Annual Report 2007/08

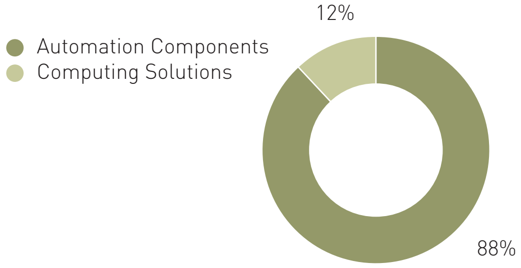
At a Glance

Five-Year
Financial Summary

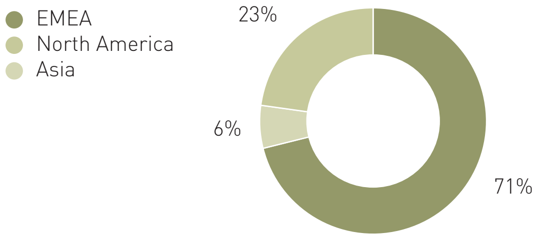
At a Glance

(CHF million)	**2007/08**	2006/07	%
Bookings	**228.2**	221.6	+3.0
Operating revenue	**223.4**	215.7	+3.6
EBIT	**26.7**	20.2	+32.2
Net income	**16.8**	11.5	+46.1
Cash flow	**23.6**	18.8	+25.5
Shareholders' equity	**107.9**	98.9	+9.1
ROE	**15.6%**	11.7%	–
ROCE	**30.7%**	19.1%	–

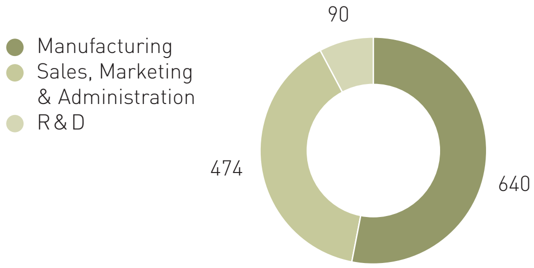
Revenue distribution
by business unit



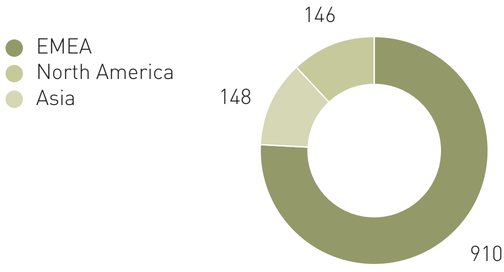
Revenue distribution
by geographical region



Distribution of employees
by activity



Distribution of employees
by geographical region



Five-Year Financial Summary

(CHF million)	**2007/08**	2006/07*	2005/06	2004/05	2003/04
Bookings	**228.2**	221.6	216.8	207.0	206.5
Order backlog	**49.5**	50.8	44.9	45.5	43.2
Operating revenue	**223.4**	215.7	216.5	201.8	203.8
Gross profit	**109.4**	100.9	94.5	84.2	81.7
EBITDA	**31.3**	25.0	19.9	14.4	13.8
EBIT	**26.7**	20.2	15.6	10.0	8.5
Earnings before taxes	**23.7**	19.0	15.7	8.9	6.8
Net income from continuing operations	**16.8**	14.9	12.2	6.8	5.2
Net income including discontinued operations	**16.8**	11.5			
Cash flow**	**23.6**	18.8	15.5	10.7	10.4
Depreciation and amortisation	**4.7**	4.8	4.3	4.4	5.3
Additions to fixed assets	**4.3**	5.1	5.4	4.6	3.5
Accounts receivable	**55.5**	59.3	63.1	64.3	57.7
Inventories	**31.2**	40.4	32.7	31.4	30.9
Net working capital	**47.3**	58.7	52.3	52.2	46.0
Current assets	**124.6**	126.8	128.7	111.3	111.6
Fixed assets, net	**16.5**	23.2	23.9	22.5	22.8
Intangible assets, net	**28.6**	29.7	33.8	32.6	33.0
Interest-bearing debt, net	**–21.1**	7.2	–5.1	8.3	17.4
Current liabilities	**53.4**	71.3	66.3	61.5	74.1
Long-term liabilities	**9.9**	11.9	13.2	13.1	16.2
Minorities	**–**	–	–	0.1	0.2
Shareholders' equity	**107.9**	98.9	111.6	100.8	95.9
Total liabilities and shareholders' equity	**171.1**	182.2	191.2	175.5	186.4
Number of employees (average)	**1 204**	1 192	1 126	1 041	999

