SCHWEITER TECHNOLOGIES

Semi-Annual Report 2019

Report of the Board of Directors on the results for the first half of 2019

Dear Shareholders

Schweiter Technologies reported a strong first half in 2019, posting a double-digit percentage increase in revenues. Group revenues rose by 14% year-on-year to CHF 613.7 million (+16% in local currencies), driven by the Perspex acquisition. Adjusted for acquisitions and currency effects, organic growth came to 2%. EBITDA rose by 8% to CHF 63.1 million. Return on net sales declined marginally to 10.3%, owing mainly to acquisitions and to one-off expenses incurred for integration. Operating profit (EBIT) amounted to CHF 44.5 million and net income to CHF 34.2 million. Operating cash flow rose by 50% to CHF 33.0 million, while cash and cash equivalents stand at CHF 89.2 million following the dividend distribution of about CHF 57 million.

3A Composites lifted net revenues by 14% to CHF 613.7 million. EBITDA rose by 8% to CHF 64.5 million, which equates to an EBITDA margin of 10.5%. EBIT came to CHF 45.9 million.

The slightly lower revenues in the European and US Display business were more than offset by acquisition-driven growth, ongoing firm demand from wind energy customers, and strong growth in the Architecture business in the USA.

The Display business in Europe picked up slightly in the first half of 2019 following a weaker second half in 2018. Uncertainty about the direction in which the economy is headed put a damper on further organic growth, which meant that the Display business in Europe and the USA didn't quite match the success it posted in the first half of 2018.

The Perspex companies acquired as of year-end 2018 delivered a major contribution to revenue and profit growth in the European display business. The integration of the acquired companies is proceeding according to plan.

The Architecture business performed satisfactorily on the whole, especially in the USA, where the trend to high-quality flame-retardant or non-combustible cladding panels plus gain of new customers drove double-digit revenue growth.

Following growth in previous years, the Architecture business in Europe and Asia had to cope with effects that curbed demand, particularly in connection with Brexit and the parliamentary elections in India. Sales volumes didn't quite reach the previous year's high level, partly owing to a major order completed in China in the prior-year period.

The Core Materials business maintained its strong momentum, with revenues posting double-digit percentage growth. In particular, firmer demand in the wind energy sector generated a big jump in revenues in all regions. It was China that reported the biggest growth despite the ongoing imponderables related to the trade dispute between the USA and China. Profitability was held in check, particularly in the first quarter, by higher raw material costs and by the price pressures exerted by global OEMs. Along-side selective price increases, measures were taken to boost efficiency.

The strong demand for weight-saving solutions for buses, RVs, and train front ends continued in the first half of 2019. Revenue growth in the Transportation sector was in the double-digit range, while profitability grew at an even faster pace year-on-year.

Outlook

Even though it must be assumed that the political and economic situation will continue to be volatile in the second half of the year, business performance is expected to remain positive on the whole.

Solid demand is anticipated in the Display and Architecture businesses. The gratifying performance of Core Materials will continue owing to ongoing firm demand from wind energy customers.

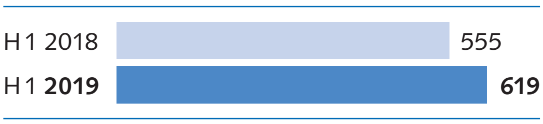
Yours sincerely

Board of Directors Schweiter Technologies

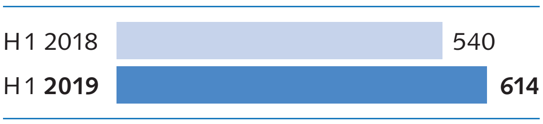
Key figures

(in CHF m)	First half of **2019**	First half of 2018	Change
Orders received	619.1	554.5	12 %
Net revenues	613.7	540.3	14 %
EBITDA	63.1	58.3	8 %
EBIT	44.5	44.2	1 %
Net income	34.2	33.0	4 %

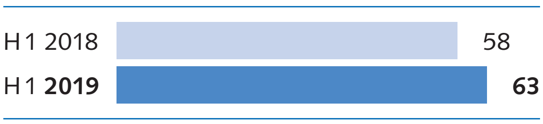
Orders received (in CHF m)



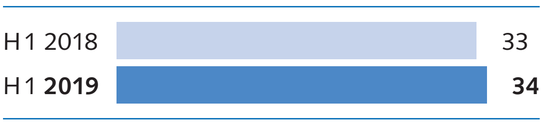
Net revenues (in CHF m)



EBITDA (in CHF m)



Net income (in CHF m)



