

Interim Report 2003/2004



SCHAFFNER

safety for electronic systems

TO OUR Shareholders

Further growth in sales and return to profit. The Schaffner Group increased net sales by 13% year-on-year in the first six months of fiscal 2003/2004 to CHF 86.2 million (first half 2002/2003: CHF 76.1 million). EBITA at CHF 4.1 million substantially exceeded the prior-year figure (CHF 2.4 million) and EBIT increased threefold to CHF 3.1 million (CHF 1.0 million). With a consolidated net result of CHF 0.5 million (CHF –0.6 million), the Schaffner Group achieved the return to profit. The very positive earnings trend reflects the recovery in demand, especially in the important Components business. Particularly pleasing is the already tangible contribution from investments in products and markets, which had been consistently maintained despite the weak economic environment. Strict cost management was a further factor contributing to the improvement in profitability.

Demand recovers strongly. For the third quarter in succession, net sales and order intake exceeded their respective year-back figures in a quarterly comparison. In the second quarter of 2003/2004, consolidated net sales at CHF 49.5 million (CHF 42.0 million) were 18% higher (15% on a currency-adjusted basis) than in the comparable prior-year period and new orders totaled CHF 48.5 million (CHF 38.8 million), up 25% (20% on a currency-adjusted basis). Overall, for the first six months of the year the Schaffner Group recorded a 12% increase in new orders (8% on a currency-adjusted basis) to CHF 93.6 million (CHF 83.6 million). As a result, the book-to-bill ratio improved to 1.09 (end of fiscal year 2002/2003: 1.03). The two businesses, however, fared differently: the dominant Components business, which contributes more than two thirds of revenues, raised sales by 13% compared with the first half of the previous year to CHF 59.6 million (CHF 52.8 million) and recorded a sharp 24% increase in order intake to CHF 68.1 million (CHF 54.8 million). Test Systems posted a 14% rise in sales to CHF 26.6 million (CHF 23.4 million), while its order intake was 11% lower at CHF 25.5 million (CHF 28.7 million). Both businesses received a very strong boost from the Asian market, particularly from China and Japan. Components additionally experienced a rebound in demand in the key markets Germany and France, where growth rates reached double-digit figures. The automotive supplier sector also proved very dynamic for Components, with a threefold increase in new orders booked. Within Test Systems, the “Cable & ElectroEmulation” sector performed below expectations in the first half of the year. The business trend remained unsatisfactory, especially in Europe and the United States, reflecting subdued investment activity among major clients and the cyclical nature of the project business.

In a sectoral split, 36% of sales in the first half of fiscal 2003/2004 (2002/2003 fiscal year: 37%) were generated in industrial electronics, 19% (15%) in telecommunications and 11% (10%) in the automotive supplier industry. These three major client segments of the Schaffner Group together accounted for two thirds of consolidated sales. As before, the remaining third was broadly distributed across a number of sectors. In a geographical mix, 73% of sales (2002/2003 fiscal year: 73%) were generated in Europe (incl. smaller markets), 17% (14%) in the Asia-Pacific region and 10% (13%) in the American market.

Continuing systematic investment in markets and products. Despite the difficult market environment in recent years, the Schaffner Group has continued to invest in research and application development and in rapidly expanding its presence in Asia. This policy has born fruit in a number of ways. In 2004, the Schaffner Group will be further expanding its production base in China: from August the engineering and production center in Shanghai will be enlarged to three times its present capacity. This will enable the Schaffner Group to capitalize more effectively on the market dynamics of this region and benefit more extensively from the ongoing trend among globally active customers to outsource production to China. The Group's expansion into the automotive supplier industry has been a further success story. Having established itself within a short space of time as a global supplier of components for keyless access systems, the Schaffner Group further expanded its position in the automotive supplier market, winning its first order from a major car manufacturer for components for electronic vehicle immobilizer systems.

Outlook. New developments in both of the Group's businesses such as the pluggable high-current power connector with integrated EMC filter, a joint effort with the US company Anderson Power Products (APP), the new generation of various filters or the "Modula" modular test system platform are already making a significant contribution to growth. Extending the Group's capabilities from the EMC sector into related areas such as the automotive industry is providing additional impetus. In view of the strong increase in demand in the Components business and the above-average growth dynamics in Asia, especially in China, the Schaffner Group is maintaining its target of continuous growth in sales and a proportionally stronger improvement in profitability for the 2003/2004 fiscal year.

