Interim Report 2008/2009

schaffner

energy efficiency and reliability

Schaffner Group reports drop in sales and order intake for the first half of fiscal 2008/2009 – result impacted by high exceptional costs.

The Schaffner Group reported a 16.6% drop in net sales in the first half of fiscal 2008/2009 to CHF 71.9 million (first half of 2007/2008: CHF 86.2 million). Adjusted for currency effects, this represents a 13.1% decline in sales. Order intake amounted to CHF 69.3 million (CHF 94.7 million), a significant decrease of 26.9% (24% after adjusting for currency effects) compared to the good first half of fiscal 2007/2008. Despite systematic adjustment of capacities and cost structures to order volumes, the operating result (EBIT) dropped to CHF −7.1 million (CHF 5.0 million) mainly as a result of special factors. Net profit amounted to CHF −8.8 million (CHF 2.6 million). By contrast, free cash flow at CHF 7.1 million (CHF −0.9 million) developed positively, primarily thanks to a significant reduction in net working capital to CHF 32.6 million (September 30, 2008: CHF 49.7 million). Cost-cutting programs have been successfully implemented and will begin to have an impact during the second half of fiscal 2008/2009.

Systematic structural adjustments. Order intake for the closing quarter of the last fiscal year was well up year-on-year, giving the Schaffner Group a positive start to fiscal 2008/2009 on October 1, 2008, with a solid order backlog. Demand in most core markets of the Schaffner Group dropped significantly in the second quarter as a consequence of the global financial and economic crisis. Schaffner's management immediately introduced a comprehensive package of measures aimed at adjusting capacities and cost structures to the market trend. Global headcount was reduced from 2,366 full-time positions at the end of September 2008 to 1,729 full-time positions as of March 31, 2009; short-time working was introduced extensively at various sites. In addition, the management organization was streamlined and salary costs were cut substantially through a tiered, function-based salary waiver at all management levels. Despite the rapidly initiated cost-cutting programs, the operating result (EBIT) was negative after the first two quarters. Of the operational loss sustained during the first six months, the majority can be attributed to special factors worth CHF 5.0 million: the one-time expense for structural and capacity adjustments, a reduction in inventory valuation due to a sharp drop in raw material prices, in particular copper, and foreign-exchange losses on balance sheet positions.

Differing regional market developments. Demand in the Schaffner Group's core markets underwent very different regional developments during the first half of fiscal 2008/2009. In the traditionally key German market, order intake dropped during the second quarter and fell by around 50% compared to the previous year. Large customers from the heavily export-driven machine tool sector, in particular, strongly contributed to this trend. In addition, customers from the photovoltaic industry reduced their inventories last year and, as a result, placed fewer orders. Demand in China's still growing domestic market, on the other hand, showed an extremely positive trend. Order intake from China was up more than 40%, considerably exceeding the first half of the previous year. With processes and structures of the Shanghai plant geared to the demands of the Chinese market, the Schaffner Group is firmly established on the Chinese domestic market and is participating fully in major infrastructure investments commissioned by the Chinese government, notably in the areas of railroad infrastructure, renewable energies and telecommunications.

Market success with harmonic filters for improving power quality. Following the integration of BETEC-Engineering, which was acquired on January 1, 2009, Schaffner was able to attract noteworthy projects in the US, Europe and Asia for the implementation of passive and active harmonic filters. The distribution network will be expanded systematically throughout the globe. Production of harmonic filters at the Shanghai plant is scheduled in May 2009, a move which will considerably boost the company's competitiveness in this product's key market, Asia.

Follow-up financing of convertible bond negotiated. The Schaffner Group has already agreed on an approved credit line of CHF 40 million from its principal banks to provide follow-up financing for the convertible bond (2.25% convertible bonds 2004–2010). Together with the Schaffner Group's current liquidity, the follow-up financing has already been arranged for the convertible bond due to mature in January 2010.

Outlook. The difficult market environment still prevents a reliable forecast from being made for fiscal 2008/2009. However, the Schaffner Group has already adjusted its cost structures to enable it to achieve a balanced second-half operating result (EBIT) based on the revenue it expects to generate from the current intake.

Luterbach, May 13, 2009

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

Consolidated balance sheet

in CHF 1,000

	Note	31.3.2009	(restated) 30.9.2008
Intangible assets		15,672	13,402
Tangible fixed assets		14,424	15,068
Other long-term assets	2	13,300	13,594
Deferred income tax assets		550	563
Fixed assets		**43,946**	**42,627**
Inventories		25,888	30,077
Trade receivables		24,986	34,124
Income tax receivables		672	679
Other receivables and accruals		5,010	13,643
Cash and cash equivalents		30,021	26,928
Current assets		**86,577**	**105,451**
Total assets		**130,523**	**148,078**
Equity attributable to equity holders of Schaffner Holding AG	2	46,337	58,149
Shareholders' equity		**46,337**	**58,149**
Long-term provisions		4,298	4,375
Deferred income tax liabilities	2	4,043	4,054
Long-term borrowings		815	49,520
Long-term liabilities		**9,156**	**57,949**
Short-term provisions		4,020	3,157
Short-term borrowings		47,046	6
Income tax liabilities		695	1,613
Interest-free liabilities		23,269	27,204
Short-term liabilities		**75,030**	**31,980**
Total liabilities		**84,186**	**89,929**
Total liabilities and shareholders' equity		**130,523**	**148,078**