Consolidated balance sheet as of 30 June 2019

	Assets (in CHF m)	30 June **2019**	%	31 Dec. 2018	%
	Current assets				
	Cash and cash equivalents	89.2		108.1	
5	Trade receivables	199.1		170.0	
	Inventories	185.5		196.9	
	Other current assets	34.7		33.6	
	Total current assets	**508.5**	47.8	**508.6**	49.1
	Non-current assets				
6	Property, plant and equipment	303.7		279.2	
	Intangible assets (incl. goodwill)	193.0		195.9	
	Other non-current assets	57.9		53.1	
	Total non-current assets	**554.6**	52.2	**528.2**	50.9
	Total assets	**1 063.1**		**1 036.8**	

	Liabilities and shareholders' equity (in CHF m)				
	Current liabilities				
6/7	Current financial liabilities	28.4		1.1	
5	Trade payables	74.6		68.0	
	Prepayments received from customers	2.2		3.4	
	Accrued expenses and deferred income	48.5		51.3	
	Other current liabilities	35.0		34.9	
	Total current liabilities	**188.7**	17.8	**158.7**	15.3
6	Non-current financial liabilities	22.0		1.1	
	Deferred tax liabilities	32.2		31.6	
	Non-current provisions	17.1		18.3	
8	Employee benefits	92.6		75.2	
	Total non-current liabilities	**163.9**	15.4	**126.2**	12.2
	Total liabilities	**352.6**	33.2	**284.9**	27.5
	Shareholders' equity				
	Share capital	1.4		1.4	
	Reserves from capital contributions	0.1		0.1	
	Retained earnings	748.1		784.2	
	Currency translation adjustments	– 39.1		– 33.8	
	Total shareholders' equity	**710.5**	66.8	**751.9**	72.5
	Total liabilities and shareholders' equity	**1 063.1**		**1 036.8**	

▲ For additional details see notes to the semi-annual statements as of 30 June 2019

Consolidated income statement for the first half of 2019

(in Mio. CHF)	First half of **2019**	%	First half of 2018	%
Net revenues	**613.7**	101.1	**540.3**	99.0
Change in inventories of semi-finished and finished goods	– 6.7	– 1.1	5.7	1.0
Total operating income	**607.0**	100.0	**546.0**	100.0
Material expenses	– 335.0	– 55.2	– 305.0	– 55.9
Personnel expenses	– 111.6	– 18.4	– 97.6	– 17.9
Other operating expenses	– 99.8	– 16.4	–89.2	– 16.3
Other operating income	2.5	0.4	4.1	0.8
Depreciation and amortization	– 18.6	– 3.1	– 14.1	– 2.6
Operating result	**44.5**	7.3	**44.2**	8.1
Financial income	0.4	0.1	0.3	0.1
Financial expenses	– 2.8	– 0.4	– 3.1	– 0.6
Income before taxes	**42.1**	6.9	**41.4**	7.6
Income taxes	– 7.9	– 1.3	– 8.4	– 1.5
Net income	**34.2**	5.6	**33.0**	6.1
Earnings per share (in CHF)				
– undiluted	23.88		23.02	
– diluted	23.88		23.01	

Consolidated statement of comprehensive income for the first half of 2019

(in CHF m)	First half of **2019**	First half of 2018
Net income	**34.2**	**33.0**
Other comprehensive income		
Items that may be reclassified subsequently to the statement of income:		
– Exchange differences on translation of foreign operations	– 5.3	– 0.2
– Tax effect	0.0	0.0
Exchange rate differences reclassified to the statement of income	0.0	0.0
Total	– 5.3	– 0.2
Items that will not be reclassified subsequently to the statement of income:		
– Actuarial gains / (losses) on defined benefit plans	– 16.9	– 3.8
– Tax effect	4.0	0.6
Total	– 12.9	– 3.2
Total other comprehensive income	**– 18.2**	**– 3.4**
Comprehensive income	**16.0**	**29.6**

Consolidated statement of cash flows for the first half of 2019

	(in Mio. CHF)	First half of **2019**	First half of 2018
	Net income	34.2	33.0
	Depreciation and amortization	18.6	14.1
	Change in provisions and employee benefits	0.3	– 4.2
	Other positions not impacting cash	– 3.3	– 3.7
	Income taxes	7.9	8.4
	Financial result	2.4	2.8
5	Change in working capital	– 15.2	– 18.9
	Interest paid	– 1.4	– 0.2
	Income taxes paid	– 10.5	– 9.2
	Cash flow from operating activity	**33.0**	**22.1**
	Repayment of purchase of subsidiaries	0.9	0.0
	Purchase of property, plant and equipment	– 13.1	– 11.7
	Sale of property, plant and equipment	0.1	0.7
	Repayment of financial assets	0.9	0.0
	Increase in financial assets	0.0	– 0.2
	Interest received	0.4	0.3
	Cash flow from investment activity	**– 10.8**	**– 10.9**
7	Increase in current financial liabilities	20.0	0.0
	Repayment of current financial liabilities	– 3.4	– 0.6
	Dividend paid	– 57.3	– 64.4
	Cash flow from financing activity	**– 40.7**	**– 65.0**
	Currency exchange differences on cash and cash equivalents	– 0.4	– 1.1
	Change in cash and cash equivalents	**– 18.9**	**– 54.9**
	Cash and cash equivalents as of 1 January	108.1	233.2
	Cash and cash equivalents as of 30 June	**89.2**	**178.3**

