CARLO GAVAZZI

# Annual Report 2011/12

*Energy to Components!*

At a Glance
Five-Year Financial Summary

# Five-Year Financial Summary

| (CHF million) | **2011/12** | 2010/11 | 2009/10* | 2008/09** | 2007/08 |
|---|---|---|---|---|---|
| Bookings | **139.6** | 185.6 | 152.7 | 172.7 | 228.2 |
| Order backlog | **22.7** | 29.8 | 30.0 | 29.0 | 49.5 |
| | | | | | |
| Operating revenue | **142.8** | 181.9 | 149.6 | 174.9 | 223.4 |
| Gross profit | **78.6** | 98.5 | 81.3 | 91.7 | 109.4 |
| EBITDA | **24.6** | 35.7 | 16.6 | 20.2 | 31.3 |
| EBIT | **21.2** | 31.8 | 12.7 | 16.2 | 26.7 |
| Earnings before taxes | **21.9** | 31.2 | 12.5 | 17.0 | 23.7 |
| Net income from continuing operations | **16.8** | 22.7 | 7.7 | 12.2 | 16.8 |
| Net income including discontinued operations | | | | 8.0 | |
| Cash flow*** | **20.1** | 26.6 | 11.7 | 17.9 | 23.6 |
| | | | | | |
| Depreciation and amortization | **3.4** | 3.9 | 3.9 | 4.0 | 4.7 |
| Additions to fixed and intangible assets | **3.2** | 4.8 | 3.6 | 4.0 | 4.3 |
| | | | | | |
| Trade receivables | **29.1** | 37.7 | 34.7 | 34.5 | 55.5 |
| Inventories | **25.3** | 28.8 | 25.9 | 28.0 | 31.2 |
| Net working capital | **30.9** | 29.8 | 28.8 | 43.2 | 47.3 |
| Current assets | **110.0** | 130.9 | 115.1 | 116.7 | 124.6 |
| Property, plant and equipment, net | **10.7** | 12.4 | 13.0 | 14.4 | 16.5 |
| Intangible assets, net | **7.1** | 7.3 | 8.0 | 23.7 | 28.6 |
| Interest-bearing debt, net | **-49.2** | -55.1 | -44.4 | -29.7 | -21.1 |
| Current liabilities | **29.1** | 44.9 | 40.2 | 41.8 | 53.4 |
| Non-current liabilities | **6.8** | 6.1 | 8.4 | 7.7 | 9.9 |
| Shareholders' equity | **96.3** | 104.1 | 92.0 | 106.9 | 107.9 |
| Total liabilities and shareholders' equity | **132.2** | 155.1 | 140.6 | 156.4 | 171.1 |
| | | | | | |
| Number of employees (average) | **1 018** | 1 002 | 975 | 1 040 | 1 204 |

*Not comparable with previous periods due to change to IFRS from US GAAP

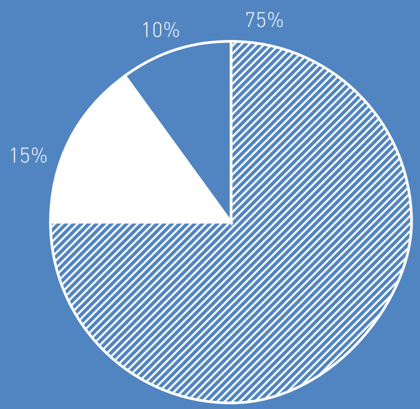
**Not comparable with previous periods due to discontinuance of the Computing Solutions Business Unit

***Net income + depreciation + amortization

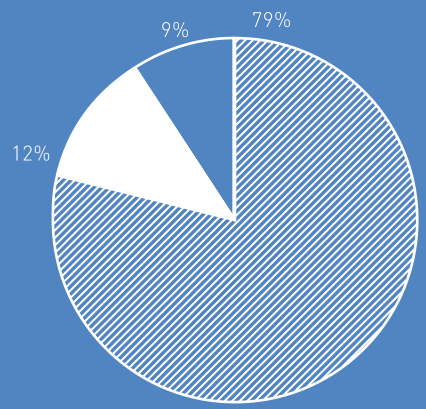
# At a Glance

| (CHF million) | 2011/12 | 2010/11 | % |
|---|---|---|---|
| Bookings | 139.6 | 185.6 | -24.8 |
| Operating revenue | 142.8 | 181.9 | -21.5 |
| EBITDA | 24.6 | 35.7 | -31.1 |
| EBIT | 21.2 | 31.8 | -33.3 |
| Net income | 16.8 | 22.7 | -26.0 |
| Cash flow | 20.1 | 26.6 | -24.4 |
| Shareholders' equity | 96.3 | 104.1 | -7.5 |
| ROE | 17.4% | 21.8% | |
| ROCE | 45.0% | 64.8% | |

Revenue distribution by geographical region



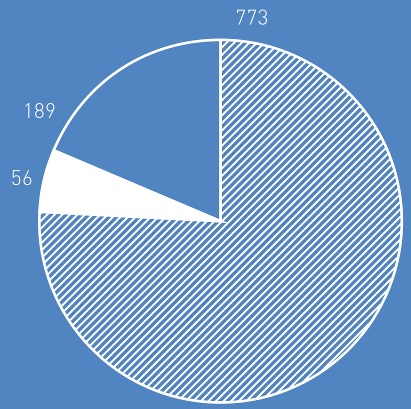

2011/12



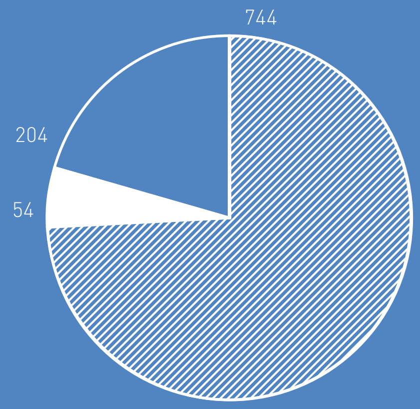

2010/11

EMEA
NORTH AMERICA
ASIA

Distribution of employees by geographical region



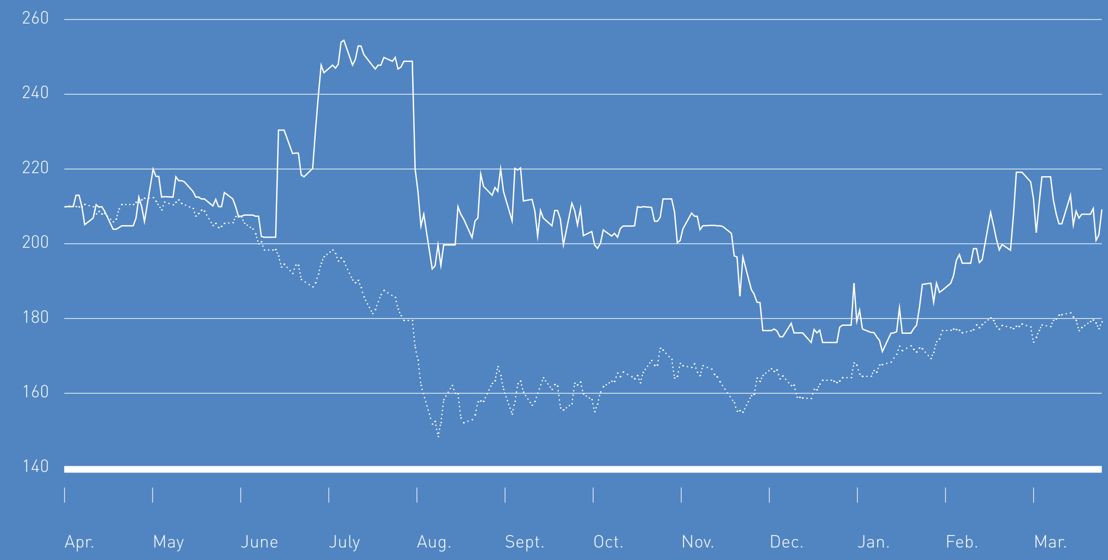

2011/12



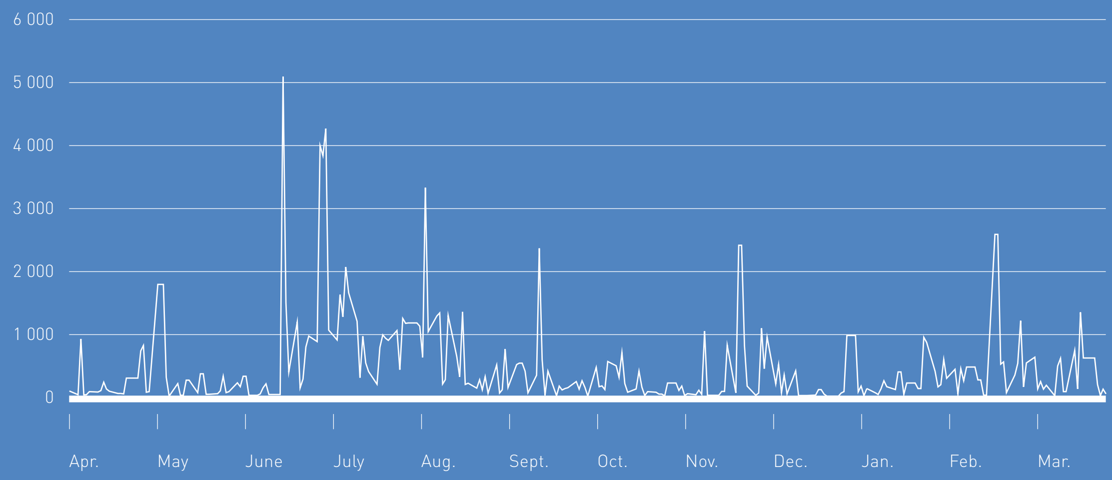

2010/11

# Information for Investors

**Share price**
**1.4.2011-**
**31.3.2012**
(CHF)




**Share volume**
**1.4.2011-**
**31.3.2012**
(Number)




**Share price**
**1.4.2007-**
**31.3.2012**
(CHF)


CARLO GAVAZZI BEARER SHARE
SPI EXTRA™ (REBASED)

# Information for Investors

| | | 2011/12 | 2010/11 | 2009/10** | 2008/09 | 2007/08 |
|---|---|---|---|---|---|---|
| **Registered shares** | | | | | | |
| Nominal value CHF 3 | | | | | | |
| Shares issued | Number | **1 600 000** | 1 600 000 | 1 600 000 | 1 600 000 | 1 600 000 |
| Share of capital | % | **45.0** | 45.0 | 45.0 | 45.0 | 45.0 |
| Share of voting rights | % | **80.4** | 80.4 | 80.4 | 80.4 | 80.4 |
| Share price | The registered shares are not traded on the stock exchange. | | | | | |
| **Bearer shares** | | | | | | |
| Nominal value CHF 15 | | | | | | |
| Shares issued | Number | **390 710** | 390 710 | 390 710 | 390 710 | 390 710 |
| Share of capital | % | **55.0** | 55.0 | 55.0 | 55.0 | 55.0 |
| Share of voting rights | % | **19.6** | 19.6 | 19.6 | 19.6 | 19.6 |
| Share price as of March 31 | CHF | **209** | 211 | 150 | 90 | 190 |
| Share price - high | CHF | **253** | 219 | 155 | 200 | 319 |
| Share price - low | CHF | **174** | 148 | 86 | 85 | 180 |
| Average daily volume | Number | **623** | 444 | 305 | 311 | 624 |
| P/E Ratio | Factor | **8.9** | 6.6 | 13.8 | 8.0 | 8.0 |
| Basic earnings per share | CHF | **23.6** | 32.0 | 10.9 | 11.3 | 23.8 |
| Book value per share | CHF | **136** | 147 | 129 | 150 | 152 |
| Stock market capitalization | CHF 1 000 | **148 538** | 149 960 | 106 606 | 63 964 | 135 035 |
| - in percentage of revenue | % | **104.0** | 82.5 | 71.2 | 36.6 | 60.5 |
| - in percentage of equity | % | **154.2** | 144.0 | 115.9 | 59.8 | 125.1 |
| Dividend per share (ordinary)*** | CHF | 12.0* | 10.0 | 5.0 | 5.0 | 10.0 |
| - dividend yield | % | 5.7* | 4.7 | 3.3 | 5.6 | 5.3 |
| - total pay-out | CHF 1 000 | 8 529* | 7 107 | 3 554 | 3 554 | 7 107 |
| - pay-out ratio | % | 50.9* | 31.3 | 44.2 | 44.6 | 42.3 |
| Dividend per share (jubilee) | CHF | **-** | 15.0 | - | - | - |
| - dividend yield | % | **-** | 7.1 | - | - | - |
| - total pay-out | CHF 1 000 | **-** | 10 661 | - | - | - |
| - pay-out ratio | % | **-** | 46.9 | - | - | - |

*Proposal of the Board of Directors
**Certain numbers not comparable with previous periods due to change to IFRS from US GAAP
***of this amount for 2010/11, CHF 2.00 was paid from the reserve for capital contribution

**Restriction of voting rights**
There are no limits on registration of voting rights

**Financial calendar**

| | |
|---|---|
| Shareholders' meeting 2011/12: | July 26, 2012 |
| Interim report 2011/12: | November 22, 2012 |
| Press and financial analysts' meeting 2012/13: | June 27, 2013 |
| Shareholders' meeting 2012/13: | July 25, 2013 |

# Annual Report 2011/12

Swiss Equity
conference zurich

Carlo Gavazzi Holding AG received the Swiss Equity Award 2011 as the best Swiss small and mid cap enterprise.

# *Index*

## Corporate



## 

## Consolidated Financial Statements



## Financial Statements

# Carlo Gavazzi is an international group active in designing, manufacturing and marketing electronic equipment targeted at the global markets of industrial and building automation.

# Corporate

# Letter to the Shareholders

Dear Shareholders,

Despite the very challenging economic and market environment, Carlo Gavazzi achieved a solid result in the 2011/12 fiscal year. The world economic situation developed unevenly: automation markets in Europe were most affected, while business activity increased in North America and in Asia-Pacific. Following last year's boom in renewable energy, this business was very negatively impacted by government policy changes in all European key markets. Priority markets both in building and industrial automation grew by more than 5% compared with the previous year thanks to the successful introduction of new products and dedicated initiatives across the regions.

Overall, the Group achieved operating revenues of CHF 142.8 million. Total sales decreased by 13.3% in local currency (-21.5% in Swiss Francs), essentially because of the decline in renewable energy products (-10.8%). The Group's core business – excluding especially the highly volatile solar energy sector – remained stable. Fluctuating exchange rates of the Swiss Franc versus the Euro contributed to a decrease in operating revenues of 9.4%, while overall currency effects lead to a decline of 8.2%.

Gross profit improved by 0.9 percentage points from 54.2% to 55.1%, mainly thanks to tight cost control across the whole supply chain.

To strengthen its presence in fast growing economies, the Group continues to expand in countries such as China, Mexico and Taiwan. In addition, R&D efforts have been enhanced to provide customers worldwide with a broader range of innovative products.

Net income in 2011/12 reached CHF 16.8 million primarily from operating activities. While this result is lower than in the previous year, it clearly exceeds both the five and ten-year average.

Cash flow reached CHF 20.1 million, confirming the Group's strong cash generation capacity. Following the distribution of an extraordinary jubilee dividend last year, the Group's net cash position decreased slightly from CHF 55.1 million to CHF 49.2 million. As at March 31, 2012, shareholder's equity stood at CHF 96.3 million, giving an equity ratio of 72.9%.

## Strong sales in Asia and North America

All regions were impacted by the challenging economic and market conditions. While sales decreased in Europe, they grew in both North America and Asia-Pacific, leading to a broader distribution of sales worldwide.

Revenues in Europe fell by 17.8% in local currency. This decline was driven by a combination of several factors: recession in a number of key countries such as Spain, much lower demand in the automation sector and a significant contraction in renewable energy business.
In North America, sales and marketing activities in both building and industrial automation produced growth of 12.3% versus the previous year. The Mexican sales company achieved more than 50% year-on-year growth thanks to the development of its distribution network.
Increasing demand for building automation products was the main drive for the 4.9% year-on-year increase in sales in Asia-Pacific where growth in local currency was achieved in the entire area.

Thanks to dynamic growth outside Europe, the geographical distribution of revenue continues to broaden: sales outside Europe expanded from 21% of total revenues last year to 25%, to which North America and Asia-Pacific contributed 15% and 10% respectively.

## Solid revenue from priority markets

The trend in priority markets was negatively influenced by renewable energy. Despite the difficult environment in Europe, revenue in priority markets performed significantly better than overall sales, confirming the effectiveness of the Group's strategic segment selection and related initiatives.

Across the product lines, Fieldbuses and Switches grew by more than 25% and 3% respectively and Sensors performed almost in line with the previous year. Product lines supplying the renewable energy markets such as Controls and Inverters declined compared to previous year.

Fieldbuses growth was due to several initiatives and actions worldwide targeting both building automation (i.e. car park systems) and industrial automation markets (i.e. safety monitoring on conveyor belts).

Soft starters achieved a remarkable performance (14% higher than previous year) thanks to developments in building automation markets, particularly in the heating, ventilation and air conditioning market, where products are specifically designed for heat pumps and chillers with scroll compressors.

