CARLO GAVAZZI

Carlo Gavazzi Group

Interim Report | April 1 – September 30, 2007

The Carlo Gavazzi Group succeeded again in improving significantly its economic performance in the reporting period. Compared with the same period of the previous year, operating revenue grew by 10% from CHF 101 million to CHF 111 million, while EBIT showed an increase of 34% from CHF 7.7 million to CHF 10.3 million. Net income grew by 46% from CHF 5.2 million to CHF 7.6 million.

Key results

The healthy growth in profitability resulted mainly from:

– a gain in gross profit margin from 46.5% to 47.8% of revenue due to higher production efficiency and changes in the product mix

– a decrease in operating expenses from 38.8% to 38.4% of revenue due to continuous tight cost control

– a reduced average tax rate from 26% to 22% due to lower taxation at the new production facilities

At September 30, 2007, equity amounted to CHF 103 million or 60.2% of total assets while interest-bearing debt was almost nil.

Automation Components

Streamlining of customers and focused marketing efforts directed at increasing sales of products and solutions to priority market segments, resulted in an increase in the volume of sales to the more significant customers with beneficial effects on the income statement. These new actions, coupled with more precise identification of priority markets, allowed an increased presence in the fastest growing market segments for industrial and building automation, i.e. smart buildings, doors and entrances, lifts and escalators, heating ventilation and air conditioning, plastic and rubber and material handling. Furthermore, the enhanced focus on these markets allowed the business unit to better act on product and solution development, accelerating and completing the product offering and, consequently, improving customer satisfaction.

Computing Solutions

After discontinuing the distribution activity of Channel Access, the business unit has refocused entirely its activity on the design and manufacture of tailor-made electronic packaging solutions mainly for military and industrial applications. These changes in activity and market focus required profound adjustments in the organisation and development of new engineering and sales competences. These efforts have been rewarded by sizeable orders from new clients, which can be considered as first steps towards long-lasting revenue opportunities. Despite the organisational changes and the new positioning in the market, the business unit managed to increase operating revenue over the previous period and to improve EBIT substantially.

Outlook

The group looks confidently to the second half of the financial year, despite signs of a weakening demand in our major markets. The actions put in place in both business units are expected to counteract the effects of slowing economic growth. Barring unforeseen events, the group expects to close the current financial year with an improved performance over the previous year.

Giulio Pampuro, Chairman of the Board

At a glance

(CHF million)	**1.4. – 30.9.07**	1.4. – 30.9.06	%
Bookings	**111.3**	108.7	+2.4
Operating revenue	**111.3**	101.4	+9.8
EBIT	**10.3**	7.7	+33.8
Net income	**7.6**	5.2	+46.2
Cash flow	**10.2**	7.5	+36.0
Additions to fixed assets	**1.3**	1.7	-23.5
Depreciation	**2.5**	2.2	+13.6
Net working capital	**60.6**	58.7	+3.2
Net interest-bearing debt	**0.7**	7.2	-90.3
Total assets (at 30.9.07/31.3.07)	**170.7**	182.2	-6.3

Review of Operations

Automation Components

Operating revenue rose by 11.4% and EBIT increased by 21.6% from CHF 8.8 million to CHF 10.7 million, reaching 10.9% of operating revenue. The revenue growth achieved by the business unit, compared with the estimated 4% global increase in demand, evidences a healthy gain of market share in the first six months of the reporting period.

Geographical markets

With the exception of the North American region, where the business unit experienced a slight slow-down of growth, all other regions developed well. While overall sales to European customers grew in excess of 15%, revenue in Eastern Europe increased by 30% over the same period of the previous year, a result of the strengthened sales activities in this region. These growth rates were topped only by the Asia-Pacific region, where an increase of 50% was achieved.

Market segment strategy

The focus on a limited number of priority market segments through offering dedicated product packages, proved successful and resulted in a growth rate of 15%, substantially higher than the overall market. The strategy to cooperate closely with leaders in these segments and to provide them with application-oriented solutions constitutes one of the cornerstones for the development of the business unit.

