

Schaffner Group
Half-Year Report
2014/15

Schaffner reacts swiftly to challenges during in the first half-year

During the first six months of fiscal 2014/15, the Schaffner Group was impacted by major shifts in its target markets, the consequences of the current monetary policy being pursued by the European Central Bank (ECB) and the discontinuation of the CHF/EUR floor. Thanks to rapid and systematic action, negative consequences for the Group could be largely averted without having to call into question any strategic growth projects. However, the Group was unable to achieve the profit of the previous year.

At CHF 102.5 million (first six months of fiscal 2013/14: CHF 102.6 million), the Schaffner Group kept its net sales constant in the first half of 2014/15 (as at 31 March). In local currencies, sales were up slightly by 1.4%. Operating profit (EBIT) declined by 24.2% to CHF 3.7 million (CHF 4.9 million), corresponding to an EBIT margin of 3.6% (4.8%). Net profit for the period totaled CHF 1.9 million (CHF 3.2 million), and earnings per share reached CHF 3.02 (CHF 5.08).

Business performance in the second quarter was below original expectations mainly due to currency translation effects resulting from the appreciation of the Swiss franc, the suspension of a major Russian Railways locomotive order for a European customer of Schaffner and the collapse in domestic demand in China's solar inverter industry.

The Automotive division, in contrast, exceeded its targets. The power quality product area, which was reinforced in the previous year within the EMC division, also reported an encouraging performance, registering a substantial increase in orders for ECOSine harmonic filters.

Overall, order intake at the Schaffner Group in the first half of fiscal 2014/15 totaled CHF 101.4 million (CHF 108.9 million), and the book-to-bill ratio amounted to 0.99 (1.06).

Sales growth of core markets and in the USA

The automotive electronics sector reported strong growth, with sales up by 25%. Growth in rail technology was also up markedly by 16% due to sound demand in the US and China, and would have been even better if the above-mentioned decline in demand in Europe had not occurred. Sales with components for energy-efficient drive systems were up by 10%, primarily driven by the market success of power quality solutions. Demand in the renewable energy sector, in contrast, collapsed with a fall in sales of 40%. This was attributable to the cost-driven substitution of EMC filters in solar inverters for installations in China and to a decline in sales in the photovoltaic sector in Europe.

Acquisition-driven growth in the US

The acquisition of Trencos with effect from 31 March 2014 and exchange rate shifts also had an impact on the distribution of sales by geographical region: the share of sales in the Americas region increased markedly from 16% to 21%, while the share contributed by Asia was down from 37% to 35% and that by Europe from 47% to 44%. Schaffner consequently came a further step closer to its target of achieving a balanced distribution of sales worldwide.

EMC division

Sales in the EMC division declined in the first half of fiscal 2014/15 due to currency translation effects arising from the weak euro, as the division accounts for the highest share of sales of all divisions from Europe. Furthermore, falling demand for EMC filters from the photovoltaics sector in China resulted in a 13% decline in sales to CHF 46.7 million (CHF 53.7 million). The share of sales contributed by the EMC division consequently dropped to 46% (52%). As a result of lower volumes, the segment result declined to CHF 3.5 million (CHF 7.2 million) and the segment operating margin to 7.4% (13.5%).

The division reported an order intake in the first six months of fiscal 2014/15 of CHF 49.0 million (CHF 55.1 million), which resulted in a book-to-bill ratio of 1.05 (1.03), mainly thanks to the success with power quality solutions. Schaffner is

currently investing strongly in the development of new products in the power quality field and in the expansion of its sales and service organization with the aim of further accelerating growth.

Power Magnetics division

The Power Magnetics (PM) division increased sales in the first half of fiscal 2014/15 by 8% to CHF 33.2 million (CHF 30.8 million) and by doing so contributed 32% (30%) to the Group's net sales. Growth stems from the integration of American company Trenco, acquired with effect from the end of March 2014. In organic terms, the division's sales remained below the previous year's period as a consequence of the depreciation of the euro and yen (JPY) and the suspended rail technology orders from Russia mentioned above. Thanks to cost-reduction measures, the segment result declined only slightly to CHF 1.3 million (CHF 1.7 million), while the segment margin contracted from 5.6% to 3.9%.

