energy efficiency and reliability

Schaffner – Solutions for efficient and reliable power

09/2009

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The Schaffner Group

Swiss Equity Conference September 2009

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Caution regarding forward looking statements

This communication contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to the implementation of strategic initiatives, and other statements relating to our future business development and economic performance.

While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

These factors include, but are not limited to, (1) general market, macro-economic, governmental and regulatory trends, (2) movements in currency exchange rates and interest rates, (3) competitive pressures, (4) technological developments, (5) changes in the financial position or credit worthiness of our customers, and counterparties and developments in the markets in which they operate, (6) legislative developments, (7) management changes and changes to our business structure and (8) other key factors that we have indicated could adversely affect our business and financial performance which are contained in other parts of this document and in our past and future filings and reports, including those filed with the SIX Swiss Exchange.

More detailed information about those factors is set forth elsewhere in this document and in documents furnished by the Schaffner Group, including Schaffner Holding's Annual Report for the year ended September 30, 2008 as well as the interim report 2008/2009 (October 1, 2008 to March 31, 2009). Schaffner Group is not under any obligation to (and expressly disclaims any such obligations to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.

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- **Highlights**
- **Leadership in solutions for efficient and reliable power**
- **Responding to crisis – enabling growth**
- **Comment on H1 of fiscal 2008/2009**
- **Status quo**

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Investment Highlights

- Solutions from Schaffner enable the efficient and reliable operation of power electronics in a wide range of applications. Schaffer:
  - Is global leader in electronic filters for electromagnetic compatibility (EMC)
  - Is leader in the niche market of magnetic components for traction drives
  - Has growth opportunities in Power Quality market with harmonic filters
- Most market drivers provide sustainable growth perspectives
  - Energy conservation (motor drives)
  - Renewable energy (photovoltaic, wind)
  - Infrastructure spending (trains, telecom, utilities)
  - Capital spending (medical, IT, manufacturing)
- Schaffner leadership is based on core capabilities
  - R&D spending >6% of sales
  - "Globally local" customer support
  - 90% of manufacturing in low cost countries
  - Particular strength in China with fully localized processes
- Active harmonic filter technology acquired from BETEC Engineering in January, 2009 strengthens product portfolio in growth market Power Quality

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Financial Highlights

- FY2007/2008 (as at Sep. 30, 2008): successful realignment, operational improvements, and strong end markets led to improved KPI
- H1 of FY2008/2009: Almost every end market is affected by the financial and economic crisis
  - Net sales of CHF 71.9 m (-16.6% below PY, -13.1% in LC)
  - Order intake of CHF 69.3 m (-26.9% below PY, -24.0% in LC)
- Stabilization of demand at a low level: book-to-bill ratio 0.96 in H1 FY2008/2009
- Management focus is on maximizing cash flow and minimizing risk
  - Reduction of net working capital by 34.4% to CHF 32.6 m
  - Free cash flow of CHF 7.1 m (PY: CHF -0.9 m)
  - Reduction of net debt by CHF 4.8 m to CHF 17.8 m
- H1 FY2008/2009 EBIT of CHF -7.1 million influenced by one-time expense of CHF 5.0 million for cost-cutting programs, revaluation on raw material inventory and some currency losses
- Cost-cutting programs are completed. However, Schaffner will also in the future take a rigorous view towards optimization of the cost structure

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Leadership in solutions for efficient and reliable power

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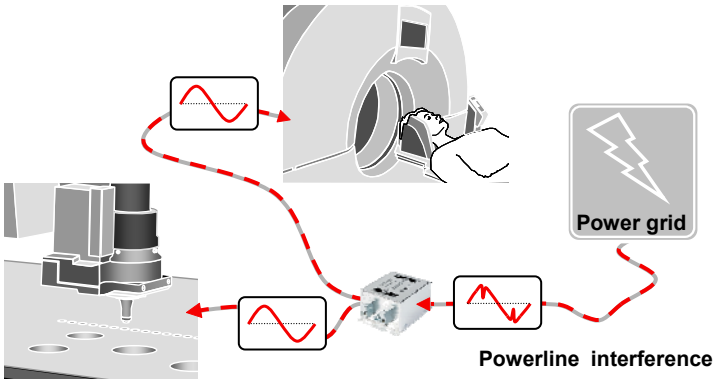
Schaffner´s business: Electromagnetic Compatibility (EMC)

