Schaffner Group
Half-Year Report
2012/13

schaffner
energy efficiency and reliability

Market downturn in Europe weighs on earnings

Positive trend in growth market for power quality filters

In the first half of 2012/13, the Schaffner Group increased net sales by 11 % to CHF 89.6 million (H1 2011/12: CHF 81.0 million). Sales growth in local currencies amounted to 8 %. Operating profit (EBIT) improved by 18 % to CHF 1.6 million (H1 2011/12: CHF 1.4 million), with an EBIT margin of 1.8 % (H1 2011/12: 1.7 %). Net profit was CHF 0.3 million (H1 2011/12: CHF 0.3 million).

Growth continues in the Asia-Pacific region

The Schaffner Group continued to face unsatisfactory demand in Europe in the first half of 2012/13. A very different picture was presented by the Asia-Pacific region, where the Group posted dynamic growth, driven mainly by strong demand from Japanese manufacturers of solar inverters for photovoltaics. Asia-Pacific contributed 39 % (H1 2011/12: 34 %) to consolidated sales in the first half of 2012/13. At 45 % (H1 2011/12: 49 %), Europe's share continued to ease. America accounted for 16 % (H1 2011/12: 17 %) of Group sales.

As in the prior year, strategic growth markets generated just under two-thirds of the Schaffner Group's consolidated sales, at a steady 66 % share (H1 2011/12: 63 %). The largest increase was recorded in the automotive market sector: Its sales share rose to 17 % (from 14 %), drawing level with the renewable energy market, which also contributed 17 % to sales (up from 15 %). The largest portion of sales, at 24 % (H1 2011/12: 23 %), once more came from the market for energy-efficient drive systems.

In the first six months of the fiscal year, the Schaffner Group received new orders worth CHF 90.2 million, compared with CHF 89.1 million in H1 2011/12. The book-to-bill ratio was 1.01 (H1 2011/12: 1.10).

EMC division

The EMC division (or operating segment) develops and manufactures standard and customized components that ensure immunity of power electronic systems to line distortion (electromagnetic compatibility, EMC) and safeguard the reliable operation of electricity grids.

In the first half of 2012/13, despite gains in market share, EMC's sales of CHF 50.2 million remained at the same unsatisfactory level as one year earlier (CHF 50.3 million). The division's share of Group sales fell further to 56 %, from 62 %. However, analysis of the sales mix reveals significant differences compared to the previous year. Total sales of power quality filters, including harmonic filters from the ECOsine™ family, rose 13 % year-on-year, while sales of EMC filters declined sharply due to slack demand for capital goods in Europe. In the Asia-Pacific region, in contrast, EMC filter sales outstripped the previous year's.

As a result of the low order volume, particularly in the first three months, capacity at the plants was underutilized. Added to this was a significant increase of 80 % in statutory minimum wages in Thailand. These factors depressed profitability and, combined with the absence of the prior-year period's exceptional income, led to a segment profit of CHF 4.5 million, a result below that of the prior year's first half (CHF 5.5 million). The cost increases can only partly be passed through to the market and will be offset by additional productivity improvement measures as well as further automation.

Demand in the euro zone recovered slightly towards the end of the first half and the book-to-bill ratio was positive at 1.03 (H1 2011/12: 1.07). The EMC division therefore foresees sequential growth in the second half of the year compared to the first. While no major rebound is expected in Europe in the current fiscal year, EMC expects further growth in the rest of the world.

Power Magnetics division

The Power Magnetics division develops and produces components to ensure the reliable operation of power electronic systems, and builds customized transformers for demanding applications. Schaffner solutions deployed in solar inverters and converters in wind turbines are highly efficient and assure optimal adjustment to electricity grids. Schaffner components are also integrated into compact, high-performance, energy-efficient locomotive drive systems to eliminate network interference from powerful motors.

The Power Magnetics division's share of Group sales rose year-on-year to 27 % (from 25 %). The division's sales in-

creased by a pleasing 21 % to CHF 24.1 million (H1 2011/12: CHF 20.0 million), particularly as a result of major new customers acquired in the Japanese photovoltaics market. Thanks to the implementation of measures to improve operational excellence, the profit margin rose to 3.4 % (from –2.7 %). The segment profit for the first half of 2012/13 was CHF 0.8 million (H1 2011/12: –0.6 million).

