

SCHWEITER TECHNOLOGIES

Semi-Annual Report 2017

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Report of the Board of Directors on the results for the first half of 2017

Dear Shareholders

In the first half of 2017 Schweiter Technologies posted good organic growth in revenues. Net revenues from continuing operations rose 5% (+6% in local currencies) to CHF 485.6 million. The Group reported EBITDA of CHF 52.6 million (H1 2016: CHF 56.2 million), equivalent to a return on sales of 10.8%. A temporary increase in raw material costs and one-off effects led to a lower operating profit in the first half of the year in comparative terms. EBIT amounted to CHF 38.9 million (H1 2016: CHF 43.4 million) and net income from continuing operations came to CHF 30.9 million (H1 2016: CHF 30.5 million). Net income increased to CHF 129.5 million (H1 2016: CHF 34.5 million). This includes income of CHF 98.6 million from discontinued operations (SSM Textile Machinery). The Group's cash holdings amounted to CHF 232 million.

3A Composites received orders amounting to CHF 505.7 million (H1 2016: CHF 498.8 million). Net revenues rose by 5% to CHF 485.6 million (H1 2016: CHF 462.3 million). As a result, EBITDA came to CHF 53.9 million (H1 2016: CHF 57.9 million). This equates to a return on sales of 11.1%. EBIT amounted to CHF 40.1 million (H1 2016: CHF 45.1 million).

The Display and Architecture businesses in Europe and the US made particular contributions to the growth in revenues.

The European Display business once again expanded its market position. Systematic development of the extensive range of transparent and non-transparent panels, coupled with a focused approach to sales, resulted in a particularly sharp rise in revenues compared with the general economic trend. In the American Display business, a combination of product innovations, a refocusing of sales and major customer projects even led to a double-digit increase in revenues. A temporary increase in raw material costs and the delayed contribution to earnings of adjustments to selling prices resulted in comparatively lower profitability.

The Architecture business posted double-digit increases in revenues in both Europe and America. Higher-than-expected start-up costs for a new production line negatively impacted profitability in the first half of the year. Weaker demand in China, as well as project delays in the Middle East and India slowed revenue performance in the Asian Architecture business.

The Core Materials business posted sustained strong demand – level with the previous year – in both the wind and non-wind sectors. Revenue growth was constrained by a temporary shortage of balsa wood resulting from unusually heavy rainfall in Ecuador.

Business in the Transportation sector showed a very pleasing trend, recording double-digit growth in revenues thanks to high demand in the rail vehicles segment accompanied by a disproportionately strong increase in profitability.

Outlook

In the second half of the year, business is expected to continue to develop favourably, with an operating result at least on a par with the first half. Demand in the Display and Architecture business in Europe and the United States is expected to be stable. The selective adjustment of selling prices should have a positive impact on profitability in the second half of the year. Some signs of recovery are emerging in the Asian Architecture business, while the Core Materials business is expected to enjoy solid demand.

In addition, the acquisition of Athlone Extrusions in Ireland will further strengthen the Composites business and make a positive contribution to earnings.

Yours sincerely

Board of Directors Schweiter Technologies

Key figures ¹⁾

(in CHF m)	First half of 2017	First half of 2016	Change
Orders received	505.7	498.8	1%
Net revenue	485.6	462.5	5%
EBITDA	52.6	56.2	-6%
EBIT	38.9	43.4	-10%
Net income from continuing operations	30.9	30.5	1%
Net income	129.5	34.5	275%

Orders received (in CHF m)**Net revenues** (in CHF m)**EBITDA** (in CHF m)**Net income** (in CHF m)¹⁾ Continuing operations