* Not comparable with previous periods due to discontinuance of Channel Access Fulfilment activity
** Net income + depreciation + amortisation + change in provisions – gain (loss) on sale of investments or assets

To be better, be competitive
To be great, be cooperative

(Vedanta)

Carlo Gavazzi Group

Annual Report 2007/08

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Letter to the Shareholders

For the fifth consecutive year, the Carlo Gavazzi Group improved its economic performance:

– Operating revenue increased by 3.6% from CHF 216 million to CHF 223 million. Adjusted for currency effects, operating revenue remained stable.
– Gross profit margin improved from 46.7% of revenue to 49.0%.
– EBIT stood at CHF 26.7 million, up from CHF 20.2 million in the previous financial year. As a percentage of revenue, it reached 11.9% (9.4% in 2006/07), well ahead of the 10% target set to be achieved in 2009/10.
– Net income amounted to CHF 16.8 million representing a return on equity of 15.6% (net income of CHF 11.5 million in 2006/07 with a return on equity of 11.7%).
– Net financial debt, which stood at CHF 7 million at the end of the previous financial year, turned into a cash surplus position of CHF 21 million.

Most of the above performance is to be credited to the Automation Components Business Unit (ACBU).

Performance of the business units

The relevant sections of this annual report describe the major events of the reporting period and present a comparative analysis of the main financial data. ACBU has improved significantly and progressively its performance over the last five years. Revenue increased from CHF 139 million in 2002/03 to CHF 197 million in 2007/08 (+42%) while EBIT improved from CHF 8.5 million CHF 26.3 million (a more than three-fold increase) with a return on sales (ROS) increasing from 6.1% to 13.4%.

The Computing Solutions Business Unit (CSBU) saw a significant reduction of its business volume (from CHF 66 million in 2002/03 to CHF 31 million in 2007/08) because of the continuing crisis affecting the telecom infrastructure market, which represented about 60% of the business unit's sales at the beginning of the period. Over these years, CSBU successfully refocused its activity to the industrial and defence sectors, which today represent 85% of total revenue and are more profitable than telecom. From a negative value of CHF 6.0 million in 2002/03, EBIT has now turned positive and reached CHF 0.2 million in 2007/08. The turnaround is now completed and the business unit is starting to push business as shown by the 14% higher bookings over the previous year and the CHF 7 million backlog as at March 31, 2008. Most of the backlog consists of repeat orders from prime customers, which augurs well for further improvement in economic performance.

Strategy

The above developments, corroborated by an in-depth analysis and assessment of present market positioning and growth prospects, have led the board of directors of Carlo Gavazzi Holding AG to map out the following path for its two business units.

In respect of CSBU, considering that the turnaround has been successfully completed and sound foundations have eventually been laid to foster growth, various possibilities are currently been considered to create value. The business unit continues to be regarded as non-core but, thanks to its positive development and favourable prospects, the company's focus is now on securing the maximum medium-term return from invested capital for Carlo Gavazzi Holding AG and its shareholders.

Regarding ACBU and considering the
– excellent progress made over time
– sound production and sales organisations in place
– strength of the management structure
– existence of unexploited growth potential in current and new markets
the board has decided to foster growth in order to consolidate the presence in the existing markets and geographical areas and to take advantage of the unexploited potential of fast-growing markets and dedicated applications to further enrich ACBU's product portfolio. This will call for more investments in R&D, the sales organisation and the product offering, all of which can be achieved either through organic growth or external lines.