Components for Electromagnetic Compatibility (EMC) guarantee the safe and reliable operation of electronic devices by filtering unwanted electromagnetic noise



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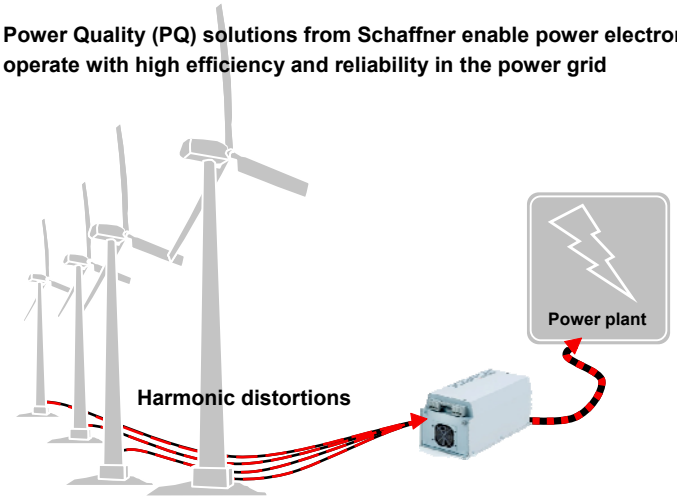
Schaffner´s business: Power Quality

Power Quality (PQ) solutions from Schaffner enable power electronic systems to operate with high efficiency and reliability in the power grid



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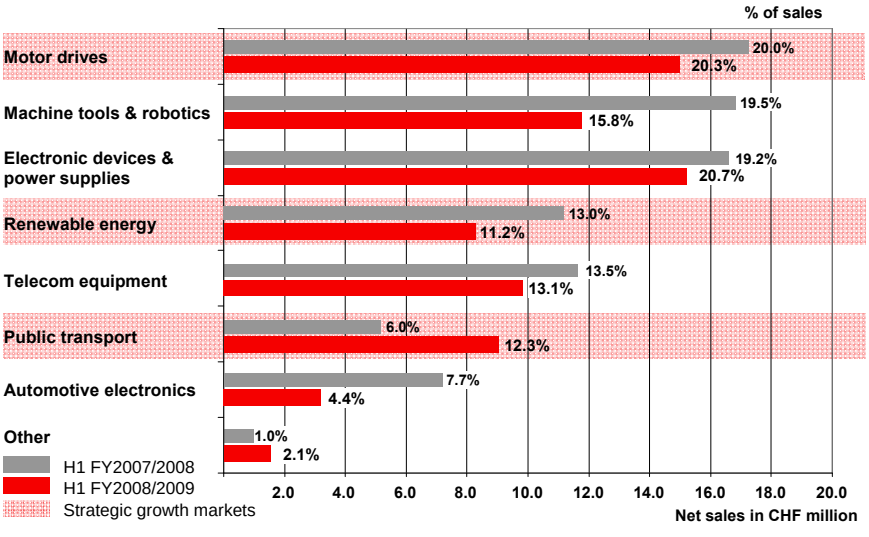
Share of strategic growth markets increased to 44% of net sales (PY: 39%)



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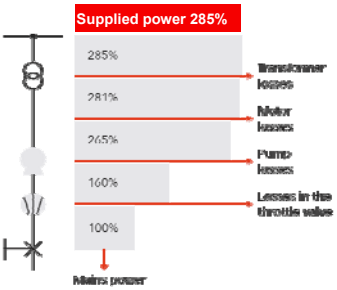
Electronic motor drives continue to substitute traditional motors because they help to save between 30% and 70% of electrical power