The division received new orders totaling CHF 31.5 million (CHF 35.5 million) in the period under review, which resulted in a book-to-bill ratio of 0.95 (1.15). Management continues to be convinced of the growth potential of the Power Magnetics division given the large number of new projects under way.

Automotive division

With CHF 22.6 million (CHF 18.1 million), sales reported by the Automotive (AM) division exceeded the previous year's figure by 25%, thereby raising AM's share of sales to 22% (18%). The segment result multiplied to CHF 2.8 million (CHF 0.6 million) thanks to higher volumes and the productivity measures implemented, which boosted the division's operating margin to a record high of 12.3% (3.3%).

In the first half of fiscal 2014/15, Automotive registered a substantially higher new order intake worth CHF 21.0 million (CHF 18.2 million), and the book-to-bill ratio amounted to 0.93 (1.0).

Sound financing structure

The Schaffner Group continues to have a solid financing structure. As at the reporting date of 31 March 2015, total assets amounted to CHF 148.6 million (30 September 2014: CHF 154.5 million). Net working capital totaled CHF 33.5 million (CHF 30.6 million). The Group generated free cash flow totaling CHF -2.8 million (CHF -2.2 million) in the period under review. Net debt increased to CHF 21.7 million (30 September 2014: CHF 16.6 million), while the gearing ratio (net debt to shareholders' equity) rose to 37% (25%).

With shareholders' equity of CHF 59.2 million (CHF 66.6 million), the equity ratio at 40% (43%) remains within the target range after the dividend payout, a negative reassessment of Schaffner's pension obligations and the currency turbulence. Shareholders' equity per share totaled CHF 93.16 (CHF 104.80).

Outlook

The Board of Directors and management continue to implement the growth strategy. The focus lies on power quality applications, specifically harmonic filters, the expansion of Power Magnetics' market position, regional expansion in the North American market while simultaneously reviewing and adapting structures and processes. Against this background, Schaffner is targeting sequential growth in sales and results in each division in the second half of fiscal 2014/15 compared with the first half-year.

Provided no major change in the economies in the key sales markets of the Schaffner Group occur and in the currencies of importance to the Group, Schaffner expects, as communicated in March, to be able to report consolidated net sales for the current fiscal year on a par with those of the previous year and an EBIT margin around 5%.

Luterbach, 12 May 2015



Daniel Hirschi
Chairman of the Board



Alexander Hagemann
Chief Executive Officer

Consolidated balance sheet

In CHF '000	31.3.2015	30.9.2014
Intangible assets	23,186	24,112
Property, plant and equipment	24,410	24,794
Other non-current assets	2,187	4,776
Deferred tax assets	4,689	3,726
Non-current assets	54,472	57,408
Inventories	29,174	31,321
Trade receivables	36,869	38,502
Income tax receivables	387	516
Other receivables, prepaid expenses and accrued income	4,072	3,152
Other current financial assets	3,565	4,912
Cash and cash equivalents	20,055	18,640
Current assets	94,122	97,043
Total assets	148,594	154,452
Equity attributable to equity holders of Schaffner Holding AG	59,242	66,646
Shareholders' equity	59,242	66,646
Non-current provisions	1,453	1,900
Pension liability	6,779	4,201
Deferred tax liabilities	1,039	1,200
Non-current borrowings	41,743	35,111
Non-current liabilities	51,014	42,412
Current provisions	1,310	2,328
Current borrowings	8	160
Income tax payables	564	1,003
Trade and other payables	36,456	41,903
Current liabilities	38,338	45,394
Total liabilities	89,352	87,806
Total liabilities and shareholders' equity	148,594	154,452

