Half-year Report **2012**

HUBER+SUHNER
Excellence in Connectivity Solutions

Key figures

in CHF millions	January–June 2012	January–June 2011	Change
Order intake	390.2	426.5	(8.5%)
Order backlog as of 30.6.	218.6	184.6	18.4%
Net sales	314.5	406.0	(22.5%)
Gross margin	30.4%	32.5%	
EBITDA	21.5	66.6	(67.7%)
as % of net sales	6.8%	16.4%	
EBIT	8.8	53.6	(83.6%)
as % of net sales	2.8%	13.2%	
Net financial income	(0.5)	(6.6)	92.5%
Net income	6.4	39.0	(83.6%)
as % of net sales	2.0%	9.6%	
Purchases of PP&E and intangible assets	33.0	25.4	29.7%
Free cash flow	(30.7)	(42.8)	28.3%
Employees as of 30.6.	3 746	3 956	(5.3%)

Data per share

in CHF	January–June 2012	January–June 2011	Change
Stock market price as of 30.6.	39.00	55.40	(29.6%)
Net income	0.33	2.01	(83.7%)
Shareholders' equity as of 30.6.	29.00	28.12	3.1%

Segment information

in CHF millions		January–June 2012	January–June 2011	Change
Order intake	Radio Frequency	114.6	124.1	(7.7%)
	Fiber Optics	116.3	67.9	71.3%
	Low Frequency	159.3	234.5	(32.0%)
	Total order intake	390.2	426.5	(8.5%)
Net sales	Radio Frequency	97.9	116.7	(16.1%)
	Fiber Optics	81.3	62.4	30.2%
	Low Frequency	135.3	226.9	(40.4%)
	Total net sales	314.5	406.0	(22.5%)
EBIT	Radio Frequency	3.7	10.9	(65.7%)
	Fiber Optics	8.9	5.7	57.1%
	Low Frequency	(5.3)	24.4	(121.8%)
	Corporate	1.5	12.6	(88.0%)
	Total EBIT	8.8	53.6	(83.6%)
Employees as of 30.6.	Radio Frequency	1 294	1 498	(13.6%)
	Fiber Optics	1 056	811	30.2%
	Low Frequency	1 396	1 647	(15.2%)
	Total employees as of 30.6.	3 746	3 956	(5.3%)

After a predictably weak first half year, HUBER+SUHNER anticipates an increase in net sales during the second term – Fiber Optics booming

Following the marked decrease in order intake during the second term of 2011, a difficult start to the 2012 financial year was foreseeable. The already known imponderables of the Chinese railway market and the solar market were compounded by excessive inventories held by suppliers of infrastructure to the mobile communication sector, generating a negative impact on net sales in the Radio Frequency division. The changeover to the new SAP Enterprise Resource Planning System in Switzerland at the beginning of May caused additional problems. It led to supply backlogs which could not be completely eliminated by the middle of the year. The resulting shortfall in net sales in the first half year amounted to around CHF 20 million. In contrast, the Fiber Optics division is experiencing a veritable boom, especially as the result of various large-scale projects in North America.

Compared with the very strong first half year of 2011, net sales fell by a total of 22.5% to CHF 314.5 million. Although the order intake of CHF 390.2 million remained 8.5% lower than during the equivalent period of the previous year, it exceeded that achieved during the second term of 2011 by over 25%. The book-to-bill ratio was pleasingly high at 1.24 during the first six months.

Insufficient utilisation of production capacity, continued overvaluation of the Swiss franc combined with consequent price pressure and the costs of ERP introduction placed a strain on half-year results. The EBIT amounted to CHF 8.8 million (previous year: CHF 53.6 million, excluding one-off income CHF 37.7 million), corresponding to an unsatisfactory EBIT margin of 2.8%. Positive and negative one-off and special effects roughly cancelled each other out during the first half year, with the recorded result reflecting the operative situation. Net income also dropped significantly to CHF 6.4 million. HUBER+SUHNER has already initiated numerous measures to improve the income situation. However, these will largely become effective during the second term only.

It was possible to significantly increase cash flow from operating activities to CHF 21.2 million. High investments and the dividend payment led to a negative free cash flow of CHF 30.7 million during the reporting period. Net liquidity amounted to CHF 150 million at the end of June 2012. The equity ratio of 80% remained at a very high level.

The number of permanent employees fell worldwide by 210 to 3,746. In Switzerland, the number of employees decreased by 89 to 1,480.

