Interim Report 2005/2006

schaffner

safety for electronic systems

Schaffner Group shows clear signs of growth.

The Schaffner Group increased its net sales by 14.8% to CHF 91.0 million in the first six months of fiscal 2005/2006 (first half 2004/2005: CHF 79.3 million), and with a net profit of CHF 0.8 million (CHF –1.5 million) made a return to profit in the first half of the year despite extraordinary costs related to the divestment of its test systems activities. Order intake increased by 9.2% over the same period to CHF 96.5 million (CHF 88.4 million), while the book-to-bill ratio was a solid 1.06. The positive trend has thus gathered pace in the second quarter across all sectors and regions. Net sales were up 20.8% on the prior-year quarter to CHF 51.8 million, while order intake rose by 20.4% to CHF 49.1 million.

Continuing operations. Net sales in the continuing Components Division rose by 14.1% to CHF 66.8 million (CHF 58.5 million) in the first half of fiscal 2005/2006. New orders totaled CHF 72.2 million (CHF 66.5 million), giving rise to a book-to-bill ratio of 1.08. EBIT almost doubled (+93.9%) to CHF 5.0 million (CHF 2.6 million), while the EBIT margin rose sharply to 7.4% (4.4%). Schaffner Components significantly increased the net profit to CHF 3.8 million (CHF 1.3 million). After deducting the net profit of the discontinued Test Systems Division of CHF –3.1 million (CHF –2.8 million), the consolidated net profit after six months was CHF 0.8 million (CHF –1.5 million).

Schaffner Components' growth is broadly based and bears witness to Schaffner's leading position as a provider of products for complex applications in the global EMC market. In terms of sectors, 42% (46%) of sales in the first half of 2005/2006 were generated in industrial electronics, 21% (22%) in telecommunications, and 9% (8%) in automotive. The medical technology and power supply sectors also performed well, contributing 9% (5%) and 7% (4%) of Components' sales respectively. The remaining sales were spread across a number of sectors including IT, consumer goods and others. Industrial electronics provided strong growth momentum, with huge potential for new applications in the power quality area. Schaffner is one of the world's leading producers in this growth sector. Schaffner power quality solutions are used in a range of applications including the conversion and recovery of electricity in solar and wind energy production, and the recovery of energy from elevators and electric motors. Important growth momentum is also expected from the machine tools and process automation sectors, as well as from the transport industry in general. In the telecommunications sector, an additional annual agreement worth EUR 1.1 million was concluded with a new international customer. The first deliveries were made in the second quarter. In the automotive sector, mass production of Schaffner components for use in the tire pressure monitoring systems (TPMS) of various models produced by a major US manufacturer got off to a successful start. The geographical breakdown reflects the global structure of Schaffner Components, with double-digit growth rates particularly in Germany (+12%) and the US (+13%), as well as ongoing dynamic development in the Asia-Pacific market (+23%).

Discontinued operations. The discontinued Test Systems Division also recorded very satisfactory growth in the first half of fiscal 2005/2006. Net sales rose by 16.8 % to CHF 24.2 million (CHF 20.8 million). Order intake was up 11.0 % on the year-back figure at CHF 24.3 million (CHF 21.9 million), while the book-to-bill ratio was 1.0. The net profit of CHF –3.1 million (CHF –2.8 million) includes the loss on the Power Electronics business line, which has now been sold, and the costs in connection with the ongoing divestment of test systems activities. The pleasing rise in demand for Schaffner's measurement and testing systems despite the ongoing divestment underlines Test Systems' high level of acceptance in the global EMC market. Against this backdrop, the large-scale order from a Japanese customer for cable and electroemulation testing equipment, which is essentially equivalent to breaking into the Japanese market, and the designation as preferred supplier for a Japanese automaker, are especially pleasing.