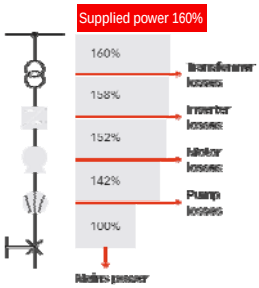
- Schaffner supplies to most leading manufacturers of motor drives
- Some end markets are depressed (e.g. manufacturing automation) while others grow (e.g. water treatment)

Case study: pump application

Regulation with conventional throttle: 35% system efficiency



Variable speed control: 63% system efficiency
➔ 44% reduction of electricity cost



Source: ZVEI

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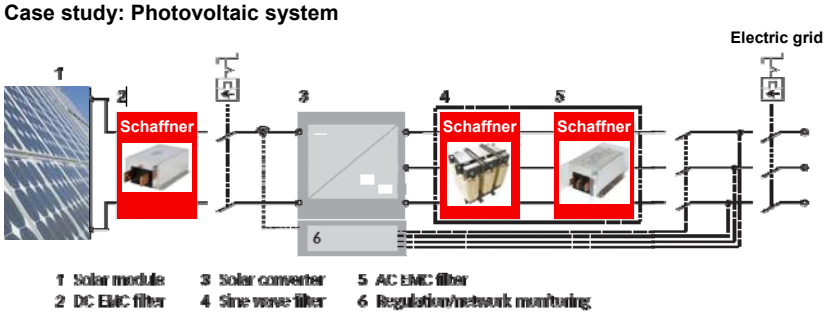
Feeding energy from solar cells or wind turbines into the electric grid requires power electronics with multiple solutions from Schaffner

- Schaffner supplies most leading manufacturers of inverters for photovoltaic and wind applications
- PV recovering after de-stocking, continued growth of wind power market, regional focus shifting away from Europe

Case study: Photovoltaic system



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Schaffner is the global leader in the niche market of magnetic components for traction with stable growth perspectives for years to come

- Supply to the major manufacturers in Europe and China
- Applications in locomotives, high-speed trains, and commuter MRT systems (and MagLev)
- Market share gains through competitive advantage of local manufacturing in China: 75% net sales growth compared to H1 FY2007/2008
- Projects are long-term (2 – 5 year duration), cadence of new projects from Asia and Europe is high

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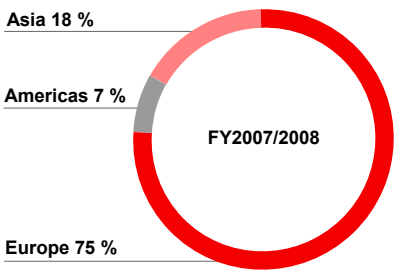
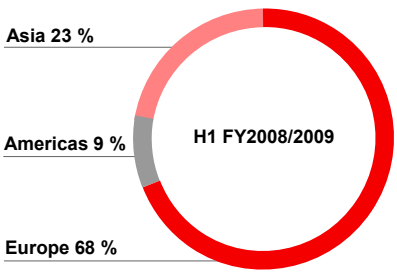
Strong growth in China domestic market makes up for some of the recession-related losses in sales to traditional markets

- Largest contraction from export-driven industries in Germany
- US market was stable due to strong Q1 FY2008/2009
- Schaffner fully participates in major infrastructure investments commissioned by the Chinese government; this trend is to continue according to newly booked orders





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Completed restructuring leads to substantially reduced break-even

- Adjustment of cost base is completed with headcount reduction surpassing 30%
- As a result, no more significant factory underutilization and lowered overhead cost
- Additional temporary stabilization actions: work time reduction (Kurzarbeit), salary reductions, bonus elimination
- Actions reduce the structural cost of Schaffner operations, supporting higher margins when the economy rebounds

Schaffner will neither delay R&D programs nor reduce market presence, while manufacturing cost is flexibly adapted to demand. This is our understanding of *emerging stronger from the crisis!*

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>30% headcount reduction since September 2008. 90% of manufacturing in low cost countries. Presence worldwide close to customers

