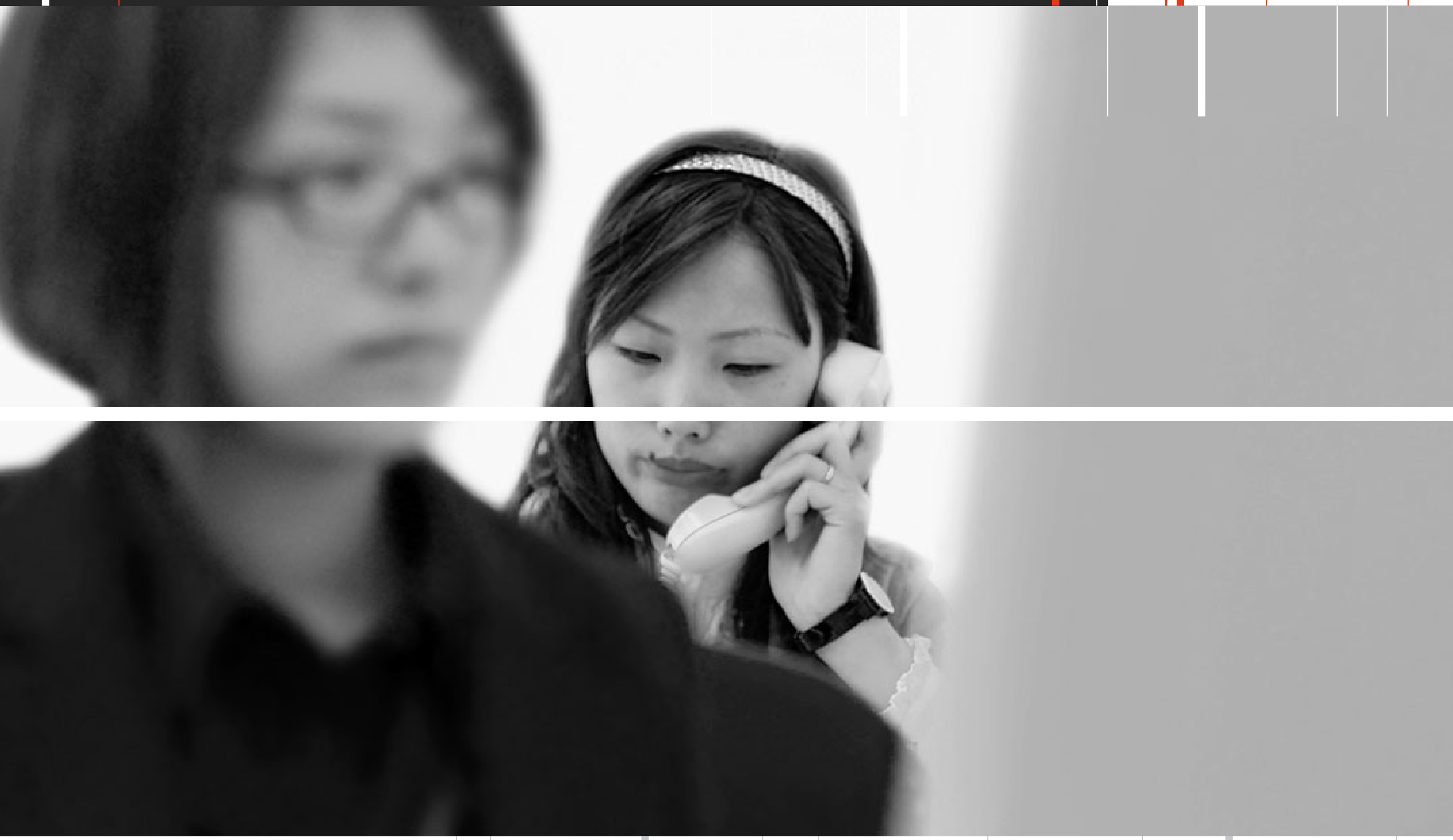
# Interim Report 2007/2008



schaffner

energy efficiency and reliability

**Schaffner Group records sound growth in core markets. In the first six months of fiscal 2007/2008 the Schaffner Group increased net sales of components for optimizing energy efficiency and enhancing the operating reliability of electrical and electronic systems by 8.9% year-on-year to CHF 86.2 million (first half 2006/2007: CHF 79.2 million). Adjusted for currency effects, the rise in sales amounted to 10.3%. Order intake rose by 8.6% from CHF 87.2 million to CHF 94.7 million year-on-year. The figure of CHF 92.6 million reported in the previous year included a one-off acquisition-related item of CHF 5.4 million in connection with the integration of Schaffner Jacke in November 2006. The Schaffner Group continues to enjoy a solid book-to-bill ratio of 1.10 (1.17). The Group further increased its profitability, with the operating result (EBIT) up by a clear 43.4% to CHF 4.8 million (CHF 3.4 million) and the EBIT margin rising to 5.6% (4.2%). Net profit rose from CHF 1.0 million to CHF 2.2 million, which represents earnings per share (EPS) of CHF 3.61 (CHF 1.62).**

