
Effect of exchange rates on cash and cash equivalents	72	-54
Change in cash and cash equivalents	4,762	-8,330
Cash and cash equivalents at 1 October	13,770	22,679
Cash and cash equivalents at 31 March	18,532	14,349

Consolidated statement of changes in equity

In CHF '000	Share capital	Share premium	Cumulative exchange differences	Retained earnings	Treasury shares	Total shareholders' equity
At 1 October 2015 under Swiss GAAP FER	20,668	46,283	-17,938	1,681	-299	50,395
Restatement development costs				-396		-396
At 1 October 2015	20,668	46,283	-17,938	1,285	-299	49,999
Net profit for the period				442		442
Exchange differences			73			73
Treasury share transactions		-154		-688	273	-569
Repayment of excess share premium		-4,133				-4,133
Share option plans and restricted share plans		-68		688		620
At 31 March 2016	20,668	41,928	-17,865	1,727	-26	46,432
At 1 October 2016 under Swiss GAAP FER	20,668	41,874	-17,751	2,068	-67	46,792
Restatement development costs				-599		-599
At 1 October 2016	20,668	41,874	-17,751	1,469	-67	46,193
Net profit for the period				4,171		4,171
Exchange differences			291			291
Treasury share transactions		-100		-564	-26	-690
Share option plans and restricted share plans		-226		564		338
At 31 March 2017	20,668	41,548	-17,460	5,640	-93	50,303

Since the beginning of fiscal year 2015/16 the consolidated financial statements are prepared in accordance with Swiss GAAP FER. Additionally, since the beginning of fiscal year 2016/17, external development costs of products are no longer capitalized. For comparability the prior-year results have been restated to match the presentation of the period under review.

Notes

1 Accounting policies

The unaudited consolidated financial statements of the Schaffner Group for the first half of the fiscal year were prepared in accordance with Swiss GAAP FER 31 "Additional recommendations for listed companies". As these interim financial statements represent an update of the consolidated annual financial statements for the year ended 30 September 2016, they should be read in conjunction with those annual financial statements.

The consolidated financial statements for the six months ended 31 March 2017 were approved by the Board of Directors of Schaffner Holding AG on 9 May 2017 and released for publication.

2 Change in accounting principles

a) Switch to Swiss GAAP FER

The Schaffner Board of Directors decided to switch the Group's accounting from IFRS to Swiss GAAP FER with effect from 1 October 2015. The differences between the two sets of accounting principles relevant to the Schaffner Group were explained in the notes to the consolidated financial statements at 30 September 2016. The impact of this change on equity at 30 September 2016 and on net profit for the year then ended was also presented there.

b) Changes concerning Revenue Recognition under Swiss GAAP FER

As per 1 January 2016, adaptations and additions to Swiss GAAP FER regarding the recognition, presentation and disclosure of revenue entered into force. The first-time adoption of these revised principles did not have a material effect on these half-year financial statements of the Schaffner Group. No adjustment of the prior-year figures was required.

c) Change in accounting policy for the capitalization of development costs

Consistent with Conceptual Framework item 30 and Swiss GAAP FER 10, Schaffner has decided no longer to capitalize external development costs for new products. The reason is that the capitalization of development expenses is not customary in the industry and a difference in accounting practice detracts from comparability. The prior periods' results have been restated to reflect the new policy.

The effect of this change on the comparative first half of the prior year is that the development costs of CHF –36 thousand which had been capitalized in that period are charged to "Research and development expenses". The opening balance of CHF 396 thousand that had been brought forward from the 2014/15 fiscal year is charged to retained earnings.

The following table presents the numerical effects of the transition from IFRS to Swiss GAAP FER, and of the adjustments related to development costs, on the net profit of the previous half-year period.

	H1 2015/16
Net profit for the period under IFRS	–334
Amortization of acquired intangible assets	880
Adjustment in pension plans	257
Change in deferred tax liabilities	–325
Net profit for the period under Swiss GAAP FER	478
Restatement of development costs	–36
Net profit for the period	442

3 Operating segments

The Schaffner Group consists of three reportable segments: Electromagnetic Compatibility, Power Magnetics and Automotive. They are the organizational units for which results are reported to the Executive Committee.

Electromagnetic Compatibility (EMC)

The EMC division develops and manufactures standard and custom components that protect power electronic systems from line interference (thus ensuring electromagnetic compatibility, or EMC) and safeguard their reliable operation in power grids. As well, the Power Quality business unit develops and manufactures active and passive filter solutions to assure the best quality of electric power. The key sales markets include energy-efficient drive systems, renewable energy, power supply systems for electronic devices, as well as machine tools and robotics.

Power Magnetics (PM)

The Power Magnetics division develops and manufactures components that ensure the reliability of power electronic systems, as well as customized high-performance transformers for demanding applications. Schaffner solutions deployed in solar inverters and converters in wind turbines safeguard high levels of energy conversion efficiency and optimum adjustment to electricity grids. Schaffner components are also integrated in compact, high-performance and energy-efficient locomotive drive systems, where they eliminate network interference from powerful motors.