Consolidated balance sheet as at 30 June 2017

Assets (in CHF m)	30 June 2017	%	31 Dec. 2016	%
Current assets				
Cash and cash equivalents	232.3		179.3	
Trade receivables	152.0		143.0	
Inventories	139.7		147.7	
Other current assets	33.0		34.2	
Total current assets	557.0	56.8	504.2	53.4
Non-current assets				
Property, plant and equipment	242.7		251.8	
Investment property	19.6		19.9	
Intangible assets (incl. goodwill)	112.9		116.5	
Other non-current assets	48.9		51.3	
Total non-current assets	424.1	43.2	439.5	46.6
Total assets	981.1		943.7	
Liabilities (in CHF m)				
Current liabilities				
Current financial liabilities	0.6		1.3	
Trade payables	62.2		65.0	
Prepayments received from customers	3.9		8.0	
Accrued expenses and deferred income	45.5		55.5	
Other current liabilities	33.3		31.5	
Total current liabilities	145.5	14.8	161.3	17.1
Non-current financial liabilities	3.2		3.2	
Deferred tax liabilities	28.9		30.2	
Non-current provisions	15.0		16.5	
Pension obligations	68.8		73.2	
Total non-current liabilities	115.9	11.8	123.1	13.0
Total liabilities	261.4	26.6	284.4	30.1
Shareholders' equity				
Share capital	1.4		1.4	
Treasury shares	- 0.2		- 0.2	
Reserves from capital contributions	0.1		0.1	
Retained earnings	756.0		682.6	
Currency translation adjustments	- 37.6		- 24.6	
Total shareholders' equity	719.7	73.4	659.3	69.9
Total liabilities and shareholders' equity	981.1		943.7	

Consolidated income statement for the first half of 2017

(in Mio. CHF)	First half of 2017		First half of 2016	
		%		%
Continuing operations:				
Net revenues	485.6	99.4	462.5	100.1
Change in inventories of semi-finished and finished goods	2.7	0.6	- 0.8	- 0.1
Total operating income	488.3	100.0	461.7	100.0
Material expenses	- 269.4	- 55.2	- 239.7	- 51.9
Personnel expenses	- 88.9	- 18.2	- 85.8	- 18.6
Other operating expenses	- 80.2	- 16.4	- 81.5	- 17.6
Other operating income	2.8	0.6	1.5	0.3
Depreciation and amortization	- 13.7	- 2.8	- 12.8	- 2.8
Operating result	38.9	8.0	43.4	9.4
Financial income	0.8	0.1	0.1	0.0
Financial expenses	- 0.9	- 0.2	- 2.3	- 0.5
Income before taxes	38.8	7.9	41.2	8.9
Income taxes	- 7.9	- 1.6	- 10.7	- 2.3
Net income from continuing operations	30.9	6.3	30.5	6.6
1 Discontinued operations:				
Net income from discontinued operations	98.6	20.2	4.0	0.9
Net income	129.5	26.5	34.5	7.5
Earnings per share (in CHF)				
From continuing operations:				
- undiluted	21.56		21.31	
- diluted	21.55		21.30	
From continuing and discontinued operations:				
- undiluted	90.51		24.13	
- diluted	90.47		24.12	

Consolidated statement of comprehensive income for the first half of 2017

(in CHF m)	First half of 2017	First half of 2016
Net income	129.5	34.5
Other comprehensive income		
Items that may be reclassified subsequently to the statement of income:		
– Exchange differences on translation of foreign operations	– 13.7	– 5.6
– Tax effect	0.0	0.0
Exchange rate differences reclassified to the statement of income	0.7	
Total	– 13.0	– 5.6
Items that will not be reclassified subsequently to the statement of income:		
– Actuarial gains / (losses) on defined benefit plans	1.5	– 15.6
– Tax effect	– 0.4	3.5
Total	1.1	– 12.1
Total other comprehensive income	– 11.9	– 17.7
Comprehensive income	117.6	16.8