Consolidated income statement

For the first six months (1 October to 31 March) In CHF '000	H1 2014/15	H1 2013/14
Net sales	102,469	102,615
Cost of sales	-74,253	-73,407
Gross profit	28,216	29,208
Other income	399	0
Marketing and selling expense ¹	-9,723	-9,141
Research, development and application expense	-8,382	-7,608
General and administrative expense	-6,807	-7,574
Operating profit [EBIT]	3,703	4,885
Finance income	4,392	3,614
Finance expense	-5,755	-4,326
Profit before tax [EBT]	2,340	4,173
Income tax	-430	-961
Net profit for the period	1,910	3,212
Earnings per share in CHF		
Basic	3.02	5.08
Diluted	2.99	5.03

¹ Includes the amortization of customer relations, separately disclosed in earlier periods, amounting to CHF -530 thousand (previous year: CHF -426 thousand).

Consolidated statement of comprehensive income

For the first six months (1 October to 31 March) In CHF '000	H1 2014/15	H1 2013/14
Net profit for the period	1,910	3,212
Items of other comprehensive (loss)/income that will not be reclassified to the income statement		
Actuarial losses	-5,351	0
Income tax	1,084	0
Total items that will not be reclassified to the income statement	-4,267	0
Items of other comprehensive income that will be reclassified to the income statement		
Exchange differences	-1,463	-1,808
Movement in cash flow hedges	42	53
Income tax	0	0
Total items that will be reclassified to the income statement	-1,421	-1,755
Other comprehensive (loss) for the period	-5,688	-1,755
Total comprehensive income for the period	-3,778	1,457

Condensed consolidated cash flow statement

For the first six months (1 October to 31 March) In CHF '000	H1 2014/15	H1 2013/14
Cash flow from operating activities	232	240
Purchase of property, plant and equipment	-2,594	-2,348
Purchase of intangible assets	-497	-162
Acquisition of subsidiaries	0	-8,596
Change in current financial assets	1,410	-350
Other investing activities	53	24
Cash flow from investing activities	-1,628	-11,432
Repayment of excess share premium	-4,127	-2,852
Changes in treasury shares	473	361
Proceeds from borrowings	6,647	17,281
Other financing activities	-82	-91
Cash flow from financing activities	2,911	14,699
Effect of exchange rates on cash and cash equivalents	-100	-98
Change in cash and cash equivalents	1,415	3,409
Cash and cash equivalents at 1 October	18,640	17,012
Cash and cash equivalents at 31 March	20,055	20,421

Consolidated statement of changes in equity

In CHF '000	Share capital	Share premium	Cumulative translation differences	Retained earnings	Treasury shares	Hedging reserve	Total shareholders' equity
At 1 October 2013	20,668	53,289	-15,537	420	-1,050	-241	58,081
Net profit for the period				3,212			3,212
Other comprehensive income			-1,808			53	-1,755
Total comprehensive income for the period			-1,808	3,212		53	1,457
Treasury shares				-968	528		-440
Repayment of excess share premium		-2,852					-2,852
Share option plans and restricted share plans		75		801			876
At 31 March 2014	20,668	50,512	-17,345	3,465	-522	-188	57,122
At 1 October 2014	20,668	50,543	-14,170	10,686	-959	-122	66,646
Net profit for the period				1,910			1,910
Other comprehensive income			-1,463	-4,267		42	-5,688
Total comprehensive income for the period			-1,463	-2,357		42	-3,778
Treasury shares				-921	660		-261
Repayment of excess share premium		-4,127					-4,127
Share option plans and restricted share plans		28		734			762
At 31 March 2015	20,668	46,444	-15,633	8,142	-299	-80	59,242

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 International Accounting Standard (IAS) 34 – Interim Financial Reporting. As these interim financial statements represent an update of the consolidated annual financial statements for the year ended 30 September 2014, they should be read in conjunction with those annual financial statements.

The consolidated financial statements for the six months ended 31 March 2015 were approved by the Board of Directors of Schaffner Holding AG on 11 May 2015 and released for publication. The Schaffner Group applied the same accounting principles as in the prior year, with the following exceptions.