**Strong demand for EMC and power quality components.** Demand for both EMC and power quality components remained high in the first half of fiscal 2007/2008. For the first time, the electronic motor controls sector was the largest single market for Schaffner in the period under review, making up 20% of sales. The market for renewable energies contributed 13% of sales during the period under review. These two core markets together thereby accounted for around one third of the Group's sales. During the first half of the year, the Group won another large order to deliver subsystems for mobile phone network base stations, thus increasing the contribution to revenue from customers in the global telecommunications industry to 13.5%. Only orders for automotive components in the US and French markets fell short of expectations due to a decline in automobile production. Compared to the previous year, the amount of orders nonetheless remained constant thanks to various new projects. The geographical breakdown of sales shows that Europe still accounts for the lion's share of sales with 75%, while the Asian markets are maintaining their strong growth, increasing their contribution to 18% despite a sharp decline in the US dollar exchange rate. In absolute terms, the proportion of sales accounted for by the US remained constant at 7%.

**Consistent implementation of operational excellence.** The measures under the operational excellence program, which aims to achieve a sustainable increase in profitability, continued to be consistently implemented in the first half of fiscal 2007/2008. Operating margin targets were met in all operating units with the exception of Jacke's power quality production in Büren (Germany), which was acquired in November 2006. High material costs were the major reason for the impact on Schaffner Jacke's operating results during the first half of the fiscal year. Due to the performance trend at Schaffner Jacke, earn-out payments, originally agreed upon within the framework of the acquisition, were abandoned and the corresponding provisions were dissolved. Measures are currently being implemented to rapidly solve the unsatisfactory margin situation at Schaffner Jacke. These measures include raising of prices, increase in productivity in Büren and a transfer of production from Büren to the newly established European production center in Hungary, and are expected to herald in a significant improvement in the performance of Schaffner Jacke in the current fiscal year. As a result of the concentration of European production in Kecskemét, Hungary, the headcount in Luterbach will be reduced from 148 to 115 employees by November 30, 2008, and further 30 jobs will be relocated from Büren to Kecskemét. The anticipated extraordinary costs of around CHF 0.5 million associated with these staff cuts, primarily for the social plan in Luterbach, will be incurred during the second half of fiscal 2007/2008.

**Changes in Group Management**. The Board of Directors of Schaffner Holding AG has appointed Kurt Ledermann as new Chief Financial Officer of the Schaffner Group with effect from June 1, 2008. Mr. Ledermann will take over from Martin Zwyssig, who has decided to take up a new challenge after five years as a member of Schaffner Group Management. Kurt Ledermann studied engineering at the Federal Institute of Technology (dipl. Ing. ETH) and economics at the University of St. Gallen (lic. oec. HSG). Before joining the Schaffner Group he was Executive Vice President Finance & IT at RUAG Aerospace. Prior to this he had already spent some four years with the Schaffner Group as Head of Group Finance & Accounting and held various positions within the Sika Group. Long-serving HR manager Peter Schär is also to leave the Schaffner Group to take up a new position elsewhere. The Board of Directors and Group Management would like to thank Martin Zwyssig and Peter Schär for their major contribution, particularly in connection with the successful realignment of the Schaffner Group, and wish them every success and satisfaction in the future.

**Outlook**. Provided that the prevailing economic conditions for industrial enterprises do not deteriorate dramatically, the Schaffner Group, given the stable demand in all key markets in fiscal 2007/2008, is expecting to achieve organic sales growth at the upper end of the targeted 6% to 8% range. Taking into account the restructuring costs related to the relocation of production to Hungary, the Group is confident of closing the fiscal year with an EBIT margin of around 7%. As long as there are no drastic changes in the overall economic situation, the Schaffner Group is now looking to achieve its target of an EBIT margin of 10% by fiscal 2009/2010, thanks to the measures already initiated for cutting costs and increasing profitability.

