Carlo Gavazzi Group

Interim Report

April 1 – September 30, 2008

The Carlo Gavazzi Group maintained a satisfactory economic performance in the reporting period. Compared with the same period of the previous year, operating revenue inched down from CHF 111.3 million to CHF 109.5 million, while EBIT decreased from CHF 10.3 million to CHF 9.6 million. Net income fell from CHF 7.6 million to CHF 7.3 million. Both EBIT and net income were reduced by non-recurring expenses of CHF 1.0 million and net of these, a slight improvement over the previous year was recorded.

Key results

The main features of the period under review can be summarised as follows:

- substantially stable revenue
- gross profit margin steady at 47.8 % of revenue
- operating expenses contracted from 38.4 % of revenue to 37.9 %
- non-operating expenses increased due to non-recurring expenses for consulting services

At September 30, 2008, equity was CHF 109.0 million (CHF 107.9 million at March 31, 2008) while the net financial position amounted to CHF 22.5 million (CHF 21.1 million at March 31, 2008).

Automation Components

In a weakening economic climate, the business unit managed to improve or maintain its position in the various markets, with the exception of the Iberian and some South-East-Asian countries where sales declined. The large customer base spread across many different sectors of economic activity and the flexibility in responding to customer needs continued to play fundamental roles in determining the business unit's success in the market place.

Computing Solutions

After turning profitable at EBIT level at March 31, 2008, the business unit maintained momentum, increased sales volume and stabilised its economic performance. Sales in USD for the first half of the financial year were up 27.7 % over the same period of the previous year. With the increase in sales volume, manufacturing improved its efficiency which led to progressive gains in gross profit margin and EBIT. A sizeable backlog and large contract wins indicate that the business unit should further improve its performance for the full year and record a positive net income after four years of losses.

Outlook

Because of the global financial turmoil and the ensuing fall in economic activity, the second half of the financial year is difficult to predict. Order intake is slowing down due to a severe fall in demand and contraction in the inventory levels in all sectors of the economy. Under the circumstances, the group is likely to present lower numbers than in the previous year. Because of its strong cash position, the turnaround accomplished in Computing Solutions, the independence of Automation Components from the automotive industry and large industrial investment decisions, the group believes itself to be more resilient than most competitors to the negative effects of the present economic downturn.

Giulio Pampuro, Chairman of the Board

At a glance

(CHF million)	**1.4. – 30.9.08**	1.4. – 30.9.07	%
Bookings	**108.9**	111.3	-2.2
Operating revenue	**109.5**	111.3	-1.6
EBIT	**9.6**	10.3	-6.8
Net income	**7.3**	7.6	-3.9
Cash flow	**9.5**	10.2	-6.9
Additions to fixed assets	**1.4**	1.3	+7.7
Depreciation	**2.2**	2.5	-12.0
Net working capital	**47.6**	47.3	–
Net interest-bearing debt (at 30.9.08/31.3.08)	**-22.5**	-21.1	–

Review of Operations

Automation Components

Automation Components coped well with the continuing slowdown of the global economic environment. Operating revenue declined slightly compared with the same period of the previous year and thanks to stringent cost control, EBIT in percentage of revenue exceeded that of last year. The book-to-bill ratio of 1.02 confirms customer confidence in the business unit's product packages despite the increasingly difficult economic climate.

Market environment

The automation market has seen a downturn in demand which is expected to accelerate in the second semester of the current year. Most of the players in the automation market observed that customers are postponing projects and orders. Automation Components expects that this process will aggravate in the course of the second semester.

Geographical markets

As a result of the substantial drop in machinery exports to the US and Europe and the subsequent decline in demand for automation components for factory automation in almost all South-East-Asian countries, the business unit experienced a decrease in revenue in this region.

The overall European revenue exceeded last year's figure by around 4% despite an unexpected downturn in the renewable energy and lift markets in the Iberian region.

Even though the economic conditions in the North American markets were extremely unfavourable, the US and Canadian sales companies achieved a revenue growth of 7% in local currency over the previous period.

Market segment strategy

Automation Components continued to focus on a limited number of priority market segments. Although not all of these markets developed as expected, major inroads were made in a number of strongly developing sectors.

Energy management continues to remain a promising market. With many new and innovative products, the business unit succeeded in reaching a sales increase of 38% in this segment. Indirectly connected to this sector, activities launched under the name of Smart House enjoyed great success, particularly in the Nordic countries where sales grew by more than 25%. Smart House is based on the business unit's proprietary bus, which offers a variety of features to control energy and safety in the industrial, commercial and domestic environment.

