

Interim Report 2006/2007



**SCHAFFNER**

safety for electronic systems

## Schaffner Group posts double-digit growth for the first half of fiscal 2006/2007 thanks to power quality business.

In the first six months of fiscal 2006/2007, the Schaffner Group increased net sales of components for optimizing energy utilization and increasing the operating reliability of electrical and electronic systems by 18.6% on the previous year to CHF 79.2 million (first half 2005/2006: CHF 66.8 million). Adjusted for currency effects, the rise in sales amounted to 16.8%. At the same time, order intake increased by 28.3% to CHF 92.6 million (CHF 72.2 million). The book-to-bill ratio for the first six months of the current fiscal year came to 1.17. Without taking into account the influence of Schaffner Jacke GmbH, which was first consolidated as of November 2006, both net sales, at CHF 68.3 million, and order intake, at CHF 74.7 million, slightly exceeded the previous year's figures. Including the EMC test systems business, which was sold at the end of November 2006 as part of a management buyout (MBO), and the last test systems activity, Cable & ElectroEmulation, which was sold at the end of April 2007, the Schaffner Group achieved net sales of CHF 92.4 million (CHF 91.0 million) and an accumulated order intake of CHF 105.0 million (CHF 96.5 million) in the first half of fiscal 2006/2007.

In the first six months of 2006/2007, the Schaffner Group reported net sales of CHF 79.2 million (CHF 66.8 million) and EBIT of CHF 3.5 million (CHF 5.0 million) from its continuing operations. EBIT margin amounted to 4.4% (7.4%). The drop in profitability compared to the previous year can be attributed mainly to a weak first quarter in the automotive business, start-up costs for new products in Shanghai and a rise in the cost of materials that could only be offset by price increases with a certain time lag in the first six months. The net profit from continuing operations slipped back to CHF 2.0 million (CHF 3.8 million). Discontinued operations generated net sales of CHF 13.2 million (CHF 24.2 million), as well as a net profit of CHF -0.9 million (CHF -3.1 million). The consolidated net profit improved to CHF 1.1 million (CHF 0.8 million).

**Continuing operations.** The sales growth for components for optimizing energy utilization and increasing the operating reliability of electrical and electronic systems has a broad base. Schaffner is global market leader for EMC components, a market segment that is experiencing disproportionate growth in Asia. Since the integration of Jacke Transformatoren GmbH, Schaffner has also ranked as one of the leading manufacturers worldwide of power quality components and is the only company operating globally that offers EMC and power quality competence from a single source. This, in addition to market growth, has resulted in a significant increase in sales in the area of power quality. Schaffner's power quality technology is used in a range of applications including the conversion and regeneration of electricity in solar and wind energy production. It is also used in rail technology. In combination with electronic motor controls, the company's products enable the energy consumed in electric drives to be reduced by a substantial amount.

Shortly after the integration of Jacke Transformatoren GmbH, the manufacture of power quality components also commenced in the Schaffner plants in China and Hungary and production volume was increased considerably in order to meet the needs of the rapidly growing market for power quality solutions and globally active customers. The geographic breakdown of sales shows the international structure of the Schaffner Group: Europe accounted for the lion's share of sales with 74%, the US contributed 9% and 17% was achieved in the dynamic Asia/Pacific market.

**Discontinued operations.** Following the sale of the EMC test systems business line within the framework of an MBO at the end of November 2006 to an investor group headed by Johannes Schmid, the former Head of Test Systems Division, the divestment of the Test Systems operations was completed at the end of April 2007 with the sale of the last business line, Cable & ElectroEmulation, to the present management team as part of another MBO.

**Outlook.** In view of the prevailing economic conditions, for the 2006/2007 fiscal year the Schaffner Group expects to achieve a further sustained increase in sales year on year as well as an EBIT margin of around 6%. The increase in profitability required to realize this in the second half of the year will result from the rise in the cost of materials, which has now been passed on to the market, a marked increase in profitability in the automotive business as a result of an upturn in sales and lower manufacturing costs for the part of the power quality components production that was transferred to Hungary.