Outlook

Having reached an EBIT of 12%, 2 percentage points higher than the set target of 10% and two years ahead of the planned date, the company now aims at stabilising its economic performance for the medium-term. The board is fully aware that such performance is satisfactory in consideration of the economic growth deceleration which is currently affecting all regions of the world to a larger or a smaller degree.

In order to lay the foundations for sustained long-term profitability, the group intends to deploy every effort to increase revenue. It strongly believes that sales growth in carefully selected geographical areas and product/application markets, together with enhanced R&D to maintain a state-of-the-art product portfolio, are essential ingredients to achieve the set goal. In particular, ACBU's customer base will need to be further leveraged to extract more value in order to offset the diminishing returns resulting from the continuing price erosion. Furthermore, new products shall be introduced and additional customers acquired. The present structure could easily handle a much-increased sales volume with a minor enlargement of the sales organisation. This means that new customers and/or new automation components complementing the current offering could be handled at a marginal cost. This would make the commercial strategy of the «one-stop-shop» for customers more effective, while diluting the incidence of the relevant fixed costs associated with the sales network.

Finally, the group will investigate the market potential of countries that are recording economic and industrial growth rates far in excess of those of the more mature countries where Carlo Gavazzi presently operates. Opening up sales outlets in those countries may prove very rewarding in the long-term.

Today, the group finds itself in a unique position to afford such moves. The company has a capable and dedicated management, a sound financial structure and sound cash flow generation. Growth opportunities have been identified and are now being prioritised and carefully evaluated. If appropriate, concrete actions will be communicated in due time.

The group has recorded a strong operational performance and attained a solid financial position. Accordingly, the board of directors will propose to the annual shareholders' meeting the payment of a dividend of CHF 10 per bearer share for the reporting period, corresponding to a pay-out ratio of 42%.

Special thanks go to all of our employees for their creativity and commitment, which resulted in the recent years' progressively positive results. We would also like to thank our customers and shareholders who have shown confidence in the Carlo Gavazzi Group.

Giulio Pampuro
Chairman of the Board

Corporate

Review of Operations

Structure

The organisational structure of the group remained unchanged during the year under review. The group is composed of the two business units Automation Components with its head office in Lainate (Milan), Italy, and Computing Solutions with its head office in Brockton, MA, USA.

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 strengthened against the Swiss franc and the US dollar weakened. The weighted positive currency effect for the group amounted to 0.8% on bookings, operating revenue and cost of sales. The currency exposure for the group on profitability is limited as local revenues are matched substantially with corresponding expenses in the same currencies.

Bookings and backlog

In 2007/08, consolidated bookings from continuing operations increased by CHF 6.6 million or 3.0% (0% adjusted for currency effect) from CHF 221.6 million to CHF 228.2 million. Bookings exceeded revenue by CHF 4.8 million for a book-to-bill ratio of 102%. The Automation Components Business Unit increased its bookings by CHF 4.4 million or 2.3% (0.4% adjusted for currency effect) from CHF 191.3 million to CHF 195.7 million. Bookings of the Computing Solutions Business Unit increased in US dollars by 13.8% whereas in Swiss francs they increased by 7.3% to CHF 32.5 million. Group order backlog at year-end amounted to 22.2% of operating revenue, corresponding to work-on-hand of almost three months.

Operating revenue

Consolidated revenue from continuing operations increased by CHF 7.7 million or 3.6% (0% adjusted for currency effect) from CHF 215.7 million to CHF 223.4 million. The Automation Components Business Unit increased its revenue by CHF 10.0 million or 5.4% (3.4% adjusted for currency effect) from CHF 186.6 million to CHF 196.6 million, affected in the second half by the slight slowdown in bookings. Revenue at the Computing Solutions Business Unit decreased in US dollars by USD 0.4 million or 1.7% and in Swiss francs by CHF 2.3 million or 7.9% from CHF 29.1 million to CHF 26.8 million. Automation Components represented 88.0% of group revenue compared with 86.5% in the previous year.