Consolidated statement of cash flows for the first half of 2017

(in Mio. CHF)	First half of 2017	First half of 2016
Net income from continuing operations	30.9	30.5
1 Net income from operating activities of discontinued operations	7.2	4.0
Depreciation and amortization	14.3	13.3
Other positions not impacting on cash	– 2.2	– 1.1
Income taxes	9.0	11.7
Financial result	– 0.2	1.9
2 Change in working capital	– 25.8	– 10.4
Interest paid	– 0.3	– 0.3
Income taxes paid	– 6.9	– 17.7
Cash flow from operating activity	26.0	31.9
1 Proceeds from sale of discontinued operations, net of cash	100.0	0.0
Purchase of property, plant and equipment	– 14.4	– 17.8
Proceeds from sale of property, plant and equipment	0.2	0.4
Purchase of intangible assets	0.0	– 0.4
Repayment of financial assets	0.4	1.3
Increase in financial assets	– 0.2	– 0.3
Interest received	0.3	0.2
Income derivative instruments	0.0	0.2
Cash flow from investment activity	86.3	– 16.4
Repayment of non-current financial liabilities	0.0	– 0.1
Repayment of current financial liabilities	– 0.6	– 1.5
Sale of treasury shares	0.0	0.2
Dividend paid	– 57.3	– 57.3
Cash flow from financing activity	– 57.9	– 58.7
Currency exchange differences on cash and cash equivalents	– 1.4	– 1.3
Change in cash and cash equivalents	53.0	– 44.5
Cash and cash equivalents as at 1 January	179.3	170.5
Cash and cash equivalents as at 30 June	232.3	126.0

Consolidated statement of changes in equity

(in CHF m)	Share capital	Treasury shares	Reserves capital contributions	Retained earnings	Currency translation difference	Total shareholders' equity
Balance as at 1 January 2016	1.4	- 0.3	0.1	650.5	- 26.8	624.9
Net income				34.5		34.5
<i>Other comprehensive income</i>	0	0	0	- 12.1	- 5.6	- 17.7
Comprehensive income	0	0	0	22.4	- 5.6	16.8
Sale of treasury shares		0.1		0.1		0.2
Share-based remuneration				0.1		0.1
Dividend				- 57.3		- 57.3
Balance as at 30 June 2016	1.4	- 0.2	0.1	615.8	- 32.4	584.7
Balance as at 1 January 2017	1.4	- 0.2	0.1	682.6	- 24.6	659.3
Net income				129.5		129.5
<i>Other comprehensive income</i>	0	0	0	1.1	- 13.0	- 11.9
Comprehensive income	0	0	0	130.6	- 13.0	117.6
Share-based remuneration				0.1		0.1
Dividend				- 57.3		- 57.3
Balance as at 30 June 2017	1.4	- 0.2	0.1	756.0	- 37.6	719.7

Operating segments ¹⁾

First half of 2017 (in CHF m)	3A Composites	Other/ Eliminations	Group
Net revenues	485.6	0.0	485.6
Operating result	40.1	- 1.2	38.9
Net income	28.7	2.2	30.9
Assets	851.2	129.9	981.1
Liabilities	537.8	- 276.4	261.4
Employees at 30 June	4 025 ²⁾	7	4 032

²⁾ Of which 1 542 employees in balsa plantations and sawmills in Ecuador and Papua New Guinea

First half of 2016 (in CHF m)	3A Composites	Other/ Eliminations	Group
Net revenues	462.3	0.2	462.5
Operating result	45.1	- 1.7	43.4
Net income	29.7	0.8	30.5
Assets	846.6	29.2	875.8
Liabilities	604.5	- 301.6	302.9
Employees at 30 June	4 218 ²⁾	6	4 224

²⁾ Of which 1 783 employees in balsa plantations and sawmills in Ecuador and Papua New Guinea

¹⁾ Continuing operations

Notes to the semi-annual statements as at 30 June 2017

Consolidation principles

These condensed, unaudited semi-annual statements of the Swiss-domiciled Schweiter Technologies AG and its subsidiaries were prepared in accordance with IAS 34 "Interim Financial Reporting".