Luterbach, May 14, 2008

| | |
|---|---|
| Leo Steiner | Alexander Hagemann |
| Chairman of the Board of Directors | Chief Executive Officer |

schaffner group

# Consolidated balance sheet

in CHF 1,000

| | 31.3.2008 | 30.9.2007 |
|---|---|---|
| Intangible assets | 13,013 | 13,298 |
| Tangible fixed assets | 13,319 | 14,531 |
| Other long-term assets | 6,376 | 7,072 |
| Deferred income tax assets | 746 | 793 |
| **Fixed assets** | **33,454** | **35,694** |
| | | |
| Inventories | 26,971 | 29,963 |
| Trade receivables | 31,521 | 33,415 |
| Income tax receivables | 567 | 203 |
| Other receivables and accruals | 14,418 | 19,142 |
| Cash and cash equivalents | 25,875 | 28,796 |
| **Current assets** | **99,352** | **111,519** |
| | | |
| **Total assets** | **132,806** | **147,213** |
| | | |
| Equity attributable to equity holders of Schaffner Holding AG | 44,926 | 51,710 |
| **Shareholders' equity** | **44,926** | **51,710** |
| | | |
| Long-term provisions | 4,923 | 6,818 |
| Deferred income tax liabilities | 2,521 | 2,880 |
| Long-term borrowings | 49,025 | 49,042 |
| **Long-term liabilities** | **56,469** | **58,740** |
| | | |
| Short-term provisions | 982 | 0 |
| Short-term borrowings | 22 | 363 |
| Income tax liabilities | 1,622 | 1,411 |
| Interest-free liabilities | 28,785 | 34,989 |
| **Short-term liabilities** | **31,411** | **36,763** |
| | | |
| **Total liabilities** | **87,880** | **95,503** |
| | | |
| **Total liabilities and shareholders' equity** | **132,806** | **147,213** |

## Consolidated income statement

in CHF 1,000

| | 1.10.2007 to 31.3.2008 | 1.10.2006 to 31.3.2007 |
|---|---|---|
| **Continuing operations** | | |
| **Net sales** | **86,245** | **79,170** |
| | | |
| Cost of goods sold | –61,076 | –53,078 |
| **Gross profit** | **25,169** | **26,092** |
| | | |
| Other income | 1,803 | 0 |
| Marketing and sales | –8,672 | –8,495 |
| Research, development and application | –5,297 | –5,011 |
| General and administration | –7,833 | –8,939 |
| **Earnings before amortization of customer relations** | **5,170** | **3,647** |
| | | |
| Amortization of customer relations | –350 | –287 |
| **Operating result (EBIT)** | **4,820** | **3,360** |
| | | |
| Financial income | 2,778 | 4,463 |
| Financial expenses | –4,539 | –5,106 |
| **Earnings before income taxes (EBT)** | **3,059** | **2,717** |
| | | |
| Income taxes | –856 | –804 |
| **Profit for the period from continuing operations** | **2,203** | **1,913** |
| | | |
| **Discontinued operations** | | |
| **Profit for the period from discontinued operations** | **0** | **–912** |
| | | |
| **Net profit** | **2,203** | **1,001** |
| | | |
| Attributable to | | |
| Equity holders of the parent | 2,203 | 1,002 |
| Minority interests | 0 | –1 |
| | | |
| **Earnings per share from continuing operations** in CHF | | |
| basic | 3.61 | 3.10 |
| diluted | 3.39 | 3.08 |
| | | |
| **Earnings per share from discontinued operations** in CHF | | |
| basic | 0.00 | –1.48 |
| diluted | 0.00 | –1.47 |
| | | |
| **Earnings per share** in CHF | | |
| basic | 3.61 | 1.62 |
| diluted | 3.39 | 1.61 |

## Consolidated cash flow statement

in CHF 1,000

| | 1.10.2007 to 31.3.2008 | 1.10.2006 to 31.3.2007 |
|---|---|---|
| Cash flow from operating activities | –1,687 | –3,538 |
| Cash flow from investing activities[1] | 2,000 | 22,508 |
| Cash flow from financing activities | –2,690 | –3,898 |
| ± Translation differences on cash and cash equivalents | –544 | 166 |
| **Change in cash and cash equivalents** | **–2,921** | **15,238** |

[1] The current cash flow from investing activities includes a payment of CHF 3.7 million for Schaffner's German properties in Wertheim sold in September 2007.