Newly issued and amended standards and interpretations

The Schaffner Group adopted the following changes in accounting principles with effect from 1 October 2014:

Standards/interpretations

Annual improvements to IFRSs 2010–2012

Annual improvements to IFRSs 2011–2013

IAS 19 Amendments–Defined Benefit Plans: Employee Contributions

IAS 36 Amendments–Recoverable Amount Disclosures for Non-Financial Assets

IFRIC 21 Levies

The application of these changes has no material impact on Schaffner's financial position, results of operations and cash flows.

2 Post-employment and other long-term employee benefits

At the end of each financial year, Schaffner commissions an actuarial assessment of pension obligations, which is updated at the end of the next six-month period. As interest rates have changed substantially since the last assessment performed at 30 September 2014, a new assessment was carried out in the course of preparing the half-year report. As a result, the average discount rate assumed in the financial statements fell from 1.6% to 0.8%.

All other assumptions remained the same as in were updated in line with the assessment of 30 September 2014.

Actuarial losses of CHF 5.4 million therefore had to be recognized in the statement of comprehensive income and the net pension liability increased by this amount.

3 Business combinations

On 31 March 2014, the Group acquired the American companies Transformer Engineering LLC (Trenco), Magnetics Technologies LLC and Transformer Real Estate LLC from Transformer Holding LLC.

derecognized. As the lower-than-expected sales trend and resulting adjusted expectation are events which occurred after the time of acquisition, this adjustment of CHF 390 thousand has no impact on the purchase price allocation and is recognized in the income statement under "other income".

The purchase price allocation at 30 September 2014 had still been subject to uncertainty and all items had therefore been labelled as provisional. It has since been determined that no more adjustments were needed, and thus the values previously described as provisional are now definitive.

At the same time, the assets identified in the purchase price allocation, such as goodwill, technology, brand name and customer relations, were tested for impairment. The test found an impairment of the capitalized technology assets by CHF 195 thousand. This amount was recognized in the income statement under "research, development and application expense".

At the time of acquisition, Schaffner had taken too positive a view of the sales trend. Consequently, in the first six months of fiscal 2014/15, a portion of the expected contingent consideration was

4 Operating segments

The Schaffner Group consists of three reportable segments: Electromagnetic Compatibility, Power Magnetics and Automotive. They represent the organizational units for which results are reported to the Executive Committee (the Group's chief operating decision maker).

Electromagnetic Compatibility (EMC)

The EMC division develops and manufactures standard and customized components that protect power electronic equipment from line interference (thus assuring electromagnetic compatibility, or EMC), and power quality filters that assure the stability of power grids. Key sales markets include energy-efficient drive systems, renewable energy, power supplies for electronic devices, machine tools and robotics.

Power Magnetics (PM)

The Power Magnetics division develops and manufactures power magnetic components (chokes and transformers) to ensure the reliable operation of power electronic systems, and builds customized high-performance transformers for demanding applications. Power magnetic components are an integral part of high- and ultra-high-performance systems for power conversion. Key sales markets include energy-efficient drive systems, renewable energy and rail technology.

Automotive (AM)

The Automotive division develops and manufactures components for convenience and safety features in cars and for the drive trains of hybrid and electric vehicles.

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 and costs relating to acquisitions.

No operating segments have been aggregated to form these reportable operating segments.

Segment profit represents the given segment's operating profit before amortization (if any) of customer relationships.

No reconciliation of the management reporting data to the financial reporting data is required or provided, as the internal and external reporting follow the same accounting and presentation policies.

For the first six months of 2014/15 (1 October to 31 March) In CHF '000	EMC	PM	AM	Corporate	Group
Net sales	46,650	33,196	22,623		102,469
Segment operating profit/(loss)	3,456	1,308	2,776	-3,307	4,233
Amortization of customer relationships					-530
Operating profit [EBIT]					3,703
Finance income					4,392
Finance expense					-5,755
Profit before tax [EBT]					2,340
Income tax					-430
Net profit for the period					1,910