Outlook. After it became clear that the greatest potential value could be derived by divesting the Test Systems Division not as a single entity but broken down into its three core technological units, the first step towards the announced refocusing of the Schaffner Group on the components business was taken at the end of April with the sale of the Power Electronics business line. As a result of this move and in order to streamline organizational structures, a total of 50 jobs were cut in France, Finland, Ireland, the UK and Switzerland in the first six months of the year. The sale of the Power Electronics business line will also have a positive impact on profitability in the second half of the year. Discussions with potential buyers for the two remaining Test Systems units, EMC and Cable & ElectroEmulation, are continuing as a matter of priority; the aim remains to conclude the sales before the end of the current fiscal year. Provided that the economic outlook remains positive, Schaffner's management expects the continuing Components Division to achieve mid to high single-digit sales growth for fiscal 2005/2006 as a whole.

Luterbach, May 12, 2005

Leo Steiner
Chairmen of the Board of Directors

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

schaffner group

Consolidated balance sheet

in CHF 1,000

	31.3.2006	30.9.2005[1]
Intangible assets	7,315	7,763
Tangible fixed assets	20,675	20,799
Investments	3	3
Other long-term assets	3,553	2,945
Deferred tax assets	713	518
Fixed assets	**32,259**	**32,028**
Inventories	18,122	15,912
Trade receivables	29,233	26,320
Tax receivables	497	427
Other receivables and accruals	10,719	8,542
Short-term investments	–	–
Cash and cash equivalents	5,173	6,868
	63,744	58,069
Assets classified as held for sale	40,256	43,862
Current assets	**104,000**	**101,931**
Total assets	**136,259**	**133,959**
Equity attributable to equity holders of the parent	47,597	46,055
Minority interests	–7	6
Shareholders' equity	**47,590**	**46,061**
Provisions	3,894	2,801
Deferred tax liabilities	1,784	1,480
Long-term borrowings	30,094	32,124
Long-term liabilities	**35,772**	**36,405**
Short-term borrowings	2,449	215
Tax receivables	368	489
Interest-free liabilities	22,654	22,662
	25,471	23,366
Liabilities directly associated with assets classified as held for sale	27,426	28,127
Short-term liabilities	**52,897**	**51,493**
Total liabilities	**88,669**	**87,898**
Total liabilities and shareholders' equity	**136,259**	**133,959**

[1] New structure according to IFRS 5.

Consolidated income statement

in CHF 1,000

	1.10.2005 to 31.3.2006	1.10.2004 to 31.3.2005[1]
Continuing operations		
Net sales	**66,758**	**58,531**
Cost of goods sold[2]	–43,382	–38,982
Marketing and sales[3]	–7,635	–6,344
Research, development and application	–4,429	–4,681
General and administration[3]	–6,347	–5,963
EBITA	**4,965**	**2,561**
Goodwill amortization	–	–
EBIT	**4,965**	**2,561**
Financial result	–665	–964
EBT	**4,300**	**1,597**
Income taxes	–462	–270
Profit for the period from continuing operations	**3,838**	**1,327**
Discontinued operations		
Profit for the period from discontinued operations[3]	**–3,079**	**–2,807**
Consolidated profit for the period[3]	**759**	**–1,480**
Attributable to:		
Equity holders of the parent[3]	772	–1,457
Minority interests	–13	–23
Earnings per share from continuing operations in CHF		
basic	6.34	2.22
diluted	6.31	2.21
Earnings per share from discontinued operations in CHF		
basic	–5.07	–4.62
diluted	–5.07	–4.62
Consolidated earnings per share in CHF		
basic	1.27	–2.40
diluted	1.27	–2.40

[1] New structure according to IFRS 5.

[2] Previous year including CHF –1.445 million reported as logistics.

[3] Previous year adjusted by totally CHF –243,000 share-based payments (restatement).

Consolidated cash flow statement

in CHF 1,000

	1.10.2005 to 31.3.2006	1.10.2004 to 31.3.2005[1]
Continuing operations		
Cash flow from operating activities	939	–167
Cash flow from investing activities	–2,651	–2,090
Cash flow from financing activities	–113	377
± Translation differences on cash and cash equivalents	129	–25
Total cash flow from continuing operations	**–1,696**	**–1,905**
Discontinued operations		
Total cash flow from discontinued operations	**–439**	**–126**
Change in cash and cash equivalents	**–2,135**	**–2,031**

[1] New structure according to IFRS 5.