The demand for energy management products used in photovoltaic solar farms was negatively impacted by country-specific policies. Subsidies in key markets such as Germany and Italy were significantly reduced. However, the Group's performance in this market was supported by sales in conventional energy, distribution and almost matched the previous year overall.

## Outlook

The recovery in the world economic and market environment is expected to resume. However, the distressed financial situation of several European countries is a major challenge for the Group. Despite the divergence in growth rates between major industrialized countries on the one hand, and emerging markets on the other, balanced development remains a key objective.

Sustainable growth will be driven by developing new products and new niche markets, by strengthening R&D and product management and by streamlining the internal value chain. The forthcoming launch of miniaturized photoelectric sensors using leading-edge measurement techniques will further strengthen the industrial automation offering and act as a very strong support for further growth in Asia-Pacific. Moreover, the introduction of a new range of inductive sensors with enhancements including improved measurement accuracy and repeatability will further improve the penetration of industrial automation worldwide.

By launching the modular motor protection unit, Carlo Gavazzi will enlarge its product offering and drive new business development in motor control stations, particularly in emerging markets.

The completion of MID (Measuring Instruments Directive) certifications for the energy meter series will support sales growth in building and infrastructure projects.

Following dedicated business development initiatives in Taiwan, the next focus in Asia will be India. In countries where a direct sales presence is not planned or economical, the preferred coverage option will be through resident engineers working with improved distributor partnerships. In Brazil, by contrast, the Group is planning to set up a direct presence in order to improve penetration and boost market growth in South America.

In summary, Carlo Gavazzi has taken significant measures to continue to further strengthen both its product portfolio and its global distribution network. However, given the unpredictable development of most economies worldwide, a reliable forecast for 2012/13 is not foreseeable at this time.

## Dividend

For many years Carlo Gavazzi has maintained a policy of distributing a significant part of net income to shareholders. The Board of Directors is therefore proposing to the annual shareholders' meeting to approve distribution of a dividend of CHF 12.00 per bearer share and CHF 2.40 per registered share.

We would like to thank all our employees for their continued commitment in a challenging market environment. Also thanks to their contribution, Carlo Gavazzi was awarded in September the Swiss Equity Small Cap Award 2011. We are also very grateful to our customers and shareholders worldwide for their constant loyalty and support.

Valeria Gavazzi
**Chairman**

Giovanni Bertola
**Vice-Chairman**

# Review of Operations

## Structure

The Group consists solely of our traditional core business, Automation Components.

## Currencies

As the Group operates in more than 20 countries and generates substantially all of its revenue in currencies other than the Swiss Franc, foreign exchange rate movements are of particular importance. Compared with the previous year, the Euro weakened once again against the Swiss Franc. The negative currency effect for the Group amounted to 9.4% on bookings and operating revenue. The currency exposure for the Group on net income is limited as local revenues are matched substantially with corresponding expenses in the same currencies.

## Bookings and backlog

Consolidated bookings decreased by CHF 46.0 million or 24.8% (17.0% adjusted for currency effect) from CHF 185.6 million to CHF 139.6 million. Revenue exceeded bookings by CHF 3.2 million for a book-to-bill ratio of 0.98. Group order backlog at year-end amounted to 16.0% of operating revenue, corresponding to revenue for almost two months.

## Operating revenue and gross profit margin

Consolidated revenue decreased by CHF 39.1 million or 21.5% (13.3% adjusted for currency effect) from CHF 181.9 million to CHF 142.8 million. The gross profit margin increased by 0.9 percentage points from 54.2% to 55.1%.

## Operating expenses

Operating expenses as a percentage of operating revenue increased to 42.8% compared with 36.4% in the previous year. Operating expenses consist of R&D and selling, general, administrative expenses. R&D expenses increased by 0.5% (11.0% adjusted for currency effect) whereas SG&A expenses decreased by 8.4%. The main component of other operating income (expense), net, of CHF 3.6 million was income of CHF 3.8 million from the release of accruals for potential liabilities following legal release, whereas the previous year's total amounted to CHF (0.6 million), net.

## EBIT

EBIT decreased by CHF 10.6 million or 33.3% from CHF 31.8 million to CHF 21.2 million. As a percentage of operating revenue, it amounted to 14.8%, compared with 17.5% in the previous year.

Net financial income (expense) amounted to CHF 0.7 million compared with CHF (0.6 million) in the previous year. This amount included an exchange gain of CHF 0.7 million compared with a loss of CHF (0.5 million) in the previous year. The nominal tax rate decreased by 3.6% percentage points from 27.1% to 23.5%.

## Net income

Net income decreased by CHF 5.9 million or 26.0% from CHF 22.7 million to CHF 16.8 million. Earnings per bearer share were CHF 23.57 compared with CHF 31.98 in the previous year. Return on equity amounted to 17.4% while return on capital employed was 45.0%.

## Balance sheet and cash flow

Trade receivables decreased by CHF 8.6 million from CHF 37.7 million to CHF 29.1 million, corresponding to a collection period of 75 days compared with 81 days in the previous year. Inventories decreased by CHF 3.5 million from CHF 28.8 million to CHF 25.3 million, corresponding to a turnover rate of 2.6. Net working capital increased by CHF 1.1 million from CHF 29.8 million to CHF 30.9 million. After payment of a jubilee dividend, the net cash position during the year decreased by CHF 5.9 million to reach CHF 49.2 million compared with CHF 55.1 million in the previous year.

Shareholders' equity decreased from CHF 104.1 million to CHF 96.3 million or 72.9% of total assets, after net income of CHF 16.8 million, translation losses of CHF 6.3 million, dividend payments of CHF 17.8 million and actuarial losses on employee benefit obligations of CHF 0.5 million.

Cash flow decreased by CHF 6.5 million from CHF 26.6 million to CHF 20.1 million. Capital expenditure amounted to CHF 3.2 million compared with CHF 4.8 million in the previous year. Free cash flow decreased by CHF 6.9 million from CHF 23.1 million to CHF 16.2 million.

# Group Profile

## Our mission

Carlo Gavazzi is an international group active in designing, manufacturing and marketing state-of-the-art components for the building and industrial automation sectors.

## Our structure

Under the umbrella of a publicly quoted holding company, headquartered in Steinhausen, Switzerland, Carlo Gavazzi operates its core business Automation Components. It is the function of the holding company to ensure planning and development of the Group's business portfolio, choose a coherent set of strategies and objectives, monitor their implementation and the efficiency of the corresponding management tools and processes, select the upper-level management, manage corporate finance, tax planning, management information systems, communication and investor relations. Automation Components operates within the framework of defined strategies and objectives; it is responsible for research and development, manufacturing, quality, marketing and sales, human resources, logistics, finance and control. The CEO of Automation Components leads his unit in line with the holding's objectives as a businessman with strong entrepreneurial drive and responsibility.

## Our objectives

To provide our customers with technologically innovative, high quality and competitive solutions in compliance with their requirements and expectations.

To create an environment conducive to our employees' professional and personal development.

To obtain a fair and equitable return for our shareholders through sustained development of our core activities.

## Our principles

To create added value for our customers with our products and services in order to strengthen their market positions and establish long-term partnerships.

To adapt structures and processes to market needs and delegate responsibility.

To promote an environment conducive to mutual respect and cooperation.

To mark clear leadership and integrity by doing what we say.

## Our core activities

Automation Components designs and manufactures electronic control components for the global building and industrial automation markets in its ISO 9001 certified factories in Italy, Lithuania, Malta and China. The products (sensors, monitoring relays, timers, energy management systems, solid-state-relays, electronic motor controllers, safety devices, fieldbus systems and inverters) provide automation solutions for the industrial and building automation markets. Typical customers are original equipment manufacturers of packaging machines, plastic-injection moulding machines, food and beverage production, conveying and material handling equipment, door and entrance control systems, lifts and escalators as well as heating, ventilation and air conditioning devices. System integrators and distributors are other effective channels to the market. The products are marketed across Europe, North America and Asia-Pacific through a network of 21 own sales companies and through more then 40 independent national distributors. In addition, Automation Components designs and manufactures signalling equipment and safety relays for the railways market.

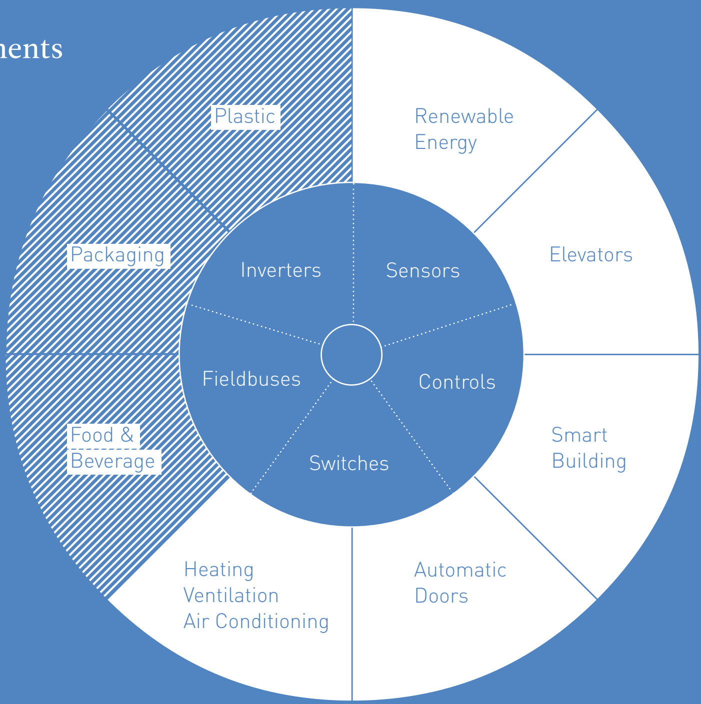
Corporate

# Our Strategy

Solution-packages for the vertical market segments

## Priority Market Segments

INDUSTRIAL
BUILDING
PRODUCT LINES



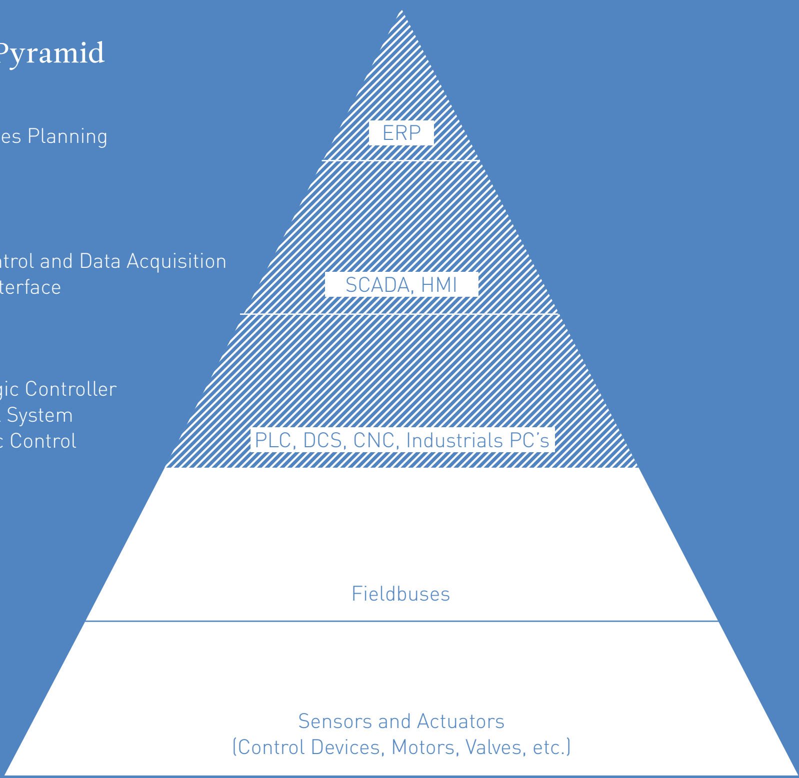

## The Automation Pyramid

ERP: Enterprise Resources Planning

SCADA: Supervisory, Control and Data Acquisition
HMI: Human-Machine Interface

PLC : Programmable Logic Controller
DCS : Distributed Control System
CNC: Computer Numeric Control

CORE BUSINESS




Management Level

Process Management

System Level

Data Highway

Field Level

# Global Presence

★ R&D AND MANUFACTURING CENTERS
● LOGISTIC CENTERS
▼ SALES AND MARKETING
❋ INDEPENDENT DISTRIBUTORS

**1 — North America**

1 Logistic center
3 Sales companies
4 Area managers

**2 — EMEA**

3 R&D competence centers
3 Manufacturing facilities
2 Logistic centers
14 Sales companies
5 Regional offices

**3 — Asia-Pacific**

1 R&D competence center
1 Manufacturing facility
1 Logistic center
4 Sales companies
4 Regional offices

# Corporate Governance

## Carlo Gavazzi Group

Carlo Gavazzi is committed to the principles of good corporate governance. The Group shows responsibility in dealing with the interests of its various stakeholders, which include shareholders, employees, customers and the public. Sound corporate governance principles help to consolidate and strengthen trust in the Group.

The following representations made by Carlo Gavazzi Holding AG (the "Company") with its subsidiaries, together Carlo Gavazzi Group (the "Group"), are in accordance with the Directive on Information relating to Corporate Governance (DCG) as resolved by the Regulatory Board of the SIX Swiss Exchange on October 29, 2008, applicable as of July 1, 2009. To the extent not applicable or not material, information required by the directive is not mentioned. The representations also take into account the Commentary on the Corporate Governance Directive, last updated on September 20, 2007, as well as the SIX Exchange Regulation Communiqué No. 3/2011 of August 23, 2011. The information is set out in the order required by the DCG, with subsections being summarized to the extent possible. Carlo Gavazzi Group's financial statements comply with IFRS reporting standards, and in certain sections readers are referred to the financial statements and notes in this annual report.

### Governance-related changes in the financial year 2011/12

Subsequent to the shareholders' meeting of July 28, 2011, the board of directors of the Company (the "Board of Directors") appointed Mr. Daniel Hirschi chairman of the Compensation Committee, replacing Mr. Giovanni Bertola.

During the financial year 2011/12 the Board of Directors resolved to establish a Strategic Management Board (the "SMB"). The SMB holds monthly meetings in which strategy and operations are discussed. Refer to section 3 below for more details including the composition of the SMB.

## 1. Group structure and shareholders

The operational Group structure is as follows:

| |
|---|
| **Carlo Gavazzi Holding AG**<br>Board of Directors, Steinhausen CH |
| Automation Components |
| R&D, Sourcing Companies<br>and National Sales Companies |

There are no listed companies apart from the Company being listed on SIX Swiss Exchange, Security No. 1100359, ISIN No. CH001 1003594. For details regarding non-listed companies, please refer to the Notes to Consolidated Financial Statements of the Company, note 26 "Subsidiaries".

| Major shareholders | % of voting rights |
|---|---|
| Valeria Gavazzi, Zug (directly or indirectly) | 73.85% |
| Uberta Gavazzi, Zug | 4.95% |

Reports concerning the disclosure of significant shareholdings made to the Company and to the Disclosure Office of the SIX Swiss Exchange during the financial year can be viewed via the link to the search facility on the Disclosure Office's publication platform at http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

Apart from these shareholders, there are no other major shareholders known to the Group holding more than 3% of the voting rights.
No cross-shareholdings exist.

## 2. Capital structure

The share capital of the Company amounts to CHF 10 660 650, divided into 1 600 000 registered shares with a par value of CHF 3 each and 390 710 bearer shares with a par value of CHF 15 each. For details regarding paid-in, authorized, and conditional capital, refer to the Notes to Financial Statements of the Company, note 3 as well as to article 6 of the Articles of Incorporation, governing the exclusion of shareholders' subscription rights. There were no changes in the share capital during the yearly reporting period that ended on March 31, 2012. The Company has not issued any profit-sharing certificates (Genussscheine). There are no restrictions on transferability or registrations of shares. There are no convertible bonds or options issued by the Company or any of its subsidiaries with respect to the shares of the Company.

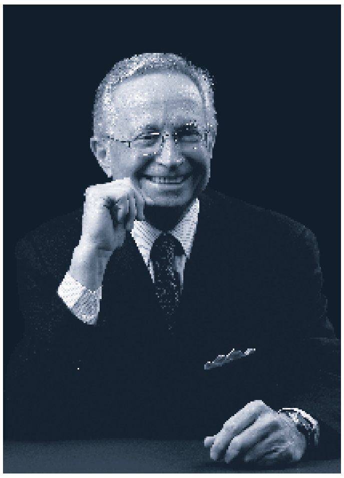
# Board of Directors

## 3. Board of Directors

The Board of Directors currently comprises five members.