Luterbach, May 13, 2004



Alex Oechslin
Chairman of the Board of Directors



Fritz Gantert
Delegate of the Board of Directors,
President & Chief Executive Officer

SCHÄFFNER GROUP

Consolidated balance sheet

in CHF 1,000

	31.3.2004	30.9.2003
Fixed assets	53,628	53,665
Intangible assets	18,988	19,928
Tangible fixed assets	29,621	30,291
Investments	3	3
Other long-term assets	3,110	3,114
Deferred tax assets	1,906	329
Current assets	82,777	72,689
Inventories	30,635	28,283
Trade receivables	38,851	36,147
Tax receivables	2,744	3,187
Other receivables and accruals	3,220	1,790
Short-term investments	16	15
Cash and cash equivalents	7,311	3,267
Total assets	136,405	126,354
Shareholders' equity	47,313	43,801
Minority interests	-7	9
Long-term liabilities	55,807	49,462
Provisions	4,487	4,731
Deferred tax liabilities	2,254	2,492
Long-term borrowings	49,066	42,239
Short-term liabilities	33,292	33,082
Short-term borrowings	5,856	7,231
Tax receivables	2,015	2,541
Interest-free liabilities	25,421	23,310
Total liabilities	89,099	82,544
Total liabilities and shareholders' equity	136,405	126,354

Change in consolidated equity

in CHF 1,000

	Share capital	Capital reserves	Cumulative translation differences	Retained earnings	Treasury shares	Total shareholders' equity
At 30.9.2003	31,797	53,129	-3,672	-31,943	-5,510	43,801
Capital increase		2,647				2,647
Translation differences			-100			-100
Treasury shares				-430	863	433
Net profit				532		532
Dividend payment				0		0
At 31.3.2004	31,797	55,776	-3,772	-31,841	-4,647	47,313

SCHAFFNER GROUP

Consolidated income statement

in CHF 1,000

	30.9.2003 to 31.3.2004	30.9.2002 to 31.3.2003
Net sales	86,185	76,144
Change in inventory	-177	-2,263
Corporate output	86,008	73,881
Cost of goods	-49,453	-41,462
Marketing and sales	-12,532	-12,207
Research, development and application	-7,237	-7,842
Logistics	-1,429	-1,338
General and administration ¹	-11,234	-8,589
EBITA	4,123	2,443
Goodwill amortization	-1,051	-1,414
EBIT	3,072	1,029
Financial income	-1,612	-1,754
Non-operational result	-513	0
EBT	947	-725
Income taxes	-429	125
Net profit	518	-600
Minority interests	14	10
Net profit after minority interests	532	-590
Depreciation and amortization (without goodwill)	-3,784	-3,757
Personnel expenses	-30,942	-28,533
Earnings per share in CHF		
basic	0.85	-0.94
diluted	0.85	-0.94

¹ IT expenses included in general and administration

Consolidated cash flow statement

in CHF 1,000

	30.9.2003 to 31.3.2004	30.9.2002 to 31.3.2003
Cash flow from operating activities	-730	4,469
Cash flow from investing activities	-3,427	-1,923
Cash flow from financing activities	8,182	-1,643
Total cash flow	4,025	903
± Translation differences on cash and cash equivalents	19	-145
Change in cash and cash equivalents	4,044	758
Free cash flow ¹	-4,198	2,567

¹ Cash flow from operating activities minus net capital expenditures in tangible fixed and intangible assets

Explanatory notes. These financial statements are prepared in accordance with the International Accounting Standards. These interim financial statements should be read in conjunction with the consolidated financial statements for the fiscal year ended September 30, 2003, as they provide an update of previously reported information. The consolidated financial statements were approved on April 19, 2004. The accounting policies used are consistent with those used in the annual financial statements. The Group operates in industries where significant seasonal or cyclical variations in total sales are not experienced during the financial year.

There were no significant acquisitions or disposals during the interim period 2003/2004. No significant changes in the Group's contingent liabilities have occurred since the annual financial statements. Income tax expense is recognized based upon the best estimate of the weighted average annual income tax rate expected for the full financial year.

Issue of convertible bond. On January 29, 2004, the Group issued a 2.25% convertible bond with a principal amount of CHF 49.4 million with the final redemption after 6 years (2004–2010).

Exchange rates. Rates of exchange for the major currencies used by the Group against the Swiss franc are as follows:

Country	Currency	Balance sheet		Income statement	
		31.3.2004	31.3.2003	30.9.2003 to 31.3.2004	30.9.2002 to 31.3.2003
		CHF	CHF	CHF	CHF
EU	100 EUR	1.55	1.47	1.56	1.47
USA	100 USD	1.27	1.35	1.28	1.40
Thailand	1,000 THB	0.03	0.03	0.03	0.03