The Schaffner Group is carefully monitoring the financial strength of some Chinese manufacturers of wind turbines and solar inverters. Significant defaults on accounts receivable were avoided by not engaging in risky transactions. Sales forgone as a result were more than made up for by new Japanese customers. Schaffner also continues to hold a strong position in the rail technology market and expects to benefit from expansion of the rail infrastructure in Russia and South Africa. At the end of the first six months, the Power Magnetics division's book-to-bill ratio was only 0.96 (year earlier: 1.09) as the awarding of US government contracts was delayed amid the spending freeze triggered by the budget debate.

Automotive division

The Automotive division develops and manufactures components for keyless entry systems as well as solutions for the drive systems of hybrid and electric vehicles. Schaffner engineers work closely with leading automobile manufacturers and support them with specialized EMC expertise in the development of new models.

During the first half of 2012/13, the Automotive division's share in Group sales increased to 17 % (H1 2011/12: 13 %). Despite the 43 % rise in sales to CHF 15.3 million (from CHF 10.7 million), however, it failed to reach its sales target for the first half. Growth lagged expectations because of delays in production starts of new model series at customers and generally poor automotive sales in Europe. As a result, the expanded capacity at the manufacturing plant in Thailand was insufficiently utilized.

The Automotive division in the first half of the year made substantial investments in development and in series production of new projects. These high expenses – particularly for a project related to electromobility that will generate sales and income from fiscal year 2013/14 onwards – hurt the division's earnings, at a segment result of CHF –1.0 million (H1 2011/12: CHF –0.4 million).

The division had a book-to-bill ratio of 0.99 (H1 2011/12: 1.26) in the reporting period. The second half of the year is expected to bring good results, with a segment profit anticipated.

Sound financing structure

The Schaffner Group has a sound financing structure. Net working capital was CHF 36.7 million at the end of the first half of 2012/13 (prior year-end of 30 September 2012: CHF 37.8 million). Net debt eased to CHF 24.8 million (prior year-end: CHF 25.9 million) and the gearing ratio of net debt to equity was 42 % (prior year-end: 43 %). With shareholder's equity of CHF 59.8 million (prior year-end: CHF 60.3 million), Schaffner had an equity ratio of 41 % at the end of March 2013 (prior year-end: 43 %). Free cash flow amounted to CHF 1.7 million (H1 2011/12: CHF 2.0 million).

Outlook

In both sales and earnings, the Schaffner Group expects the results in the second half for all divisions to surpass those of the first six months. An increase in sales is also forecast for the full year, while operating profit for the year as a whole is likely to be approximately in line with last year's due to the persistent market downturn in Europe. With the implementation of further cost reduction measures (including structural adjustments), a sustained high rate of innovation, a strong presence in the Asia-Pacific region and a focus on the growth market for power quality filters, Schaffner possesses a solid platform for structural growth and for participating in the expected cyclical recovery in European markets in 2014.

Luterbach, 13 May 2013

Daniel Hirschi
Chairman of the Board

Alexander Hagemann
Chief Executive Officer

Consolidated balance sheet

In CHF 1,000	31.3.2013	30.9.2012
Intangible assets	21,348	22,327
Property, plant and equipment	21,791	21,109
Other non-current assets	12,066	13,327
Deferred tax assets	3,384	2,864
Non-current assets	**58,589**	**59,627**
Inventories	28,113	29,873
Trade receivables	37,113	34,766
Income tax receivables	679	582
Other receivables, prepaid expenses and accrued income	3,811	3,674
Other current financial assets	2,840	2,065
Cash and cash equivalents	15,660	10,256
Current assets	**88,840**	**81,216**
Total assets	**147,429**	**140,843**
Equity attributable to equity holders of Schaffner Holding AG	59,785	60,333
Shareholders' equity	**59,785**	**60,333**
Non-current provisions	5,787	6,091
Deferred tax liabilities	2,106	2,194
Non-current borrowings	40,483	35,959
Non-current liabilities	**48,376**	**44,244**
Current provisions	2,438	2,934
Current borrowings	370	194
Income tax payables	2,429	966
Trade and other payables	34,031	32,172
Current liabilities	**39,268**	**36,266**
Total liabilities	**87,644**	**80,510**
Total liabilities and shareholders' equity	**147,429**	**140,843**