CHAIRMAN
**VALERIA GAVAZZI**
**Italian national, Zug**
First elected 2009,
elected until 2012

- Graduated in economics and business administration, IGS, Paris
- Managing Director of Barguzin Consultancy GmbH from 2004 until 2009
- Chairman of Carlo Gavazzi Holding AG since July 2009



VICE-CHAIRMAN
**GIOVANNI BERTOLA**
**Swiss national, Milan**
First elected 2009,
elected until 2012

- Graduated as electrical engineer, Politecnico of Milan
- Developed his professional career during almost 25 years with the Brown Boveri/ABB Group until 1992 up to the position of CEO and Country Manager of ABB in Italy
- Chairman or Managing Director of various manufacturing groups in the electrical and mechanical sector from 1992 to 2008, such as Arvedi, Reeves (currently part of the Trelleborg Group), Gnutti Cirillo, Cemp and HTC Componenti Tecnici
- Vice-Chairman of the Swiss Chamber of Commerce in Italy since 2004
- Vice-Chairman of Carlo Gavazzi Holding AG since July 2009

DIRECTOR
**FEDERICO FOGLIA**
**Swiss national, Lugano**
First elected 2004,
elected until 2012

- Graduated in economics and political sciences, Bocconi University, Milan
- Held positions with Banca del Ceresio, Lugano, Merrill Lynch International Bank, London, and Merrill Lynch Mercury Asset Management, London, from 1998 until 2000
- Managing Director of Banca del Ceresio, Lugano, since 2000
- Member of the Board of Centro Stampa Ticino SA, Muzzano, Switzerland since 2010
- Member of the Board of Società Editrice Corriere del Ticino SA, Muzzano, since 2011

DIRECTOR
**DANIEL HIRSCHI**
**Swiss national, Biel**
First elected 2010,
elected until 2012

- Graduated as an engineer in Biel
- Attended AMP/SMP Advanced Management Program at Harvard Business School
- Developed his professional career during 23 years in Saia Burgess, a Swiss industrial company in the electro mechanical and electronics field.
- CEO of Saia Burgess from 2001 until 2006
- Member of the Board of Komax Holding AG since 2005
- Member of the Board of Benninger AG since 2006
- Chairman of Schaffner Holding AG since 2010
- Bearer shareholders' representative of Carlo Gavazzi Holding AG since July 2010

DIRECTOR
**STEFANO PREMOLI TROVATI**
**Italian national, Milan**
First elected 2008,
elected until 2012

- Graduated in economics and corporate law, Cattolica University, Milan
- Postgraduate degree in tax law
- Member of the board of auditors Panariagroup Industrie Ceramiche SpA (listed on the Milan stock exchange) since 2008
- Managing Director Barguzin Participation SA, Luxembourg, since 2009
- Partner of the tax and law firm TFP & Partners since 2009

SECRETARY TO THE BOARD
**RAOUL BUSSMANN**
**Swiss national, Zug**

- University of Zurich, Doctorate in jurisprudence
- Legal Counsel and member of the Corporate Legal Staff of Sulzer Brothers Limited, Winterthur, Switzerland, from 1981 until 1986
- General Counsel and head of the Corporate Legal Staff of Landis & Gyr AG, Zug, Switzerland, from 1986 until 1991
- Attorney at Law and Notary in Zug since 1991 and partner at the law firm Stadlin Advokatur Notariat in Zug, Switzerland, since 1998
- Secretary to the Board of Directors of Carlo Gavazzi Holding AG since July 2009

### Executive management and independence of the Board of Directors

None of the members of the Board of Directors have served in the executive management of the Company or of any of its direct or indirect subsidiaries in the three financial years preceding the period under review. Valeria Gavazzi, Giovanni Bertola and Stefano Premoli Trovati have served on the boards of directors of direct or indirect subsidiaries of the Company. Valeria Gavazzi is a significant shareholder of the Company, and Stefano Premoli Trovati is managing director of Barguzin Participation SA, Luxembourg, a holding company holding shares in the Company.
Refer to information on members of the Board of Directors, "Related Party Transactions", note 23 to Consolidated Financial Statements of Carlo Gavazzi Holding AG and note 4 to Financial Statements of Carlo Gavazzi Holding AG and to section 1 of this report concerning the disclosure of significant shareholdings.

### Election, terms of office and internal organization

The Board of Directors of the Company comprises at least three members. They are elected by the Annual General Meeting of the Shareholders (the "AGM") for a term of one year. Re-election is permitted. There is no limit to the terms of office. The statutory age limit is 70 years. The Chairman is elected by the AGM. The articles of incorporation are available in German on the Group's website at www.carlogavazzi.com/corporategovernance .

### Areas of responsibility – Board of Directors

The Board of Directors establishes the strategic, accounting, organizational and financing policies to be followed by the Group. It supervises, controls and advises the Group's management. The Board of Directors has put in place reporting and controlling processes to ensure it has sufficient information to make appropriate decisions. The Board of Directors regularly reviews the operational and financial results and approves budgets as well as consolidated financial statements. The Vice-Chairman leads the supervision of the activities of Automation Components and reports his findings to the Chairman of the Board of Directors. The Board of Directors appoints the Group's executive officers. On a regular basis, the CFO reports the financial results and forecasts to the Board of Directors, whereas the CEO of Automation Components regularly reports to the Board of Directors regarding the industrial and commercial business activity.
The SMB regularly reports to the Board of Directors with respect to its supervision activities of the Business Units and submits for approval to the Board of Directors the strategies of the Group. Other members of management report to the Board of Directors as necessary. The Board of Directors has a quorum when the majority of its members are present. Its decisions are taken by a simple majority of the attending members. In case of a tied vote, the chairman has the casting vote.
The Board of Directors holds a minimum of four meetings per year including a strategy meeting and a budget meeting in November and March, respectively. The meetings of the Board of Directors usually last for a whole day. The CEO of Automation Components attends these meetings as required. The CFO regularly assists the Chairman in the presentation and discussion of the financial results. In the reporting period, the Board of Directors held five meetings and one telephone conference.

The Board of Directors has established an audit committee (the "Audit Committee") and a compensation committee (the "Compensation Committee") to carry out certain duties as set out below. Further, as a means to exercise supervision over the Business Units the Board of Directors has established the SMB.

### Audit committee (AC)

The prime function of the Audit Committee is to assist the Board of Directors in fulfilling its supervisory responsibilities. It evaluates the independence and effectiveness of external auditors, approves auditing services to be performed by the external auditors and their related fees, evaluates business risks, assesses the quality of financial accounting and reporting, evaluates scope and overall audit plans, reviews audit results and monitors compliance with specific laws and regulations governing the financial statements. The Audit Committee may ask any questions at all times when deemed necessary through the chief financial officer and may have direct contact with the Group's auditor and other professional organizations. The Audit Committee is acting in an advisory capacity and its proposals are subject to the approval of the entire Board of Directors. During the financial year 2011/12, the Audit Committee consisted of Stefano Premoli Trovati (chairman), Giovanni Bertola and Daniel Hirschi. The Audit Committee meets as often as business requires. In the reporting period, the Audit Committee met twice and the auditors participated in all meetings.

### Compensation committee (CC)

The prime function of the Compensation Committee is to assist the Board of Directors in preparing and proposing to the Board of Directors compensation guidelines in line with the overall strategy. It prepares and proposes to the Board of Directors the compensation levels for the Board of Directors and its committees. In addition, it prepares and proposes to the Board of Directors the terms of employment of the Chairman, the Vice-Chairman of the Board of Directors and of the executive management. It also prepares and proposes to the Board of Directors a compensation policy for the Group (including Automation Components) that fairly rewards performance and effectively attracts and retains the human resources necessary to successfully lead and manage the unit. The Compensation Committee prepares, monitors and proposes to the Board of Directors compensation plans including any modifications to such plans for executives reporting to the Board of Directors or to the Chairman of the Board of Directors, including Automation Components' first-line managers. Upon request of the Board of Directors, it prepares and proposes to the Board of Directors long-term incentive plans. Upon these proposals, the Board of Directors ultimately decides on all related remuneration issues.

In the financial year 2011/12, the Compensation Committee consisted of Daniel Hirschi (chairman), Federico Foglia and Stefano Premoli Trovati. The Compensation Committee meets as often as business requires. In the reporting period, the Compensation Committee met once.

### Strategic Management Board (SMB)

The SMB develops and submits for approval to the Board of Directors the strategies of the Group. Further, the SMB supervises the business. In these functions, the SMB, inter alia, reviews the accounts of Automation Components and the consolidated accounts of the Group, manages budget deviations and takes the necessary corrective actions. The SMB develops and discusses strategic opportunities, coordination requirements and common services. The SMB further develops and discusses policies, procedures and regulations and drives special projects. It develops and discusses sales and procurement synergies and develops marketing, finance, personnel and IT polices. In the financial year 2011/12, the SMB consisted of Valeria Gavazzi (Chairman), Giovanni Bertola, Daniel Hirschi, Stefano Premoli Trovati, the CEO of Automation Components (Vittorio Rossi), the CFO (Anthony M. Goldstein). The CFO of Automation Components attended the meetings. The SMB meets once per month. In the reporting period, the SMB met seven times (since its establishment in July 2011).

### Members of the committees of the Board of Directors and members of the Board of Directors being members of the SMB

| Name | Audit committee | Compensation committee | SMB |
|---|---|---|---|
| Valeria Gavazzi | | | ▼ |
| Giovanni Bertola | ▼ | | ▼ |
| Federico Foglia | | ▼ | |
| Daniel Hirschi | ▼ | ✱ | ▼ |
| Stefano Premoli Trovati | ✱ | ▼ | ▼ |

✱ Chairman ▼ Member

### Reporting to the Board of Directors

The Board of Directors is regularly informed about the Group's performance according to the latest Management Information System (MIS) reporting for which the CFO is responsible. Furthermore, the annual budget and the strategic plan are subject to approval by the Board of Directors. Ad-hoc information is reported to the Board of Directors when deemed necessary.

| Frequency | Content |
|---|---|
| Monthly | Key P&L information on<br>– Automation Components sub-consolidated<br>– Group consolidated with previous year and budget comparisons |
| Quarterly | P&L, balance sheets, investments and personnel<br>– Automation Components sub-consolidated<br>– Group consolidated with previous year, budget comparisons and year-end estimate |
| Semi-annually | Interim reports meeting the requirements of the SIX Swiss Exchange |
| Annually | All information necessary to establish the annual report governed by IFRS and the rules applicable to companies quoted on the SIX Swiss Exchange |

## 4. Executive Management

### Areas of responsibility – CEO of Automation Components

The CEO of Automation Components leads the Business Unit Automation Components. Automation Components is currently the only Business Unit. In his function he reports to the Chairman of the SMB. Operationally responsible for Automation Components, he ensures the integration and coordination of the subsidiaries' activities towards the overall achievement of Group's goals. Within the limits of the law and with the exception of those competencies that are reserved to the Board of Directors or delegated otherwise, the Board of Directors delegates to the CEO of Automation Components the overall management of the industrial and commercial activities of Automation Components and the conduct of the day-to-day business of the various companies belonging to it. His main responsibilities are: Management of Automation Components, preparation of alternatives and proposals for the SMB in all matters relating to the activities of Automation Components, execution of decisions of the Board of Directors and the SMB, regular reporting to the Board of Directors and the SMB on business activities and important events, support to the Chairman on matters of M&A.

The CEO of Automation Components can delegate part of his functions to other persons. In particular, it is his task to define responsibilities and competencies within the Business Unit. However, such delegation does not release the CEO of Automation Components from the responsibility of the overall management and results of Automation Components.

### Areas of Responsibility – Chief Financial Officer of the Group (CFO)

The CFO is responsible for organizing and supervising all financial aspects of the Group. In the performance of his task he provides guidance to and is assisted by the CFO of Automation Components. He implements all decisions of the Board of Directors and of the SMB with regard to financial matters and is responsible for the flow of information to the Board of Directors in regard to those matters.

In particular, the CFO's responsibilities include: ensuring a timely and adequate reporting system to the Board of Directors and the SMB, including budgets and 3-year plans, organizing and implementing the financial planning, tax planning, organizing and supervising the Group banking relations, assisting the Chairman as required in investor relations, representing the Group towards financial institutions, providing for a timely completion of the financial portion of the interim and the annual report, both on a consolidated basis for the Group and on a stand-alone basis for the Company.

The executive management responsibility lies with the CEO of Automation Components and the CFO. They have the executive management responsibility in their respective roles.

CEO AUTOMATION COMPONENTS
**VITTORIO ROSSI**
**Italian national**

- Graduated in electrical engineering, Politecnico of Milan
- Held various management positions with the Siemens Group in Germany, Italy and USA from 1985 until 2002
- CEO of Siemens SpA, Milan, from 2002 until 2005
- CEO of Gewiss SpA, Bergamo, from 2005 until 2007
- CEO of Automation Components since June 2009

CHIEF FINANCIAL OFFICER (CFO)
**ANTHONY M. GOLDSTEIN**
**British and Swiss national**

- Chartered Accountant FCA
- Audit and training manager at Deloitte, Haskins & Sells, Zurich, (now Deloitte) from 1975 until 1982
- Joined Group in 1982
- Head of Group Reporting
- Group Controller
- Secretary to the Board from 1983 until 2009
- Chief Financial Officer since 2007

EXTERNAL CORPORATE COMMUNICATIONS
**ROLF SCHLÄPFER**
**Swiss national**

- Hirzel.Neef.Schmid.Konsulenten AG, Zurich
- External corporate communications since January 1, 2011

Rolf Schläpfer is not a member of the executive management and is not an employee of the Group.

### External Corporate Communications

The function of Corporate Communications is executed by Rolf Schläpfer who is not a member of the executive management and is not an employee of the Group.

In his function he reports to the Chairman. He is responsible for the elaboration of the Group's communications strategy, for its final definition in close coordination with the Chairman of the Board of Directors and for its implementation.

In particular, this includes: continuous review of the Group's communications activities with the purpose of enhancing or redefining the Group's positioning towards all stakeholders, preparation of the Group's press releases, participation in press conferences, shareholders' meetings and investor meetings, coordination of all main events such as press conferences and AGMs, organization of any other events such as interviews and meetings with the media and the financial community, assistance to the Chairman and other members of the management in the preparation of public statements.

### Management contracts

There are no management contracts in existence pertaining to management tasks that have been delegated to third parties except for a consultancy agreement with Hirzel.Neef.Schmid.Konsulenten AG for the Group's corporate communications.

## 5. Compensation report

Compensation of the members of the Board of Directors and of the executive management is reviewed and fixed annually. Employment contracts with members of the executive management do not contain unusually long notice periods or contract durations. All elements of the compensation system are based on cash with no shareholding programs.

### Compensation – Board of Directors

For their service in the Board of Directors, the members receive a fixed annual fee for the duration of their one year term and a fixed daily fee, including expenses, for attending meetings of the Board of Directors and for their duties in the respective Committees and the SMB. The compensation of the members of the Board of Directors is not bound to specific targets of the Group. In determining the annual fee, the Compensation Committee proposes to the Board of Directors the level of compensation. To determine appropriate compensation levels the Compensation Committee takes into account publicly available information on remuneration at internationally active Swiss peer companies of similar size being active in a similar industry sector listed on the SIX Swiss Exchange. Based on the proposal by the Compensation Committee and subject to its own review, the Board of Directors ultimately decides on the fees on an annual basis. The members of the Board of Directors about whose compensation a decision is being taken are excluded from attending the relevant part of the meeting of the Board of Directors and have no right to a say in decisions relating to their own compensation. Detailed information on the compensation paid can be viewed in note 24 to Consolidated Financial Statements of the Company.

### Compensation – executive management

The compensation of the members of the executive management consists of a fixed portion and a variable cash component related to individual and corporate performance. The fixed base salary takes into account the amount of responsibility assumed by the respective member of the executive management, individual qualifications and market levels of remuneration relevant for the respective country and position. In determining the annual compensation of the executive management, the Compensation Committee proposes to the Board of Directors the level of compensation. To determine appropriate compensation levels, the Compensation Committee takes into account similar levels of compensation of relevant positions. To determine appropriate compensation, the Company seeks from time to time professional advice from external experts. Based on the proposal of the Compensation

Committee and subject to its own review, the Board of Directors ultimately decides on the compensation levels. For the CEO of Automation Components, the variable portion of the compensation relates to specific, individual, measurable targets set out by the Board of Directors (EBITDA, Operating Revenues, Free Cash Flow and Operating Expenses Reduction) and is evaluated based on target attainment at the end of the financial year. The variable compensation ranges between 0% and 41% of the base salary. Attainment of the individual targets contributes to the entire variable compensation payable in the following proportions: EBITDA: 50%, Sales: 25%, Free Cash Flow: 15% and Operating Expenses Reduction: 10%.
For the CFO, the variable portion of the compensation relates to individual performance and is determined by the Board of Directors at its qualitative discretion. The variable portion of the compensation is not expressed as a percentage of the base salary.
Detailed information on the compensation paid can be viewed in note 24 to Consolidated Financial Statements of the Company.

**Long-Term Incentive plan – CEO of Automation Components and first-line management of Automation Components**
A Long-Term Incentive plan (LTI) was approved by the Board of Directors on July 23, 2010 for the benefit of the CEO of Automation Components and first-line management of Automation Components who have a significant influence on the Group's long-term development and financial results. The purpose of the LTI is to strengthen the long-term success of the Group and to foster commitment and teamwork in that the entitled employees are granted cash awards, dependent on various criteria linked to the long-term development of the Group as a whole.

