CARLO GAVAZZI

Carlo Gavazzi Group

Interim Report

April 1 – September 30, 2009

Letter to the Shareholders

Carlo Gavazzi Group

Due to the challenging market conditions, operating revenue declined by 25.3% compared with the same period of the previous year (20.6% in Euros). Thanks to the enhanced manufacturing efficiency and operational improvements, the group succeeded in increasing the gross profit margin by 1.6 percentage points. Operating expenses remained strictly under control and decreased by 11.7% in Swiss francs. Nonetheless, EBIT decreased by 65.3% and net income by 78.1%.

Dear Shareholders

The first semester of the current financial year was characterized by the ongoing contraction of demand in the markets Carlo Gavazzi serves. However, the company strengthened its ability and flexibility to cope with the adverse and volatile market conditions by lowering its break-even point, by implementing cost-cutting programs and by strengthening its product-portfolio.

Equity decreased from CHF 106.9 million at April 1, 2009, to CHF 104.2 million, now representing 71.6% of total assets compared with 68.3% at the beginning of the period, evidencing the group's financial solidity. The net cash position improved from CHF 29.7 million at April 1, 2009, to CHF 33.5 million (including the effect from the disposal of the Computing Solutions Business Unit). The Carlo Gavazzi share price increased by 67% from CHF 90 at the beginning of the period to reach CHF 150 at the end of the reporting period, clearly outpacing the representative SPI Extra index which rose by 37%.

Business review

After the disposal of the Computing Solutions Business Unit in April 2009, the company is now focused on its original core business, the design and production of electronic components for the factory and building automation markets.

Demand for automation components further declined in the reporting period, however, thanks to vigorously enacted sales and product support programs, Carlo Gavazzi was able to cope with the challenging market situation.

Operations

Despite the global presence and the diversified customer base, the business was impacted by the low investments in both the factory and building automation industries.

In comparison with the first six months of the financial year 2008/09, the following has to be taken into consideration:

The first six months of 2008/09, where the crisis had yet to begin, are not directly comparable with the current reporting period which represents the worsened economic situation.

The strengthening of the Swiss franc against the Euro had an impact of more than 5% on key figures such as bookings and revenue.

The positive trend of the gross profit margin, which increased by 1.6 percentage points from 52.4% to 54.0% of operating revenue, is principally due to the fact that there was no significant decrease in the level of sales prices and that special actions were put in place to reduce manufacturing costs. However, these cost reduction actions will not jeopardize the future development of the company.

Geographical markets

Compared with the same period of the previous year, sales in the European and North American region were down by 26.0% and 25.2%, respectively. To a lesser degree, the Asia-Pacific region incurred a decrease of revenue of 6.6%.

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Market segments

Among the selected markets, the development of smart building, renewable energy and food & beverage was stable compared with the same period of previous year. This result confirms the company's efforts to become a recognized player in its key markets of factory and building automation, with particular emphasis on renewable energy. Accordingly, the company with its comprehensive product range is partnering with system integrators to offer to customers the best solutions to achieve this goal. In addition, the focus is on providing a leading-edge range of solid-state relays with energy optimizing features to OEM customers in the factory automation sector.

New products

Energy management is confirmed to have a highly promising market potential. Thanks to the innovative and comprehensive product range, sales increased by 23% versus the same period of the previous year. Further to the successful introduction of a state-of-the-art device for monitoring the efficiency of photovoltaic systems, the company is continuing the development of products for energy management across the key clusters of market segments. The forthcoming new generation of power analyzers will further enlarge the product line to meet the increasing customer demand for energy management and energy saving solutions.

Organization

During these challenging times, employees demonstrated a strong commitment in fulfilling customer needs and, accordingly, we wish to thank them profoundly for their dedication and performance.

Outlook

It is still difficult to assess how long the financial crisis will last and, therefore, how much time will be necessary for industrial output to regain stability. However, in light of the promising restart of some key customer projects and the orders in the pipeline, some positive signs from market demand for automation components are given. The company intends to improve its market position by further strengthening the application-oriented R&D programs for targeted market segments, an action which for far too long has not been put into place.