Acceleration in the main market of Communication – Transportation and Industrial declining

The Communication market was able to hold its ground at the previous year's level with a small increase in net sales of 1%. However, significant acceleration was recorded in terms of order intake (+29%). The reason for this is the success of Fiber to the Antenna systems for conversion of mobile communication networks to the new standard of the fourth generation "Long-Term Evolution" (LTE). HUBER+SUHNER has achieved a leading position in this market segment, especially in North America. In contrast, OEM business with suppliers of infrastructure to the mobile communications sector experienced a weak start. The excessive inventories held by individual customers now seem to have been eliminated, with the result that improved business performance may be expected during the second term.

Order intake in the Transportation market fell by 17%. This decrease continues to be attributable almost exclusively to the stopping of Chinese high-speed projects. Net sales fell even more markedly than order intake during the first half year (–28%). This was caused by delays on the part of customers in terms of implementation of various international railway projects.

The slump in the solar market was the fundamental reason why net sales in the main market of Industrial shrank by 36%. In the solar application, net sales fell by as much as 62%. HUBER+SUHNER does not assume that the order situation in this application will improve during the second term. The segments "test and measurement" as well as "space and defence" were able to hold their ground at the previous year's level. As in the other main markets, order intake in Industrial was significantly above net sales.

Radio Frequency sees decrease in mobile communication – high-tech niches stable

The excessive inventories held by some suppliers of infrastructure to the mobile communication sector were the most important reason why the net sales of CHF 97.9 million recorded for the first term of 2012 were 16.1% lower than in the previous year. However, the book-to-bill ratio recorded of 1.2 was well above one. Low net sales and continuing price pressure in the telecommunications market placed a strain on earning power. The EBIT was just CHF 3.7 million. This did, however, represent an improvement compared with the second term of 2011. Demand in industrial high-tech niches remained stable, and the railway market is also becoming increasingly of interest for the Radio Frequency division. Overall, the main markets of Transportation and Industrial currently account for around half of net sales in the Radio Frequency division.

On 1 July, Reto Bolt, previously head of business unit cable systems, assumed leadership of the division as successor to Jean-Luc Gavelle. HUBER+SUHNER was therefore able to fill this important position with an internal candidate again.

Fiber Optics records boom across the board

Compared with the first term of 2011, net sales in the division grew by 30.2% to CHF 81.3 million, with order intake climbing by as much as 71.3% to a record high of CHF 116.3 million. The EBIT also increased markedly by 57.1% to CHF 8.9 million, generating a double digit EBIT margin for Fiber Optics again. The spurt in growth was attributable above all to the application "Fiber to the Antenna". However, the "data centres", "railway" and "wind power" applications also saw significant growth. Demand in the "Fiber to the Home" market segment remained stable during the reporting period. We anticipate further very positive net sales development in Fiber Optics.

Difficult environment for Low Frequency

The Low Frequency division is going through a very difficult phase. The circumstances in the two important application fields of solar and railway caused net sales to virtually collapse by 40.4% to CHF 135.3 million. Earning power also suffered as a result. The EBIT slipped into the red during the first term: CHF –5.3 million. Business with fiber-reinforced composite materials (CFC), which is being consolidated in the Low Frequency division, also contributed to the poor result with its considerably lower volume.

Price erosion in the solar market caused HUBER+SUHNER to lose large-scale orders. As it is only possible to achieve at best a contribution margin in this mass market, the company is now concentrating on applications and customers which require high quality and innovative solutions. Initial orders from smaller, specialised solar panel manufacturers have already been received. The new strategic orientation naturally results in considerably lower potential net sales in this market segment. In the automotive market, the company continues to invest in the development of system solutions for hybrid and electric vehicles, in particular for heavy-duty vehicles and buses. However, we expect this application to generate considerable net sales in two to three years only. As in the other two business divisions, the book-to-bill ratio in the Low Frequency division amounted to well above one.

Measures initiated to improve the income situation – no restrictions in terms of strategic investments

Executive Group Management already initiated adjustments to the new market conditions in 2011. However, these will become noticeable during the second term of 2012 only. They include the already-announced relocation of 80 jobs involving a high degree of manual work from Switzerland to Poland, strict cost management as well as reduction of overtime and temporary positions. Jobs which become vacant in the overheads area will not be filled again. Overall, operating costs during the first half year were already lower than in the previous year. In addition, the process of closing smaller assembly locations in European high-cost countries was initiated while simultaneously expanding the plants in Poland and Tunisia.

Important investment projects remain unaffected by the cost reductions. Establishment of the cable plant in China is making good progress despite a slight delay. Production is scheduled to begin during the first quarter of 2013. Expansion of the production plant in Poland and establishment in Tunisia are on schedule. The plant in Mexico has now developed into an important production location. FTTA cable systems for the North American market are manufactured there.

