SCHWEITER TECHNOLOGIES

Semi-Annual Report 2018

Report of the Board of Directors on the results for the first half of 2018

Dear Shareholders

Schweiter Technologies reported a strong first half in 2018, posting a double-digit percentage increase in revenues and profit. Group revenues were up by 11% to CHF 540.3 million (+6% in local currencies), while acquisition-driven growth was close to 8%. EBITDA rose 11% to CHF 58.3 million. Despite some major increases in raw material costs, the return on sales came to 10.8%, on level with the previous year. Operating profit (EBIT) improved by 14% to CHF 44.2 million, while net profit from continuing operations rose to CHF 33.0 million. Cash holdings stood at CHF 178 million following a dividend payout of about CHF 64 million.

3A Composites revenues rose by 11% to CHF 540.3 million. EBITDA increased by 10% to CHF 59.5 million, resulting in an EBITDA margin of 11.0%. EBIT came to CHF 45.4 million.

Beyond the acquisition-related growth, the main growth drivers were the Architecture business in Asia and sustained, buoyant demand for display products in Europe. The Architecture business performed well on the whole – the significant rise in sales in Asia and the USA more than offset the temporarily lower volumes in Europe and Australia in the first quarter.

Athlone Extrusions, acquired in the second half of 2017, made a significant contribution to the rise in revenues and profits.

The rest of the Display business in Europe also reported considerable increases in revenues and profitability, outperforming the market trend. Raw material price fluctuations, coupled with a corresponding temporary downturn in demand, impacted further volume growth.

The US Display business built on the previous year's success, reporting revenue growth yet again.

The Architecture business in Asia benefited from several major projects in China plus an upturn in demand. Revenue growth in this region was in the double-digit range. The US Architecture business posted significant gains compared with the previous year, whereas the Architecture business in Europe and Australia fell short of expectations especially in the first quarter.

As expected, the Core Materials business got off to a moderate start in the 2018 business year. Compared with the previous year, profitability was impacted by weaker demand in the first quarter, rising raw material costs in some cases, and price pressure from global OEMs. Sales in the second quarter, however, were up again sharply in both the wind and the non-wind sectors.

Business in the Transportation sector fell short of last year's strong performance. Delivery delays for a major customer plus technical changes to two projects led to lower sales than the previous year.

Outlook

The Group expects to turn in a good performance again in the second half. In the Display and Architecture business, the Group anticipates markets to remain stable but raw material prices to trend lower. The Core Materials business is expected to post firm demand. Moreover, the delayed orders in the Transportation sector are expected to be delivered in the second half.

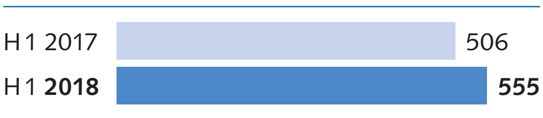
Yours sincerely

Board of Directors Schweiter Technologies

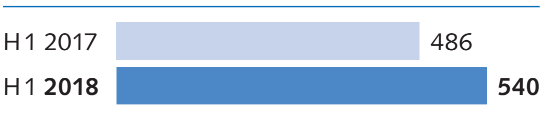
Key figures

(in CHF m)	First half of **2018**	First half of 2017	Change
Orders received	554.5	505.7	10%
Net revenues	540.3	485.6	11%
EBITDA	58.3	52.6	11%
EBIT	44.2	38.9	14%
Net income from continuing operations	33.0	30.9	7%
Net income	33.0	129.5	

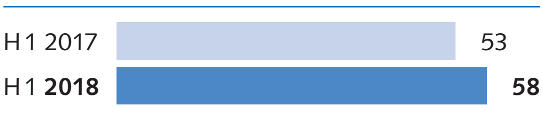
Orders received (in CHF m)



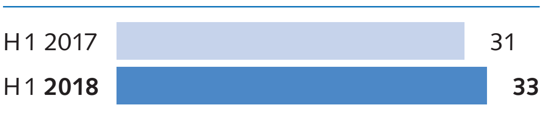
Net revenues (in CHF m)



EBITDA (in CHF m)



Net income [1] (in CHF m)



[1] Continuing operations

Consolidated balance sheet as of 30 June 2018

Assets (in CHF m)	30 June **2018**	%	31 Dec. 2017	%
Current assets				
Cash and cash equivalents	178.3		233.2	
Trade receivables	176.5		153.7	
Inventories	180.2		173.3	
Other current assets	33.0		35.2	
Total current assets	**568.0**	55.6	**595.4**	56.7
Non-current assets				
Property, plant and equipment	265.4		268.2	
Intangible assets (incl. goodwill)	138.6		140.9	
Other non-current assets	50.4		46.5	
Total non-current assets	**454.4**	44.4	**455.6**	43.3
Total assets	**1 022.4**		**1 051.0**	