Luterbach, May 11, 2007



Leo Steiner  
Chairman of the Board of Directors



Alexander Hagemann  
Chief Executive Officer

**Consolidated balance sheet**

in CHF 1,000

	31.3.2007	30.9.2006
<b>Intangible assets</b>	10,541	7,293
Tangible fixed assets	15,516	12,520
Investments	–	3
Other long-term assets	9,461	5,793
Deferred tax assets	996	1,182
<b>Fixed assets</b>	<b>36,514</b>	<b>26,791</b>
Inventories	33,588	21,334
Trade receivables	35,147	38,081
Tax receivables	734	614
Other receivables and accruals <sup>1</sup>	9,557	30,703
Short-term investments	–	–
Cash and cash equivalents	24,274	9,036
<b>Current assets</b>	<b>103,300</b>	<b>99,768</b>
Assets held for sale	9,580	15,206
<b>Current assets</b>	<b>112,880</b>	<b>114,974</b>
<b>Total assets</b>	<b>149,394</b>	<b>141,765</b>
Equity attributable to equity holders of Schaffner Holding AG	48,651	50,982
Minority interests	2	3
<b>Shareholders' equity</b>	<b>48,653</b>	<b>50,985</b>
Provisions	7,490	5,455
Deferred tax liabilities	2,084	1,105
Long-term borrowings	48,861	47,905
<b>Long-term liabilities</b>	<b>58,435</b>	<b>54,465</b>
Short-term borrowings	853	272
Tax liabilities	2,140	1,681
Interest-free liabilities	34,026	34,362
<b>Short-term liabilities</b>	<b>37,019</b>	<b>36,315</b>
Liabilities directly associated with assets held for sale	5,287	–
<b>Short-term liabilities</b>	<b>42,305</b>	<b>36,315</b>
<b>Total liabilities</b>	<b>100,741</b>	<b>90,780</b>
<b>Total liabilities and shareholders' equity</b>	<b>149,394</b>	<b>141,765</b>

<sup>1</sup> Balance at 30.9.2006 including CHF 20.0 million from sold properties at the Company's headquarters in Luterbach.

## Consolidated income statement

in CHF 1,000

	1.10.2006 to 31.3.2007	1.10.2005 to 31.3.2006
<b>Continuing operations</b>		
<b>Net sales</b>	<b>79,170</b>	<b>66,758</b>
Cost of goods sold	-53,078	-43,382
Marketing and sales	-8,632	-7,635
Research, development and application	-5,011	-4,429
General and administration	-8,939	-6,347
<b>EBIT</b>	<b>3,510</b>	<b>4,965</b>
Financial result	-643	-665
<b>EBT</b>	<b>2,867</b>	<b>4,300</b>
Income taxes	-848	-462
<b>Profit for the period from continuing operations</b>	<b>2,019</b>	<b>3,838</b>
<b>Discontinued operations</b>		
<b>Profit for the period from discontinued operations<sup>1</sup></b>	<b>-912</b>	<b>-3,079</b>
<b>Net profit</b>	<b>1,107</b>	<b>759</b>
Attributable to:		
Equity holders of the parent	1,108	772
Minority interests	-1	-13
<b>Earnings per share from continuing operations</b> in CHF		
basic	3.28	6.34
diluted	3.25	6.31
<b>Earnings per share from discontinued operations</b> in CHF		
basic	-1.48	-5.07
diluted	-1.47	-5.04
<b>Earnings per share</b> in CHF		
basic	1.80	1.27
diluted	1.78	1.27

<sup>1</sup> Previous year includes business line Power Electronics divested end of April 2006 as well as business line EMC test systems divested end of November 2006.