The LTI is based on certain fundamental Automation Components parameters weighted in relation to their deemed importance to the Group's development. These parameters and their respective weight are the following: EBITDA (70%), Operating Revenues (20%) and Cash Flow (10%). Of the targets fixed for each of these three parameters, two or more must be met at the end of each financial year for LTI entitlement.
The LTI has a duration of four financial years commencing 2010/11. LTI compensation is calculated depending on reaching the targets for each financial year. For each LTI participant individually, an overall base bonus covering all four financial years is contractually defined, to be split among the four financial years in the following proportions:

- Financial Year 2010/11 10%
- Financial Year 2011/12 25%
- Financial Year 2012/13 30%
- Financial Year 2013/14 35%.

The actual LTI bonus accruing in the respective financial year to the individual LTI participants varies between 0% and 130% of the annual base bonus, based on target-reaching.

Targets for the first two financial years were fixed at the beginning of the plan period, whereas targets for the financial years 2012/13 and 2013/14 will be fixed during the financial year 2012/13 by the Board of Directors.

LTI compensation will be paid in cash in two installments following the end of the financial years 2011/12 and 2013/14, respectively. Employees leaving the Group forfeit their accrued LTI bonus to the extent it has not been paid out earlier. For further information regarding the first installment due please refer to note 16 to the Consolidated Financial Statements of the Company.

## 6. Shareholders' participation rights

There are no restrictions on the use of voting rights by any group of shareholders. Statutory rules for participating at meetings of shareholders do not differ from the applicable legal provisions.

Resolutions of the meetings of shareholders are carried by the majorities set out by the applicable legal provisions. Convocation of the meetings of shareholders and rules for adding items to the agenda of the meetings of shareholders, especially rules on deadlines, are in accordance with the applicable legal provisions.
All shareholders entered into the share register will be admitted to the meetings of shareholders and are entitled to vote. For administrative reasons, no new entries will be made during the ten days preceding a meeting of shareholders. Shareholders who dispose of their shares before a meeting of shareholders are not entitled to vote.

## 7. Changes of control and defense measures

There are no statutory rules in existence relating to opting out or opting up in connection with the duty to make an offer. Furthermore, there are no agreements in existence relating to changes in control.

## 8. Auditors

PricewaterhouseCoopers AG, Zug, have been group auditors and statutory auditors since 1979. The auditors are elected by the AGM for a period of one year. The lead auditor, Bruno Häfliger assumed his mandate in July 2010. A new lead auditor is appointed every seven years. The next change will be in 2017/18.
The audit fees charged by PricewaterhouseCoopers in 2011/12 amounted to CHF 491 899, for tax consulting CHF 114 352 and CHF 78 335 for other services relating mainly to coaching and supporting group subsidiaries.
Fees charged in 2011/12 by other audit companies for auditing certain subsidiaries amounted to CHF 61 258.
The Audit Committee regularly evaluates the independence and the effectiveness of the external auditor. The auditors are also present at meetings of the Audit Committee as required. For the reporting period, the Audit Committee held meetings with PricewaterhouseCoopers AG as set out in section 3 of this report.

## 9. Information policy

The Group has an open information policy, which treats all target groups equally. When the annual results are released, the Group organizes a physical conference for the media and the investor community to discuss details related to its performance and its business. In addition to the annual report and the interim report, the Group provides the media with information on relevant changes and developments.

Such data can also be obtained from the Group's website at www.carlogavazzi.com/media .
The Company's official means of communication is the Swiss Official Gazette of Commerce.
As a company quoted on the SIX Swiss Exchange and in line with article 53 et seq. of the Listing Rules dated November 12, 2010 (ad hoc publicity), the Group publishes all information relevant to its share price. In compliance with the Directive on Ad hoc Publicity dated October 29, 2008, the Group offers a service on its website that allows interested parties to receive via e-mail distribution timely notification of potentially price-sensitive facts (www.carlogavazzi.com/media/registration). In addition, any ad hoc notice will be made available on the Group's website simultaneously. All press releases can be viewed under www.carlogavazzi.com/media .
The financial calendar for the financial year 2012/13 is available inside the back cover of this annual report and can also be viewed on the Group's website under www.carlogavazzi.com/financialcalendar .
Contact for investor relations:
Rolf Schläpfer, rolf.schlaepfer@konsulenten.ch

# Consolidated Financial Statements

for the years ended March 31, 2012 and 2011

# Statements of Comprehensive Income

for the years ended March 31

| (in CHF 1 000) | Notes | 2012 | 2011 |
|---|---|---|---|
| **Continuing operations** | | | |
| Net sales | | 142 764 | 181 872 |
| Cost of goods sold | | (64 139) | (83 374) |
| **Gross profit** | | **78 625** | **98 498** |
| Research & development expense | | (5 773) | (5 744) |
| Selling, general and administrative expense | | (55 296) | (60 372) |
| Other operating income (expense), net | 7 | 3 619 | (632) |
| **Operating profit (EBIT)** | | **21 175** | **31 750** |
| Financial income | 8 | 853 | 125 |
| Financial expense | 8 | (128) | (686) |
| **Profit before income tax** | | **21 900** | **31 189** |
| Income tax expense | 20 | (5 149) | (8 459) |
| **Net profit for the year** | | **16 751** | **22 730** |
| **Other comprehensive income** | | | |
| Actuarial gains (losses) on employee benefit obligations | 18 | (664) | 565 |
| Tax impact on actuarial gains (losses) on employee benefit obligations | | 165 | (147) |
| Exchange difference on translation of foreign operations | | (6 318) | (7 402) |
| **Other comprehensive income for the year, net of tax** | | **(6 817)** | **(6 984)** |
| **Total comprehensive income for the year** | | **9 934** | **15 746** |
| Net profit attributable to owners of Carlo Gavazzi Holding AG | | 16 751 | 22 730 |
| Comprehensive income attributable to owners of Carlo Gavazzi Holding AG | | 9 934 | 15 746 |

| **Earnings per share from net profit of continuing operations for the year attributable to owners of Carlo Gavazzi Holding AG** (in CHF per share) | | | |
|---|---|---|---|
| **Basic and diluted earnings per share of continuing operations:** | | | |
| – registered shares | 9 | 4.71 | 6.40 |
| – bearer shares | 9 | 23.57 | 31.98 |

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

# Balance Sheets

as of

| (in CHF 1 000) | Notes | March 31 2012 | March 31 2011 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 50 872 | 58 023 |
| Trade receivables | 11 | 29 143 | 37 714 |
| Other receivables | 12 | 4 686 | 6 315 |
| Inventories | 13 | 25 294 | 28 822 |
| **Total current assets** | | **109 995** | **130 874** |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | 10 699 | 12 412 |
| Intangible assets | 15 | 7 131 | 7 311 |
| Other receivables | 12 | 682 | 378 |
| Deferred income tax assets | 20 | 3 670 | 4 150 |
| **Total non-current assets** | | **22 182** | **24 251** |
| **Total assets** | | **132 177** | **155 125** |
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Trade payables | | 9 992 | 13 023 |
| Other payables | 16 | 16 183 | 21 795 |
| Borrowings | 17 | 774 | 1 841 |
| Current income tax liabilities | 20 | 2 087 | 8 227 |
| **Total current liabilities** | | **29 036** | **44 886** |
| **Non-current liabilities** | | | |
| Other payables | 16 | 207 | 164 |
| Borrowings | 17 | 850 | 1 087 |
| Employee benefit obligations | 18 | 5 015 | 4 326 |
| Other provisions | 19 | 599 | 380 |
| Deferred income tax liabilities | 20 | 156 | 134 |
| **Total non-current liabilities** | | **6 827** | **6 091** |
| **Total liabilities** | | **35 863** | **50 977** |
| **Equity** | | | |
| Share capital | 21 | 10 661 | 10 661 |
| Capital reserves | | 600 | 600 |
| Other reserves | | (17 689) | (10 872) |
| Retained earnings | | 102 742 | 103 759 |
| **Total equity attributable to owners of Carlo Gavazzi Holding AG** | | **96 314** | **104 148** |
| **Total liabilities and equity** | | **132 177** | **155 125** |

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

# Statements of Changes in Equity

| (in CHF 1 000) | Notes | Share capital | Capital reserves | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| | | Attributable to owners of Carlo Gavazzi Holding AG | | | | |
| **Equity at April 1, 2010** | | **10 661** | **600** | **(3 888)** | **84 583** | **91 956** |
| **Net profit for the year** | | **-** | **-** | **-** | **22 730** | **22 730** |
| Actuarial gains (losses) on employee benefit obligations, net of tax | | - | - | 418 | - | 418 |
| Exchange difference on translation of foreign operations | | - | - | (7 402) | - | (7 402) |
| **Other comprehensive income for the year** | | **-** | **-** | **(6 984)** | **-** | **(6 984)** |
| Dividends | | - | - | - | (3 554) | (3 554) |
| **Total transactions with owners** | | **-** | **-** | **-** | **(3 554)** | **(3 554)** |
| **Equity at March 31, 2011** | | **10 661** | **600** | **(10 872)** | **103 759** | **104 148** |
| **Net profit for the year** | | **-** | **-** | **-** | **16 751** | **16 751** |
| Actuarial gains (losses) on employee benefit obligations, net of tax | | - | - | (499) | - | (499) |
| Exchange difference on translation of foreign operations | | - | - | (6 318) | - | (6 318) |
| **Other comprehensive income for the year** | | **-** | **-** | **(6 817)** | **-** | **(6 817)** |
| Dividends | 10 | - | - | - | (17 768) | (17 768) |
| **Total transactions with owners** | | **-** | **-** | **-** | **(17 768)** | **(17 768)** |
| **Equity at March 31, 2012** | | **10 661** | **600** | **(17 689)** | **102 742** | **96 314** |

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

# Statements of Cash Flows

for the years ended March 31

| (in CHF 1000) | Notes | 2012 | 2011 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| **Profit for the year** | | **16 751** | **22 730** |
| Income taxes | 20 | 5 149 | 8 459 |
| Depreciation and amortization | | 3 377 | 3 914 |
| Loss (gain) on disposal of property, plant and equipment | 7 | (124) | (67) |
| Change in other non-cash items | | 369 | (548) |
| Changes in working capital: | | | |
| - Change in trade receivables and other receivables | | 6 051 | (5 948) |
| - Change in inventories | | 928 | (5 133) |
| - Change in trade payables and other payables | | (5 590) | 3 072 |
| **Cash generated from operations** | | **26 911** | **26 479** |
| Interest received | | 104 | 93 |
| Interest paid | | (134) | (86) |
| Taxes paid | | (10 407) | (4 639) |
| **Cash flow from operating activities** | | **16 474** | **21 847** |
| **Cash flow from investing activities** | | | |
| Purchases of property, plant and equipment | 14 | (2 865) | (4 518) |
| Purchases of intangible assets | 15 | (348) | (273) |
| Proceeds from disposal of property, plant and equipment | | 789 | 262 |
| **Cash flow from investing activities** | | **(2 424)** | **(4 529)** |
| **Cash flow from financing activities** | | | |
| Dividends paid | 10 | (17 768) | (3 554) |
| Proceeds from borrowings | | 40 | 487 |
| Repayment of borrowings | | (1 135) | (955) |
| **Cash flow from financing activities** | | **(18 863)** | **(4 022)** |
| **Change in cash and cash equivalents** | | **(4 813)** | **13 296** |
| Cash and cash equivalents at the beginning of the year | | 58 023 | 47 853 |
| Effects of exchange rate changes on cash and cash equivalents | | (2 338) | (3 126) |
| **Cash and cash equivalents at the end of the year** | | **50 872** | **58 023** |

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

# Notes to the Consolidated Financial Statements

## 1. General information

Carlo Gavazzi Holding AG with its subsidiaries (together Carlo Gavazzi Group, hereinafter "the Group") is an internationally active electronics company. Its core business Automation Components consists of design and manufacture of electronic control components for the global industrial automation markets. Carlo Gavazzi Holding AG is a publicly traded company listed on the Swiss stock exchange (SIX Swiss Exchange) in Zurich. The address of its registered office is Sumpfstrasse 32, CH-6312 Steinhausen, Switzerland.

The financial year of the Group ends on March 31. The Group reporting currency is Swiss Francs (CHF). The consolidated financial statements are presented in thousands of Swiss Francs (CHF 1 000).

These audited consolidated financial statements were approved for publication by the board of directors on June 26, 2012, and will be recommended for approval at the annual general meeting to be held on July 26, 2012.

## 2. Significant accounting and valuation policies

The significant accounting and valuation policies employed in the preparation of these consolidated financial statements are described below. These policies have been applied consistently in all of the reporting periods presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Carlo Gavazzi Group have been prepared in accordance with IFRS (International Financial Reporting Standards). All standards issued by the IASB (International Accounting Standards Board) being in force on the balance sheet date as well as all valid interpretations of the IFRS IC (International Financial Reporting Standards Interpretation Committee) have been taken into account.

The Group's consolidated financial statements have been prepared on the historical cost basis.

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that may affect the reported amounts of assets and liabilities, income and expenses, as well as the disclosure of contingent liabilities and contingent assets during the reporting period. Whilst these estimates are based on management's best knowledge of current circumstances and possible future events, actual results may ultimately differ from these estimates.

Certain minor reclassifications were made to prior year figures and related note disclosures to conform to the current year's presentation.

### 2.2 Changes to accounting policies

The following amendments and new interpretations are mandatory for the first time for financial years beginning on or after April 1, 2011, but have no material impact or are currently not relevant for the Group:

- IAS 24 "Related Party Disclosures" (revised) simplifying the disclosure requirements for publicly traded companies and redefining the concept of a "related party".
- The revised IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" stipulating that voluntary payments into a pension plan, constituting a surplus, should be recognized as an economic benefit.
- Improvements to IFRS 2010 – various minor changes to a number of standards.

Selected standards and revisions to standards effective for years commencing on or after April 1, 2012, which have not been early adopted by the Group:

- The new IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 "Interests in Joint Ventures" and SIC-13 – "Jointly Controlled Entities – Non-monetary Contributions by Venturers". IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRS standards IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" were also amended and retitled.
- The new IFRS 13 "Fair Value Measurement" defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRS standards require or permit fair value measurements. However, it does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. This standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.
- The amendment to IAS 1 "Financial Statement Presentation" improves the presentation of components of other comprehensive income. It requires separate sub-totals for those elements that may be recycled (e.g. cash flow hedging, foreign currency translation) and those that will not be recycled (e.g. fair value through other comprehensive income items under IFRS 9). The amendments are effective for annual periods beginning on or after July 1, 2012.
- The amendment to IAS 19 "Employee Benefits" requires mandatory recognition of changes in the net liabilities (or net assets) arising from defined benefit plans, including the immediate recognition of costs arising from such plans, the separation of such cost into their elements, the recognition of re-measurements in other comprehensive income, and plan changes, curtailments and settlements of plans. The amendments are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

The Group is currently assessing the effects of these new standards, interpretations and amendments on its future financial reporting.

### 2.3 Principles of consolidation

#### Group companies

Group companies are all those companies in which Carlo Gavazzi Holding AG either directly or indirectly holds 50% or more of the voting rights. New group companies are fully consolidated from the time at which control of the company is transferred to the Group. They are deconsolidated at the point in time at which control ceases.

Assets and liabilities as well as the income and expenses of these companies are fully (100%) consolidated. All material internal group transactions, balances, and unrealized profits and losses resulting from internal group transactions are eliminated.

### Minority interest

The share of net assets and net profit or loss attributable to minority shareholders is presented separately in the consolidated balance sheet and income statement. For the years presented, there was no minority interest.

## 2.4 Foreign currency translation

### Functional and presentation currency

The consolidated financial statements are presented in Swiss Francs (CHF) as the presentation currency. The group companies compile their financial statements in their functional currency, which is the currency of the primary economic environment in which they operate.

### Foreign currency translation

All assets and liabilities in the balance sheets of the group companies that are denominated in respective functional currencies are translated into Swiss Francs at the closing rate. Items in the income statement and cash flow statement are translated at the average exchange rate for the year. The resulting translation differences are recognized in other comprehensive income. When a group company is sold, the cumulative translation differences recognized in shareholders' equity are recycled to the income statement.

The following exchange rates into Swiss Francs were used during the periods:

**Year end rates applied for the consolidated balance sheet**

| Currency | Unit | 31.3.2012 | 31.3.2011 |
|---|---|---|---|
| CAD | 1 | 0.91 | 0.94 |
| CNY | 100 | 14.35 | 13.97 |
| DKK | 100 | 16.18 | 17.41 |
| EUR | 1 | 1.20 | 1.30 |
| GBP | 1 | 1.44 | 1.47 |
| HKD | 100 | 11.64 | 11.77 |
| LTL | 100 | 34.88 | 37.60 |
| MYR | 100 | 29.51 | 30.26 |
| NOK | 100 | 15.83 | 16.55 |
| SEK | 100 | 13.62 | 14.51 |
| SGD | 1 | 0.72 | 0.73 |
| USD | 1 | 0.90 | 0.92 |

**Average rates applied for the consolidated income statement**

| Currency | Unit | 1.4.2011 – 31.3.2012 | 1.4.2010 – 31.3.2011 |
|---|---|---|---|
| CAD | 1 | 0.89 | 1.00 |
| CNY | 100 | 13.83 | 15.14 |
| DKK | 100 | 16.32 | 17.98 |
| EUR | 1 | 1.21 | 1.34 |
| GBP | 1 | 1.41 | 1.58 |
| HKD | 100 | 11.35 | 13.05 |
| LTL | 100 | 35.26 | 38.88 |
| MYR | 100 | 28.86 | 32.37 |
| NOK | 100 | 15.71 | 16.88 |
| SEK | 100 | 13.47 | 14.44 |
| SGD | 1 | 0.70 | 0.76 |
| USD | 1 | 0.88 | 1.01 |

### Foreign currency transactions and balances in the individual financial statements

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured.