Liabilities and shareholders' equity (in CHF m)	30 June **2018**	%	31 Dec. 2017	%
Current liabilities				
Current financial liabilities	0.7		1.3	
Trade payables	77.8		60.2	
Prepayments received from customers	4.7		2.5	
Accrued expenses and deferred income	40.3		48.4	
Other current liabilities	33.9		32.6	
Total current liabilities	**157.4**	15.4	**145.0**	13.8
Non-current financial liabilities	2.4		2.4	
Deferred tax liabilities	26.8		26.3	
Non-current provisions	14.4		16.9	
Employee benefits	80.1		79.4	
Total non-current liabilities	**123.7**	12.1	**125.0**	11.9
Total liabilities	**281.1**	27.5	**270.0**	25.7
Shareholders' equity				
Share capital	1.4		1.4	
Treasury shares	0.0		– 0.2	
Reserves from capital contributions	0.1		0.1	
Retained earnings	758.0		797.7	
Currency translation adjustments	– 18.2		– 18.0	
Total shareholders' equity	**741.3**	72.5	**781.0**	74.3
Total liabilities and shareholders' equity	**1 022.4**		**1 051.0**	

Consolidated income statement for the first half of 2018

(in Mio. CHF)	First half of **2018**	%	First half of 2017	%
Continuing operations:				
Net revenues	**540.3**	99.0	**485.6**	99.4
Change in inventories of semi-finished and finished goods	5.7	1.0	2.7	0.6
Total operating income	**546.0**	100.0	**488.3**	100.0
Material expenses	– 305.0	– 55.9	– 269.4	– 55.2
Personnel expenses	– 97.6	– 17.9	– 88.9	– 18.2
Other operating expenses	–89.2	– 16.3	– 80.2	– 16.4
Other operating income	4.1	0.8	2.8	0.6
Depreciation and amortization	– 14.1	– 2.6	– 13.7	– 2.8
Operating result	**44.2**	8.1	**38.9**	8.0
Financial income	0.3	0.1	0.8	0.1
Financial expenses	– 3.1	– 0.6	– 0.9	– 0.2
Income before taxes	**41.4**	7.6	**38.8**	7.9
Income taxes	– 8.4	– 1.5	– 7.9	– 1.6
Net income from continuing operations	**33.0**	6.1	**30.9**	6.3
5 Discontinued operations:				
Net income from discontinued operations	**0.0**		**98.6**	
Net income	**33.0**		**129.5**	
Earnings per share (in CHF)				
From continuing operations:				
– undiluted	23.02		21.56	
– diluted	23.01		21.55	
From continuing and discontinued operations:				
– undiluted	23.02		90.51	
– diluted	23.01		90.47	

▲ For additional details see notes to the semi-annual statements as of 30 June 2018

Consolidated statement of comprehensive income for the first half of 2018

(in CHF m)	First half of **2018**	First half of 2017
Net income	**33.0**	**129.5**
Other comprehensive income		
Items that may be reclassified subsequently to the statement of income:		
– Exchange differences on translation of foreign operations	– 0.2	– 13.7
– Tax effect	0.0	0.0
Exchange rate differences reclassified to the statement of income	0.0	0.7
Total	– 0.2	– 13.0
Items that will not be reclassified subsequently to the statement of income:		
– Actuarial gains / (losses) on defined benefit plans	– 3.8	1.5
– Tax effect	0.6	– 0.4
Total	– 3.2	1.1
Total other comprehensive income	**– 3.4**	**– 11.9**
Comprehensive income	**29.6**	**117.6**