## Consolidated cash flow statement

in CHF 1,000

	1.10.2006 to 31.3.2007	1.10.2005 to 31.3.2006
Cash flow from operating activities	-3,538	-1,557
Cash flow from investing activities <sup>1</sup>	22,508	-3,159
Cash flow from financing activities	-3,898	2,397
± Translation differences on cash and cash equivalents	166	184
<b>Change in cash and cash equivalents</b>	<b>15,238</b>	<b>-2,135</b>

<sup>1</sup> The current cash flow from investing activities includes a payment of CHF 20.0 million for Schaffner's Swiss properties at the Company's headquarters in Luterbach sold in September 2006.

## 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
<b>At 30.9.2005</b>	<b>31,797</b>	<b>56,757</b>	<b>-4,764</b>	<b>-32,691</b>	<b>-4,923</b>	<b>-121</b>	<b>46,055</b>	<b>6</b>	<b>46,061</b>
Translation differences			987			100	1,087		1,087
Consolidated net profit				772			772	-13	759
<b>Comprehensive income</b>			<b>987</b>	<b>772</b>		<b>100</b>	<b>1,859</b>	<b>-13</b>	<b>1,846</b>
Treasury shares				-89	-453		-542		-542
Dividend payment									
Stock option plans		225					225		225
<b>At 31.3.2006</b>	<b>31,797</b>	<b>56,982</b>	<b>-3,777</b>	<b>-32,008</b>	<b>-5,376</b>	<b>-21</b>	<b>47,597</b>	<b>-7</b>	<b>47,590</b>
<b>At 30.9.2006</b>	<b>31,797</b>	<b>57,374</b>	<b>-3,875</b>	<b>-29,241</b>	<b>-5,734</b>	<b>661</b>	<b>50,982</b>	<b>3</b>	<b>50,985</b>
Translation differences			1,898			51	1,949		1,949
Consolidated net profit				1,108			1,108	-1	1,107
<b>Comprehensive income</b>			<b>1,898</b>	<b>1,108</b>		<b>51</b>	<b>3,057</b>	<b>-1</b>	<b>3,056</b>
Repayment of nominal value	-6,995						-6,995		-6,995
Treasury shares				-157	1,510		1,353		1,353
Dividend payment									
Stock option plans		254					254		254
<b>At 31.3.2007</b>	<b>24,802</b>	<b>57,628</b>	<b>-1,977</b>	<b>-28,290</b>	<b>-4,224</b>	<b>712</b>	<b>48,651</b>	<b>2</b>	<b>48,653</b>

## Segment information

in CHF 1,000

	1.10.2006 to 31.3.2007	1.10.2005 to 31.3.2006
Net sales Components and Modules <sup>1</sup>	79,170	66,758
Net profit Components and Modules <sup>1</sup>	2,019	3,838
Net sales Test Systems <sup>2</sup>	13,220	24,243
Net profit Test Systems <sup>2</sup>	-912	-3,079
Consolidated net sales	92,390	91,001
<b>Consolidated net profit</b>	<b>1,107</b>	<b>759</b>

<sup>1</sup> Continuing operations

<sup>2</sup> 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, 2006, as they provide an update of previously reported information.

The consolidated financial statements were approved on May 7, 2007. Except for new or changed standards and interpretations, the accounting policies of the Schaffner Group are consistent with those used in the annual financial statements.

The following changes were taken into account as of October 1, 2006: Amendments to IAS 19 Employee Benefits, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 39 Financial Instruments: Recognition and Measurement and the introduction of IFRS 6 Exploration for and Evaluation of Mineral Resources, IFRIC 4 Determining whether an Arrangement contains a Lease, IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds, IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment, IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies, IFRIC 8 Scope of IFRS 2 as well as IFRIC 9 Reassessment of Embedded Derivatives.

These standards do not have any influence to the balance sheet and income statement of Schaffner Group, as either they represent just disclosure requirements or do not have practical relevance for Schaffner Group.