The introduction of a new range of soft starters for the heating, ventilation and air-conditioning market (HVAC) proved successful with sales to this segment growing by 20%.

Outlook

The ongoing worldwide financial turmoil, which is leading to a considerable slowdown in industry, will negatively impact the results of the business unit in the second semester. However, the agility in responding to customer needs, the large customer base and the high product innovation rate coupled with tight cost control makes the Automation Components Business Unit relatively resilient to weather the storm.

Financial results

(EUR million)	**1.4. – 30.9.08**	1.4. – 30.9.07	%
Bookings	**59.9**	59.9	–
Operating revenue	**58.6**	59.4	-1.3
EBIT	**6.5**	6.5	–
ROS (EBIT/Revenue in %)	**11.1**	10.9	–

Review of Operations

Computing Solutions

Continued sales efforts focusing on promising industrial and defence projects paid off. The positive bookings trend, combined with the strong backlog at the beginning of the current financial year, resulted in a considerably increased operating revenue and a positive EBIT. In view of the encouraging number of new projects on hand, management is confident to further improve its performance for the full year despite the uncertain economic climate in the US.

Market development

The telecom infrastructure market did not show any positive signals in the reporting period. As a consequence, the business unit's revenue from this market segment decreased from 15 % to 5 % of total revenue. As a result of several new orders from customers in the defence and industrial sectors, Computing Solutions was able to more than offset this negative development. Sales to military customers increased from 40 % to 45 %, and those to the industrial market segment from 45 % to 50 % of total revenue.

Large projects

Fully integrated and tested enclosures used for data mining and logging in oil and gas exploration represent Computing Solutions' largest contract in the industrial sector. These electronic systems can be found all over the world mounted on trucks and platforms, on land and at sea. Management expects to renew this multi-million contract in the very near future.

The business unit's excellent programme management and expertise in providing customised conduction-cooled Air Transport Racks (ATR) resulted in a win of a multi-year contract from the US Coast Guard for a ship-board protection system.

Another multi-million order was secured from the Naval Air Warfare Center for telecom upgrades on board ships to be executed over the next few years.

Outlook

The future development of the macro-economic climate in the US gives reason for concern. Some of the larger OEMs are being impacted by the slowdown and have accumulated excess inventory. These issues might negatively impact the business unit's bookings in the second semester. However, given the fact that the Computing Solutions Business Unit continues to experience a positive quote activity, recorded a number of military wins and is currently negotiating several long-term contracts with existing and new customers, management expects to exceed the results achieved in the previous year.

Financial results

(USD million)	**1.4. – 30.9.08**	1.4. – 30.9.07	%
Bookings	**11.8**	10.4	+13.5
Operating revenue	**14.3**	11.2	+27.7
EBIT	**0.1**	-0.3	–
ROS (EBIT/Revenue in %)	**0.7**	n.a.	–

Consolidated Interim Financial Statements

Income Statements and Balance Sheets

Income Statements (CHF million)	1.4. – 30.9.08		1.4. – 30.9.07	
Bookings	**108.9**	99.5%	111.3	100.0%
Operating revenue	**109.5**	100.0%	111.3	100.0%
Cost of sales	**57.2**	52.2%	58.1	52.2%
Gross profit	**52.3**	47.8%	53.2	47.8%
Selling, general and administrative expense	**41.5**	37.9%	42.7	38.4%
Other expense, net	**1.2**	1.1%	0.2	0.2%
Earnings before interest and taxes (EBIT)	**9.6**	8.8%	10.3	9.2%
Interest expense, net	**0.1**	0.1%	0.5	0.4%
Exchange loss (gain), net	**-0.8**	-0.7%	0.1	0.1%
Earnings before income taxes	**10.3**	9.4%	9.7	8.7%
Income taxes	**3.0**	2.7%	2.1	1.9%
Net income	**7.3**	6.7%	7.6	6.8%
Basic and diluted earnings per bearer share (CHF)	**10.32**		10.73	
Average number of bearer shares outstanding	**389 615**		387 897	