They are based on the accounting principles presented in the 2016 Annual Report, which were applied with no changes other than the following new or amended standards and interpretations:

Adoption of new or revised accounting policies

Amendments to standards

IAS 12	Income taxes: Recognition of Deferred Tax Assets for Unrealised Losses
Miscellaneous	Amendments resulting from the Annual Improvement Projects

Standards issued but not yet adopted

The following new and revised standards and interpretations are issued by the IASB. These standards were not effective for the reporting period and have not been early adopted in the present consolidated financial statements.

The following table shows the impact estimated by the Executive Management:

New standards		Effective for annual periods beginning on or after	Planned adoption by Schweiter Technologies
IFRS 15	Revenues from Contracts with Customers	1 January 2018	Financial year 2018 ¹⁾
IFRS 9	Financial Instruments	1 January 2018	Financial year 2018 ²⁾
IFRIC 22	Foreign currency transactions	1 January 2018	Financial year 2018 ²⁾
IFRS 16	Leases	1 January 2019	Financial year 2019 ³⁾

Amendments to standards

IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018	Financial year 2018 ²⁾
Miscellaneous	Amendments resulting from the Annual Improvement Projects	1 January 2018	Financial year 2018 ²⁾

¹⁾ In 2016 a Group wide IFRS 15 implementation project was launched. The project has two phases: An initial detailed analysis of the impact of the rules of IFRS 15 for the consolidated financial statements of Schweiter Technologies at the level of each Group company also including the need for adjustments to existing processes as well as provide training for the Group companies in handling the new requirements of IFRS 15.

Based on the findings of the detailed analysis of IFRS 15 carried out in fiscal year 2016, no material impacts were identified compared with the current revenue recognition.

²⁾ No or no material effects are expected on the consolidated financial statements of Schweiter Technologies

³⁾ The impact on the consolidated financial statements of Schweiter Technologies has not yet been fully analyzed

Notes to the semi-annual statements as at 30 June 2017

The preparation of the semi-annual statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent liabilities at the date of the semi-annual statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the semi-annual statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

The Group operates in areas whose income statements are not characterized by seasonal fluctuations. Income tax expense is recognized based upon the best estimate of the weighted average income tax rate expected for the full financial year.

Change in scope of consolidation

On 30 June 2017, the SSM Textile Machinery division was sold to the Rieter Group.

Notes

1 Sale of discontinued operations

Details to the sale of the 100% shareholding in SSM Textile Machinery division are disclosed on pages 12 and 13.

2 Change in working capital

The increase in working capital is mainly attributable to higher trade receivables and higher inventory of the 3A Composites division resulting from a higher sales volume as well as temporary effects.

3 Contingent liabilities

In the period under review, the commitments to take delivery under purchase contracts for machine parts and raw material have increased by CHF 24.5 million from CHF 137.9 million to CHF 162.4 million.

All other contingent liabilities have remained essentially unchanged.

4 Events after the balance sheet date

On 31 July 2017, Schweiter Technologies acquired 100% of the shares in the Athlone Extrusions Group, a leading manufacturer of coloured opaque multi-layer plastic sheeting located in Ireland. With this acquisition, the Group further strengthens the 3A Composites division.

The provisional purchase price is EUR 48 million and will be determined on the basis of the net assets accepted by the contracting parties. There are no variable purchase price components over and above this.

Transaction costs of CHF 0.4 million directly related to the acquisition are included in other operating expenses, whereof CHF 0.3 million are recognised in the first half of 2017 and CHF 0.1 million in the financial year 2016.

At the time of the approval of the half-year report 2017, the consolidated closing balance of the acquired group as at 31 July 2017 is not yet available. Therefore, no further information on the opening balance can be disclosed. A full disclosure on the acquisition will be provided in the Annual Report 2017.

In 2016, Athlone Extrusions generated sales of EUR 62 million and a net income of EUR 3.5 million.

Had the business combination already taken place on 1 January 2017, management estimates that the Group's revenue would have reached CHF 524.8 million and net income CHF 131.8 in the period under review.