▲ For additional details see notes to the semi-annual statements as of 30 June 2019

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 2018	**1.4**	**– 0.2**	**0.1**	**797.7**	**– 18.0**	**781.0**
Adjustment on initial application of IFRS 9				– 4.1		– 4.1
Adjusted balance as of 1 January 2018	**1.4**	**– 0.2**	**0.1**	**793.6**	**– 18.0**	**776.9**
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**	**758.8**	**– 18.2**	**742.1**
Balance as of 1 January 2019	**1.4**	**0.0**	**0.1**	**784.2**	**– 33.8**	**751.9**
Net income				34.2		34.2
Other comprehensive income	*0*	*0*	*0*	*– 12.9*	*– 5.3*	*– 18.2*
Comprehensive income	*0*	*0*	*0*	*21.3*	*– 5.3*	*16.0*
Share-based remuneration				– 0.1		– 0.1
Dividend				– 57.3		– 57.3
Balance as of 30 June 2019	**1.4**	**0.0**	**0.1**	**748.1**	**– 39.1**	**710.5**

Notes to the semi-annual statements as of 30 June 2019

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 2018 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 16	Leases	
IFRIC 23	Uncertainty over Income Tax Treatments	[1]

[1] No or no material effects are expected on the consolidated financial statements of Schweiter Technologies

IFRS 16 Leases

IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the lessee’s balance sheet. The standard replaces the existing guidance on leases, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

The classification required under IAS 17 into operating or finance leases is eliminated for lessees. For each lease, the lessee recognizes a liability for lease obligations incurred in the future and capitalizes to the same extend a right to use the leased asset, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life or, if it is shorter, over the useful life of the leased asset. Lease payments are split into principal and interest portions, using the effective interest method.

Schweiter Technologies has applied IFRS 16 for the first time as of 1 January 2019, using the modified retrospective approach. Applying this method, the comparative information for the 2018 fiscal year has not been restated. The previous assessment pursuant to IAS 17 and IFRIC 4 of whether a contract is a lease has been maintained for existing contracts. For the measurement of the right-of-use asset at the date of first-time application, initial direct costs were not taken into account. For leases with terms not exceeding twelve months and for leases of low-value assets, the Group has exercised the optional application exemptions. The lease payments under these contracts are generally recognized on a straight-line basis over the lease term as other operating expenses. The Group is using the option and recognizes all lease and non-lease components as a lease.

If the expected lease payments change as a result of index-linked consideration, for example, or on the basis of new assessments of contractual options, the liability is remeasured. The adjustment to the new carrying amount generally takes place with no impact on profit or loss, with a corresponding adjustment to the right-of-use asset.

Lease arrangements in which Schweiter Technologies is the lessor are classified as operating leases. The leased asset continues to be presented on the balance sheet and the lease payments are generally recognized as income on a straight-line basis over the lease term.

Notes to the semi-annual statements as of 30 June 2019

The following table presents the reconciliation of lease liabilities as of 1 January 2019:

Reconciliation of lease liabilities pursuant to IFRS 16 (in CHF m)

Minimum lease payments under operating leases as of 31 December 2018	39.0
Short-term leases with a lease term of 12 months or less	– 1.2
Leases of low-value assets	– 0.1
Effect from discounting at the incremental borrowing rates as of 1 January 2019	– 6.2
Lease liabilities due to initial application of IFRS 16 as of 1 January 2019	**31.5**
Lease liabilities from finance leases as of 31. December 2018	0.7
Total lease liabilities as of 1 January 2019	**32.2**

The weighted-average incremental borrowing rate for lease liabilities initially recognised as of 1 January 2019 was approximately 9%. The incremental borrowing rate corresponds to the weighted average cost of capital of the Group as the interest rate cannot be determined for significant leases.