Products

The launch of a new microprocessor-controlled miniaturised photoelectric sensor, featuring a digital teach-in function that allows easy re-configuration in case of application changes, contributed to the substantial sales growth of sensor products. Growth rates in sensors exceeding 40% were achieved in Asia-Pacific and Eastern Europe. In addition, sales of control products, particularly energy analysers, grew by 20%, thanks also to the recent introduction of a new European directive calling for reduced energy consumption in public buildings. On the other hand, as anticipated, sales of safety relays and signalling devices for the Italian state railways, a non-core activity, declined substantially compared with the same period of the previous year.

Outlook

Notwithstanding the already visible economic slow down in North America and Western Europe, the business unit expects to continue to perform well in the second semester of the financial year, thanks to its focus on priority market segments and its ongoing expansion in the Asia-Pacific region and Eastern Europe. Management is confident that the business unit will meet revenue and EBIT targets for the full year.

Financial results

(CHF million)	**1.4. – 30.9.07**	1.4. – 30.9.06	%
Bookings	**98.7**	94.7	+4.2
Operating revenue	**97.8**	87.8	+11.4
EBIT	**10.7**	8.8	+21.6
ROS (EBIT/Revenue in %)	**10.9**	10.0	

Review of Operations

Computing Solutions

Thanks to improvements in cost structure and operating efficiency, Computing Solutions improved EBIT significantly despite the flat development of operating revenue. Considering the encouraging number of new projects on hand, management expects to improve its performance significantly in the second semester of the financial year.

Market development

While several new AdvancedTCA and MicroTCA products that were launched in the North American telecom infrastructure market were well received, hardware deployment developed at a slow rate. Consequently, revenue from this market decreased from 25% to 15% of total revenue. In the military market, which accounted for 40% of total revenue, the business unit benefited from the strong land-based market for rugged vehicle-mounted chassis. In the industrial market, which accounted for 45% of total revenue, the business unit profited from the increase of demand from its three largest customers, which are active in power production and oil exploration.

Large orders

Computing Solutions secured an USD 2 million from a military customer for a ground control unit. The programme includes a fully configured, VME-based Air Transport Rack (ATR) that is used for intelligence, surveillance and reconnaissance. Data and video can be obtained from multiple sources of manned and unmanned systems, which are then used by command forces for real-time imagery of surroundings and combatants. This system can receive data from a wide range of video capturing systems deployed in the field and have them readily available for retrieval and display.

Outlook

In its commitment to strengthen its technological position in open bus architectures, Computing Solutions has launched a large number of standard products for identified applications in the telecom, military and industrial markets. The number of sizeable and executable projects on hand supports the validity of this strategy. In the second semester, management expects stronger bookings and operating revenue, which should result in a positive EBIT for the full year.

Financial results

(USD million)	**1.4. – 30.9.07**	1.4. – 30.9.06	%
Bookings	**10.4**	11.2	-7.1
Operating revenue	**11.2**	11.0	+1.8
EBIT	**-0.3**	-0.6	+50.0
ROS (EBIT/Revenue in %)	**n.a.**	n.a.	

Consolidated Interim Financial Statements

Income Statements and Balance Sheets

Income Statements

(CHF million)	1.4 – 30.9.07		1.4 – 30.9.06	
Bookings	**111.3**	100.0%	108.7	107.2%
Operating revenue	**111.3**	100.0%	101.4	100.0%
Cost of sales	**58.1**	52.2%	54.2	53.5%
Gross profit	**53.2**	47.8%	47.2	46.5%
Selling, general and administrative expense	**42.7**	38.4%	39.3	38.8%
Other expense (income), net	**0.2**	0.2%	0.2	0.1%
Earnings before interest and taxes (EBIT)	**10.3**	9.2%	7.7	7.6%
Interest expense, net	**0.5**	0.4%	0.2	0.2%
Exchange loss, net	**0.1**	0.1%	0.5	0.5%
Earnings before income taxes	**9.7**	8.7%	7.0	6.9%
Income taxes	**2.1**	1.9%	1.8	1.8%
Net income	**7.6**	6.8%	5.2	5.1%
Basic and diluted earnings per bearer share (CHF)	**10.73**		7.34	
Average number of shares outstanding	**707 897**		709 476	