Outlook

Prognoses for development of the world economy, uncertainties surrounding the Euro crisis and the continuing strength of the Swiss franc do not promise positive impulses in terms of the economic environment over the next few months. The question of how the specific target markets of HUBER+SUHNER will develop is therefore all the more important. We anticipate very dynamic demand in the mobile communication market with considerable potential not only for Fiber Optics but also for Radio Frequency. We also expect consistent development in the railway market, albeit with upwards potential in the event that the high-speed projects in China are reinstated to their full extent. Meanwhile, initial new orders have been received, but these are currently still modest in terms of volume. Opportunities are successively presenting themselves in new geographical regions such as Russia and Turkey. In the solar market, we predict a further weakening of net sales, as a number of supply contracts with solar panel manufacturers are expiring.

Overall, we are confident that net sales will increase during the second term. Total net sales in 2012 will nevertheless remain below the level of 2011. Although earning power should improve during the second term, the operating EBIT margin for the financial year 2012 will be lower than in 2011 (6.6%).

Dr. David W. Syz
Chairman of the Board
of Directors

Urs Kaufmann
Chief Executive Officer

Consolidated income statement

in CHF 1000	Notes	January–June 2012	%	January–June 2011	%
Net sales	5	314 464	100.0	405 960	100.0
Cost of goods sold		(218 879)		(274 071)	
Gross profit		95 585	30.4	131 889	32.5
Marketing and selling expenses		(50 806)		(53 230)	
General and administrative expenses		(23 782)		(28 631)	
Research and development expenses		(14 429)		(13 768)	
Other operating expenses	6	(158)		(164)	
Other operating income	6	2 375		17 478	
Operating profit (EBIT)	5	8 785	2.8	53 574	13.2
Financial income	7	3 275		3 439	
Financial expense	8	(3 775)		(10 080)	
Income before taxes		8 285	2.6	46 933	11.6
Income tax expense		(1 898)		(7 911)	
NET INCOME		**6 387**	**2.0**	**39 022**	**9.6**

Data per share

in CHF	January–June 2012		January–June 2011	
Earnings per share	0.33		2.01	
Diluted earnings per share	0.33		2.01	

Statement of comprehensive income

in CHF 1000	January–June 2012		January–June 2011	
Net income	6 387		39 022	
Other comprehensive income				
Currency translation differences	2 621		(14 804)	
Total other comprehensive income	2 621		(14 804)	
Total comprehensive income	9 008		24 218	

The notes are an integral part of the consolidated financial statements.

Consolidated balance sheet (condensed)

in CHF 1000	Notes	30.6.2012	%	31.12.2011	%
Assets					
Cash and cash equivalents		134 655		161 863	
Marketable securities		15 662		16 546	
Trade receivables		126 624		125 606	
Other current assets		38 612		44 323	
Inventories		161 258		170 823	
Total current assets		476 811	67.6	519 161	71.5
Property, plant and equipment		174 078		163 241	
Intangible assets		24 508		16 572	
Financial assets		22 605		22 409	
Other non-current assets		7 717		4 935	
Total non-current assets		228 908	32.4	207 157	28.5
TOTAL ASSETS	5	**705 719**	**100.0**	**726 318**	**100.0**
Liabilities and shareholders’ equity					
Short-term debt		743		–	
Other current liabilities		97 552		110 149	
Total current liabilities		98 295	13.9	110 149	15.1
Other non-current liabilities		42 613		42 682	
Total non-current liabilities		42 613	6.1	42 682	5.9
Total liabilities		140 908	20.0	152 831	21.0
Share capital		4 868		4 863	
Share premium		32 700		31 933	
Retained earnings		527 243		536 691	
Total shareholders’ equity		564 811	80.0	573 487	79.0
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY		**705 719**	**100.0**	**726 318**	**100.0**

The notes are an integral part of the consolidated financial statements.