This interim report was approved and released for publication by the Board of Directors of Schweiter Technologies AG on 16 August 2017 by way of a circular resolution.

Note 1 continued: Sale of discontinued operations

The 100% shareholding in SSM Textile Machinery division was sold to the Rieter Group as of 30 June 2017. The net assets of SSM Textile Machinery were as follows as at 30 June 2017 (effective date of sale) and 31 December 2016:

(in CHF m)	30. June 2017	31. Dec. 2016
Book value of net assets disposed:		
Cash and cash equivalents	24.0	30.0
Trade receivables	9.0	10.5
Inventories	17.5	15.9
Other current assets	2.2	2.3
Property, plant and equipment	3.3	3.5
Intangible assets (incl. goodwill)	3.3	3.2
Other non-current assets	1.1	1.2
Trade payables	– 11.9	– 14.0
Prepayments received from customers	– 5.8	– 4.7
Accrued expenses and deferred income	– 4.2	– 4.5
Other current liabilities	– 2.7	– 2.5
Deferred tax liabilities	– 1.1	– 1.1
Non-current provisions	– 0.9	– 1.0
Pension obligations	– 5.0	– 5.5
Total net assets disposed	28.8	33.3
Gain on sale of discontinued operations	91.4	
Total proceeds from sales	120.2	
Split of purchase price:		
– Consideration received	124.2	
– Provision for purchase price adjustments	– 3.0	
– Directly attributable transaction costs ¹⁾	– 0.3	
– Realized exchange rate differences on translation	– 0.7	
Total proceeds from sales	120.2	
Consideration received	124.2	
less cash and cash equivalents disposed	– 24.0	
less directly attributable transaction costs, paid	– 0.2	
Cash flow from sale of discontinued operations	100.0	

¹⁾ Additional transaction costs recognised in 2016: CHF 0.1 million

Notes to the semi-annual statements as at 30 June 2017

The results of the sold SSM Textile Machinery division that appear in the semi-annual statements for the period from 1 January to 30 June 2017 and 30 June 2016, are composed as follows:

(in CHF m)	First half of 2017	First half of 2016
Net revenues	49.8	38.8
Change in inventories of semi-finished and finished goods	– 1.1	0.7
Total operating income	48.7	39.5
Material expenses	– 21.9	– 17.9
Personnel expenses	– 9.7	– 9.6
Other operating expenses	– 8.7	– 6.7
Other operating income	0.2	0.0
Depreciation and amortization	– 0.6	– 0.5
Operating result	8.0	4.8
Financial income	0.4	0.3
Financial expenses	– 0.1	– 0.1
Income before taxes	8.3	5.0
Income taxes	– 1.1	– 1.0
Net income from operating activity	7.2	4.0
Gain on sale of discontinued operations	91.4	–
Income from discontinued operations	98.6	4.0
Cash flow from operating activity	6.5	0.8
Cash flow from investment activity	– 0.3	– 0.1
Cash flow from financing activity	– 12.0	– 6.0
Currency exchange differences on cash and cash equivalents	– 0.1	– 0.3
Net cash flow from discontinued operations	– 5.9	– 5.6

Information for shareholders

Bearer shares are listed on the main stock exchange in Zurich. Security number: 1075492;
ISIN: CH0010754924; Telekurs: SWTQ; Reuters: SWTZ.

(in CHF 1000s)	30 June 2017	31 Dec. 2016
Share capital – divided into bearer shares with a par value of CHF 1 each	1 432	1 432
Conditional capital	133	133
Stock market capitalization as at reference date	1 782 601	1 646 579
Holdings of treasury shares	600	600
Treasury shares as % of share capital	0.04	0.04

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Disclaimer

All statements in this Semi-Annual Report that do not refer to historical facts are forward-looking statements which are no guarantee of future performance. They are based on assumptions and involve risks and uncertainties as well as other factors beyond the control of the company.

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