Consolidated income statement

For the first six months (1 October to 31 March) In CHF 1,000	H1 2012/13	H1 2011/12
Net sales	**89,604**	**80,972**
Cost of sales	–66,473	–58,214
Gross profit	**22,131**	**22,758**
Other income	0	1,008
Marketing and selling expense	–8,729	–8,389
Research, development and application expense	–7,519	–7,551
General and administrative expense	–4,841	–6,035
Operating profit before amortization of customer relationships	**2,042**	**1,791**
Amortization of customer relationships	–430	–425
Operating profit [EBIT]	**1,612**	**1,366**
Finance income	3,855	2,248
Finance expense	–5,271	–3,284
Profit before tax [EBT]	**196**	**330**
Income tax	103	–74
Net profit for the period	**299**	**256**
Earnings per share in CHF		
Basic	0.47	0.41
Diluted	0.46	0.39

Consolidated statement of comprehensive income

For the first six months (1 October to 31 March) In CHF 1,000	H1 2012/13	H1 2011/12
Net profit for the period	**299**	**256**
Items that may be reclassified subsequently to profit or loss		
Exchange differences	1,231	144
Movement in cash flow hedges	83	23
Income tax on cash flow hedges	0	0
Total other comprehensive income for the period	**1,314**	**167**
Total comprehensive income for the period	**1,613**	**423**

Condensed consolidated cash flow statement

For the first six months (1 October to 31 March) In CHF 1,000	H1 2012/13	H1 2011/12
Cash flow from operating activities	**4,118**	**2,186**
Purchase of property, plant and equipment	–2,197	–997
Purchase of intangible assets	–261	–452
Other investing activities	844	1,131
Cash flow from investing activities	**–1,614**	**–318**
Repayment of excess share premium	–2,221	–2,845
Change in treasury shares	617	453
Proceeds from borrowings	4,472	1,218
Other financing activities	-88	–42
Cash flow from financing activities	**2,780**	**–1,216**
Effect of exchange rates on cash and cash equivalents	120	–32
Change in cash and cash equivalents	**5,404**	**620**
Cash and cash equivalents at 1 October	10,256	14,235
Cash and cash equivalents at 31 March	15,660	14,855

Consolidated statement of changes in equity

In CHF 1,000	Share capital	Share premium	Translation reserve	Retained earnings	Treasury shares	Hedging reserve	Total shareholders' equity
At 1 October 2011	**20,668**	**58,249**	**–16,095**	**–3,855**	**–1,617**	**–421**	**56,929**
Exchange differences			144				144
Movement in cash flow hedges						23	23
Net profit for the period				256			256
Total comprehensive income	**0**	**0**	**144**	**256**	**0**	**23**	**423**
Treasury shares				–667	1,120		453
Repayment of excess share premium		–2,845					–2,845
Share option plans		478					478
At 31 March 2012	**20,668**	**55,882**	**–15,951**	**–4,266**	**–497**	**–398**	**55,438**
At 1 October 2012	**20,668**	**56,462**	**–14,300**	**–617**	**–1,469**	**–411**	**60,333**
Exchange differences			1,231				1,231
Movement in cash flow hedges						83	83
Net profit for the period				299			299
Total comprehensive income	**0**	**0**	**1,231**	**299**	**0**	**83**	**1,613**
Treasury shares				–760	1,378		618
Repayment of excess share premium		–2,221					–2,221
Share option plans and restricted shares		–1,090		532			–558
At 31 March 2013	**20,668**	**53,151**	**–13,069**	**–546**	**91**	**-328**	**59,785**

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 2012, they should be read in conjunction with those annual financial statements. The consolidated financial statements for the six months ended 31 March 2013 were approved by the Board of Directors of Schaffner Holding AG on 10 May 2013 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 2012:

Standards / interpretations
IAS 1 – Amendments – Presentation of items of Other Comprehensive Income
IAS 12 – Amendments – Deferred Tax: Recovery of Underlying Assets

None of the IFRS changes which became effective on 1 October 2012 has a material impact on the financial position, results of operations and cash flows of the Schaffner Group.

The changes to IAS 1 affect the presentation of items of other comprehensive income (OCI). Items presented in OCI must now be grouped according to whether they may potentially be reclassified to profit or loss in the future. In other words, items that might subsequently be reclassified must be presented separately from those that will not be reclassified.

2 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 ensure immunity of power electronic systems to line interference (electromagnetic compatibility), as well as power quality filters that assure the stability of electricity grids. Key sales markets include energy-efficient drive systems, renewable energy, power supplies for electronic devices, machine tools, robotics and electrical infrastructure.

Power Magnetics (PM)

The Power Magnetics division develops and manufactures power magnetic components (chokes and transformers) that ensure the reliable functioning of power electronic systems, as well as customized high-power 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.