Balance Sheets

(CHF million)	30.9.07	31.3.07
Assets		
Current assets		
Cash	**15.9**	19.0
Accounts receivable	**55.8**	59.3
Inventories	**40.7**	40.4
Other current assets	**6.9**	8.1
Total current assets	**119.3**	126.8
Non-current assets		
Fixed assets	**21.1**	23.2
Goodwill	**28.7**	29.7
Other non-current assets	**1.6**	2.5
Total non-current assets	**51.4**	55.4
Total assets	**170.7**	182.2
Liabilities and shareholders' equity		
Current liabilities		
Short-term borrowings	**12.0**	22.1
Accounts payable and accrued liabilities	**42.7**	49.2
Total current liabilities	**54.7**	71.3
Long-term liabilities		
Long-term borrowings	**4.7**	4.0
Other long-term liabilities	**8.5**	7.9
Total long-term liabilities	**13.2**	11.9
Shareholders' equity	**102.8**	99.0
Total liabilities and shareholders' equity	**170.7**	182.2

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 1.4.06	**35.5**	**1.5**	**6.8**	**83.5**	**-14.8**	**-0.9**	**111.6**
Net income				5.2			5.2
Translation adjustments					-0.1		-0.1
Comprehensive income (subtotal)							**5.1**
Changes in own shares						-0.2	-0.2
Balance at 30.9.06	**35.5**	**1.5**	**6.8**	**88.7**	**-14.9**	**-1.1**	**116.5**
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**

* after repayment of share capital of CHF 24.8 Mio.

Cash Flows (CHF million)	**1.4 – 30.9.07**	**1.4 – 30.9.06**
Cash flows from operating activities		
Net income	**7.6**	5.2
Depreciation	**2.5**	2.2
Changes in provisions	**0.1**	0.1
Changes in net current assets	**-0.5**	-8.4
Net cash from operating activities	**9.7**	-0.9
Cash flows from investing activities		
Purchase/sale of fixed assets	**-1.3**	-1.7
Net cash from investing activities	**-1.3**	-1.7
Cash flows from financing activities		
Dividends	**-5.0**	-
Purchase/sale of own shares	**0.9**	-0.2
Changes in short-term debt	**-8.8**	-0.9
Changes in long-term debt	**-0.6**	-0.1
Net cash from financing activities	**-13.5**	-1.2
Cash		
Net increase (decrease) in cash	**-5.1**	-3.8
Cash at beginning of period	**19.0**	28.0
Effect of exchange rate changes on cash	**2.0**	1.4
Cash at end of period	**15.9**	25.6

Consolidated Interim Financial Statements

Segment Information and Notes

Segment Information (CHF million)	1.4. – 30.9.07 Automation Components	Computing Solutions	Corporate	Total	1.4. – 30.9.06 Automation Components	Computing Solutions	Corporate	Total
Operating revenue	97.8	13.5	-	111.3	87.8	13.6	-	101.4
Operating profit	11.7	0.3	-1.5	10.5	10.1	-0.1	-2.1	7.9
Other expense (income), net	1.0	0.6	-1.4	0.2	1.3	0.6	-1.7	0.2
EBIT	10.7	-0.3	-0.1	10.3	8.8	-0.7	-0.4	7.7
Interest expense (income), net				0.5				0.2
Exchange loss (gain), net				0.1				0.5
Earnings before income taxes				9.7				7.0
Depreciation	2.2	0.3	-	2.5	1.9	0.3	-	2.2
Additions to fixed assets	1.2	0.1	-	1.3	1.6	0.1	-	1.7
Segment assets (at 30.9.07/31.3.07)	150.3	15.6	4.8	170.7	162.8	17.7	1.7	182.2

Notes to the consolidated interim financial statement

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 2006/07.

1. Restatement for discontinued operations

Channel Access, LLC, the Computing Solutions' Fulfilment division distributed, on a non-exclusive basis, active voice-recognition boards manufactured by NMS, a NASDAQ-quoted US supplier. NMS cancelled the distribution agreement effective March 6, 2007 and since that date, Channel Access, LLC, ceased all sales activities and, accordingly, Computing Solutions was forced to discontinue the operations of its Fulfilment division. Consequently, for the year ended March 31, 2007, the operations of Channel Access, LLC, were reported separately as discontinued operations in the Financial Statements and the numbers for the prior year were restated to exclude the discontinued operations. To comply with the revised disclosure, the Consolidated Income Statements and the Segment Information for the six months ended September 30, 2006, have likewise been restated to exclude the discontinued operations. The operating revenue of discontinued operations for the six months ended September 30, 2006 amounted to CHF 5.2 million.