For the first six months of 2013/14 (1 October to 31 March) In CHF '000	EMC	PM	AM	Corporate	Group
Net sales	53,686	30,781	18,148		102,615
Segment operating profit/(loss)	7,240	1,711	594	-4,234	5,311
Amortization of customer relationships					-426
Operating profit [EBIT]					4,885
Finance income					3,614
Finance expense					-4,326
Profit before tax [EBT]					4,173
Income tax					-961
Net profit for the period					3,212

5 Financial instruments

The financial assets and liabilities measured at fair value are categorized into the following fair value hierarchy according to the valuation technique used:

- › Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- › Level 2: Techniques for which all inputs that have a significant effect on the recorded fair value are based on directly or indirectly observable market data.
- › Level 3: Techniques using inputs that have a significant effect on the recorded fair value and are not based on observable market data.

In CHF '000	31.3.2015			31.3.2014		
	Level 2	Level 3	Total	Level 2	Level 3	Total
Liabilities measured at fair value						
Derivative financial instruments	121		121	212		212
Contingent consideration		187	187		677	677
Total liabilities measured at fair value	121	187	308	212	677	889

The derivative position consists of an over-the-counter interest rate derivative. The valuations are at middle rates of exchange at the balance sheet date. The contingent consideration from the Trencos acquisition was calculated based on existing business

plans and management's revenue estimates and discounted to the balance sheet date. There were no reclassifications between levels.

6 Seasonality

The Schaffner Group does not operate in industries with significant seasonal or cyclical variation in total sales over the fiscal year.

out economic influences, higher sales are usually generated in the second half of the 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

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

7 Commitments and contingencies

At 31 March 2015, the Group had commitments to purchase property, plant and equipment in the amount of CHF 0.8 million (30 September 2014: CHF 0.9 million). Contingent liabilities, described in the notes to

the consolidated financial statements for the year ended 30 September 2014, did not change materially in the reporting period.

8 Foreign currencies

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

Country or region	Currency	Balance sheet		Income statement	
		31.3.2015 in CHF	30.9.2014 in CHF	H1 2014/15 in CHF	H1 2013/14 in CHF
China	CNY 100	15.71	14.23	15.62	14.44
EU	EUR 100	104.55	121.92	108.67	122.19
Hungary	HUF 100	0.35	0.40	0.36	0.40
Thailand	THB 100	2.99	2.73	2.97	2.75
USA	USD 100	97.37	88.39	96.78	88.96

9 Distribution to shareholders

As decided by the Annual General Meeting of Schaffner Holding AG on 15 January 2015, a distribution of CHF 6.50 per share (exempt from Swiss anticipatory tax) for fiscal year 2013/14 was made to the

shareholders in the form of a repayment of excess share premium from additional paid-in capital.

10 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 2014/15	H1 2013/14
Net sales	102,469	102,615
Operating profit [EBIT]	3,703	4,885
In % of net sales	3.6	4.8
Net profit for the period	1,910	3,212
In % of net sales	1.9	3.1
Net profit for the period per share in CHF	3.02	5.08

Consolidated balance sheet

In CHF '000

	31.3.2015	30.9.2014
Total assets	148,594	154,452
Current assets	94,122	97,043
Non-current assets	54,472	57,408
Total liabilities	89,352	87,806
Shareholders' equity	59,242	66,646
In % of total assets	39.9	43.1

Segment reporting

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

In CHF '000	H1 2014/15	H1 2013/14
Electromagnetic Compatibility (EMC)		
Segment sales	46,650	53,686
Segment operating profit	3,456	7,240
In % of segment sales	7.4	13.5
Power Magnetics (PM)		
Segment sales	33,196	30,781
Segment operating profit	1,308	1,711
In % of segment sales	3.9	5.6
Automotive (AM)		
Segment sales	22,623	18,148
Segment operating profit	2,776	594
In % of segment sales	12.3	3.3

Key share figures

In CHF '000

	31.3.2015	30.9.2014
Number of shares	635,940	635,940
Shareholders' equity per share in CHF	93.16	104.80
Share price in CHF	250.25	294.75
Market capitalization in CHF million	159	187

Calendar

8.12.2015	Publication of Annual Report 2014/15 (full-year results)
12.1.2016	20th Annual General Meeting