Consolidated income statement

in CHF 1,000

	Note	1.10.2008 to 31.3.2009	(restated) 1.10.2007 to 31.3.2008
Net sales		**71,940**	**86,245**
Cost of goods sold	2	–55,743	–61,012
Gross profit		**16,197**	**25,233**
Other income		0	1,803
Marketing and sales	2	–8,134	–8,661
Research, development and application	2	–6,169	–5,269
General and administration	2	–6,438	–7,795
Restructuring costs	4	–2,223	0
Earning before amortization of customer relations		**–6,767**	**5,311**
Amortization of customer relations		–323	–350
Operating result (EBIT)		**–7,090**	**4,961**
Financial income		2,142	2,778
Financial expenses		–3,822	–4,539
Earnings before income taxes (EBT)		**–8,770**	**3,200**
Income taxes	2	–79	–566
Net profit		**–8,849**	**2,634**
Earnings per share in CHF			
basic		–14.68	4.32
diluted		–14.68	3.93

Consolidated cash flow statemen

in CHF 1,000

	1.10.2008 to 31.3.2009	1.10.2007 to 31.3.2008
Cash flow from operating activities	9,976	–1,687
Cash flow from investing activities	–5,033	2,000
Cash flow from financing activities	–1,761	–2,690
± Translation differences from cash and cash equivalents	–89	–544
Change in cash and cash equivalents	**3,093**	**–2,921**

Consolidated statement of shareholders' equity

in CHF 1,000

	Share capital	Capital reserves	Cumulative translation differences	Retained earnings	Treasury shares	Total shareholders' equity
At 1.10.2007	**24,802**	**57,888**	**–2,143**	**–23,722**	**–5,115**	**51,710**
Effect first-time application IFRIC 14				4,985		4,985
At 1.10.2007 (restated)	**24,802**	**57,888**	**–2,143**	**–18,737**	**–5,115**	**56,695**
Translation differences			–5,009			–5,009
Net profit				2,634		2,634
Total income and expense	**0**	**0**	**–5,009**	**2,634**	**0**	**–2,375**
Treasury shares				–254	–2,205	–2,459
Repayment of nominal value	–1,908			94		–1,814
Stock option plans		295				295
At 31.3.2008 (restated)	**22,894**	**58,183**	**–7,152**	**–16,263**	**–7,320**	**50,342**
At 30.9.2008	**22,894**	**58,441**	**–4,686**	**–15,183**	**–8,849**	**52,617**
Effect first-time application IFRIC 14				5,532		5,532
At 30.9.2008 (restated)	**22,894**	**58,441**	**–4,686**	**–9,651**	**–8,849**	**58,149**
Translation differences			–2,683			–2,683
Net profi				–8,849		–8,849
Total income and expense	**0**	**0**	**–2,683**	**–8,849**	**0**	**–11,532**
Treasury shares				–114	33	–81
Repayment of nominal value	–2,226			112		–2,114
Stock option plans		383				383
Conversion and redemption convertible bonds		66			1,466	1,532
At 31.3.2009	**20,668**	**58,890**	**–7,369**	**–18,502**	**–7,350**	**46,337**

Explanatory notes

1. Consolidation and valuation principles. The consolidated interim financial statements of the Schaffner Group comply with International Financial Reporting Standards (IFRS) and are prepared in conformity with 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, 2008, as they provide an update of previously reported information.

The consolidated financial statements were approved on May 5, 2009. 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, 2008:
IFRIC 12 – Service Concession Arrangements, IFRIC 13 – Customer Loyalty Programmes, IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, and IFRIC 16 – Hedges of a Net Investment in a Foreign Operation.

The application of IFRIC 12, IFRIC 13 and IFRIC 16 has 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. However, the coming into force of IFRIC 14 does affect the presentation of the financial position and the results of operations of Schaffner. The impact from the first application of IFRIC 14 is disclosed in detail in note 2.

2. Effects of the first-time application of IFRIC 14. IFRIC 14 is an interpretation of international accounting standard IAS 19. IAS 19 governs the reporting of employee benefits – in particular the calculation of pension costs and obligations a company has entered into with regard to its employees. Under this standard the economic benefit an entity derives from the reduction of future pension plan contributions must be recognized in the balance sheet. IFRIC 14 defines a new method for calculating this economic benefit, which for Schaffner has resulted in an increase in capitalized pension surplus. The pension surplus is recorded under other long-term assets.