Balance Sheets (CHF million)	30.9.08		31.3.08	
Assets				
Current assets				
Cash	**30.4**		33.1	
Accounts receivable	**52.2**		55.5	
Inventories	**34.5**		31.2	
Other current assets	**7.4**		4.8	
Total current assets	**124.5**		124.6	
Non-current assets				
Fixed assets	**16.2**		16.5	
Goodwill	**28.4**		28.6	
Other non-current assets	**1.3**		1.4	
Total non-current assets	**45.9**		46.5	
Total assets	**170.4**		171.1	
Liabilities and shareholders' equity				
Current liabilities				
Short-term borrowings	**4.8**		9.2	
Accounts payable and accrued liabilities	**47.0**		44.2	
Total current liabilities	**51.8**		53.4	
Long-term liabilities				
Long-term borrowings	**2.6**		2.7	
Other long-term liabilities	**7.0**		7.1	
Total long-term liabilities	**9.6**		9.8	
Shareholders' equity	**109.0**		107.9	
Total liabilities and shareholders' equity	**170.4**		171.1	

Consolidated Interim Financial Statements

Shareholders' Equity and Cash Flows

Changes in Shareholders' Equity (CHF million)	Share capital	Additional paid-in capital	Legal reserves	Retained earnings	Cumulative translation adjustment	Own shares	Shareholders' equity
Balance at 1.4.07	**10.7**	**1.5**	**6.8**	**94.9**	**-14.2**	**-0.8**	**98.9**
Net income				7.6			7.6
Translation adjustments					0.4		0.4
Comprehensive income (subtotal)							**8.0**
Dividend payment				-5.0			-5.0
Transfer of reserves		-1.5	-4.4	5.9			–
Changes in own shares				0.7		0.2	0.9
Balance at 30.9.07	**10.7**	**–**	**2.4**	**104.1**	**-13.8**	**-0.6**	**102.8**
Balance at 1.4.08	**10.7**	**0.8**	**2.1**	**112.7**	**-18.0**	**-0.4**	**107.9**
Net income				7.3			7.3
Translation adjustments					0.7		0.7
Comprehensive income (subtotal)							**8.0**
Dividend payment				-7.1			-7.1
Changes in own shares						0.2	0.2
Balance at 30.9.08	**10.7**	**0.8**	**2.1**	**112.9**	**-17.3**	**-0.2**	**109.0**

Cash Flows (CHF million)	**1.4. – 30.9.08**	1.4. – 30.9.07
Cash flows from operating activities		
Net income	**7.3**	7.6
Depreciation	**2.2**	2.5
Changes in provisions	**–**	0.1
Changes in net operating assets	**-0.5**	-0.5
Net cash from operating activities	**9.0**	9.7
Cash flows from investing activities		
Purchase of fixed assets	**-1.4**	-1.3
Net cash from investing activities	**-1.4**	-1.3
Cash flows from financing activities		
Dividends	**-7.1**	-5.0
Purchase/sale of own shares	**0.1**	0.9
Changes in short-term debt	**-3.8**	-8.8
Changes in long-term debt	**-0.1**	-0.6
Net cash from financing activities	**-10.9**	-13.5
Cash		
Net increase (decrease) in cash	**-3.3**	-5.1
Cash at beginning of period	**33.1**	19.0
Effect of exchange rate changes on cash	**0.6**	2.0
Cash at end of period	**30.4**	15.9

Consolidated Interim Financial Statements

Segment Information

Segment Information (CHF million)	Automation Components	Computing Solutions	Corporate	Total	Automation Components	Computing Solutions	Corporate	Total
	1.4. – 30.9.08				1.4. – 30.9.07			
Operating revenue	**94.5**	**15.0**	**–**	**109.5**	97.8	13.5	–	111.3
Operating profit	**11.6**	**0.5**	**-1.3**	**10.8**	11.7	0.3	-1.5	10.5
Other expense (income), net	**1.1**	**0.4**	**-0.3**	**1.2**	1.0	0.6	-1.4	0.2
EBIT	**10.5**	**0.1**	**-1.0**	**9.6**	10.7	-0.3	-0.1	10.3
Interest expense, net				**0.1**				0.5
Exchange loss (gain), net				**-0.8**				0.1
Earnings before income taxes				**10.3**				9.7
Depreciation	**2.1**	**0.1**	**–**	**2.2**	2.2	0.3	–	2.5
Additions to fixed assets	**1.2**	**0.2**	**–**	**1.4**	1.2	0.1	–	1.3
Segment assets (at 30.9.08/31.3.08)	**152.9**	**16.4**	**1.1**	**170.4**	154.2	14.7	2.2	171.1

Consolidated Interim Financial Statements

Notes

These unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and as outlined in the Annual Report 2007/08.