Change in consolidated equity

in CHF 1,000

	Share capital	Capital reserves[1]	Cumulative translation differences	Retained earnings[1]	Treasury shares	Amounts recognized directly in equity relating to assets held for sale	Minority interests	**Total shareholders' equity**
At 30.9.2004	**31,797**	**56,093**	**–5,179**	**–30,440**	**–5,886**	**–156**	**3**	**46,232**
Translation differences			57			18		75
Treasury shares				–80	1,496			1,416
Consolidated net profit				–1,457			–23	–1,480
Dividend payment				–1,209				–1,209
Stock option plans		243						243
At 31.3.2005	**31,797**	**56,336**	**–5,122**	**–33,186**	**–4,390**	**–138**	**–20**	**45,277**
At 30.9.2005	**31,797**	**56,757**	**–4,764**	**–32,691**	**–4,923**	**–121**	**6**	**46,061**
Translation differences			987			100		1,087
Treasury shares				–89	–453			–542
Consolidated net profit				772			–13	759
Stock option plans		225						225
At 31.3.2006	**31,797**	**56,982**	**–3,777**	**–32,008**	**–5,376**	**–21**	**–7**	**47,590**

[1] Opening balance restated for stock options of prior years (30.9.2004: CHF 317,000; 30.9.2005: CHF 941,000).

Segment information

in CHF 1,000

	1.10.2005 to 31.3.2006	1.10.2004 to 31.3.2005
Net sales Components[1]	66,758	58,531
Net profit Components[1]	3,838	1,327
Net sales Test Systems[2]	24,243	20,752
Net profit Test Systems[2]	–3,079	–2,807
Consolidated net sales (pro forma)	91,001	79,283
Consolidated net profit	**759**	**–1,480**

[1] Continuing operations

[2] Discontinued operations

Explanatory notes. The financial statements of the Schaffner Group are prepared in conformity with the provisions of the International Accounting Standards Board (IASB). These interim financial statements should be read in conjunction with the consolidated financial statements for the fiscal year ended September 30, 2005, as they provide an update of previously reported information.

The consolidated interim financial statements were approved on April 21, 2006. In comparison to the last financial statements all new IFRS rules that became binding on January 1, 2005, were taken into account as of October 1, 2005. Prior years' figures have been restated as required by IFRS. The other accounting policies used are consistent with those used in the annual financial statements.

The most important factors with respect to these changes are:

IFRS 2 Share-based payments. The fair value of the granted options is calculated using the binominal model. The fair value for options are expensed over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting. As permitted by IFRS 2, Schaffner has restated its prior-year audited historical consolidated financial statements to reflect the cost of grants awarded only since November 7, 2002, and not vested on January 1, 2005. An expense of CHF 243,000 was charged to the relevant cost centers.

IFRS 5 Assets held for sale and discontinued operations. Effective end of April 2006 the Schaffner Group sold the Power Electronics business line of its Test Systems Division to US-based Intepro America, LLC., Santa Ana, California. Intepro, which specializes in the marketing of power electronics test systems in the North American market, acquired Schaffner Ltd., Limerick, Ireland, as well as the corresponding sales and service organizations in the UK and the US. The Power Electronics segment contributed some CHF 5.1 million to the Test Systems Division's revenues in the last fiscal year.

The sale of the Power Electronics business line is the first step as part of the Schaffner Group's plans to focus on the components business. Discussions with interested parties for the two remaining test systems units EMC and Cable & ElectroEmulation are being pursued as a matter of priority.

No other significant changes in the Group's contingent liabilities have occurred since the annual financial statements.

The Group operates in industries where significant seasonal or cyclical variations in total sales are not experienced during the fiscal year.

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

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

		Balance sheet		**Income statement**	
		31.3.2006	30.9.2005	**1.10.2005 to 31.3.2006**	1.10.2004 to 31.3.2005
Country	Currency	CHF	CHF	CHF	CHF
EU	1 EUR	1.58	1.55	1.56	1.54
USA	1 USD	1.30	1.29	1.30	1.17
Thailand	1 THB	0.03	0.03	0.03	0.03
UK	1 GBP	2.26	2.28	2.28	2.22

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