Management Report 1st Half-Year 2018

Dear shareholders

The first half-year 2018 marked our successful return to profitability at the net earnings level. This achievement is mainly a result of various cost optimisation programmes and measures executed over the past eighteen months and of coherent decisions to discontinue non-profitable business units and products. For the first half of 2018, Meyer Burger reached net sales of CHF 232.3 million, EBITDA of CHF 29.2 million and net earnings of CHF 8.3 million.

Reorganisation of Thun site on track – manufacturing activities in Thun will be discontinued by end of 2018

The reorganisation of the production site in Thun/ Switzerland, as announced on 2 November 2017, is on track: in April 2018, Meyer Burger announced a preferred partnership agreement with Mondragon Assembly Group to collaborate on module equipment development and outsource the manufacturing processes for its SmartWire Connection Technology (SWCT™) solution. Mondragon will start to produce SWCT™ equipment for Meyer Burger in January 2019.

In May 2018, Meyer Burger announced the divestment of its Solar Systems business (MegaSlate® products) to Dr Patrick Hofer-Noser, a long-time and internationally respected specialist in the solar industry. As part of the transaction, 32 employees (30 FTE) were transferred to the newly founded 3S Solar Plus AG. The final closing of the transaction took place in June 2018.

In Wafering, the company has signed a manufacturing services agreement with Flex to produce its PV diamond wire saws. Flex will start manufacturing the PV wire saws for Meyer Burger at their production facility at Suzhou (China) beginning in January 2019. As a result, Meyer Burger reconfirms that all manufacturing activities in Thun, as planned, are scheduled to be discontinued by year-end of 2018.

“Several cost efficiency measures and the discontinuation of non-profitable businesses have led to an improvement of profit margins and finally a positive net result for the first half of 2018.”

Hans Brändle, Chief Executive Officer

Political decisions have created a challenging market environment

Over the past months, the market environment for PV equipment suppliers was heavily influenced by the intensifying trade crisis between the USA and China which included new import tariffs on PV modules and cells, as well as the 531 announcement of the Chinese government on 31 May 2018 regarding subsidy cuts in the solar industry. Both facts have led to a currently significant reluctance regarding new investments on behalf of Meyer Burger's PV customers.

In this difficult market environment, Meyer Burger achieved total incoming orders of CHF 137.9 million (H1 2017 CHF 308.5 million). The order backlog amounted to CHF 240.9 million as at 30 June 2018 (31.12.2017 CHF 343.8 million). The book-to-bill ratio (incoming orders to net sales) stood at 0.59 for the first half of 2018 (H1 2017 ratio of 1.45).

Turnaround achieved at the net earnings level – the results in detail

Net sales

Net sales amounted to CHF 232.3 million, representing an increase of 9.4% compared to the previous year period (H1 2017 CHF 212.3 million). Positive currency effects on net sales were about CHF 15.2 million or +6.5%. Adjusted for foreign currency effects and the divested DMT operations organic growth of the continuing business was +5.2%.

The sales breakdown changed slightly compared to the previous year, with Asia still remaining Meyer Burger's major customer region: Asia accounted for about 68% (H1 2017 73%), Europe reflected about 28% (H1 2017 22%) and Americas about 3% (H1 2017 5%) of net sales in the first half of 2018.

Operating income after costs of products and services

Operating income after costs of products and services amounted to CHF 120.1 million (H1 2017 CHF 98.2 million), reflecting a margin of 51.7% for the first half of 2018 (H1 2017 46.3%). The margin improvement is mainly due to the discontinuation of non-profitable businesses.

Operating expenses

Personnel expenses declined by CHF 5.1 million or 7.4% compared to the previous year and were CHF 64.2 million (H1 2017 CHF 69.4 million) as Meyer Burger continued to flexibilise its organisation and to significantly reduce its fixed cost base. Other operating expenses amounted to CHF 26.6 million, including one-time charges in a total amount of CHF 4.3 million in conjunction with the divestment of the Solar Systems business activities (H1 2017 CHF 21.9 million).

EBITDA and EBIT

As a result of the higher net sales and improved margins, EBITDA more than quadrupled compared to the previous year period and reached CHF 29.2 million in the first half of 2018 (H1 2017 CHF 6.9 million). The EBITDA margin was 12.6% for the first half of 2018 compared with 3.3% for the corresponding period in 2017.