2. New accounting pronouncements since April 1, 2007

FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FAS No. 115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value.

The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. The Statement applies to all entities, including not-for-profit organisations. Most of the provisions of this Statement apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealised gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. A not-for-profit organisation shall report unrealised gains and losses in its statement of activities or similar statement.

The fair value option:

1. May be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method
2. Is irrevocable (unless a new election date occurs)
3. Is applied only to entire instruments and not to portions of instruments.

This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. No entity is permitted to apply this Statement retrospectively to fiscal years preceding the effective date unless the entity chooses early adoption. The choice to adopt early should be made after issuance of this Statement but within 120 days of the beginning of the fiscal year of adoption, provided the entity has not yet issued financial statements, including required notes to those financial statements, for any interim period of the fiscal year of adoption. This Statement permits application to eligible items existing at the effective date (or early adoption date). The company is in the process of evaluating the impact, if any, from adopting FAS No. 159.

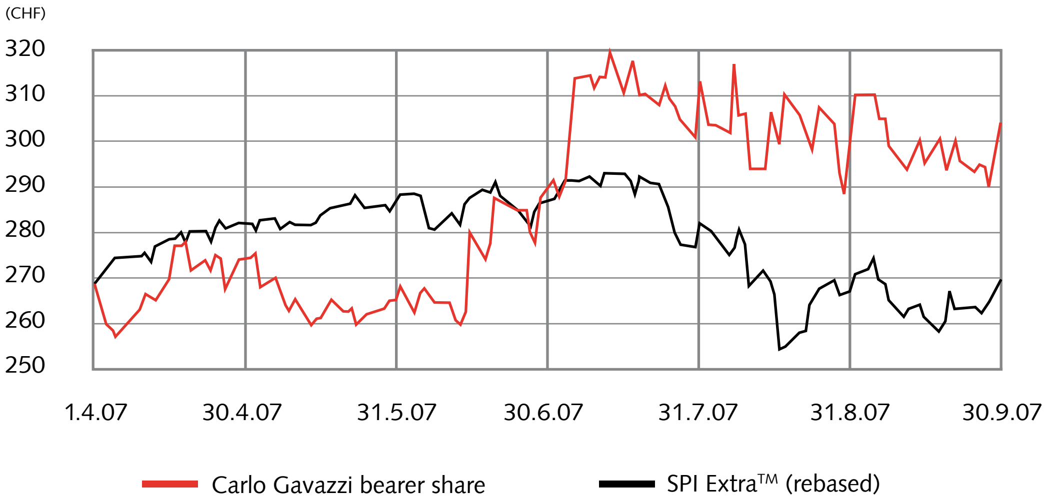
Information for Investors

Share Price Development and Financial Calendar

Key data

(CHF)	**1.4 – 30.9.07**	1.4 – 30.9.06	1.4 – 30.9.05	1.4 – 30.9.04	1.4 – 30.9.03
Share price 30.9.	**300**	242	168	83	50
- half year-high	**319**	242	168	95	50
- half year-low	**257**	183	103	74	28
Average daily volume (number)	**916**	867	1 700	826	442
Earnings per share	**10.73**	7.34	4.85	3.43	0.69
Book value per share	**144**	164	142	138	129
Stock market capitalisation (CHF million)	**213**	172	119	59	36
- in % of equity	**207**	148	118	60	39

Share price 1.4.07 – 30.9.07



Financial calendar

Press and financial analysts' meeting 2007/08	June 24, 2008, at the Widder Hotel, Zurich
Shareholders' meeting 2007/08	July 24, 2008, at the Congress Center Metalli, Zug
Interim report 2008	November 18, 2008

CARLO GAVAZZI HOLDING AG
Sumpfstrasse 32
CH-6312 Steinhausen / Switzerland

Phone: +41 41 747 45 25
Telefax: +41 41 740 45 60

Internet: www.carlogavazzi.com
E-Mail: gavazzi@carlogavazzi.ch