Gross profit margin

The consolidated gross profit margin improved by 2.3 percentage points from 46.7% to 49.0% in the reporting period. In the Automation Components Business Unit, the gross profit margin increased by 1.6 percentage points from 50.6% to 52.2% while it increased at Computing Solutions by 3.4 percentage points from 21.9% to 25.3% due to efficiency improvements and more profitable business. The excellent margin performance at Automation Components was assisted by the substantial efficiency improvements at all manufacturing locations.

Operating expenses

Operating expenses as a percentage of operating revenue amounted to 37.5% compared with 36.9% in the previous year. Operating expenses, including selling, general, administrative and R & D expenses, increased by CHF 5.3 million or 6.7% (3.8% adjusted for currency effect) from CHF 79.6 million to CHF 83.8 million. The Automation Components Business Unit increased operating expenses by CHF 5.4 million or 7.7% (5.4% adjusted for currency effect) from CHF 70.4 million to CHF 75.8 million, reflecting the increased investment in sales, marketing and R & D personnel. Operating expenses of the Computing Solutions Business Unit were reduced by CHF 0.9 million or 14.5% (0% adjusted for currency effect) from CHF 6.2 million to CHF 5.3 million. Other income/expense, net, of CHF 1.1 million positive, includes gains from the sale of two buildings no longer required of CHF 0.6 million and a provision no longer required of CHF 0.6 million, whereas the previous year included net costs of CHF 1.0 million.

EBIT

Consolidated EBIT increased by CHF 6.5 million or 32.2% from CHF 20.2 million to CHF 26.7 million. As a percentage of operating revenue, EBIT amounted to 12.0%, an improvement of 2.6 percentage points over the previous year.

Net interest expense remained stable at CHF 0.7 million. This year, there was an exchange loss of CHF 2.3 million compared with a loss of CHF 0.5 million in the previous year, mainly due to the further devaluation of the US dollar. The nominal tax rate increased by 7.3 percentage points from 21.8% to 29.1% due to the reduced availability for usage of tax loss carry forwards.

Net income

Net income increased by CHF 5.3 million or 46.1% from CHF 11.5 million to CHF 16.8 million. Earnings per share grew from CHF 16.25 to CHF 23.81. Return on equity increased from 11.7% to 15.6% while return on capital employed improved from 19.1% to 30.7%.

Balance sheet and cash flow

Trade accounts receivable, net, decreased by CHF 3.8 million or 7.0% from CHF 54.6 million to CHF 50.8 million, corresponding to a collection period of 81 days, a slight decrease over the 82 days of the previous year. Inventories decreased by CHF 9.2 million from CHF 40.4 million to CHF 31.2 million, corresponding to 3.6 turns compared with 3.3 turns in the previous year. This decrease returns the inventory to a more normal level following the substantial increase in the previous year necessitated by the transfer of production from Denmark to Lithuania and Malta. Net working capital decreased by CHF 11.4 million from CHF 58.7 million to CHF 47.3 million for the same reason. Net fixed assets decreased mainly due to the sale of two buildings.

The company turned net cash positive during the year to reach a position of CHF 21.1 million compared with net interest-bearing debt at the end of the previous year of CHF 7.2 million.

Shareholders’ equity increased from CHF 98.9 million to CHF 107.9 million or 63.1% of total assets after net income of CHF 16.8 million, translation losses of CHF 3.9 million, payment of dividends of CHF 4.9 million and a net decrease in own shares of CHF 1.0 million.

Cash flow from operating activities before net working capital changes amounted to CHF 23.6 million, an increase of CHF 4.8 million over the previous year. Cash flow from operating activities including changes in net working capital increased by CHF 24.0 million from CHF 8.0 million to CHF 32.0 million, caused primarily by the inventory decrease described above. Taking net capital expenditure into account, free cash flow increased by CHF 28.3 million from CHF 5.0 million to CHF 33.3 million.