Consolidated cash flow statement (condensed)

in CHF 1000	January–June 2012	January–June 2011
Net income	6 387	39 022
Income tax expense	1 898	7 911
Net income before taxes	8 285	46 933
Depreciation and impairment of property, plant and equipment and investment property	11 717	12 160
Amortisation and impairment of intangible and financial assets	1 000	896
Other non-cash items	(3 712)	11 082
Loss / gain on disposal of property, plant and equipment	28	(16 081)
Changes in net working capital	11 038	(53 537)
Income tax paid	(7 171)	(13 151)
Net cash from operating activities	21 185	(11 698)
Purchases of property, plant and equipment	(23 043)	(19 671)
Purchases of intangible assets	(8 842)	(5 736)
Other cash from investing activities	270	45 258
Net cash from investing activities	(31 615)	19 851
Payment of dividend	(18 500)	(29 153)
Purchase / sale of treasury shares	–	1 161
Other cash from financing activities	745	(97)
Net cash from financing activities	(17 755)	(28 089)
Effect of exchange rate changes on cash and cash equivalents	977	(5 442)
Net change in cash and cash equivalents	(27 208)	(25 378)
Cash and cash equivalents at 1.1.	161 863	163 150
Cash and cash equivalents at 30.6.	134 655	137 772
Net change in cash and cash equivalents	(27 208)	(25 378)

The notes are an integral part of the consolidated financial statements.

Consolidated statement of shareholders' equity

in CHF 1000	Share capital	Share premium	Retained earnings	Translation differences	Total retained earnings	Total shareholders' equity
Balance at 1.1.2011	4 856	30 814	534 534	(20 022)	514 512	550 182
Total comprehensive income	–	–	39 022	(14 804)	24 218	24 218
Dividend paid	–	–	(29 153)	–	(29 153)	(29 153)
Change in treasury shares	8	1 209	713	–	713	1 930
Balance at 30.6.2011	4 864	32 023	545 116	(34 826)	510 290	547 177
Balance at 1.1.2012	4 863	31 933	555 868	(19 177)	536 691	573 487
Total comprehensive income	–	–	6 387	2 621	9 008	9 008
Dividend paid	–	–	(18 500)	–	(18 500)	(18 500)
Change in treasury shares	5	767	44	–	44	816
Balance at 30.6.2012	4 868	32 700	543 799	(16 556)	527 243	564 811

The notes are an integral part of the consolidated financial statements.

Notes to group financial statements

1 General

The HUBER+SUHNER Group is a leading international supplier of components and systems for electrical and optical connection technology in the communication, transportation and industrial markets. The company can draw on core competencies in the areas of radio frequency, fiber optics and low frequency. The product range includes coaxial, fiber optic and copper cables, cable systems, connectors, antennas and lightning protection components.

2 Summary of significant accounting policies

This unaudited Report, presented in a condensed form, was approved by the Board of Directors on 24 August 2012.

The consolidated financial statements were prepared in accordance with IAS 34 "Interim Financial Reporting" and the accounting policies set out in the 2011 Annual report. The new and amended standards and interpretations for the fiscal year beginning 1 January 2012 have no material effect on or are not relevant for the financial statements of the HUBER+SUHNER Group.

New issued and revised standards and interpretations that are not yet effective have not been adopted early in this report.

Preparation of the consolidated half year financial statements requires the Board of Directors and Executive Group Management to make estimates and assumptions, whereby such estimates and assumptions have an effect on the amounts stated under assets, liabilities, income and expenses. At a later stage actual results may differ from these estimates and assumptions that management took at the time of interim financial reporting to the best of their knowledge and therefore the original assumptions and estimates will be adjusted accordingly in the period under review in which the actual results have changed.

Income tax expense is recognised based on the best estimate of the weighted average income tax rate expected for the fiscal year 2012.

3 Changes in the scope of consolidation and other changes

There was no change in the scope of consolidation in 2012.

4 Exchange rates for currency translation

The following exchange rates were used for the most important currencies of the HUBER+SUHNER Group:

Spot rates for the consolidated balance sheet	30.6.2012	31.12.2011
1 EUR	1.20	1.22
1 USD	0.96	0.94
100 CNY	15.14	14.83
1 GBP	1.50	1.46
1 AUD	0.97	0.95

Average rates for the consolidated income and cash flow statement	January–June 2012	January–June 2011
1 EUR	1.20	1.26
1 USD	0.92	0.89
100 CNY	14.65	13.65
1 GBP	1.46	1.44
1 AUD	0.96	0.92

5 Segment information

Segment reporting is based on reports that are used by the Executive Group Management to run the business by regularly assessing performance and allocating resources. Segment information is presented for the following segments:

Radio Frequency: Development, manufacturing and distribution of radio frequency technology products such as connectors, coaxial cables, lightning protectors, antennas and components and systems for communication, transportation and industrial applications.

Fiber Optics: Development, manufacturing and distribution of fiber optic cables and components and systems for applications in predominantly communication and industry.

Low Frequency: Development, manufacturing and distribution of copper cables as well as cable systems for applications in mainly transportation and industry. Also part of this division is the business unit Composites.

Corporate: Includes all activities that cannot be allocated to one of the three operating segments including corporate functions.