With its strong balance sheet, the continuous development of new products and the strengthening of the worldwide presence through the establishment of new subsidiaries (i.e. Mexico), Carlo Gavazzi is ready to benefit from any opportunity that a potential economic improvement will present.

We currently expect the cautious capital spending level of customers in the first six month to continue in the second semester of the financial year. The lean and efficient structures now in place will allow the group to strongly benefit from the increased market demand once it materializes.
We further look forward to the growth of operating revenue and net income in the second semester of this financial year, and we will also push to improve the market position and financial performance.
Consequently, Carlo Gavazzi remains committed to deliver to its shareholders an appropriate return in the future.

Valeria Gavazzi
Chairman

Giovanni Bertola
Vice-Chairman

At a glance

(CHF million)	**1.4. – 30.9.09**	1.4. – 30.9.08	%
Bookings	**72.4**	96.5	-25.0
Operating revenue	**70.6**	94.5	-25.3
EBITDA	**5.3**	11.6	-54.3
EBIT	**3.3**	9.5	-65.3
Net income	**1.6**	7.3	-78.1
Cash flow	**3.8**	9.5	-60.0
Additions to fixed assets	**1.3**	1.2	+8.3
Net working capital	**38.4**	43.2	-11.1
Net cash position (at 30.9.09/31.3.09)	**33.5**	29.7	+12.8

2009 figures reflect the results of continuing operations. 2008 figures have been restated to reflect the effect of the divestiture of Carlo Gavazzi Computing Solutions.

Consolidated Interim Financial Statements

Income Statements and Balance Sheets

Income Statements (CHF million)	1.4. – 30.9.09		1.4. – 30.9.08	
Bookings	**72.4**	102.5%	96.5	102.1%
Operating revenue	**70.6**	100.0%	94.5	100.0%
Cost of sales	**32.5**	46.0%	45.0	47.6%
Gross profit	**38.1**	54.0%	49.5	52.4%
Selling, general and administrative expense	**34.6**	49.0%	39.2	41.5%
Other expense, net	**0.2**	0.3%	0.8	0.8%
Earnings before interest and taxes (EBIT)	**3.3**	4.7%	9.5	10.1%
Interest expense, net	**0.1**	0.1%	–	–
Exchange loss (gain), net	**0.8**	1.1%	-0.7	-0.7%
Earnings from continuing operations before income taxes	**2.4**	3.4%	10.2	10.8%
Income taxes	**0.8**	1.1%	2.9	3.1%
Earnings from continuing operations	**1.6**	2.3%	7.3	7.7%
Loss (gain) from discontinued operations	–	–	–	–
Net income	**1.6**	2.3%	7.3	7.7%
Basic and diluted earnings per bearer share (CHF)	**2.20**		10.32	
Average number of bearer shares outstanding	**390 191**		389 615	

Balance Sheets (CHF million)	30.9.09		31.3.09	
Assets				
Current assets				
Cash	**37.3**		37.0	
Accounts receivable	**35.5**		37.3	
Inventories	**28.8**		28.0	
Other current assets	**5.7**		5.8	
Net assets of discontinued operations	–		8.6	
Total current assets	**107.3**		116.7	
Non-current assets				
Fixed assets	**13.6**		14.4	
Goodwill	**23.0**		23.7	
Other non-current assets	**1.6**		1.6	
Total non-current assets	**38.2**		39.7	
Total assets	**145.5**		156.4	
Liabilities and shareholders' equity				
Current liabilities				
Short-term borrowings	**2.0**		5.3	
Accounts payable and accrued liabilities	**31.6**		36.5	
Total current liabilities	**33.6**		41.8	
Long-term liabilities				
Long-term borrowings	**1.8**		2.0	
Other long-term liabilities	**5.9**		5.7	
Total long-term liabilities	**7.7**		7.7	
Shareholders' equity	**104.2**		106.9	
Total liabilities and shareholders' equity	**145.5**		156.4	