Automotive (AM)

The Automotive division develops and manufactures components for keyless entry systems and solutions for the drive trains of hybrid and electric vehicles. Schaffner engineers work closely with leading automobile manufacturers and leverage their specialized EMC know-how to support customers in the development of new models.

Corporate

The "Corporate" column comprises all costs for Group functions that cannot be allocated to a particular segment. These are primarily the expenses of Schaffner Holding AG.

No operating segments have been aggregated to form these reportable operating segments. Segment profit or loss represents a segment's operating profit or loss before restructuring costs.

The reported restructuring expenses of the Power Magnetics division reported in the first half of 2015/16 consisted primarily of the costs in connection with the merging of the production plants in North America.

For the first six months of 2016/17 (1 October to 31 March)	EMC	PM	AM	Corporate	Group
In CHF '000					
Net sales	45,746	23,386	25,447		94,579
Segment profit/(-loss)	6,207	-3,461	5,887	-2,596	6,037
Operating profit (EBIT)					6,037
Finance income					1,181
Finance expense					-1,637
Profit before tax (EBT)					5,581
Income tax					-1,410
Net profit for the period					4,171

For the first six months of 2015/16 (1 October to 31 March)	EMC	PM	AM	Corporate	Group
In CHF '000					
Net sales	45,391	25,213	21,971		92,575
Segment profit/(-loss)	3,183	-2,955	4,708	-2,562	2,374
Restructuring costs		-749			-749
Operating profit (EBIT)					1,625
Finance income					318
Finance expense					-1,359
Profit before tax (EBT)					584
Income tax					-142
Net profit for the period					442

4 Seasonality

The Schaffner Group does not operate in industries with significant seasonal or cyclical variation in total sales over the fiscal year. Since major public holidays such as Chinese New Year and Christmas fall in the first half of the fiscal year, experience has shown that, factoring out economic influences, higher sales are usually generated in the second half of the year.

Income tax is recognized based on the best estimate of the weighted average annual income tax rate expected for the full fiscal year.

5 Commitments and contingencies

At 31 March 2017, the Group had commitments to purchase property, plant and equipment in the amount of CHF 0.8 million (30 September 2016: CHF 0.9 million). Contingent liabilities, described in the notes to the consolidated financial statements for the year ended 30 September 2016, did not change materially in the reporting period.

6 Foreign currencies

The following exchange rates were applied in the translation of foreign currencies:

Country or region	Currency	Balance sheet		Income statement	
		31.3.2017 In CHF	30.9.2016 In CHF	H1 2016/17 In CHF	H1 2015/16 In CHF
China	CNY 100	14.53	14.61	14.60	15.17
EU	EUR 100	106.92	108.78	107.28	109.36
Hungary	HUF 100	0.35	0.35	0.35	0.35
Thailand	THB 100	2.91	2.81	2.86	2.77
USA	USD 100	100.05	97.48	100.36	98.07

7 Distribution to shareholders

As decided by the Annual General Meeting of Schaffner Holding AG on 12 January 2017 no distribution for fiscal year 2015/16 was made to the shareholders.

8 Events after the balance sheet date

No events have occurred after the balance sheet date that have a material effect on the amounts in the consolidated interim financial statements.

Key financials

Consolidated income statement

For the first six months (1 October to 31 March)

In CHF '000

	H1 2016/17	H1 2015/16
Net sales	94,579	92,575
Operating profit [EBIT]	6,037	1,625
In % of net sales	6.4	1.8
Net profit for the period	4,171	442
In % of net sales	4.4	0.5
Net profit for the period per share in CHF	6.57	0.70

Consolidated balance sheet

In CHF '000

	31.3.2017	30.9.2016
Total assets	132,161	122,740
Current assets	96,031	86,322
Non-current assets	36,130	36,418
Total liabilities	81,858	76,547
Shareholders' equity	50,303	46,193
In % of total assets	38.1	37.6

Segment reporting

For the first six months (1 October to 31 March)

In CHF '000

	H1 2016/17	H1 2015/16
Electromagnetic Compatibility (EMC)		
Segment sales	45,746	45,391
Segment operating profit	6,207	3,183
In % of segment sales	13.6	7.0
Power Magnetics (PM)		
Segment sales	23,386	25,213
Segment operating (-loss)	-3,461	-2,955
In % of segment sales	-14.8	-11.7
Automotive (AM)		
Segment sales	25,447	21,971
Segment operating profit	5,887	4,708
In % of segment sales	23.1	21.4

Key share figures

In CHF '000

	31.3.2017	30.9.2016
Number of shares	635,940	635,940
Shareholders' equity per share in CHF	79.10	72.64
Share price in CHF	270.25	208.60
Market capitalization in CHF million	172	133

Calendar

7.12.2017	Publication of Annual Report 2016/17 (full-year results)
11.1.2018	22nd Annual General Meeting

Schaffner Holding AG
 CH-4542 Luterbach, Switzerland
www.schaffner-ir.com