Net sales	January–June 2012	January–June 2011
Radio Frequency	97 882	116 683
Fiber Optics	81 307	62 424
Low Frequency	135 275	226 853
Total net sales	314 464	405 960

Operating profit (EBIT)	January–June 2012	January–June 2011
Radio Frequency	3 740	10 908
Fiber Optics	8 849	5 633
Low Frequency	(5 320)	24 417
Corporate	1 516	12 616
Total operating profit (EBIT)	8 785	53 574
Financial income	3 275	3 439
Financial expense	(3 775)	(10 080)
Net income before taxes	8 285	46 933

Assets	30.6.2012	31.12.2011
Radio Frequency	160 570	151 357
Fiber Optics	93 971	70 897
Low Frequency	260 389	291 899
Corporate	190 789	212 165
Total assets	705 719	726 318

6 Other operating expenses and income

	January–June 2012	January–June 2011
Other operating expenses	(158)	(164)
Other operating income	2 375	17 478
Total other operating expenses and income	2 217	17 314

Other operating income includes amongst others license fee income from third parties and refunds of withholding tax as well as gains from the sale of property, plant and equipment. The half-year result 2011 includes a gain of CHF 15.9 million on the sale of an industrial area in Pfäffikon. The net cash in the corresponding period was CHF 20.8 million; additionally CHF 5.0 million were deposited on an escrow account and disclosed as other current assets.

The cash outflow from the sale of the industrial area amounts to CHF –2.2 million in the first half of 2012 caused by the expenses for demolition.

7 Financial income

	January–June 2012	January–June 2011
Interest income	447	550
Foreign exchange gains incl. change in fair value of derivative financial instruments	2 214	2 328
Gain on marketable securities incl. change in fair value	484	303
Other financial income	130	258
Total financial income	3 275	3 439

8 Financial expense

	January–June 2012	January–June 2011
Interest expense	(42)	(12)
Foreign exchange losses incl. change in fair value of derivative financial instruments	(3 333)	(8 628)
Loss on marketable securities incl. change in fair value	–	(453)
Other financial expense	(400)	(987)
Total financial expense	(3 775)	(10 080)

9 Purchases of PP&E and intangible assets

Capital expenditure (PP&E and intangible assets) in the first half of 2012 was CHF 33.0 million (first half 2011, CHF 25.4 million).

10 Dividend

According to the resolution of the Annual General Meeting of 18 April 2012, a gross dividend of CHF 0.95 per share (previous year, CHF 1.50) was paid on 25 April 2012.

All amounts are in CHF 1000

11 Free cash flow

Free cash flow is calculated based on net cash from operating activities, net cash from investing activities (excluding changes of marketable securities and derivative financial instruments), less payments to shareholders and considering purchase or sale of treasury shares.

	January–June 2012	January–June 2011
Net cash from operating activities	21 185	(11 698)
Net cash from investing activities (excluding changes of marketable securities and derivative financial instruments)	(33 432)	(3 080)
Free operating cash flow	(12 247)	(14 778)
Dividend paid	(18 500)	(29 153)
Sale / (purchase) of treasury shares	–	1 161
Free cash flow	(30 747)	(42 770)

12 Events after the balance sheet date

There were no events after the balance-sheet date which affect the half-year results or require any adjustments to the Group's assets and liabilities.

All amounts are in CHF 1000

Excellence in Connectivity Solutions

The HUBER+SUHNER Group is a leading global manufacturer of components and systems for electrical and optical connectivity. Our main markets are Communication, Transportation and Industrial. Our three core competences of Radio Frequency, Fiber Optics and Low Frequency combine technological expertise under a single roof.

We focus on the needs of customers throughout the world and distinguish ourselves with continual innovation. At the heart of our offering is a broad range of products and consistent high quality, backed up by fast, flexible and reliable worldwide services. We concentrate on complex applications that allow us to differentiate ourselves, representing usable added value such as expanded product functionalities, customer-specific innovations, engineering and other services. Our product range includes coaxial and fiber optic cables and connectors, copper cables and cable systems, as well as antennas and lightning protection components.

HUBER+SUHNER has three divisions, Radio Frequency, Fiber Optics and Low Frequency. The company is represented by 25 group companies and numerous agencies in over 60 countries.

Financial calendar

Sales/order intake after 9 months	25 October 2012
Sales/order intake after 12 months	17 January 2013
Annual Report	12 March 2013
Media and analysts conference	12 March 2013
Annual General Meeting	10 April 2013, Pfäffikon ZH

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For further information on the HUBER+SUHNER Group please visit www.hubersuhner.com.
This half-year report is also available in German.
The German version is binding.

Impressum

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