Consolidated Interim Financial Statements

Shareholders' Equity and Cash Flows

Changes in Shareholders' Equity (CHF million)	Share capital	Additional paid-in capital	Legal reserves	Retained earnings	Cumulative translation adjustment	Own shares	Shareholders' equity
Balance at 1.4.08	**10.7**	**0.8**	**2.1**	**112.7**	**-18.0**	**-0.4**	**107.9**
Net income				7.3			7.3
Translation adjustments					0.7		0.7
Comprehensive income (subtotal)							**8.0**
Dividend payment				-7.1			-7.1
Changes in own shares						0.2	0.2
Balance at 30.9.08	**10.7**	**0.8**	**2.1**	**112.9**	**-17.3**	**-0.2**	**109.0**
Balance at 1.4.09	**10.7**	**0.7**	**2.1**	**113.6**	**-20.0**	**-0.2**	**106.9**
Net income				1.6			1.6
Translation adjustments					-0.9		-0.9
Comprehensive income (subtotal)							**0.7**
Dividend payment				-3.6			-3.6
Changes in own shares						0.2	0.2
Balance at 30.9.09	**10.7**	**0.7**	**2.1**	**111.6**	**-20.9**	**–**	**104.2**

Cash Flows (CHF million)	**1.4. – 30.9.09**	1.4. – 30.9.08
Cash flows from operating activities		
Net income	**1.6**	7.3
Depreciation	**2.0**	2.2
Changes in provisions	**0.2**	–
Changes in net operating assets	**-3.5**	-0.5
Net cash from operating activities	**0.3**	9.0
Cash flows from investing activities		
Purchase of fixed assets	**-1.3**	-1.4
Sale of discontinued assets	**8.6**	–
Net cash from investing activities	**7.3**	-1.4
Cash flows from financing activities		
Dividends	**-3.6**	-7.1
Sale of own shares	**0.2**	0.1
Changes in short-term debt	**-2.9**	-3.8
Changes in long-term debt	**-0.6**	-0.1
Net cash from financing activities	**-6.9**	-10.9
Cash		
Net increase (decrease) in cash	**0.7**	-3.3
Cash at beginning of period	**37.0**	33.1
Effect of exchange rate changes on cash	**-0.4**	0.6
Cash at end of period	**37.3**	30.4

Consolidated Interim Financial Statements

Segment Information

Segment Information (CHF million)	**1.4. – 30.9.09** Automation Components	Corporate	Total	1.4. – 30.9.08 Automation Components	Corporate	Total
Operating revenue	**70.6**	**–**	**70.6**	94.5	–	94.5
EBIT	**3.4**	**-0.1**	**3.3**	10.5	-1.0	9.5
Interest expense, net			**0.1**			–
Exchange loss (gain), net			**0.8**			-0.7
Earnings before income taxes			**2.4**			10.2
Depreciation	**2.0**	**–**	**2.0**	2.1	–	2.1
Additions to fixed assets	**1.3**	**–**	**1.3**	1.2	–	1.2
Segment assets (at 30.9.09/31.3.09)	**126.9**	**18.6**	**145.5**	146.0	10.4	156.4

Consolidated Interim Financial Statements

Notes

These unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and as outlined in the Annual Report 2008/09.

1. Main exchange rates against the CHF

	Income Statement 1.4. – 30.9.09	Balance Sheet 30.9.09	Income Statement 1.4. – 30.9.08	Balance Sheet 31.3.09
EUR	1.5169	1.5110	1.6118	1.5100
USD	1.09	1.04	1.05	1.14

2. Restatement for discontinued operations

On March 17, 2009, the board of directors of the company approved an Asset Purchase Agreement for the sale of its Computing Solutions Business Unit to System Industrie Electronic AG (SIE), Lustenau, Austria. On April 1, 2009, the company's subsidiary, Carlo Gavazzi Computing Solutions, Inc, completed the transaction for sale of the business and certain assets and liabilities and received a cash consideration of CHF 8 638 000.
There was no significant profit/loss on the disposal of the discontinued operations in the six months ended September 30, 2009. Accordingly, the operations of the Computing Solutions Business Unit for the year ended March 31, 2009 were reported separately as discontinued operations in the Consolidated Financial Statements and the figures for the previous year were restated to exclude the discontinued operations. To comply with the revised disclosure, the Consolidated Income Statements and the Segment Information for the six months ended September 30, 2008, have likewise been restated to exclude the discontinued operations. The operating revenue of discontinued operations for the six months ended September 30, 2008 amounted to CHF 15.0 million.