Corporate

Group Profile

Our mission

Carlo Gavazzi is a diversified, internationally active electronics group designing, manufacturing and marketing electronic equipment targeted at the global markets of industrial automation and information processing.

Our structure

Under the umbrella of a holding company, headquartered in Switzerland, Carlo Gavazzi is organised in two business units. 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. The business units operate separately within the framework of defined strategies and objectives; they are responsible for research and development, manufacturing, quality, marketing and sales, human resources, logistics, finance and control. Group executives lead their business units in line with the holding's objectives as businessmen 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 activities

The Automation Components Business Unit

Designs and manufactures electronic control components for the global industrial automation markets in its ISO 9001 certified factories in Italy, Lithuania, Malta and the People's Republic of China. The products (sensors, monitoring relays, timers, energy management systems, solid-state relays, electronic motor controllers, safety devices and fieldbus systems) provide automation solutions for the factory and building automation markets. Typical customers are original equipment manufacturers of packaging machines, plastic-injection moulding machines, food and beverages 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 20 own sales companies and through more than 40 independent national distributors.
In addition, the business unit designs and manufactures signalling equipment and safety relays for the Italian State Railways.

The Computing Solutions Business Unit

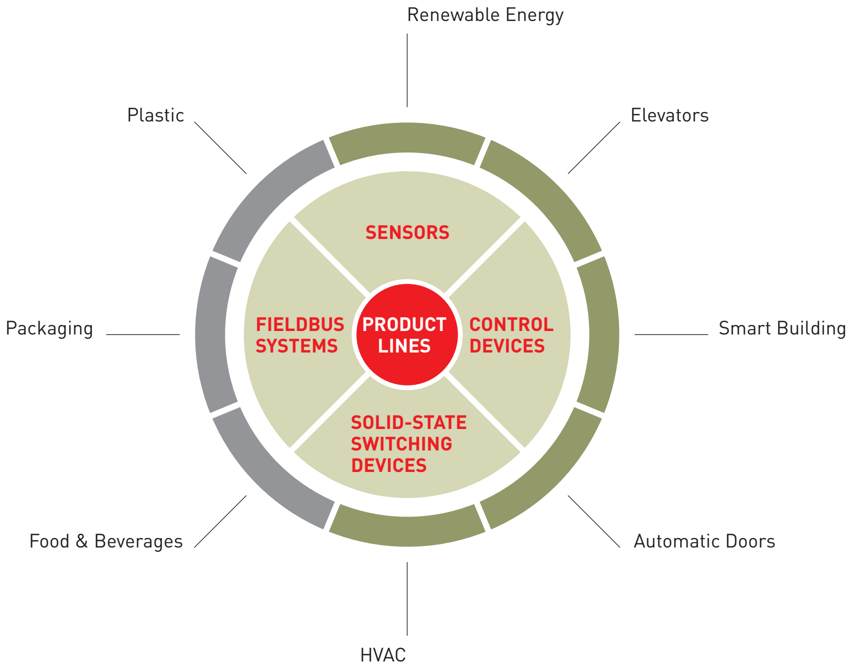
Designs, manufactures and markets in the USA standard and custom products supporting open architecture bus structures such as VME, CompactPCI, AdvancedTCA, CompactTCA and MicroTCA as well as switch fabric technologies. The products include enclosures and high-speed backplanes, fabric connectivity solutions as well as embedded computer systems. The unit's system integration expertise provides customers with complete, fully tested and certified systems. The Computing Solutions Business Unit operates an ISO 9001 certified manufacturing facility on the East-coast of the USA. The unit's main customers are manufacturers of commercial and military telecommunications equipment, mass-storage units for data processing, speciality computers and medical equipment.