> **"With CHF 29.2 million, our EBITDA in H1 2018 has more than quadrupled compared to the corresponding period last year."**
>
> **Alexander Vogel, Chairman of the Board of Directors**

Depreciation and amortisation came to a total of CHF 14.4 million (H1 2017 CHF 15.8 million) and have declined further in line with expectations. The division is as follows: CHF 5.4 million for scheduled depreciation of property, plant and equipment and CHF 8.9 million for scheduled amortisation of intangible assets, which resulted mainly from the M&A activities in 2011 and previous years. The result at EBIT level amounted to CHF 14.9 million (H1 2017 CHF −8.8 million).

Financial result

The financial result, net, amounted to CHF –4.0 million for the first half of 2018 (H1 2017 CHF –7.4 million). The change mainly reflects lower interest expenses due to the redemption of the 5% straight bond (repaid in May 2017) and the reduced nominal amount of outstanding 5.5% convertible bonds as a result of bond conversions since December 2017 (a nominal of CHF 26.8 million remains outstanding as at 30 June 2018). Unrealised foreign currency translation effects in the reporting period were CHF –1.7 million (H1 2017 CHF +0.9 million).

Extraordinary result

The extraordinary result amounted to CHF +0.8 million, mainly in conjunction with revaluations of inventory and provisions connected to the closure of manufacturing activities in Thun (H1 2017 CHF –0.6 million).

Taxes

Taxes for the first half of 2018 amounted to a tax expense of CHF 3.4 million (H1 2017 tax expense of CHF 0.2 million), representing a tax rate of 29.3%.

Net result

Meyer Burger has reached a profitable level again in its net result, reporting net earnings of CHF 8.3 million for the first half of 2018 (H1 2017 net loss of CHF –17.0 million). Net earnings per share amounted to CHF +0.01 for the first half-year 2018 (H1 2017 CHF –0.03).

Balance sheet as at 30 June 2018

The balance sheet remained solid and with a similar structure compared to year-end 2017. The balance sheet total amounted to CHF 456.7 million (31.12.2017 CHF 470.0 million). Cash and cash equivalents were CHF 102.0 million, inventories CHF 101.4 million, property, plant and equipment CHF 86.6 million, intangible assets CHF 15.5 million and deferred tax assets CHF 75.6 million.

Total liabilities came to CHF 207.6 million, of which trade payables were CHF 32.1 million, customer prepayments CHF 61.9 million, provisions CHF 15.1 million and financial liabilities CHF 56.3 million. Equity amounted to CHF 249.2 million (31.12.2017 CHF 243.0 million). The equity ratio as of 30 June 2018 was 54.6% (31.12.2017 51.7%).

Cash flow

Cash flow from operating activities was CHF –16.4 million (H1 2017 CHF +3.5 million). The difference in the operating cash flow compared to the previous year period is mainly due to a temporary increase in inventories.

Cash flow from investing activities was CHF –1.9 million (H1 2017 CHF +1.4 million) and includes normal conservative investments in non-current assets of CHF 1.8 million.

Cash flow from financing activities amounted to CHF –4.2 million (H1 2017 CHF –134.2 million) and includes the purchase of registered shares for the share participation plan in an amount of CHF 4.1 million.

Further structural measures to safeguard long-term profitability

Meyer Burger achieved substantial improvements in profitability for the first half of 2018. However, in order to ensure the company's long-term profitability, we will initiate additional structural measures during the second half-year. The measures aim to further increase customer proximity, optimise our global production footprint and increase the company's robustness against market volatilities. The programme targets to reduce the break-even level at net earnings to a net sales volume of below CHF 300 million. Details of the programme will be finalised over the next few weeks and implemented immediately thereafter. More information on the individual measures will be announced on 16 October 2018.

2018 Outlook

The long-term positive growth scenario for the PV industry remains intact and further substantial expansion to the end-installed PV capacity is expected for years to come. The positive trend towards higher efficiency in cells and modules will also continue and provides good opportunities for our SWCT™ (SmartWire Connection Technology) and HJT (Heterojunction) technologies.

In the short-term, the investment sentiment with our PV customers has been dampened by the Chinese government decision to cut subsidies and by the US-China trade conflict. As mentioned above, this has led to a weaker than expected order intake for the first half of 2018. Based on this, Meyer Burger is reducing its guidance for 2018 net sales to CHF 400–440 million. The EBITDA margin guidance of about 10% for the full financial year 2018 remains intact.

Dr Alexander Vogel
Chairman of the Board
of Directors

Dr Hans Brändle
Chief Executive Officer