Büren, Germany
150 employees
- PQ R&D
- PQ Manufacturing

Luterbach, Switzerland
HQ, 110 employees
- Group Innovation Center
- Sample Manufacturing

Shanghai, China
500 employees
- Product Development
- EMC, PQ Manufacturing

Kecskemét, Hungary
New factory completed in 05/08, 140 employees
- EMC, PQ Manufacturing

Lamphun, Thailand
600 employees
- Product Development
- EMC, Automotive Manufacturing

- Sales and application center
- Development center
- Manufacturing plant

Additional 150 employees in global sales, logistics, and application engineering

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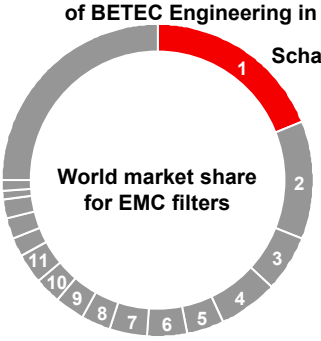
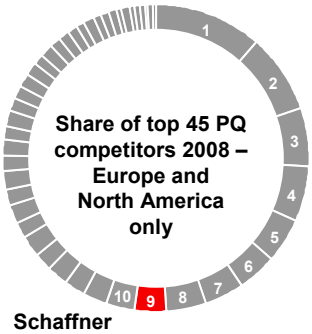
Schaffner aims to expand leadership in EMC filters and to achieve number 3 position in Power Quality

- Clear market leader for EMC filters with critical mass to sustain the recession
- Strategic goal to move from 9th to 3rd position in market share
  - Strong position as domestic supplier in China
  - Leading supplier to global traction equipment industry
  - Growth opportunities with active harmonic filters based on the integration of BETEC Engineering in H1 FY2008/2009





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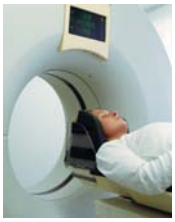
Strategic growth initiative: Harmonic filters

- Harmonics filters increase reliability and reduce electricity cost of electrical installations in buildings, utilities, and manufacturing sites
- In 2008 Schaffner has launched ECOsine, a best in class passive harmonic filter family
- Integration of BETEC Engineering in H1 FY2008/2009 adds active harmonic filters and critical technological expertise
- Strategic target: CHF 40 million of additional annual sales within 5 years



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H1 of fiscal 2008/2009

Financial highlights – H1 FY2008/2009

- **Operating loss (EBIT) of CHF −7.1 million**
- **EBIT includes one-time expenses of CHF 5.0 million: CHF 2.2 million restructuring program, CHF 1.0 million for currency differences and CHF 1.8 million for stock revaluation**
- **Strong free cash flow of CHF 7.1 million**
- **Follow-up financing for the convertible bond due to mature in January 2010 arranged with Schaffner's principal banks**
- **Accounting adjustments in Balance Sheet due to first time application of IFRIC 14**

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Income statement H1 FY2008/2009 in comparison with previous year

in CHF 1,000	1.10.2008 to 31.03.2009	(restated) 1.10.2007 to 31.03.2008
Net sales	**71,940**	**86,245**
Cost of goods sold	-55,743	-61,012
Other income	0	1,803
Total overhead	-20,741	-21,725
Restructuring	-2,223	0
Amortization of customer relations	-323	-350
EBIT	**-7,090**	**4,961**
Financial result	-1,680	-1,761
EBT	**-8,770**	**3,200**
Income taxes	-79	-566
Net profit	**-8,849**	**2,634**

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Consolidated Balance Sheet

in CHF 1,000	31.03.2009	(restated) 30.09.2008
Intangible fixed assets	15,672	13,402
Tangible fixed assets	14,424	15,068
Other fixed assets	13,850	14,157
Fixed assets	**43,946**	**42,627**
Inventories	25,888	30,077
Trade receivables	24,986	34,124
Cash and cash equivalents	30,021	26,928
Other current assets	5,682	14,322
Current assets	**86,577**	**105,451**
Total assets	**130,523**	**148,078**
Shareholders' equity	**46,337**	**58,149**
Convertible bond	47,046	49,520
Other liabilities	37,140	40,409
Liabilities	**84,186**	**89,929**
Total liabilities and shareholders' equity	**130,523**	**148,078**