All exchange differences are recognized in the income statement, except for intercompany transactions having the nature of a permanent financial investment which are directly recorded in equity.

### 2.5 Cash and cash equivalents

The Group considers all highly liquid investments with maturity of three months or less to be cash.

Cash and cash equivalents are reported at their nominal value.

### 2.6 Trade receivables

Trade receivables are stated at nominal value less an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. The amount of the allowance is determined by analyzing known uncollectible accounts, aged receivables, economic conditions in the customers' country or industry, historical losses and the customers' creditworthiness.

Concentrations of credit risk with respect to trade receivables are limited due to the large number of geographically diverse customers which make up the Group's customer base, thus spreading credit risk. Some European countries require longer payment terms as a part of doing business and this may subject the Group to a higher risk of non-collectability. This risk is evaluated when determining the allowance for doubtful accounts. The Group generally does not require collateral from its customers.

Changes to allowances for doubtful accounts as well as effective losses due to bad debts are shown in selling, general and administrative expense.

### 2.7 Other receivables

This item includes all other receivables that do not arise from deliveries of products (e.g. VAT credits, withholding tax credits, receivables from social insurances, etc.). Included are also advances to suppliers as well as prepaid expenses (e.g. for rent, consulting, insurance premiums, etc.).

Other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

### 2.8 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets unless they are not expected to be realized within 12 months.

#### b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The loans and receivables comprise cash and cash equivalents, trade receivables and other receivables in the balance sheet (notes 2.5, 2.6 and 2.7).

c) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of them within 12 months of the end of the reporting period.

Recognition and measurement
Regular purchases and sales of financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other operating income (expense), net in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other operating income (expense), net when the Group's right to receive payment is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest rate method is recognized in the income statement as part of financial income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other operating income (expense), net, when the Group's right to receive payment is established.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Impairment of financial assets

a) Assets carried at amortized cost
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio; and
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

### 2.9 Inventories

Inventories are stated at the lower of cost or net realizable value. The first-in, first-out (FIFO) method is applied to finished goods inventory and the weighted-average method is applied to production inventory. The cost of finished goods and work in progress comprise raw materials, direct labour costs and other costs that can be directly allocated, such as production overhead expenditures. Provision for write-downs is established when there is a reasonable indication that the Group will not be able to recover the cost of the specific inventory items.

### 2.10 Property, plant and equipment

Property, plant and equipment include land, property used for operational purposes, facilities, machinery, IT and vehicles, as well as plant and equipment under construction.

Property, plant and equipment are reported at their purchase price or construction costs less scheduled accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes the estimated costs of dismantling and removing the asset and restoring the site on which it is located (decommissioning costs) and the corresponding liability is recognized in accordance with IAS 37.

Depreciation is calculated using the straight-line method over the estimated useful lives, as follows:

| | |
|---|---|
| Land | No depreciation |
| Buildings | 50 years |
| Leasehold improvement (maximum) | 10 years |
| Machinery and equipment | 6 years |
| Furniture and fixtures | 6 years |
| Vehicles | 4 years |
| IT equipment | 3 years |

Maintenance, repairs and minor renewals are charged to expense as incurred. Major renewals and betterments are capitalized and depreciated over their estimated useful lives.

When assets are retired or otherwise disposed of, the cost is removed from the asset account and the corresponding accumulated depreciation is removed from the related reserve account. Any gain or loss resulting from such retirement or disposal is included in the income statement.

### 2.11 Intangible assets

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated, from acquisition date, to cash-generating units or groups of cash-generating units (not higher than operating segment) for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from synergies arising from the business combination.

#### Research and development

Expenditure incurred on research and development is distinguished between the research phase and the development phase. All research phase expenditure is charged to the income statement as incurred. For development expenditure, it is capitalized as an internally generated intangible asset only if it meets strict criteria relating to technical feasibility, intention to complete, ability to use or sell, generation of future economic benefits, availability of adequate technical, financial and other resources to complete its development and reliable measurement of the costs incurred. Expenditure capitalized is amortized over the planned economic life or in relation to the expected revenue over the economic useful life, up to a maximum of five years from the entry-into-service of the product or asset, using the straight-line method. Intangible assets that do not have a finite economic life and therefore cannot be depreciated on a straight-line basis are subject to an annual test for impairment.

Software
Acquired computer software licences for own use, which are not an integral part of hardware are capitalized on the basis of the costs incurred to acquire and bring the related software to use. These software licences are amortized using the straight-line method over their useful economic lives, generally three years.

### 2.12 Assets held for sale

The Group's assets are reclassified as held for sale when a sale within one year is highly probable and the assets are available for immediate sale in their present condition.

Non-current assets held for sale are re-evaluated at the lower of fair value less cost to sell or the carrying amounts at the date they meet the held for sale criteria. Any resulting impairment loss is recognized in the income statement.

The liabilities of an asset classified as held for sale or of a group of assets held for sale are disclosed separately from other liabilities in the balance sheet. Such assets and liabilities may not be offset and disclosed as a single amount.

### 2.13 Impairment of non-financial assets

Non-financial assets are assessed on each balance sheet date for any indication of impairment. If any such indication exists, a test is carried out to estimate if the carrying amount could exceed the higher of the asset's fair value less costs to sell and its value in use. If this is the case, the appropriate impairment loss is recognized.

The same method is applied to reversals of impairment losses as for identifying impairment, i.e. a review must be carried out on each reporting date to assess whether there are indications that an impairment loss might no longer exist or might have decreased. If this is the case, the amount of the decrease in impairment loss must be determined (difference between recoverable amount and net carrying amount).

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units to which the goodwill relates. Impairment losses relating to goodwill cannot be reversed in future years.

### 2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

### 2.15 Other payables

Other payables include non interest-bearing liabilities, in particular VAT liabilities, liabilities for social security payments, current and non-current employee benefits (e.g. accrued paid annual leave and overtime, bonuses, etc.) as well as accrued expenses, short-term provisions and prepaid income.

Other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

### 2.16 Borrowings

Borrowings are divided into current and non-current depending on the time to maturity and include in particular bank overdrafts, loans and finance leases. Borrowings are recognized initially at fair value, net of transaction costs incurred. In subsequent periods, loans are stated at amortized cost using the effective interest rate method with any difference between proceeds (net of transaction costs) and the redemption value being recognized in the income statement over the terms of the borrowing.

### 2.17 Leasing

Assets acquired under finance leases are capitalized as part of the fixed assets. Leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

The associated obligations are included dependent on their maturity in current or non-current financial liabilities, respectively.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### 2.18 Employee benefits

Pension obligations

The Group has a range of pension plans designed to take account of local conditions and practices in individual countries in which the Group operates. The Swiss subsidiaries provide a defined benefit plan for their employees; subsidiaries in other jurisdictions provide both defined contribution plans and defined benefit plans for their employees. The plans are generally funded through payments to insurance companies or trustee-administered funds. Costs related to post-employment benefits are recognized as personnel expenses allocated to the functions to which the respective employees contribute.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (insurance company or fund). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee services in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Defined benefit plans typically specify an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and salary.

For defined benefit plans, the amount recognized in the balance sheet corresponds to the present value of the defined benefit obligation at the balance sheet date reduced by the fair value of plan assets and adjusted for unrecognized past service cost. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Any underfunding will be recognized as a liability. Overfunding, however, will only be capitalized to the extent that it represents economic benefits for the Group.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specific period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over such vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

### Termination indemnity

Italian law requires the Italian group companies to grant termination indemnity benefits (TFR) to all employees. Up to a pension reform which introduced new regulations for employee termination benefits beginning from January 1, 2007, termination indemnity benefits were classified and accounted for as defined benefit plans. Beginning January 1, 2007, the plans are considered to be defined contribution plans. The termination benefit provision accrued up to December 31, 2006, continues to be accounted for as a defined benefit plan and is recorded at the actuarial present value of the benefits for which the employees are currently entitled based on the employee's expected separation or retirement date. The benefit obligation is not covered by separately identified assets (unfunded plan).

### Long-term incentive plan

The Long-Term Incentive plan (LTI) was approved by the Board of Directors on July 23, 2010; it includes the CEO and first-line management of Automation Components who have a significant influence on the Group's long-term development and financial results. The purpose of the LTI is to strengthen the long-term success of the Group and to foster commitment and teamwork in that the entitled employees are granted cash awards, dependent on various criteria allied to the long-term development of the Group as a whole. The Group recognizes a provision where contractually obliged. The LTI is accounted for under IAS 19.

## 2.19 Provisions and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

A provision is measured on the best estimate concept, i.e. the amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation on the balance sheet date. The amount of a provision is reviewed for appropriateness at every balance sheet date. Long-term provisions are discounted.

Contingent liabilities arise from past events where the outcome depends on future events. As the probability either cannot be measured reliably or the probability for a subsequent outflow lies below 50%, contingent liabilities are not recognized in the balance sheet but are described in the notes.

## 2.20 Equity

Equity includes share capital, capital reserves, other reserves and retained earnings.

Share capital is the par value of all outstanding shares.

Capital reserves contain gains and losses realized on the sale of own shares held in previous years.

Retained earnings are profits, including legal and free reserves, that are not distributed as dividends and which are generally freely available.

Other reserves include currency translation differences, actuarial gains and losses on post-employment benefit obligations as well as their related income tax effect on other comprehensive income.

## 2.21 Revenue recognition

Revenue from the sale of goods comprises all revenues that are derived from sales of products to third parties after deduction of sales taxes and discounts. Revenues from the sale of goods are recognized when the significant risks and rewards of ownership of the products have passed to the buyer, usually upon delivery of the products. Appropriate provisions are created for expected warranty claims arising from the sale of goods.

Interest income is recognized using the effective interest rate method.

### 2.22 Borrowing costs

Borrowing costs comprise interest and other costs that are incurred in connection with the borrowing of funds. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset.

### 2.23 Income taxes

Income tax expense for the year comprises current and deferred income taxes.

Current income taxes are the expected taxes payable on the taxable income for the year of the respective group companies including any adjustment to taxes payable in respect of previous years. Current income taxes are accrued in a period-compliant manner.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred taxes are determined using tax rates that apply, or have been substantially enacted, on the balance sheet date in the countries where the Group is active. Tax losses carried forward are recognized as deferred tax assets to the extent that it is probable that tax profit will be available in the future against which the tax losses carried forward can be utilized. Deferred tax assets and liabilities are offset against each other if the corresponding income taxes arise by the same tax authority and a legally enforceable right for offsetting exists.

### 2.24 Business combinations

All business combinations are accounted for using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets transferred, liabilities incurred and the equity interests issued, including the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. The identifiable assets acquired or liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date. The excess of the consideration transferred over the fair value of the identifiable net assets acquired is recorded as goodwill and allocated to the cash-generating units or group of cash-generating units depending on the level at which it is monitored by management. If the consideration transferred is lower than the fair value of the acquirer's share of the identifiable net assets acquired (bargain purchase), the difference is recognized directly in the income statement.

## 3. Financial risk management

The Group classifies its financial assets and liabilities into the following categories as per IFRS 7:

| Financial Assets (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| **Loans and receivables** | | |
| Cash and cash equivalents | 50 872 | 58 023 |
| Trade receivables | 29 143 | 37 714 |
| Other receivables | 4 686 | 6 693 |
| **Total** | **84 701** | **102 430** |

| Financial Liabilities (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| **Other financial liabilities at amortized cost** | | |
| Trade payables | 9 992 | 13 023 |
| Other payables | 16 390 | 21 959 |
| Borrowings | 1 624 | 2 928 |
| **Total** | **28 006** | **37 910** |

No additional disclosures of fair value are presented because carrying value is a reasonable approximation of fair value.

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk.

Generally, financial risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance, however, the Group does not use derivative financial instruments to hedge risk exposures.

Risk management and its effectiveness are regularly monitored by the Board of Directors.

#### a) Market risk

#### Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to EUR (incl. pegged currencies) against USD and GBP. The Group does not actively hedge foreign exchange risks, however, where possible it seeks to reduce these risks by natural hedging (cash inflows and outflows in a specific currency should be in balance as much as possible).

Foreign exchange risks arise when commercial transactions of operations are not denominated in the functional currency of the respective legal entity, but instead in another currency. Foreign exchange risks also arise from translation differences when preparing the consolidated financial statements in Swiss Francs; however, they are excluded for the purpose of the sensitivity analysis for currency risk. As stated above there are currency exposures with respect to USD and GBP in the amount of CHF 7 316 (2011 CHF 4 846) and CHF -5 (2011 CHF 1 200), respectively. A change in foreign currency exchange rates of 10%, with all other variables held constant, would have caused the pre-tax result of the Group to be higher/lower by around CHF 731 (2011 CHF 605).

#### Price risk

The Group is not exposed to either equity securities price risk or commodity price risk.

#### Cash flow and fair value interest rate risk

The Group's interest rate risk arises from bank overdrafts and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. As a result of the Group's positive net cash position, the interest rate risk is considered to be immaterial. A sensitivity analysis has therefore not been provided.

#### b) Credit risk

Credit risk is managed on a local basis for accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Local management may also define credit limits for each customer. As there is no independent rating for most customers, local credit control departments assess the credit quality of the customers, taking into account their financial position, past experience and other factors. There is no concentration of credit risk in respect of trade receivables as the Group has a large number of geographically diverse customers.

Other credit risk arises from cash and cash equivalents and deposits with banks. Counterparty risk is minimized by ensuring that all current accounts are maintained with banks whose credit ratings by one of the major independent rating agencies are where possible at least "A".

#### c) Liquidity risk

Liquidity risk is the risk that the Group would not be able to meet its financial obligations on time. The monitoring of liquidity and allocation of resources by the Group allows for maintenance of adequate liquidity levels at all times. In addition, the Group maintains credit lines with a number of financial institutions.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date; the amounts disclosed are the contractual undiscounted cash flows.

The remaining contractual maturities are as follows (in CHF 1 000):

| as at March 31, 2012 | less than 1 year | between 1–5 years | more than 5 years | Total |
|---|---|---|---|---|
| Trade payables | 9 992 | – | – | 9 992 |
| Other payables | 16 183 | 207 | – | 16 390 |
| Bank overdrafts | 468 | – | – | 468 |
| Bank loans | – | 395 | – | 395 |
| Other loans | 306 | 357 | 98 | 761 |
| Leasing obligations | – | – | – | – |
| **Total** | **26 949** | **959** | **98** | **28 006** |

| as at March 31, 2011 | less than 1 year | between 1–5 years | more than 5 years | Total |
|---|---|---|---|---|
| Trade payables | 13 023 | – | – | 13 023 |
| Other payables | 21 795 | 164 | – | 21 959 |
| Bank overdrafts | 1 344 | – | – | 1 344 |
| Bank loans | – | 385 | – | 385 |
| Other loans | 449 | 495 | 207 | 1 151 |
| Leasing obligations | 48 | – | – | 48 |
| **Total** | **36 659** | **1 044** | **207** | **37 910** |

### 3.2 Capital risk management

The Group's primary objective is to maintain a strong equity base in order to maintain investor, creditor and market confidence and to sustain the future development of the business. As of March 31, 2012, equity represented 72.9% of total assets (2011 67.1%).

The Group reviews the capital structure and the equity of the subsidiaries as required to cover the associated risks.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares and issue or reduce debt.

## 4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial periods mainly relate to impairment of goodwill, income taxes, employee benefit obligations, allowance for doubtful accounts and warranties.

### Impairment of goodwill

All goodwill resulting from past business combinations is monitored for internal management purposes at the operating segment (ACBU) level, as reflected in these consolidated financial statements and therefore allocated to a group of cash-generating units (see note 2.11). Goodwill has been tested for impairment as at March 31, 2012 and at March 31, 2011 at this level. No impairment charge arose.

The recoverable amount of the Group of cash-generating units is determined based on value in use calculations. These calculations use post-tax cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using an appropriate estimated growth rate of 1.5% at March 31, 2012 and March 31, 2011. The discount rate applied to the cash flow projections is based on the weighted average cost of capital and is correspondingly adjusted to the specific business risks. The post-tax discount rate applied was 9.2% at March 31, 2012, and 9.2% at March 31, 2011.

A decrease in projected growth rate after the year 2014/15 to zero would not change the result of the impairment test. Management is of the opinion that possible changes in the other assumptions made, barring any exceptional events, would not lead to any impairment charge.