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

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 2012/13 (ended 31 March)	EMC	PM	AM	Corporate	Group
In CHF 1,000					
Net sales	50,167	24,132	15,305		89,604
Segment operating profit/(loss)	**4,453**	**824**	**-952**	**-2,283**	**2,042**
Amortization of customer relationships					–430
Operating profit [EBIT]					**1,612**
Finance income					3,855
Finance expense					–5,271
Profit before tax [EBT]					**196**
Income tax					103
Net profit for the period					**299**

For the first six months of 2011/12 (ended 31 March)	EMC	PM	AM	Corporate	Group
In CHF 1,000					
Net sales	50,247	20,022	10,703		80,972
Other income	969	39			1,008
Segment operating profit/(loss)	**5,489**	**–577**	**–345**	**–2,776**	**1,791**
Amortization of customer relationships					–425
Operating profit [EBIT]					**1,366**
Finance income					2,248
Finance expense					–3,284
Profit before tax [EBT]					**330**
Income tax					–74
Net profit for the period					**256**

3 Share option plans

Based on the results of the first half of 2012/13 the management expects that the performance target of the Performance Option Plan (POP) will not be reached at 30 September 2013. Therefore all expenses recognized in prior periods for this plan (CHF 1.2 million) had to be reversed to the income statement in the first half of 2012/13. This amount was deducted from general and administrative expense.

4 Provisions for restructuring

In the first half of fiscal year 2012/13, restructuring provisions in the amount of CHF 0.1 million were used. The restructuring provisions of CHF 0.7 million remaining at 31 March 2013 are expected to be used in the future. No restructuring provisions were reversed in the reporting period.

5 Seasonality

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

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

6 Commitments and contingencies

At 31 March 2013, the Group had commitments to purchase property, plant and equipment in the amount of CHF 0.6 million (30 September 2012: CHF 0.3 million).

Contingent liabilities, described in the notes to the consolidated financial statements for the year ended 30 September 2012, did not change materially in the reporting period.

7 Foreign currencies

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

		Balance sheet		Income statement	
		31.3.2013	30.9.2012	**H1 2012/13**	H1 2011/12
Country or region	Currency	In CHF	In CHF	In CHF	In CHF
China	CNY 100	15.28	14.93	14.90	14.35
EU	EUR 100	121.85	120.96	121.63	121.11
Hungary	HUF 100	0.40	0.42	0.42	0.40
USA	USD 100	94.97	93.80	92.79	90.69
Thailand	THB 100	3.24	3.04	3.08	2.93

8 Distribution to shareholders

As decided by the Annual General Meeting of Schaffner Holding AG on 14 January 2013, a distribution of CHF 3.50 per share (exempt from Swiss anticipatory tax) for fiscal year 2011/12 was made to the shareholders in the form of a repayment of excess share premium from additional paid-in capital.

9 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.

This English version of the Half-Year Report 2012/13 is a translation of the German original. Only the German version is legally binding.

Key financials

Consolidated income statement

For the first six months (1 October to 31 March) In CHF 1,000	H1 2012/13	H1 2011/12
Net sales	89,604	80,972
Operating profit [EBIT]	**1,612**	**1,366**
In % of net sales	1.8	1.7
Net profit for the period	**299**	**256**
In % of net sales	0.3	0.3
Net profit for the period per share in CHF	0.47	0.41

Consolidated balance sheet

In CHF 1,000	31.3.2013	30.9.2012
Total assets	**147,429**	**140,843**
Current assets	88,840	81,216
Fixed assets	58,589	59,627
Total liabilities	87,644	80,510
Shareholders' equity	**59,785**	**60,333**
In % of total assets	40.6	42.8

Segment reporting

For the first six months (1 October to 31 March) In CHF 1,000	H1 2012/13	H1 2011/12
Electromagnetic Compatibility (EMC)		
Segment sales	50,167	50,247
Segment operating profit	4,453	5,489
In % of segment sales	8.9	10.9
Power Magnetics (PM)		
Segment sales	24,132	20,022
Segment operating profit/(loss)	824	–577
In % of segment sales	3.4	n/a
Automotive (AM)		
Segment sales	15,305	10,703
Segment operating loss	–952	–150
In % of segment sales	n/a	n/a

Key share figures

	31.3.2013	30.9.2012
Number of shares	635,940	635,940
Shareholders' equity per share in CHF	**94.01**	**94.87**
Share price in CHF	219.30	235.00
Market capitalization in CHF million	**139**	**149**

Calendar

10 December 2013	Publication of full-year results and Annual Report 2012/13
14 January 2014	18th Annual General Meeting

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