1. Main exchange rates against the CHF

	Income Statement 1.4. – 30.9.08	Balance Sheet 30.9.08	Income Statement 1.4. – 30.9.07	Balance Sheet 31.3.08
EUR	1.6118	1.5848	1.6476	1.5700
USD	1.05	1.10	1.21	1.00

2. New accounting pronouncements since April 1, 2008

FAS No. 141(R), Business Combinations. This revised Statement retains the fundamental requirements in FAS No. 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination.
The following are some of the significant changes this new statement makes as to how the acquisition method is applied:
- Measuring the assets acquired, the liabilities assumed and any non-controlling interest at their fair values
- Recognising assets acquired and liabilities assumed arising from contingencies
- Recognising contingent consideration at the acquisition date, measured at its fair value
- Recognising a gain in the event of a bargain purchase (i.e. previously negative goodwill)

The Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and it may not be applied before that date.

FAS No. 160, Non-Controlling Interests in Consolidated Financial Statements. This Statement amends ARB No. 51 to establish accounting and reporting standards for a non-controlling interest in a subsidiary and for deconsolidation of a subsidiary. The Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and it may not be applied before that date.

FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities. This Statement revises disclosure requirements for derivative instruments and hedging activities. The Statement is effective for financial statements issued for years beginning after November 15, 2008 and interim periods within those years.

FAS No. 163, Accounting for Financial Guarantee Insurance Contracts. This Statement requires recognition of a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. It clarifies how FAS No. 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. Requires expanded disclosures about financial guarantee insurance contracts. The Statement is effective for years beginning after December 15, 2008, and interim periods within those years, except for certain disclosure requirements which are effective for the first period (including interim periods) beginning after May 23, 2008.
Adoption of the above Statements is not expected to have any material impact on the Financial Statements.

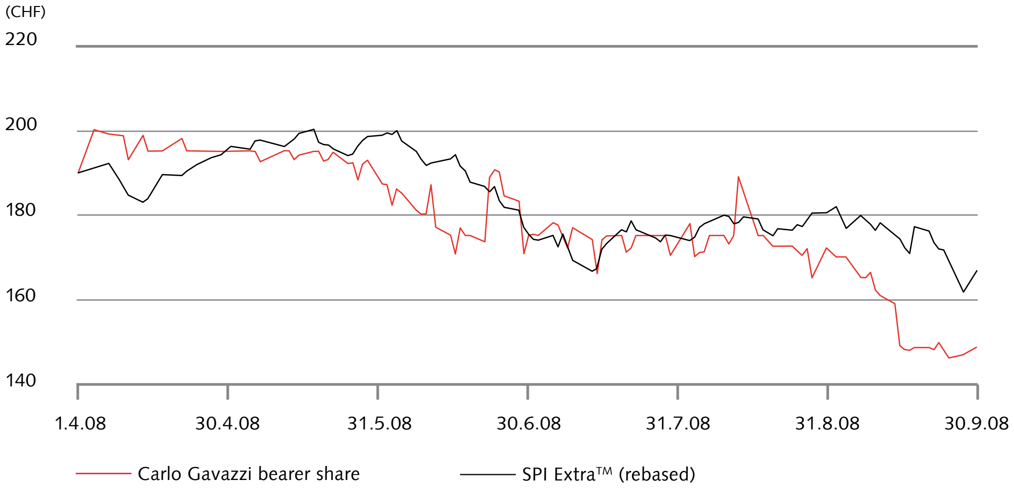
Information for Investors

Share Development and Financial Calendar

Key data

(CHF)	**1.4. – 30.9.08**	1.4. – 30.9.07	1.4. – 30.9.06	1.4. – 30.9.05	1.4. – 30.9.04
Share price 30.9.	**147**	300	242	168	83
– half year-high	**200**	319	242	168	95
– half year-low	**146**	257	183	103	74
Average daily volume (number)	**405**	916	867	1 700	826
Earnings per share	**10.32**	10.73	7.34	4.85	3.43
Book value per share	**153**	144	164	142	138
Stock market capitalisation (CHF million)	**104**	213	172	119	59
– in % of equity	**95**	207	148	118	60

Share price 1.4.2008 – 30.9.2008



Financial calendar

Press and financial analysts' meeting 2008/09	June 23, 2009, at the Widder Hotel, Zurich
Shareholders' meeting 2008/09	July 23, 2009, at the Congress Center Metalli, Zug
Interim report 2009	November 20, 2009

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