### Income taxes

The Group is subject to taxation in numerous jurisdictions. In this respect the Group and its subsidiary companies are regularly exposed to audits by the various governmental bodies and authorities, where the outcome of findings particularly in the area of transfer pricing depends very often on individual judgements. Considerable judgement is required in determining tax provisions. Liabilities for anticipated tax audit issues are recognized based on estimates of whether additional taxes will be due. These estimates could prove to be too pessimistic, or, in a negative scenario, additional tax liabilities would have to be recorded in the future.

Furthermore, the capitalization of deferred tax assets is based on assumptions about the future profitability of certain group companies. There is an inherent risk that these estimates made by management may turn out to be too optimistic or too pessimistic.

### Employee benefit obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The group companies determine the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the group companies consider the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligations.
Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 18.

### Allowance for doubtful accounts

To cover shortfalls from current trade receivables, the Group records an allowance for doubtful receivables based on historical information and on estimates in regard to the solvency of customers. Unexpected financial problems of major customers could lead to the situation where the recorded allowance is insufficient.

### Warranties

During regular course of business the group companies are faced with risks for warranties granted on the sale of products. Warranty provisions are built for products with extended useful lives, up to 10 years, namely in the renewable energy market. The amount of warranty provision is determined based on experience and on the currently known warranty risk. The amount of the provision is assessed initially and subsequently reviewed annually by group management.

## 5. Segment reporting

The Group is an internationally active electronics company active in designing, manufacturing and marketing electronic control components for the global markets of industrial and building automation. The Group has only one operating and reportable segment, the information for the segment therefore mainly corresponds to the figures in the consolidated financial statements. When the Group implemented IFRS 8 "Operating Segments", the following circumstances led to the conclusion that it only has one reportable segment:

- Internal monthly reporting for the only operating segment is carried out in concentrated form for the whole Group.
- Because of the close integration of the group companies, focussing individually on production, logistics, marketing and selling, key decisions are, consequently, made by corporate management at consolidated group level and not on the basis of the financial statements of individual legal entities.
- The holding company only provides corporate services; its operating result is monitored in the internal monthly reporting.

The reconciliation of EBIT to profit before income tax is as follows:

| (in CHF 1 000) | 2011/12 | 2010/11 |
|---|---|---|
| **EBIT** | | |
| – Automation Components | 17 714 | 31 970 |
| – Corporate | 3 461 | (220) |
| **Total EBIT** | **21 175** | **31 750** |
| Financial income (expense), net | 725 | (561) |
| **Profit before income tax** | **21 900** | **31 189** |

Segment assets and liabilities are reconciled to total assets and liabilities as follows:

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| **Assets** | | |
| – Automation Components | 112 553 | 132 803 |
| – Corporate | 19 624 | 22 322 |
| **Total assets** | **132 177** | **155 125** |
| **Liabilities** | | |
| – Automation Components | 34 642 | 46 086 |
| – Corporate | 1 221 | 4 891 |
| **Total liabilities** | **35 863** | **50 977** |

### Geographical information

| | Net sale of products by customer location | | Non-current assets by location of assets | |
|---|---|---|---|---|
| (in CHF 1 000) | 2011/12 | 2010/11 | 2012 | 2011 |
| Switzerland | 2 841 | 3 133 | 102 | 55 |
| Italy | 21 421 | 45 279 | 3 020 | 5 621 |
| Germany | 12 105 | 18 582 | 96 | 870 |
| Other EMEA | 70 037 | 75 899 | 12 958 | 11 740 |
| **Total EMEA** | **106 404** | **142 893** | **16 176** | **18 286** |
| North America | 21 872 | 22 353 | 200 | 132 |
| Asia | 14 488 | 16 626 | 1 454 | 1 305 |
| **Total Group** | **142 764** | **181 872** | **17 830** | **19 723** |

### Revenues from external customers

The Group's revenues are derived from the sale of a wide range of products to external customers from a large variety of markets. As a single product can be used in many different applications, sales revenue may not be reasonably split into groups of products or markets. Consequently, detailed information about products sold is not available and the cost to develop it would be excessive.

As stated above, the Group has a large number of customers and, during the periods, no single customer accounted for more than 10% of the Group's net sales.

## 6. Employee benefit expense

| (in CHF 1 000) | 2011/12 | 2010/11 |
|---|---|---|
| Wages and salaries | 35 572 | 40 152 |
| Post-employment benefit cost | 1 123 | 1 229 |
| Other social security cost | 6 864 | 7 079 |
| Other expenses | 147 | 274 |
| **Total** | **43 706** | **48 734** |

Employee benefit expense is included in the income statement under cost of goods sold, research & development expense and selling, general and administrative expense.

## 7. Other operating income and expense

| (in CHF 1 000) | 2011/12 | 2010/11 |
|---|---|---|
| **Other operating income** | | |
| Gain on sale of property, plant and equipment | 189 | 76 |
| Reversal of sundry claim costs | 448 | – |
| Release of accruals for potential liabilities following legal release | 3 777 | – |
| Other | 607 | 459 |
| **Total other operating income** | **5 021** | **535** |
| **Other operating expense** | | |
| Loss on sale of property, plant and equipment | (65) | (9) |
| Personnel indemnity cost | (742) | (356) |
| Sundry claim costs | (34) | (335) |
| Other | (561) | (467) |
| **Total other operating expense** | **(1 402)** | **(1 167)** |
| **Total other operating income (expense), net** | **3 619** | **(632)** |

## 8. Financial income and expense

| (in CHF 1 000) | 2011/12 | 2010/11 |
|---|---|---|
| **Financial income** | | |
| Interest income on short-term bank deposits | 148 | 125 |
| Net foreign exchange gain | 705 | – |
| **Total financial income** | **853** | **125** |
| **Financial expense** | | |
| Interest expense on bank borrowings | (113) | (153) |
| Net foreign exchange loss | – | (467) |
| Discount expense on decommissioning cost | (15) | (66) |
| **Total financial expense** | **(128)** | **(686)** |
| **Total financial income (expense), net** | **725** | **(561)** |

## 9. Earnings per share

Earnings per registered share are computed based on the weighted average number of registered shares of CHF 3.00 each outstading during the years.

Earnings per bearer share are computed based on the weighted average number of bearer shares of CHF 15.00 each outstanding during the years.

Basic and diluted earnings per share are as follows:

| (in CHF 1 000) | 2011/12 | 2010/11 |
|---|---|---|
| **Net profit attributable to owners of Carlo Gavazzi Holding AG** | **16 751** | **22 730** |
| Percentage of registered shares outstanding in comparison with the share capital outstanding | 45.03% | 45.03% |
| Percentage of bearer shares outstanding in comparison with the share capital outstanding | 54.97% | 54.97% |
| **Registered shares** | | |
| Net profit attributable to registered shareholders | 7 543 | 10 235 |
| Average number of shares outstanding | 1 600 000 | 1 600 000 |
| **Basic and diluted earnings per registered share (CHF)** | **4.71** | **6.40** |
| **Bearer shares** | | |
| Net profit attributable to bearer shareholders | 9 208 | 12 495 |
| Average number of shares outstanding | 390 710 | 390 710 |
| **Basic and diluted earnings per bearer share (CHF)** | **23.57** | **31.98** |

## 10. Dividends paid and proposed

Carlo Gavazzi Holding AG pays one dividend per financial year. The annual general meeting held on July 28, 2011, resolved to distribute a dividend for the financial year 2010/11, with value August 5, 2011, as follows (in CHF):

| | | |
|---|---|---|
| Ordinary dividend per registered share | CHF | 2.00 |
| Ordinary dividend per bearer share | CHF | 10.00 |
| **Total ordinary dividend paid** | **CHF 1 000** | **7 107** |
| Jubilee dividend per registered share | CHF | 3.00 |
| Jubilee dividend per bearer share | CHF | 15.00 |
| **Total jubilee dividend paid** | **CHF 1 000** | **10 661** |
| **Total dividend paid** | **CHF 1 000** | **17 768** |

At the annual general meeting to be held on July 26, 2012, payment of the following dividend for 2011/12 will be proposed:

| | | |
|---|---|---|
| Dividend per registered share | CHF | 2.40 |
| Dividend per bearer share | CHF | 12.00 |
| **Proposed dividend** | **CHF 1 000** | **8 529** |

## 11. Trade receivables

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| Trade receivables | 30 649 | 39 485 |
| Less allowance for doubtful accounts | (1 506) | (1 771) |
| **Total** | **29 143** | **37 714** |

| Movements in the allowance for doubtful accounts | 2011/12 | 2010/11 |
|---|---|---|
| **Balance at April 1** | **(1 771)** | **(1 896)** |
| Utilization of allowance | 124 | 73 |
| Reversal of unused allowance | 303 | 199 |
| Increase in allowance | (288) | (320) |
| Foreign exchange effect | 126 | 173 |
| **Balance at March 31** | **(1 506)** | **(1 771)** |

Ageing analysis of trade receivables (in CHF 1 000)

| as at March 31, 2012 | Total | Not impaired | Impaired and fully/partly provided for |
|---|---|---|---|
| Not overdue | 23 197 | 23 197 | – |
| Less than 1 month overdue | 4 544 | 4 525 | 19 |
| Between 1–3 months overdue | 775 | 682 | 93 |
| Between 3–6 months overdue | 565 | 504 | 61 |
| Between 6–12 months overdue | 560 | 135 | 425 |
| More than 12 months overdue | 1 008 | 102 | 906 |
| **Total** | **30 649** | **29 145** | **1 504** |

| as at March 31, 2011 | Total | Not impaired | Impaired and fully/partly provided for |
|---|---|---|---|
| Not overdue | 29 363 | 29 363 | – |
| Less than 1 month overdue | 5 243 | 5 218 | 25 |
| Between 1 – 3 months overdue | 2 462 | 2 353 | 109 |
| Between 3 – 6 months overdue | 747 | 534 | 213 |
| Between 6 – 12 months overdue | 492 | 155 | 337 |
| More than 12 months overdue | 1 178 | 141 | 1 037 |
| **Total** | **39 485** | **37 764** | **1 721** |

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| EUR | 16 963 | 24 947 |
| USD | 3 485 | 3 391 |
| CNY | 2 145 | 2 200 |
| SEK | 1 325 | 1 795 |
| DKK | 1 371 | 1 192 |
| CAD | 1 169 | 1 318 |
| GBP | 979 | 1 010 |
| Other | 1 706 | 1 861 |
| **Total** | **29 143** | **37 714** |

## 12. Other receivables

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| **Current** | | |
| VAT and other tax receivables | 3 230 | 4 775 |
| Other receivables | 607 | 590 |
| Prepaid expense | 849 | 950 |
| **Total current** | **4 686** | **6 315** |
| **Non-current** | | |
| Deposits and other receivables | 682 | 378 |
| **Total non-current** | **682** | **378** |
| **Total other receivables** | **5 368** | **6 693** |

The carrying amounts of the Group's other receivables are denominated in the following currencies:

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| EUR | 4 290 | 5 727 |
| Other | 1 078 | 966 |
| **Total** | **5 368** | **6 693** |

All non-current receivables are due within five years from the end of the reporting period. No impairments were recognized on other receivables (none in 2010/11).

## 13. Inventories

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| Raw materials and supplies | 9 592 | 9 523 |
| Work in progress | 3 638 | 3 884 |
| Finished goods | 17 326 | 19 175 |
| **Inventories, gross** | **30 556** | **32 582** |
| Less allowance for valuation | (5 262) | (3 760) |
| **Total** | **25 294** | **28 822** |

The cost of inventories recognized as expense and included in cost of goods sold in 2011/12 amounted to CHF 62 361 (2010/11 CHF 83 109).
The write-down on inventories in 2011/12 amounted to CHF 1 778 (2010/11 CHF 265).

## 14. Property plant and equipment

| (in CHF 1 000) | Land | Buildings | Leasehold improvements | Machinery and equipment | Furniture and fixtures | Vehicles | IT equipment | Total |
|---|---|---|---|---|---|---|---|---|
| **Historical cost** | | | | | | | | |
| Balance at April 1, 2010 | 842 | 4 229 | 4 216 | 36 413 | 4 160 | 2 710 | 5 795 | 58 365 |
| Additions | – | – | 542 | 2 724 | 281 | 527 | 444 | 4 518 |
| Disposals | – | – | (150) | (202) | (90) | (565) | (330) | (1 337) |
| Currency translation differences | (76) | (385) | (562) | (3 440) | (357) | (222) | (492) | (5 534) |
| Reclassifications | – | – | – | – | – | – | – | – |
| **Balance at March 31, 2011** | **766** | **3 844** | **4 046** | **35 495** | **3 994** | **2 450** | **5 417** | **56 012** |
| Additions | – | – | 196 | 1 788 | 126 | 372 | 383 | 2 865 |
| Disposals | (612) | (2 223) | (6) | (194) | (19) | (408) | (248) | (3 710) |
| Currency translation differences | (57) | (284) | (117) | (2 431) | (234) | (152) | (341) | (3 616) |
| Reclassifications | – | – | – | – | – | – | – | – |
| **Balance at March 31, 2012** | **97** | **1 337** | **4 119** | **34 658** | **3 867** | **2 262** | **5 211** | **51 551** |
| **Accumulated depreciation** | | | | | | | | |
| Balance at April 1, 2010 | – | (3 107) | (1 999) | (29 772) | (3 365) | (1 800) | (5 302) | (45 345) |
| Annual depreciation | – | (157) | (375) | (2 251) | (256) | (367) | (321) | (3 727) |
| Depreciation on disposals | – | – | 151 | 77 | 85 | 496 | 333 | 1 142 |
| Currency translation differences | – | 287 | 343 | 2 809 | 281 | 144 | 466 | 4 330 |
| Reclassifications | – | – | – | – | – | – | – | – |
| **Balance at March 31, 2011** | – | **(2 977)** | **(1 880)** | **(29 137)** | **(3 255)** | **(1 527)** | **(4 824)** | **(43 600)** |
| Annual depreciation | – | (30) | (347) | (1 903) | (194) | (384) | (299) | (3 157) |
| Depreciation on disposals | – | 2 282 | 4 | 194 | 19 | 335 | 211 | 3 045 |
| Currency translation differences | – | 221 | 5 | 2 039 | 193 | 95 | 307 | 2 860 |
| Reclassifications | – | – | – | – | – | – | – | – |
| **Balance at March 31, 2012** | – | **(504)** | **(2 218)** | **(28 807)** | **(3 237)** | **(1 481)** | **(4 605)** | **(40 852)** |
| **Net book value** | | | | | | | | |
| at March 31, 2011 | 766 | 867 | 2 166 | 6 358 | 739 | 923 | 593 | 12 412 |
| at March 31, 2012 | 97 | 833 | 1 901 | 5 851 | 630 | 781 | 606 | 10 699 |
| **thereof acquired under finance leases** | | | | | | | | |
| at March 31, 2011 | – | – | – | 59 | – | – | – | 59 |
| at March 31, 2012 | – | – | – | – | – | – | – | – |

The fire insurance value of property, plant and equipment (excluding land) amounted to CHF 34 604 (2011 CHF 38 709).
Depreciation of property, plant and equipment is included in the income statement under cost of goods sold, research & development expense and selling, general and administrative expense.

## 15. Intangible assets

| (in CHF 1 000) | Goodwill | Software | Total |
|---|---|---|---|
| **Historical cost** | | | |
| Balance at April 1, 2010 | 7 603 | 1 435 | 9 038 |
| Additions | – | 273 | 273 |
| Disposals | – | (36) | (36) |
| Currency translation differences | (575) | (176) | (751) |
| Reclassifications | – | – | – |
| **Balance at March 31, 2011** | **7 028** | **1 496** | **8 524** |
| Additions | – | 362 | 362 |
| Disposals | – | (14) | (14) |
| Currency translation differences | (396) | (103) | (499) |
| Reclassifications | – | – | – |
| **Balance at March 31, 2012** | **6 632** | **1 741** | **8 373** |
| **Accumulated amortization** | | | |
| Balance at April 1, 2010 | – | (1 083) | (1 083) |
| Annual amortization | – | (187) | (187) |
| Amortization on disposals | – | 36 | 36 |
| Currency translation differences | – | 21 | 21 |
| Reclassifications | – | – | – |
| **Balance at March 31, 2011** | – | **(1 213)** | **(1 213)** |
| Annual amortization | – | (220) | (220) |
| Amortization on disposals | – | – | – |
| Currency translation differences | – | 191 | 191 |
| Reclassifications | – | – | – |
| **Balance at March 31, 2012** | – | **(1 242)** | **(1 242)** |
| **Net book value** | | | |
| at March 31, 2011 | 7 028 | 283 | 7 311 |
| at March 31, 2012 | 6 632 | 499 | 7 131 |

There are no accumulated impairment losses in goodwill (see note 4 for method of calculation and key assumptions used).
Within intangible assets only goodwill is assumed to have an indefinite life.
Amortization of intangible assets is included in the income statement under cost of goods sold, research & development expense and selling, general and administrative expense.