## Change in consolidated equity

in CHF 1,000

| | Share capital | Capital reserves | Cumulative translation differences | Retained earnings | Treasury shares | Amounts recognized directly in equity | Total shareholders' equity without minority interests | Minority interests | **Total shareholders' equity** |
|---|---|---|---|---|---|---|---|---|---|
| **At 30.9.2006** | **31,797** | **57,374** | **–3,875** | **–29,241** | **–5,734** | **661** | **50,982** | **3** | **50,985** |
| Translation differences | | | 1,888 | | | 51 | 1,939 | | 1,939 |
| Net profit | | | | 1,002 | | | 1,002 | –1 | 1,001 |
| **Total income and expense** | **0** | **0** | **1,888** | **1,002** | **0** | **51** | **2,941** | **–1** | **2,940** |
| Treasury shares | | | | –157 | 1,510 | | 1,353 | | 1,353 |
| Repayment of nominal value | –6,995 | | | | | | –6,995 | | –6,995 |
| Stock option plans | | 254 | | | | | 254 | | 254 |
| **At 31.3.2007** | **24,802** | **57,628** | **–1,987** | **–28,396** | **–4,224** | **712** | **48,535** | **2** | **48,537** |
| | | | | | | | | | |
| **At 30.9.2007** | **24,802** | **57,888** | **–2,143** | **–23,722** | **–5,115** | **0** | **51,710** | **0** | **51,710** |
| Translation differences | | | –5,009 | | | | –5,009 | | –5,009 |
| Net profit | | | | 2,203 | | | 2,203 | | 2,203 |
| **Total income and expense** | **0** | **0** | **–5,009** | **2,203** | **0** | **0** | **–2,806** | **0** | **–2,806** |
| Treasury shares | | | | –254 | –2,205 | | –2,459 | | –2,459 |
| Repayment of nominal value | –1,908 | | | 94 | | | –1,814 | | –1,814 |
| Stock option plans | | 295 | | | | | 295 | | 295 |
| **At 31.3.2008** | **22,894** | **58,183** | **–7,152** | **–21,679** | **–7,320** | **0** | **44,926** | **0** | **44,926** |

## Segment information

in CHF 1,000

| | **1.10.2007 to 31.3.2008** | 1.10.2006 to 31.3.2007 |
|---|---|---|
| Net sales Components and Modules[1] | 86,245 | 79,170 |
| Profit Components and Modules[1] | 2,203 | 1,913 |
| | | |
| Net sales Test Systems[2] | 0 | 13,220 |
| Profit Test Systems[2] | 0 | –912 |
| | | |
| Net sales total | 86,245 | 92,390 |
| **Net profit** | **2,203** | **1,001** |

[1] Continuing operations

[2] Discontinued operations

## Explanatory notes

The financial statements of the Schaffner Group are prepared in conformity with International Accounting Standard (IAS) 34 Interim Financial Reporting. These interim financial statements should be read in conjunction with the consolidated financial statements for the fiscal year ended September 30, 2007, as they provide an update of previously reported information.

The consolidated financial statements were approved on May 2, 2008. The Schaffner Group used the same principles as in the previous year. Newly issued and amended standards and interpretations are an exception to this rule.

The Schaffner Group introduced the following changes on October 1, 2007: Amendments to IAS 1 Presentation of Financial Statements, in addition to the introduction of IFRS 7 Financial Instruments: Disclosures and the IFRIC interpretations IFRIC 10 Interim Financial Reporting and Impairment and IFRIC 11 IFRS 2 – Group and Treasury Share Transactions. These standards have no effect on the consolidated balance sheet or income statement of the Schaffner Group, as they are either simply disclosure regulations or are of little significance to the Schaffner Group.

In connection with previous year's acquisition of the Jacke Transformatoren GmbH an earn-out model has been agreed upon that foresees secondary payments of up to a maximum of EUR 0.7 million if certain targets are met. With an agreement signed in the reporting period the selling party abandoned without restriction the payment of the earn-out of EUR 0.7 million which was recorded as provision as at September 30, 2007, as well as the payment of a borrowing of EUR 0.3 million. The total amount of EUR 1 million is shown under other income.

In accordance with IFRS 3.62, the acquisition of Jacke was only provisionally recorded in the previous year's interim report. Additional findings regarding the purchase price allocation have been reported in the balance sheet as of September 30, 2007. As this information has an impact on the income statement of the previous year, the figures have been restated accordingly. A higher amortization of customer relations in combination with a decrease of related income taxes reduced the net profit of the previous year's interim period by CHF 106,000.

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

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

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

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

| | | Balance sheet | | Income statement | |
|---|---|---|---|---|---|
| | | **31.3.2008** | 30.9.2007 | **1.10.2007 to 31.3.2008** | 1.10.2006 to 31.3.2007 |
| Country | Currency | CHF | CHF | CHF | CHF |
| EU | EUR 100 | 156.81 | 165.96 | 162.41 | 160.76 |
| USA | USD 100 | 99.32 | 116.41 | 108.98 | 122.38 |
| Thailand | THB 100 | 3.16 | 3.64 | 3.55 | 3.52 |
| UK | GBP 100 | 197.10 | 238.17 | 219.61 | 239.33 |
| China | CNY 100 | 14.15 | 15.50 | 14.94 | 15.71 |

energy efficiency and reliability

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