Our strategy
Solution-packages for the vertical market segments

AUTOMATION COMPONENTS

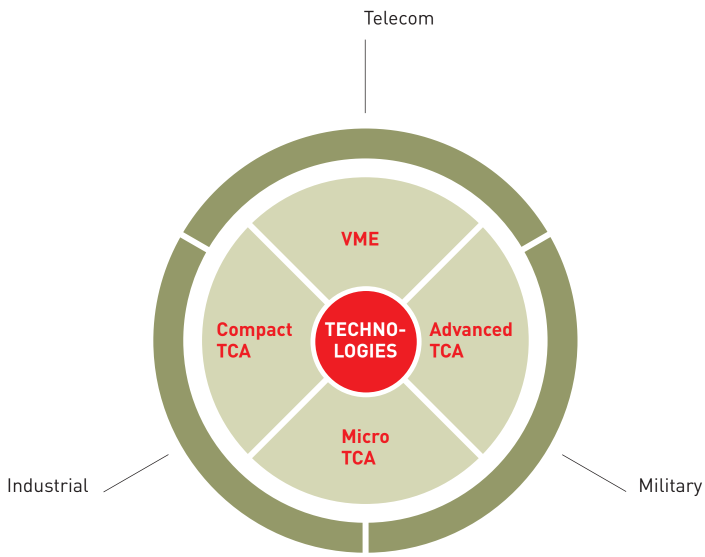
PRIORITY
MARKET SEGMENTS

- Factory
- Building



COMPUTING SOLUTIONS

PRIORITY
MARKET SEGMENTS



Global Presence

SECTORS

- R & D and manufacturing centres
- Logistic centres
- Sales and marketing
- Independent distributors

1 North America

Revenue: CHF 52 million
1 Logistic centre
2 Sales companies
5 Area managers

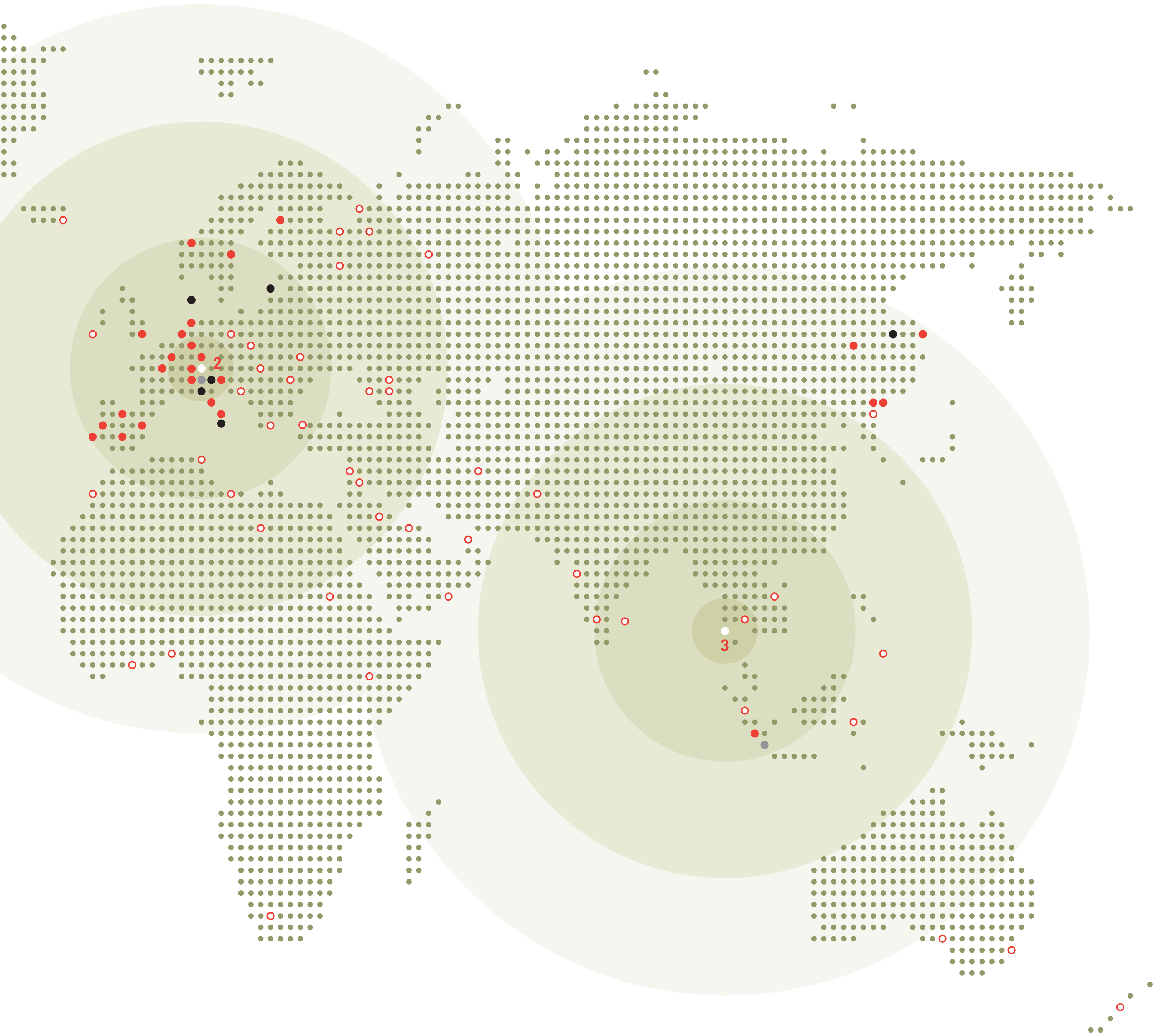
2 EMEA
(Europe, Middle East & Africa)