Consolidated statement of cash flows for the first half of 2018

	(in Mio. CHF)	First half of **2018**	First half of 2017
	Net income from continuing operations	**33.0**	**30.9**
	Net income from operating activities of discontinued operations	–	7.2
	Depreciation and amortization	14.1	14.3
	Change in provisions and employee benefits	– 4.2	1.4
	Other positions not impacting cash	– 3.7	– 3.6
	Income taxes	8.4	9.0
	Financial result	2.8	– 0.2
6	Change in working capital	– 18.9	– 25.8
	Interest paid	– 0.2	– 0.3
	Income taxes paid	– 9.2	– 6.9
	Cash flow from operating activity	**22.1**	**26.0**
5	Sale of subsidiaries, net of cash	0.0	100.0
	Purchase of property, plant and equipment	– 11.7	– 14.4
	Sale of property, plant and equipment	0.7	0.2
	Repayment of financial assets	0.0	0.4
	Increase in financial assets	– 0.2	– 0.2
	Interest received	0.3	0.3
	Cash flow from investment activity	**– 10.9**	**86.3**
	Repayment of current financial liabilities	– 0.6	– 0.6
	Dividend paid	– 64.4	– 57.3
	Cash flow from financing activity	**– 65.0**	**– 57.9**
	Currency exchange differences on cash and cash equivalents	– 1.1	– 1.4
	Change in cash and cash equivalents	**– 54.9**	**53.0**
	Cash and cash equivalents as of 1 January	233.2	179.3
	Cash and cash equivalents as of 30 June	**178.3**	**232.3**
	Cash flow from discontinued operations:		
	Cash flow from operating activity	–	6.5
	Cash flow from investment activity	–	– 0.3
	Cash flow from financing activity	–	– 12.0
	Currency exchange differences on cash and cash equivalents	–	– 0.1
	Net cash flow from discontinued operations	**–**	**– 5.9**

▲ For additional details see notes to the semi-annual statements as of 30 June 2018

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 of 1 January 2017	**1.4**	**– 0.2**	**0.1**	**682.6**	**– 24.6**	**659.3**
Net income				129.5		129.5
Other comprehensive income	*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 of 30 June 2017	**1.4**	**– 0.2**	**0.1**	**756.0**	**– 37.6**	**719.7**
Balance as of 1 January 2018	**1.4**	**– 0.2**	**0.1**	**797.7**	**– 18.0**	**781.0**
Adjustment on initial application of IFRS 9	0	0	0	– 4.9	0	– 4.9
Adjusted balance as of 1 January 2018	**1.4**	**– 0.2**	**0.1**	**792.8**	**– 18.0**	**776.1**
Net income				33.0		33.0
Other comprehensive income	*0*	*0*	*0*	*– 3.2*	*– 0.2*	*– 3.4*
Comprehensive income	*0*	*0*	*0*	*29.8*	*– 0.2*	*29.6*
Share-based remuneration		0.2		– 0.2		0.0
Dividend				– 64.4		– 64.4
Balance as of 30 June 2018	**1.4**	**0.0**	**0.1**	**758.0**	**– 18.2**	**741.3**

Notes to the semi-annual statements as of 30 June 2018

1 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 2017 Annual Report, which were applied with no changes other than the following new or amended standards and interpretations:

2 Adoption of new or revised accounting policies

New standards

IFRS 15	Revenue from Contracts with Customers
IFRS 9	Financial Instruments
IFRIC 22	Foreign currency transactions

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

Revenues are recognized in accordance with the requirements of IFRS 15 Revenues from Contracts with Customers. Revenues are predominately related to the sale of goods which is recognized at a point in time according to the agreed Incoterms (i.e. when the customer obtains control of the goods). The sale of goods is based on fixed prices without variable considerations and the payment terms are in-line with generally accepted business conditions. The warranty periods for goods are in-line with industry standards. Provisions for guarantees are recorded based on the expected cash outflows for already known and anticipated warranty claims in future.

Rental income is recognized over time according to the underlying rental agreements.

Schweiter Technologies has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognized at the date of initial application (i.e. 1 January 2018). The introduction of IFRS 15 did not have any impact on the consolidated financial statements of Schweiter Technologies.

IFRS 9 Financial Instruments

IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. As a result of the adoption of IFRS 9, trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the "incurred loss" model, the Group estimated the incurred losses arising from the failure or inability of customers to make payments when due. These estimates were assessed on an individual basis, taking into account the aging of customers' balances, specific credit circumstances and the Group's historic default experience. Under the new approach, it is no longer necessary for a loss event to occur before an impairment loss is recognized. Impairment is made on the expected credit losses, which are the present value of the cash shortfalls over the expected life of the financial assets.

In accordance with the transitional provisions of IFRS 9, the Group has not restated prior periods but it has reassessed the allowances for doubtful accounts receivables under the new approach as of 1 January 2018 retrospectively. Accordingly, the allowances for doubtful accounts receivables increased by CHF 4.9 million on 1 January 2018. This one-off impact was recognized against retained earnings on 1 January 2018.