## 16. Other payables

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| **Current** | | |
| VAT payable | 1 584 | 1 607 |
| Payables to employees | 610 | 781 |
| Payables to social security institutions | 824 | 807 |
| Other payables | 787 | 906 |
| Accrued warranty costs | 1 246 | 1 084 |
| Accrued sundry claim costs | 206 | 650 |
| Accrued personnel expense | 8 940 | 10 203 |
| Other accrued expense | 1 986 | 5 757 |
| **Total current** | **16 183** | **21 795** |
| **Non-current** | | |
| Other payables | 207 | 164 |
| **Total non-current** | **207** | **164** |
| **Total other payables** | **16 390** | **21 959** |

Accrued personnel expense includes a provision for the Long-Term Incentive plan (LTI) for 2011/12 of CHF 1 134 (2010/11 CHF 551), including employer's contribution to social security of CHF 210 (2010/11 CHF 102).

## 17. Borrowings

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| **Current** | | |
| Bank overdrafts | 468 | 1 344 |
| Bank loans | – | – |
| Other loans | 306 | 449 |
| Leasing obligations | – | 48 |
| **Total current** | **774** | **1 841** |
| **Non-current** | | |
| Bank loans | 395 | 385 |
| Other loans | 455 | 702 |
| Leasing obligations | – | – |
| **Total non-current** | **850** | **1 087** |
| **Total borrowings** | **1 624** | **2 928** |

The Group's borrowings at the end of the reporting periods mature as follows:

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| Less than 1 year | 774 | 1 841 |
| Between 1-3 years | 568 | 687 |
| Between 3-5 years | 184 | 193 |
| More than 5 years | 98 | 207 |
| **Total** | **1 624** | **2 928** |

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| EUR | 1 229 | 2 495 |
| CNY | 395 | 385 |
| DKK | – | 48 |
| **Total** | **1 624** | **2 928** |

## 18. Employee benefit obligations

The amounts recognized in the balance sheet for pension benefits are determined as follows:

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| Present value of funded obligations | 4 236 | 3 683 |
| Fair value of plan assets | (2 952) | (2 869) |
| **Underfunding** | **1 284** | **814** |
| Present value of unfunded obligations | 3 739 | 3 521 |
| Unrecognized past service cost | (8) | (9) |
| **Total** | **5 015** | **4 326** |

The movement in the defined benefit obligation over the year is as follows:

| (in CHF 1 000) | 2011/2012 | 2010/2011 |
|---|---|---|
| **Balance at April 1** | **7 204** | **9 019** |
| Current service cost | 491 | 606 |
| Interest cost | 292 | 321 |
| Actuarial losses/(gains) | 443 | (635) |
| Benefits paid | (152) | (1 542) |
| Past service cost | – | – |
| Settlements and curtailments | – | (120) |
| Exchange differences | (304) | (445) |
| **Balance at March 31** | **7 974** | **7 204** |

The movement in the fair value of plan assets over the year is as follows:

| (in CHF 1 000) | 2011/2012 | 2010/2011 |
|---|---|---|
| **Balance at April 1** | **2 869** | **3 820** |
| Expected return on plan assets | 104 | 120 |
| Actuarial gains/(losses) | (223) | (71) |
| Employer contributions | 154 | 199 |
| Employee contributions | 71 | 86 |
| Benefits paid | 4 | (1 176) |
| Settlements and curtailments | – | (62) |
| Exchange differences | (27) | (47) |
| **Balance at March 31** | **2 952** | **2 869** |

The employee benefit expense charged in the income statement under cost of goods sold, research & development expense and selling, general and administrative expense is as follows:

| (in CHF 1 000) | 2011/12 | 2010/11 |
|---|---|---|
| Defined benefit plans | 681 | 749 |
| Defined contribution plans | 442 | 480 |
| **Total** | **1 123** | **1 229** |

The amounts recognized in the income statement are determined as follows:

| (in CHF 1 000) | 2011/12 | 2010/11 |
|---|---|---|
| **Defined benefit plans** | | |
| Current service cost | 491 | 606 |
| Interest cost | 292 | 321 |
| Expected return on plan assets | (104) | (120) |
| Past service cost | – | – |
| Amortization of net gain/(loss) | 2 | – |
| Curtailment loss/(gain) recognized | – | (58) |
| **Total defined benefit plans** | **681** | **749** |
| **Defined contribution plans** | | |
| Employer contributions | 442 | 480 |
| **Total defined contribution plans** | **442** | **480** |
| **Total** | **1 123** | **1 229** |
| **Actuarial gains/(losses) recognized in the statement of other comprehensive income in the year** | **(664)** | **565** |
| **Cumulative actuarial gains/(losses) recognized in the statement of other comprehensive income** | **(419)** | **245** |

The actual return on plan assets was CHF 205 (2010/11 CHF 140).
During the next financial year the Group expects cash provisions to defined benefit plans to amount to CHF 354.

The principal weighted average actuarial assumptions are as follows:

| | 2011/12 | 2010/11 |
|---|---|---|
| Discount rate | 3.29% | 4.13% |
| Inflation rate | 1.62% | 1.63% |
| Expected return on plan assets | 3.59% | 4.16% |
| Future salary increases | 2.45% | 2.55% |
| Future pension increases | 2.10% | 2.45% |

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory. Mortality assumptions for Switzerland are based on post-retirement mortality table BVG 2010 GT.

Pension plan assets are allocated to the following categories:

| | 2012 | 2011 |
|---|---|---|
| Equity instruments | 16.29% | 16.48% |
| Debt instruments | 62.06% | 60.52% |
| Property | 16.67% | 15.16% |
| Other | 4.98% | 7.84% |
| **Total** | **100.00%** | **100.00%** |

Pension plan assets of the subsidiaries in Norway and Switzerland are invested with trustee-administered funds. Investment strategy and decisions are made at the sole discretion of the respective fund trustees. The expected weighted average long-term return of 3.59% (2010/11 4.16%) on these pension plans is therefore based on professional experience and the expected returns available on the assets underlying the current investment strategies.

Subsidiaries in all other jurisdictions provide unfunded pension plans only.

The history of defined benefit plans and experience adjustments is as follows:

| (in CHF 1 000) | 2012 | 2011 | 2010 |
|---|---|---|---|
| **Balance at March 31** | | | |
| Present value of defined benefit obligations | 7 974 | 7 204 | 9 019 |
| Fair value of plan assets | (2 952) | (2 869) | (3 820) |
| Deficit in the plans | 5 022 | 4 335 | 5 199 |
| **Experience adjustments on plan liabilities** | **(235)** | **(383)** | **(22)** |
| **Experience adjustments on plan assets** | **138** | **67** | **140** |

## 19. Other provisions

| (in CHF 1 000) | Restoration cost | Warranties | Total |
|---|---|---|---|
| **Balance at April 1, 2010** | **479** | – | **479** |
| Additions | 72 | – | 72 |
| Utilization | – | – | – |
| Reversal of unused provision | (134) | – | (134) |
| Currency translation differences | (37) | – | (37) |
| **Balance at March 31, 2011** | **380** | – | **380** |
| Additions | 12 | 236 | 248 |
| Utilization | – | – | – |
| Reversal of unused provision | – | – | – |
| Currency translation differences | (28) | (1) | (29) |
| **Balance at March 31, 2012** | **364** | **235** | **599** |

## 20. Income taxes

Income tax expense is as follows:

| (in CHF 1 000) | 2011/12 | 2010/11 |
|---|---|---|
| Current income taxes | 4 949 | 9 914 |
| Deferred taxes | 200 | (1 455) |
| **Total** | **5 149** | **8 459** |

Carlo Gavazzi Holding AG is incorporated in Switzerland but the Group operates in numerous countries with differing tax laws and rates. Profits are generated primarily outside Switzerland.
The Group calculates its expected tax rate as a weighted average of the tax rates in the relevant tax jurisdictions.

Reconciliation of profit before income tax to income tax expense is as follows:

| (in CHF 1 000) | 2011/12 | 2010/11 |
|---|---|---|
| **Profit before income tax** | **21 900** | **31 189** |
| Average tax rate | 29.38% | 25.23% |
| **Expected income tax expense** | **6 434** | **7 869** |
| Effect of non-tax-deductible expense | 1 085 | 195 |
| Effect of non-taxable income | (2 583) | (1 276) |
| Increase in unrecognized tax losses | – | – |
| Utilization of previously unrecognized tax losses | (226) | (158) |
| Adjustments in respect of prior periods | (435) | 860 |
| Taxes not directly related to income | 685 | 1 355 |
| Other | 189 | (386) |
| **Effective income tax expense** | **5 149** | **8 459** |

Variations in the average tax rate depend on the breakdown of results among the various entities and tax jurisdictions. The average tax rate decreased in comparison with the previous year mainly because of changes in the results reported by the various subsidiaries.

At the balance sheet date, the deferred tax assets and liabilities were attributable to items in the balance sheet as follows:

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| Trade receivables | (156) | (72) |
| Inventories | 1 746 | 2 109 |
| Property, plant and equipment | 246 | 263 |
| Other assets | 64 | 96 |
| Other payables | 980 | 938 |
| Other liabilities | – | (68) |
| Tax loss carry-forwards | 634 | 750 |
| **Net deferred tax assets (liabilities)** | **3 514** | **4 016** |
| of which reported in the balance sheet as: | | |
| Deferred income tax assets | 3 670 | 4 150 |
| Deferred income tax liabilities | (156) | (134) |

For tax return purposes, certain subsidiaries have tax loss carry-forwards of CHF 5 730 (2011 CHF 8 480). Of these, CHF 5 425 have no expiration date, CHF 25 expire in the year ending March 31, 2014, and CHF 280 expire in the years ending after March 31, 2022.

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of CHF 816 (2011 CHF 1 700) in respect of losses amounting to CHF 3 224 (2011 CHF 5 700) which can be carried forward against future taxable income.

## 21. Share capital

The share capital of Carlo Gavazzi Holding AG at March 31, 2012 amounts to CHF 10 661 (2011 CHF 10 661) and is divided into registered shares of CHF 3.00 each and bearer shares of CHF 15.00 each. Each share carries one vote and all shares are entitled to receive dividends. The registered share capital amounts to CHF 4 800 divided into 1 600 000 registered shares of CHF 3.00 each (2011 1 600 000 of CHF 3.00 each). The bearer share capital amounts to CHF 5 861 divided into 390 710 bearer shares of CHF 15.00 each (2011 390 710 of CHF 15.00 each). All issued shares are fully paid.

At the annual general meeting of shareholders held on July 27, 2010, the conditional bearer share capital of CHF 529 divided into 35 270 bearer shares of CHF 15.00 each was cancelled.

There are no restrictions in Carlo Gavazzi Holding AG's statutes concerning the registration of registered shares. Under Swiss law, a company can hold up to a maximum of 10% of its own shares. As at March 31, 2012 the Group held no own shares (2011 nil).

## 22. Commitments and contingencies

### Guarantees and sureties

The Group has guaranteed the debt to banks and other third parties on behalf of consolidated subsidiaries to cover banking facilities amounting to CHF 1 625 (2011 CHF 1 720). These guarantees have no expiry date and continue to be effective as long as the respective banking facilities continue to be extended.

The repayment of various loans and overdraft facilities granted to group companies by outside lenders has been collateralized by pledging assets as follows:

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| Land and buildings | – | – |
| Other current and non-current assets | 223 | 482 |
| **Total** | **223** | **482** |

### Leasing, rental and other commitments

Non-cancellable operating lease commitments for the Group not recognized in the balance sheet are as follows:

| (in CHF 1 000) | 2012 | 2011 |
|---|---|---|
| Less than 1 year | 2 459 | 3 002 |
| Between 1-5 years | 6 340 | 6 482 |
| More than 5 years | 654 | 621 |
| **Total** | **9 453** | **10 105** |

The Group rents various offices, factories and warehouses under non-cancellable operating lease agreements for periods not exceeding ten years. Most of these contracts are renewable. Rental expense under operating leases amounted to CHF 2 798 (2010/11 CHF 2 285), whereas rental income under subleases amounted to CHF 50 (2010/11 CHF 50).

### Pending legal cases

There are no legal cases pending against the Group where the outcome could have any material effect on the financial statements.

## 23. Related party transactions

The related parties consist primarily of shareholders, members of the Board of Directors and members of group management.

### Principal shareholders

For major shareholders refer to note 24.

### Key management compensation

Key management consists of members of Board of Directors and members of group management. The compensation paid or payable to key management is as follows:

| (in CHF 1 000) | 2011/12 | 2010/11 |
|---|---|---|
| Short-term employee benefits | 1 409 | 1 909 |
| Post-employment benefits | – | – |
| Other-long term benefits | 535 | 260 |
| Termination benefits | – | – |
| Share-based payments | – | – |
| **Total** | **1 944** | **2 169** |

### Other transactions with related parties

There were no other transactions with related parties during the periods.

## 24. Key management compensation and share ownership

This note has been prepared in accordance with the requirements of articles 663b$^{bis}$ and 663c of the Swiss Code of Obligations (SCO).

### Compensation to members of the Board of Directors

| 2011/12<br>(in CHF 1 000) | Valeria Gavazzi Chairman | Giovanni Bertola Vice-Chairman | Federico Foglia Member | Daniel Hirschi Member | Stefano Premoli Trovati Member | Total |
|---|---|---|---|---|---|---|
| Board fee, gross | – | 175 | 57 | 83 | 84 | 399 |
| Employer's contribution to social security | – | 10 | 5 | 7 | – | 22 |
| **Total 2011/12** | – | **185** | **62** | **90** | **84** | **421** |

| 2010/11<br>(in CHF 1 000) | Valeria Gavazzi Chairman | Giovanni Bertola Vice-Chairman | Federico Foglia Member | Daniel Hirschi Member | Stefano Premoli Trovati Member | Total |
|---|---|---|---|---|---|---|
| Board fee, gross | – | 300 | 64 | 79 | 80 | 523 |
| Employer's contribution to social security | – | 24 | 5 | 6 | – | 35 |
| **Total 2010/11** | – | **324** | **69** | **85** | **80** | **558** |

There are no share option plans in existence.

Stefano Premoli Trovati is also partner of the tax and law firm of TFP & Partners. During the year, the Group received advisory services from TFP & Partners for a total of CHF 116 (2010/11 CHF 112).
In addition, he received board fees from a subsidiary company of CHF 26 (2010/11 CHF nil).

### Compensation to members of group management

| 2011/12<br>(in CHF 1 000) | Vittorio Rossi CEO ACBU | Anthony M. Goldstein CFO | Total Group Management |
|---|---|---|---|
| Base salaries (fixed), gross | 449 | 190 | 639 |
| Bonus (variable), gross | 36 | 80 | 116 |
| LTI (variable), gross | 420 | – | 420 |
| Employer's contribution to social security | 282 | 48 | 330 |
| Other compensation | 5 | 13 | 18 |
| **Total 2011/12** | **1 192** | **331** | **1 523** |

| 2010/11<br>(in CHF 1 000) | Vittorio Rossi CEO ACBU | Anthony M. Goldstein CFO | Felix Stöcklin Head CC | Total Group Management |
|---|---|---|---|---|
| Base salaries (fixed), gross | 495 | 188 | 97 | 780 |
| Bonus (variable), gross | 201 | 60 | – | 261 |
| LTI (variable), gross | 204 | – | – | 204 |
| Employer's contribution to social security | 284 | 44 | 16 | 344 |
| Other compensation | 6 | 12 | 4 | 22 |
| **Total 2010/11** | **1 190** | **304** | **117** | **1 611** |

As described in note 16, provision for the long-term incentive plan (LTI) has been made. The accrual for the CEO ACBU amounts to CHF 535 (2010/11 CHF 260), of which CHF 115 (2010/11 CHF 56) is included in Employer's contribution to social security. There are no share option plans in existence.

## Shareholdings in Carlo Gavazzi Holding AG by members of the Board of Directors

| at March 31, 2012 | Valeria Gavazzi Chairman | Giovanni Bertola Vice-Chairman | Federico Foglia Member | Daniel Hirschi Member | Stefano Premoli Trovati Member | Total |
|---|---|---|---|---|---|---|
| Number of bearer shares | * | 10 | 911 | – | – | 921 |
| In percentage of share capital | * | – | 0.13 | – | – | 0.13 |
| In percentage of voting rights | * | – | 0.04 | – | – | 0.04 |
| Value of shares (in CHF 1 000) | * | 2 | 191 | – | – | 193 |

| at March 31, 2011 | Valeria Gavazzi Chairman | Giovanni Bertola Vice-Chairman | Federico Foglia Member | Daniel Hirschi Member | Stefano Premoli Trovati Member | Total |
|---|---|---|---|---|---|---|
| Number of bearer shares | † | 10 | 911 | – | – | 921 |
| In percentage of share capital | † | – | 0.13 | – | – | 0.13 |
| In percentage of voting rights | † | – | 0.04 | – | – | 0.04 |
| Value of shares (in CHF 1 000) | † | 2 | 192 | – | – | 194 |

(*) At March 31, 2012, Valeria Gavazzi, Chairman, personally owns nil bearer shares and 29 350 registered shares with 0.83% of the share capital and 1.47% of the voting rights. In addition, Valeria Gavazzi indirectly controls 1 440 000 registered shares and 834 bearer shares with 40.64% of the share capital and 72.38% of the voting rights. In addition, the mother, Uberta Gavazzi, Zug, owns 94 000 registered shares and 4 495 bearer shares with 3.28% of the share capital and 4.95% of the voting rights.