**Divestment of EMC test systems business line.** At the end of November 2006 the EMC test systems business line was sold through a management buyout to a group of investors led by Johannes Schmid, former Head of the Test Systems Division. Schaffner's former EMC test systems activities in Luterbach and Berlin as well as distribution and service subsidiaries in China, Japan, Singapore, the US, the UK and France were brought together into a new group of companies (TESEQ). In addition a credit limit of CHF 1 million over the next 18 months has been granted to the buyer at market conditions to secure liquidity in the initial phase. The selling price was adjusted by CHF 0.6 million to CHF 9.0 million at the occasion of the closing.

in CHF 1,000

Intangible assets	100
Tangible fixed assets	2,300
Inventories	7,000
<b>Asset disposed</b>	<b>9,400</b>
Asset disposed	-9,400
Payment to TESEQ for warranty acceptance	-300
Translation differences	0
Cash payment	9,000
<b>Net profit included</b>	<b>-700</b>

**Acquisition Jacke.** On November 3, 2006, Schaffner acquired 100% of the shares of Jacke Transformatoren GmbH for CHF 3.1 million. The company continues operations with the engineering and production capacities in Büren, Germany, under the leadership of the current management. An initial payment of EUR 1 million was made to take over Jacke Transformatoren GmbH. In addition an earn-out model has been agreed that provides for additional payments up to a maximum of EUR 1.2 million if certain targets are met.

In accordance with IFRS 3.69, accounting of the acquisition Jacke is of a provisional nature in the interim report of March 31, 2007, since it could be assumed that, with respect to the purchase price allocation, further information will become known concerning the market-based valuation.

in CHF 1,000	Book value	Market value adjustments	Market value
Intangible assets	500	3,300	3,800
Tangible fixed assets	500		500
Other long-term assets	600		600
Inventories	8,100		8,100
Trade receivables	2,700		2,700
Other receivables and accruals	300		300
	<b>12,700</b>	<b>3,300</b>	<b>16,000</b>
Provisions	-500		-500
Deferred tax liabilities	0	-1,300	-1,300
Long-term borrowings	-500		-500
Short-term borrowings	-5,300		-5,300
Interest-free liabilities	-5,300		-5,300
	<b>-11,600</b>	<b>-1,300</b>	<b>-12,900</b>
<b>Net assets</b>	<b>1,100</b>	<b>2,000</b>	<b>3,100</b>
<b>Total purchase price</b>			<b>3,100</b>
Offset by:			
Cash			1,600
Earn-out (net)			1,400
Directly attributable costs			100
Net cash outflow from the acquisition			1,700

If Jacke Transformatoren GmbH had been acquired on the first day of the fiscal year, Schaffner would have posted an additional CHF 2.0 million in consolidated net sales with a consolidated net profit of CHF 0.1 million. Chargeable net sales and net profit since the acquisition of CHF 11.8 million and CHF 0.1 million, respectively, have been posted.

**Divestment of Cable & ElectroEmulation (CEE) test systems business line.** An agreement has been signed for the sale of the Cable & ElectroEmulation business to the existing management. This completes the divestment of Schaffner's Test Systems. As part of the management buy-out, the existing management will take over the activities of Schaffner Electrotest GmbH of Germany, Schaffner Electrotest BV of the Netherlands, Schaffner Electrotest S.r.l. of Italy and the US activities of the Electrotest business. The sale is expected to be completed by the end of April 2007.

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.

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

Country	Currency	Balance sheet		Income statement	
		31.3.2007	30.9.2006	1.10.2006 to 31.3.2007	1.10.2005 to 31.3.2006
		CHF	CHF	CHF	CHF
EU	1 EUR	1.62	1.58	1.61	1.56
US	1 USD	1.22	1.30	1.22	1.30
Thailand	1 THB	0.04	0.03	0.04	0.03
UK	1 GBP	2.39	2.26	2.39	2.28