First-time application of IFRIC 14 for the financial year 2008/2009 has resulted in an adjustment of previous year's figures as well. Accordingly, the retained earnings as per October 1, 2007, increased by CHF 5.0 million and net profit for the first half of 2007/2008 increased by CHF 0.4 million. To record actuarial gains and losses from pension plans Schaffner uses the corridor approach. Consequently, the application of IFRIC 14 since it was first applied has resulted in changes in the consolidated balance sheet, the consolidated income statement and the consolidated equity for the financial year 2007/2008. The effects are shown in the following table:

in CHF 1,000	Published	Effect first-time application IFRIC 14	**Restated**
Consolidated balance sheet 30.9.2007			
Other long-term assets	7,072	6,990	14,062
Deferred income tax liabilities	2,880	2,005	4,885
Shareholders' equity	51,710	4,985	56,695
Consolidated income statement first half 2007/2008			
Cost of goods sold	–61,076	64	–61,012
Marketing and sales	–8,672	11	–8,661
Research, development and application	–5,297	28	–5,269
General and administration	–7,833	38	–7,795
Income taxes	–856	290	–566
Net profit	2,203	431	2,634
Consolidated income statement 2007/2008			
Cost of goods sold	–128,289	130	–128,159
Marketing and sales	–17,124	23	–17,101
Research, development and application	–10,639	56	–10,583
General and administration	–13,891	77	–13,814
Income taxes	–2,782	261	–2,521
Net profit	8,808	547	9,355
Consolidated balance sheet 30.9.2008			
Other long-term assets	6,318	7,276	13,594
Deferred income tax liabilities	2,310	1,744	4,054
Shareholders' equity	52,617	5,532	58,149

3. Acquisition BETEC-Engineering. On January 1, 2009, the Schaffner Group took over employees, technology and assets of the German BETEC-Engineering, which specializes in the development and distribution of Bluewave™ active harmonic filters. The purchase price consists of an initial cash payment of CHF 2.3 million and a deferred payment of 10% of net sales generated with active harmonic filters during the following three calendar years. The deferred payment is calculated applying an up-to-date business plan and recognized as a liability in the amount of CHF 1.2 million.

In accordance with IFRS 3.62, accounting of the acquisition is of a provisional nature in the interim report of March 31, 2009, since it could be assumed that, with respect to the purchase price allocation, further information will become known concerning the market-based valuation.

Acquired net assets in CHF 1,000	Book value	Fair value adjustments	**Fair value**
Intangible assets	22	1,966	1,988
Tangible fixed assets	305		305
Inventories	829	359	1,188
Total purchase price			**3,481**
Offset by:			
Cash			2,272
Deferred consideration			1,257
Directly attributable costs			75
Net cash outflow in the reporting period			2,347
Net cash outflow expected in the periods 2009/2010 to 2011/2012			1,257

Effective net sales since the acquisition amount to CHF 0.3 million and net loss amounts to CHF 0.3 million. If the acquisition of BETEC-Engineering had taken place on the first day of the fiscal year, recorded net sales would have been CHF 1.1 million higher and net loss CHF 0.5 million higher.

4. Restructuring costs. The income statement of the first half of 2008/2009 contains restructuring costs of CHF 2.2 million, including staff severance payments and outplacement costs from restructuring of the human resource capacity in the amount of CHF 1.4 million and cost of untenanted free production space after the restructuring of production in Luterbach in the amount of CHF 0.8 million. As at March 31, 2009, a provision for restructuring exists for future payments in the amount of CHF 1.3 million.

5. Seasonality. The Schaffner Group operates in industries where significant seasonal or cyclical variations in total sales are not experienced during the financial year.
Income taxes are recognized based upon the best estimate of the weighted average annual income tax rate expected for the full financial year.

6. Conversion and redemption of convertible bonds. On January 28, 2004, Schaffner Holding AG issued a 2.25% convertible bond with a principal amount of CHF 49.4 million and final redemption after six years (2004–2010). In the first half of fiscal year 2008/2009, convertible bonds with a principal amount of CHF 1.6 million were converted and bonds with a principal amount of CHF 1.7 million were redeemed.

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

8. Foreign currencies. The following exchange rates were applied for the translation of foreign currencies:

		Balance sheet		Income statement	
		31.3.2009	30.9.2008	**1.10.2008 to 31.3.2009**	1.10.2007 to 31.3.2008
Country	Currency	CHF	CHF	CHF	CHF
EU	EUR 100	150.85	158.23	149.74	162.41
USA	USD 100	113.93	112.41	115.10	108.98
Thailand	THB 100	3.21	3.30	3.27	3.55
UK	GBP 100	163.23	199.83	170.77	219.61
China	CNY 100	16.66	16.42	16.84	14.94

About the cover. The Schaffner Group's diverse range of offerings include EMC/EMI components, harmonic filters and magnetic components as well as the development and implementation of customized solutions. Schaffner components are deployed in energy-efficient drive systems and electronic motor controls used in applications such as electricity-generating wind power systems and rail technology.

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