Amendments to standards

IAS 19	Plan Amendments, Curtailment or Settlement	[1]
IAS 28	Long-term Interests in Associates and Joint Ventures	[1]
IFRS 9	Prepayment Features with Negative Compensation	[1]
Miscellaneous	Amendments resulting from the Annual Improvement Projects	[1]

[1] No or no material effects are expected on the consolidated financial statements of Schweiter Technologies

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 17	Insurance contracts	1 January 2021	Financial year 2021	[1]

Amendments to standards				
IFRS 3	Definition of a Business	1 January 2020	Financial year 2020	[1]
IAS 1 and IAS 8	Definition of Material	1 January 2020	Financial year 2020	[1]
Miscellaneous	Amendments resulting from the Annual Improvement Projects	1 January 2020	Financial year 2020	[1]

[1] 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 2019 (in CHF m)	3A Composites	Other / Eliminations	Group
Net revenues	613.7	0.0	613.7
Operating result	45.9	– 1.4	44.5
Net income	35.1	– 0.9	34.2
Assets	1 061.6	1.5	1 063.1
Liabilities	694.2	– 341.6	352.6
Employees at 30 June	4 051 [1]	7	4 058

[1] Of which 1 131 employees in balsa plantations and sawmills in Ecuador and Papua New Guinea

Regions	Europe	Americas	Asia	Other	Total
Net revenues	407.1	112.4	76.0	18.2	613.7

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

Regions	Europe	Americas	Asia	Other	Total
Net revenues	354.9	109.0	66.7	9.7	540.3

Notes to the semi-annual statements as of 30 June 2019

4 Change in scope of consolidation

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

At the on 28 December 2018 acquired companies Perspex International Ltd. and Perspex Distribution Ltd. adjustments were made for the acquired assets and liabilities recognized at the time of acquisition. The details are disclosed on page 12.

5 Change in working capital

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

6 Impact of first-time adoption of IFRS 16 Leases

The increase in balance sheet items compared to year-end 2018 is mainly due to the first-time adoption of IFRS 16 Leases. For further information see also note 2.

7 Current financial liabilities

Current financial liabilities include a loan in the amount of CHF 20.0 million, which was granted to the company by related parties. The terms of the loan are more favourable than offered by financial institutions.

8 Employee benefits

Liabilities for employee benefits increased mainly due to the lower discount rates.

9 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 255.4 million from CHF 1 209.4 million to CHF 954.0 million. All other contingent liabilities have remained essentially unchanged.

The class action lawsuit referred to in the Annual Report 2018 in connection with the use of façade aluminum panels in Australia, which is directed inter alia at 3A Composites GmbH, has meanwhile been served to the German subsidiary. The Group believes that the content of the claim is not justified. In addition, it is still unclear at this time whether the lawsuit will be admitted as a class action. An estimate of the potential financial impact cannot be made for these reasons.

10 Events after the balance sheet date

On 31 July 2019, Schweiter Technologies acquired 100% of the shares in PGS Ecuador SA, a specialist in the production of balsa kits located in Ecuador. The provisional purchase price is CHF 3.7 million. The final purchase price will be determined based on the aggregated operating result of the financial years 2020 and 2021. At the time of the approval of the half-year report 2019, the closing balance of the acquired company as at 31 July 2019 is not yet available. Therefore no further information on the opening balance can be disclosed.

No further events occurred between the balance sheet date and the date of publication of this semi-annual report which could have a significant impact on the consolidated semi-annual financial statements for 2019.

This interim report was approved and released for publication by the Board of Directors of Schweiter Technologies AG on 13 August 2019 by way of a circular resolution.

Note 4 continued: Change in scope of consolidation

Overview of the acquired assets and liabilities recognized at the time of acquisition (adjusted)

(in CHF m)	Perspex [1]
Cash and cash equivalents	7.9
Trade receivables	25.9
Advances to suppliers	0.1
Other receivables	1.8
Prepaid expenses and accrued income	0.5
Inventories	22.4
Total current assets	**58.6**
Property, plant and equipment	30.2
Intangible assets	21.1
Total non-current assets	**51.3**
Total assets	**109.9**
Trade payables	– 14.4
Other payables	– 3.0
Accrued expenses and deferred income	– 6.0
Current provisions	– 2.3
Current income tax payables	– 0.7
Total current liabilities	**– 26.4**
Non-current financial liabilities	– 91.0
Deferred tax liabilities	– 4.0
Non-current provisions	– 6.2
Total non-current liabilities	**– 101.2**
Total liabilities	**– 127.6**
Total fair value of net assets acquired	**– 17.7**
Goodwill	38.9
Total consideration	**21.2**
Cash and cash equivalents acquired	– 7.9
Repayment of pre-existing loans	91.0
Cash out flow from purchase of subsidiaries	**104.3**

[1] The acquisition was reported provisionally on the balance sheet at the end of the period under review.

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 **2019**	31 Dec. 2018
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	1 315 832	1 244 241

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The next General Meeting will take place in Horgen on 8 April 2020.

08/2019
Printed in Switzerland

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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