(†) At March 31, 2011, Valeria Gavazzi, Chairman, personally owned nil bearer shares and 29 350 registered shares with 0.83% of the share capital and 1.47% of the voting rights. In addition, Valeria Gavazzi indirectly controlled 1 440 000 registered shares and 834 bearer shares with 40.64% of the share capital and 72.38% of the voting rights. In addition, the mother, Uberta Gavazzi, Zug, owned 94 000 registered shares and 4 495 bearer shares with 3.28% of the share capital and 4.95% of the voting rights.

### Shareholdings in Carlo Gavazzi Holding AG by members of group management

| at March 31, 2012 | Vittorio Rossi CEO ACBU | Anthony M. Goldstein CFO | Total |
|---|---|---|---|
| Number of bearer shares | – | – | – |
| In percentage of share capital | – | – | – |
| Value of shares (in CHF 1 000) | – | – | – |

| at March 31, 2011 | Vittorio Rossi CEO ACBU | Anthony M. Goldstein CFO | Total |
|---|---|---|---|
| Number of bearer shares | – | – | – |
| In percentage of share capital | – | – | – |
| Value of shares (in CHF 1 000) | – | – | – |

## 25. Events after the balance sheet date

There were no events subsequent to the balance sheet date that require adjustment to or disclosure in the financial statements.

## 26. Subsidiaries

At March 31, 2012 the following significant non-listed companies were held by Carlo Gavazzi Holding AG:

| Percentage of shares held | Company name and domicile | | Share capital (Local currency in 1 000) |
|---|---|---|---|
| 100% | CARLO GAVAZZI PARTICIPATION DANMARK A/S, Hadsten, Denmark | DKK | 10 000 |
| 100% | CARLO GAVAZZI GmbH, Vienna, Austria | EUR | 73 |
| 100% | CARLO GAVAZZI SA, Vilvoorde, Belgium | EUR | 224 |
| 100% | CARLO GAVAZZI (CANADA) Inc, Mississauga, Canada | CAD | 5 |
| 100% | CARLO GAVAZZI AUTOMATION (KUNSHAN) Co Ltd, Kunshan, China | CNY | 7 484 |
| 100% | CARLO GAVAZZI HANDEL A/S, Hadsten, Denmark | DKK | 5 000 |
| 100% | CARLO GAVAZZI INDUSTRI A/S, Hadsten, Denmark | DKK | 10 000 |
| 100% | CARLO GAVAZZI INDUSTRI KAUNAS UAB, Kaunas, Lithuania | LTL | 35 |
| 100% | CARLO GAVAZZI OY AB, Helsinki, Finland | EUR | 50 |
| 100% | CARLO GAVAZZI Sàrl, Roissy, France | EUR | 274 |
| 100% | CARLO GAVAZZI GmbH, Darmstadt, Germany | EUR | 2 000 |
| 100% | CARLO GAVAZZI UK Ltd, Aldershot, Great Britain | GBP | 100 |
| 100% | CARLO GAVAZZI SpA, Lainate, Italy | EUR | 2 300 |
| 100% | CARLO GAVAZZI AUTOMATION SpA, Lainate, Italy | EUR | 7 180 |
| 100% | CARLO GAVAZZI LOGISTICS SpA, Lainate, Italy | EUR | 1 500 |
| 100% | CARLO GAVAZZI CONTROLS SpA, Belluno, Italy | EUR | 916 |
| 100% | CARLO GAVAZZI AUTOMATION (M) Sdn Bhd, Petaling Jaya, Malaysia | MYR | 730 |
| 100% | CARLO GAVAZZI Ltd, Zejtun, Malta | EUR | 1 048 |
| 100% | CARLO GAVAZZI BV, Beverwijk, Netherlands | EUR | 136 |
| 100% | CARLO GAVAZZI AS, Porsgrunn, Norway | NOK | 1 000 |
| 100% | CARLO GAVAZZI UNIPESSOAL Lda, Lisbon, Portugal | EUR | 25 |
| 100% | CARLO GAVAZZI AUTOMATION SINGAPORE Pte Ltd, Singapore | USD | 358 |
| 100% | CARLO GAVAZZI AUTOMATION (CHINA) Co Ltd, Shenzen, China | CNY | 1 735 |
| 100% | CARLO GAVAZZI AUTOMATION HONG KONG Ltd, Hong Kong | HKD | 50 |
| 100% | CARLO GAVAZZI SA, Leioa, Spain | EUR | 451 |
| 100% | CARLO GAVAZZI AB, Karlstad, Sweden | SEK | 800 |
| 100% | CARLO GAVAZZI AG, Steinhausen, Switzerland | CHF | 200 |
| 100% | CARLO GAVAZZI Inc, Buffalo Grove, USA | USD | 5 |
| 1% | CARLO GAVAZZI Mexico SA de CV, Mexico City, Mexico | MXN | 50 |
| 99% | CARLO GAVAZZI Mexico SA de CV, Mexico City, Mexico | MXN | 50 |
| 100% | CARLO GAVAZZI INTERNATIONAL NV, Willemstad, Curaçao | CHF | 24 000 |
| 100% | CARLO GAVAZZI SERVICES AG, Steinhausen, Switzerland | CHF | 500 |

The major change during the year in principal subsidiaries held by the Group was as follows:
Carlo Gavazzi Computing Solutions, Inc, Brockton, MA, USA, was dissolved on March 19, 2012.

In 2010/11, the major change was as follows:
Carlo Gavazzi Marketing AG, Steinhausen, Switzerland was merged into Carlo Gavazzi Services AG.

## 27. Risk assessment according to Swiss Code of Obligations

Financial risk assessment and management is an integral part of the Group's risk management.

The Group has established a fully integrated risk process that captures and evaluates the most important operational, strategic and financial risks. The key risks are entered in a risk and controls matrix and are rated on the basis of the potential degree of impact and the likelihood of each individual risk. Based on the Group's risk tolerance, group management either initiates measures to reduce the degree of impact and/or the likelihood of the risk occurring, or deliberately takes on specific risks.

The Board of Directors evaluates the effectiveness of the risk management system on an annual basis.

# Report of the Statutory Auditor

**To the general meeting of shareholders of Carlo Gavazzi Holding AG, Steinhausen**

As statutory auditor, we have audited the consolidated financial statements of Carlo Gavazzi Holding AG, which comprise the statements of comprehensive income, balance sheets, statements of changes in equity, statements of cash flows and notes (pages 31 to 65), for the year ended March 31, 2012.

**Board of Directors' responsibility**

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements for the year ended March 31, 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

**Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

**Bruno Häfliger**
Audit expert
Auditor in charge

**Daniel Wyss**
Audit expert

Zug, June 26, 2012

# Financial Statements

for the years ended March 31, 2012 and 2011

# Statements of Income

for the years ended March 31

| (in CHF 1 000) | Notes | 2012 | 2011 |
|---|---|---|---|
| **Investment result** | | | |
| Dividend income | | 15 991 | 4 764 |
| **Net investment result** | | 15 991 | 4 764 |
| **Financial result** | | | |
| Financial income – interest | | 7 | 36 |
| Financial income – exchange gain | | 511 | - |
| **Net financial result** | | 518 | 36 |
| **Miscellaneous result** | | | |
| Administrative and other expense | | -428 | -358 |
| Increase in provision for investments | | -617 | - |
| **Net miscellaneous result** | | -1 045 | -358 |
| **Income before taxes** | | 15 464 | 4 442 |
| Taxes | | 3 | 2 |
| **Net income** | | 15 461 | 4 440 |

See notes to financial statements

# Balance Sheets

at March 31

| (in CHF 1 000) | Notes | 2012 | 2011 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Liquid funds | | **14 775** | 16 935 |
| Other accounts receivable – third parties | | **47** | 4 |
| Other accounts receivable – group companies | | **3 541** | - |
| **Total current assets** | | **18 363** | 16 939 |
| **Non-current assets** | | | |
| Financial assets – investments, gross | 2 | **79 536** | 90 150 |
| Financial assets – provision for investments | | **-14 000** | -20 500 |
| Financial assets – investments, net | | **65 536** | 69 650 |
| **Total non-current assets** | | **65 536** | 69 650 |
| **Total assets** | | **83 899** | 86 589 |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities** | | | |
| Other short-term liabilities – third parties | | **90** | 75 |
| Other short-term liabilities – group companies | | **-** | 428 |
| Provisions – taxes | | **4** | 3 |
| Accrued expenses | | **327** | 298 |
| **Total short-term liabilities** | | **421** | 804 |
| **Total liabilities** | | **421** | 804 |
| **Shareholders' equity** | | | |
| Share capital | 3,4 | **10 661** | 10 661 |
| Legal reserves – general | | **2 150** | 2 150 |
| Reserve for capital contribution | | **38** | 1 459 |
| Free reserves | | **54 837** | 59 837 |
| Retained earnings | | **15 792** | 11 678 |
| **Total shareholders' equity** | | **83 478** | 85 785 |
| **Total liabilities and shareholders' equity** | | **83 899** | 86 589 |

See notes to financial statements

# Statements of Changes in Retained Earnings and Reserves

(in CHF 1 000)

| | |
|---|---|
| **Retained earnings** | |
| **Balance March 31, 2010** | **10 792** |
| Dividend paid | -3 554 |
| Net income 2010/11 | 4 440 |
| **Balance March 31, 2011** | **11 678** |
| Transfer from free reserves | 5 000 |
| Dividend paid | -16 347 |
| Net income 2011/12 | 15 461 |
| **Balance March 31, 2012** | **15 792** |

| | |
|---|---|
| **Reserve for capital contribution** | |
| **Balance March 31, 2010** | **-** |
| Transfer from free reserves | 1 459 |
| **Balance March 31, 2011** | **1 459** |
| Dividend paid | 1 421 |
| **Balance March 31, 2012** | **38** |

| | |
|---|---|
| **Free reserves** | |
| **Balance March 31, 2010** | **61 296** |
| Transfer to reserve for capital contribution | -1 459 |
| **Balance March 31, 2011** | **59 837** |
| Transfer | -5 000 |
| **Balance March 31, 2012** | **54 837** |

**Proposal of the Board of Directors for 2011/12 regarding appropriation of retained earnings:**

| | |
|---|---|
| **Distribution of dividend** | |
| - 1 600 000 registered shares at CHF 2.40 per share | 3 840 |
| - 390 710 bearer shares at CHF 12.00 per share | 4 689 |
| To be carried forward | 7 263 |
| **Retained earnings per balance sheet** | **15 792** |

# Notes to the Financial Statements

at March 31

All amounts are in CHF 1 000 unless otherwise stated.

## 1. Securities, guarantees and pledges

Guarantees issued in favour of subsidiary companies and affiliates amounted to CHF 1 625 (2011 CHF 1 720).

The company is a member of a VAT group and is therefore jointly and severably liable for the payment of the VAT liabilities of the other members of the Swiss VAT group.

## 2. Significant investments

Details of the principal subsidiaries held by Carlo Gavazzi Holding AG and major changes during the year are included in Note 26 to the Consolidated Financial Statements.

## 3. Capital structure

The company's share capital is divided into registered shares of CHF 3.00 each and bearer shares of CHF 15.00 each. Each share carries one vote. The registered share capital amounts to CHF 4 800 divided into 1 600 000 registered shares of CHF 3.00 each (2011 1 600 000 of CHF 3.00 each). The paid-in bearer share capital amounts to CHF 5 861 divided into 390 710 bearer shares of CHF 15.00 each (2011 390 710 of CHF 15.00 each). There are no restrictions in the company's statutes concerning the registration of registered shares. Under Swiss law, a company can hold up to a maximum of 10 % of its own shares. All shares are entitled to receive dividends.

## 4. Major shareholders and their shareholdings

At March 31, 2012 and 2011, Valeria Gavazzi, Zug, directly and indirectly controls 1 469 350 registered shares and 834 bearer shares (corresponding to 41.47% of the share capital and 73.85% of the voting rights) of the company. In addition, at March 31, 2012 and 2011, Uberta Gavazzi, Zug, owns 94 000 registered shares and 4 495 bearer shares (corresponding to 3.28% of the share capital and 4.95% of the voting rights) of the company.

Apart from these shareholders, there are no other major shareholders known to the company holding more than 3% of the voting rights.

## 5. Risk assessment according to Swiss Code of Obligations

The company is fully integrated into the group-wide risk assessment process of the Carlo Gavazzi Group.

This group risk assessment process addresses the nature and scope of business activities and its specific risks. Detailed information on the group's risk assessment is disclosed in note 27 to the Consolidated Financial Statements.

# Report of the Statutory Auditor

**To the general meeting of shareholders of Carlo Gavazzi Holding AG, Steinhausen**

As statutory auditor, we have audited the financial statements of Carlo Gavazzi Holding AG, which comprise the income statements, balance sheets, statements of changes in retained earnings and reserves and notes (pages 69 to 73), for the year ended March 31, 2012.

**Board of Directors' responsibility**

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements for the year ended March 31, 2012 comply with Swiss law and the company's articles of incorporation.

**Report on other legal requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

| | |
|---|---|
| **Bruno Häfliger** | **Daniel Wyss** |
| Audit expert | Audit expert |
| Auditor in charge | |

Zug, June 26, 2012

# Group Companies

## Group

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| | | | |
|---|---|---|---|
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| | | | |
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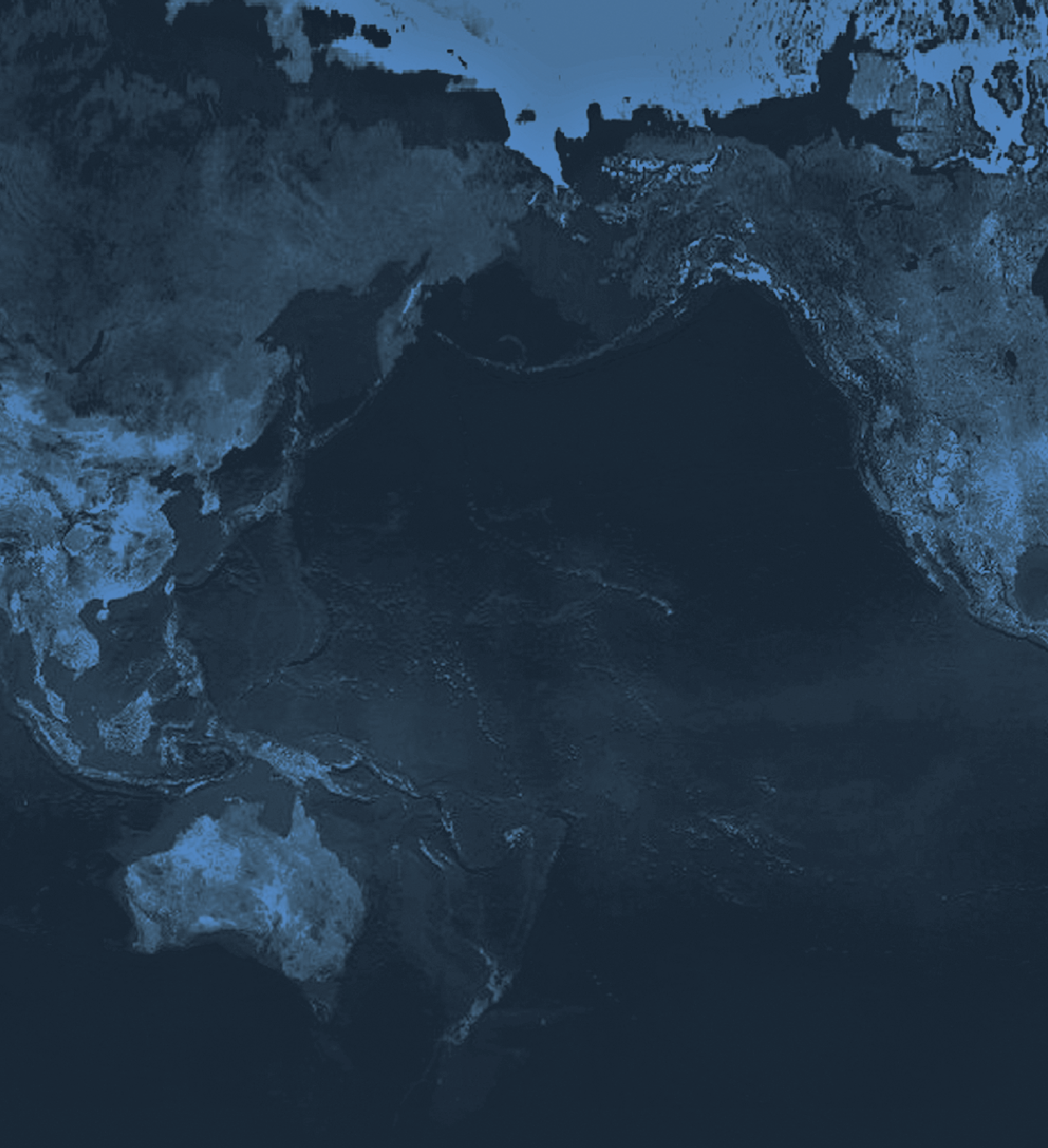

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