3. Subsequent events

Subsequent events have been evaluated until November 12, 2009, which was the date when these interim financial statements were made available to be issued.

4. New accounting pronouncements since April 1, 2009

a) New and amended standards adopted by the group in the period reported

ASC 855 Subsequent Events (previously FAS Statement No. 165 Subsequent events). This Standard establishes principles and requirements for subsequent events. In particular the Statement sets forth:

a. The period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements
b. The circumstances under which an entity shall recognise events or transactions occurring after the balance sheet date in its financial statements
c. The disclosures that an entity shall make about events or transactions that occurred after the balance sheet date.

The Statement shall be applied to the accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles (GAAP). An entity shall disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The Statement shall be effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively.
The adoption of the provisions of ASC 855 did not have a material impact on the financial statements.

ASC 860, the FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FAS Statement No. 162.
The Standard establishes the FASB Accounting Standards Codification™ (Codification) as the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP.
Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants.
All guidance contained in the Codification carries an equal level of authority. The Statement shall be effective for financial statements issued for interim and annual periods ending after September 15, 2009.

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On the effective date of this Statement, all then-existing non-SEC accounting and reporting standards are superseded, except as noted in this paragraph. Concurrently, all non-grandfathered, non-SEC accounting literature not included in the Codification is deemed nonauthoritative.
Notwithstanding, the following standards shall remain authoritative until such time that each is integrated into the Codification:

a. FAS No. 164, Not-for-Profit Entities: Mergers and Acquisitions
b. FAS No. 166, Accounting for Transfers of Financial Assets
c. FAS No. 167, Amendments to FASB Interpretation No. 46(R)
d. FAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles.

FAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, which became effective on November 13, 2008, identified the sources of accounting principles and the framework for selecting the principles used in preparing the financial statements of nongovernmental entities that are presented in conformity with GAAP. FAS No. 162 arranged these sources of GAAP in a hierarchy for users to apply accordingly. Once the Codification is in effect, all of its content will carry the same level of authority, effectively superseding FAS No. 162. In other words, the GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. As a result, this Statement replaces FAS No. 162 to indicate this change to the GAAP hierarchy. The adoption of the provisions of ASC 860 did not have a material impact on the financial statements.

ASC 810-10-65 Consolidation, previously FAS Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51 and ASC 805 Business Combinations, previously Financial Accounting Standards No. 141(R), Business Combinations, revised.
ASC 810-10-65 changes the accounting and reporting for minority interests, which are recharacterized as noncontrolling interests and classified as a component of equity. ASC 810-10-65 is effective prospectively as of January 1, 2009, except for the presentation and disclosure requirements which apply retrospectively for all periods presented.
Under ASC 805 an entity is required to recognize assets acquired, liabilities assumed, contractual contingencies and contingent consideration at their fair value on the acquisition date. The adoption of the provisions of ASC 810-10-65 and ASC 805 did not have a material impact on on the financial statements.

ASC 815-10-50-Derivative Disclosures, previously FAS No. 161 Disclosures about derivatives instruments and hedging activities.
ASC 815-10-50, issued in March 2008, requires companies to provide enhanced disclosures about their derivative and hedging activities to enable users to better understand: (1) how and why a company uses derivatives, (2) how it accounts for derivatives and related hedged items, and (3) how derivatives affect its financial statements. The standard is effective for any reporting period beginning after November 15, 2008. Companies are encouraged to provide the new disclosures for prior periods presented for comparative purposes and to early adopt the standard. The adoption of the provisions of ASC 815-10-50 did not have a material impact on the financial statements.

ASC 820 Fair value Measurements and Disclosures, previously FAS No. 157, Fair Value Measurements.
Starting in 2009, companies used ASC 820 Fair Value Measurements and Disclosures for nonfinancial assets and nonfinancial liabilities where current GAAP requires or allows the use of fair value. ASC 820 Fair Value Measurements and Disclosures is effective for those assets and liabilities for years beginning after November 15, 2008. The adoption of the provisions of ASC 820 did not have a material impact on the financial statements.