Notes to the semi-annual statements as of 30 June 2018

Amendments to standards

IFRS 2	Classification and Measurement of Share-based Payment Transactions
IFRS 40	Transfers of Investment Properties
Miscellaneous	Amendments resulting from the Annual Improvement Projects

Issued standards 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 16	Leases	1 January 2019	Financial year 2019	1)
IFRIC 23	Uncertainity over Income Tax Treatments	1 January 2019	Financial year 2019	2)
IFRS 17	Insurance contracts	1 January 2021	Financial year 2021	2)

Amendments to standards				
IAS 19	Plan Amedements, Curtailment or Settlement	1 January 2019	Financial year 2019	2)
IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019	Financial year 2019	2)
IFRS 9	Prepayment Featues with Negative Compensation	1 January 2019	Financial year 2019	2)
Miscellaneous	Amendments resulting from the Annual Improvement Projects	1 January 2019	Financial year 2019	2)

1) In a Group wide project, the impact of IFRS 16 on the consolidated financial statements of Schweiter Technologies are currently analysed in detail and the Group companies are being trained in handling the new requirements of IFRS 16

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

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.

3 Operating segments

First half of 2018 (in CHF m)	3A Composites	Other / Eliminations	Group
Net revenues	540.3	0.0	540.3
Operating result	45.4	– 1.2	44.2
Net income	33.8	– 0.8	33.0
Assets	958.1	64.3	1 022.4
Liabilities	581.2	– 300.1	281.1
Employees at 30 June	3 709 [1]	7	3 716

[1] Of which 1 100 employees in balsa plantations and sawmills in Ecuador and Papua New Guinea

Net revenues by region	Europe	Americas	Asia	Other	Total
3A Composites	354.9	109.0	66.7	9.7	540.3

First half of 2017 [1] (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

[1] Continuing operations
[2] Of which 1 542 employees in balsa plantations and sawmills in Ecuador and Papua New Guinea

Net revenues by region	Europe	Americas	Asia	Other	Total
3A Composites	300.1	110.5	64.2	10.8	485.6

Notes to the semi-annual statements as of 30 June 2018

4 Change in scope of consolidation

In the reporting period there were no changes in the scope of consolidation.

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

5 Sale of discontinued operations

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

6 Change in working capital

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

7 Contingent liabilities

In the period under review, the commitments to take delivery under purchase contracts for machine parts and raw material have reduced by CHF 21.7 million from CHF 185.2 million to CHF 163.5 million. All other contingent liabilities have remained essentially unchanged.

8 Move of registered office

At the Annual General Meeting as of 13 April 2018, the shareholders approved to move the registered office of Schweiter Technologies AG from Horgen to Steinhausen.

9 Events after the balance sheet date

Between the balance sheet date and the date of publication of this semi-annual report, no events occurred which could have a material impact on the consolidated semi-annual financial statements for 2018.

This interim report was approved and released for publication by the Board of Directors of Schweiter Technologies AG on 15 August 2018 by way of a circular resolution.

Note 5 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 of 30 June 2017 (effective date of sale):

(in CHF m)	30 June 2017
Book value of net assets disposed:	
Cash and cash equivalents	24.0
Trade receivables	9.0
Inventories	17.5
Other current assets	2.2
Property, plant and equipment	3.3
Intangible assets (incl. goodwill)	3.3
Other non-current assets	1.1
Trade payables	– 11.9
Prepayments received from customers	– 5.8
Accrued expenses and deferred income	– 4.2
Other current liabilities	– 2.7
Deferred tax liabilities	– 1.1
Non-current provisions	– 0.9
Employee benefits	– 5.0
Total net assets disposed	**28.8**
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 of 30 June 2018

The results of the sold SSM Textile Machinery division that appear in the semi-annual statements 2017 are composed as follows:

(in CHF m)	First half of 2017
Net revenues	**49.8**
Change in inventories of semi-finished and finished goods	– 1.1
Total operating income	**48.7**
Material expenses	– 21.9
Personnel expenses	– 9.7
Other operating expenses	– 8.7
Other operating income	0.2
Depreciation and amortization	– 0.6
Operating result	**8.0**
Financial income	0.4
Financial expenses	– 0.1
Income before taxes	**8.3**
Income taxes	– 1.1
Net income from operating activity	**7.2**
Gain on sale of discontinued operations	91.4
Income from discontinued operations	**98.6**

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 **2018**	31 Dec. 2017
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	1 480 489	1 809 805
Holdings of treasury shares	–	600
Treasury shares as % of share capital	–	0.04

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The next General Meeting will take place in Horgen on 11 April 2019.

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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.

This is an English translation of the German Semi-Annual Report. The German text is the official version.

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