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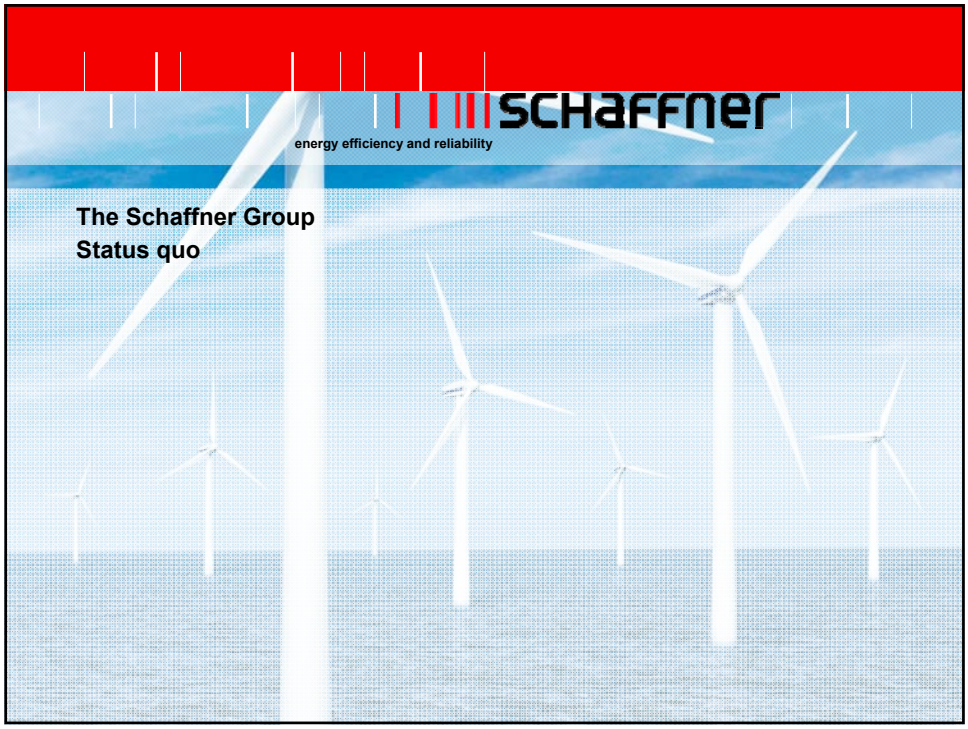
Managing finances to create value to our investors

- **Schaffner maintains the general guideline to pay 25% of net profits as dividends to shareholders**
- **Moderate requirements for capital spending due to mostly manual labor in manufacturing**



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Are we out of the woods yet?

There are positive signs in the recent past:

- De-stocking has subsided
- Traction business goes from strength to strength: Good prospects for substantial order for Chinese high speed trains
- Strong rebound of automotive business (new products, China market demands)
- European PV and wind turbine markets seems to come back to live
- China wind market remains strong

On the other hand:

- European/US/Japan industrial markets remain depressed and stabilization is on a very low level

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Summary

- **The H1 of FY2008/2009 marked a historic downturn of Schaffner's business as a result of the global economic crisis. The notable exceptions were railroad applications and the Chinese domestic market**
- **Immediate counteraction led to a positive free cash flow and reduced net debt, but caused significant one-time expenses that contributed to a substantial H1 FY2008/2009 operating loss**
- **Adjusted cost structures reduce operational break-even in such a way, that based on the sales revenues expected from current order intake, a balanced H2 FY2008/2009 operating result (EBIT) would be possible**
- **Schaffner will neither delay important R&D programs nor reduce market presence to be well prepared to exploit any recovery in the global economy**
- **Schaffner launches more new products than in previous years and continues expansion in China**
- **Schaffner has laid the foundations for profitable growth and will fully benefit from any economic recovery**

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