EITF issue 08-3 Accounting by Lessees for Maintenance Deposits (ASC 840 leases-10-25-39A-B). This issue is effective for financial statements issued for fiscal years beginning after December 15, 2008, including interim periods within those fiscal years. Earlier application by an entity that has previously adopted an alternative accounting policy is not permitted. This issue applies to the lessee's accounting for maintenance deposits paid by

Notes

a lessee under an arrangement accounted for as a lease that are refunded only if the lessee performs specified maintenance activities. Maintenance deposits within the scope of this issue shall be accounted for as a deposit asset.

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

FAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FAS No. 140. This Statement amends FAS No. 140 to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The Statement removes the concept of a qualifying special-purpose entity from FAS No. 140 and removes the exception from applying FAS Interpretation No. 46 (revised December 2003) to qualifying special-purpose entities.
The Statement shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited.
The company will adopt the Statement for the year ended March 31, 2011, and does not expect that the amendment will have a material impact on the financial statements.

FAS No. 167, Amendments to FAS Interpretation No. 46(R). This Statement amends Interpretation No. 46(R) to replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which enterprise has a controlling financial interest in a variable interest entity. The Statement requires an additional reconsideration event when determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance. It also requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity. These requirements will provide more relevant and timely information to users of financial statements. The Statement amends Interpretation No. 46(R) to require additional disclosures about an enterprise's involvement in variable interest entities, which will enhance the information provided to users of financial statements.
The Statement shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited.
The company will adopt the Statement for the year ended March 31, 2011, and does not expect that the amendment will have a material impact on the financial statements.

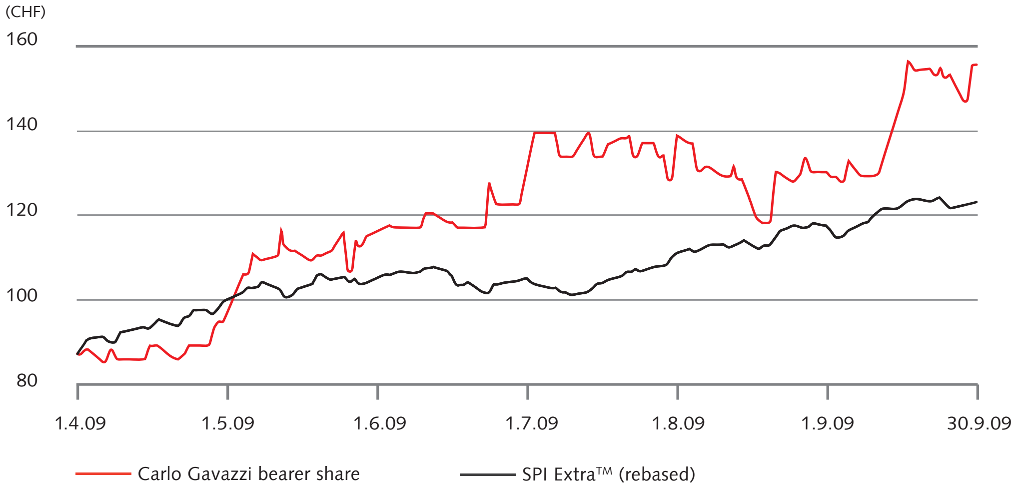
Information for Investors

Share Development and Financial Calendar

Key data

(CHF)	**1.4. – 30.9.09**	1.4. – 30.9.08	1.4. – 30.9.07	1.4. – 30.9.06	1.4. – 30.9.05
Share price 30.9.	**150**	147	300	242	168
– half year-high	**151**	200	319	242	168
– half year-low	**86**	146	257	183	103
Average daily volume	**441**	405	916	867	1 700
Earnings per share	**2.20**	10.32	10.73	7.34	4.85
Book value per share	**147**	153	144	164	142
Stock market capitalisation (CHF million)	**107**	104	213	172	119
– in % of equity	**103**	95	207	148	118

Share price 1.4.2009 – 30.9.2009



Financial calendar

Press and financial analysts' meeting 2009/10	June 24, 2010, at the Widder Hotel, Zurich
Shareholders' meeting 2009/10	July 27, 2010, at the Congress Center Metalli, Zug
Interim report 2010	November 23, 2010

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