Revenue: CHF 159 million
4 R & D competence centres
4 Manufacturing facilities
2 Logistic centres
14 Sales companies
5 Regional offices

3 Asia-Pacific

Revenue: CHF 12 million
1 R & D competence centre
1 Manufacturing facility
1 Logistic centre
4 Sales companies
3 Regional offices

Carlo Gavazzi is a diversified, internationally active electronics group designing, manufacturing and marketing electronic equipment targeted at the global markets of industrial automation and information processing.



Business Unit

Automation Components

Thanks to successful market segment targeting, efficiency improvements and economy-of-scale effects, Automation Components not only reached its operating revenue target but also exceeded the forecasted EBIT, which reached CHF 26.3 million or 13.4% of operating revenue.

Business performance

In the full year, operating revenue increased by 5.4% (currency neutral 3.4%). This growth was affected by the 30% decline of non-core sales of dedicated electromechanical relays and signalling devices for the Italian State railways. Net of this negative contribution, the overall operating revenue of automation components shows an increase of 7.5% (currency neutral 5.5%), compared with a market growth rate estimated at 4%. As a result of the ongoing economic uncertainties, particularly in North America, the business unit experienced a slight slowdown in bookings in the second semester, which was reflected in the moderate growth rate of 2.3% (currency neutral 0.4%) over the previous year. As a result of substantial efficiency improvements, the gross profit margin improved from 50.6% to 52.2%. Consequently, EBIT increased by 19.5% despite significant additions in human resources in sales, marketing and R & D.

Geographical regions and core products

The high revenue growth in South-East-Asia of over 30% compared with the previous year confirmed the unit's strategic thrust in expanding its sales network in this region. While revenue in Europe grew by 5%, the sales increase in the North American region remained below the business unit's average growth rate. The revenue distribution saw the European region stable at 80% of total sales, North America down to 13% from 15% last year and South-East Asia moving up from 5% to 7% in the reporting period.

Sales of many core products such as inductive sensors and monitoring relays increased by more than 8%. Once again, the star performing products were the energy management devices that were selling with a growth rate of 24%.

Priority markets

Sales to Automation Components' priority markets increased in excess of 10%. Significant growth rates of more than 16% were achieved in both the doors and entrance control and the lift and escalator market segments, only topped by a substantial growth in the renewable energy market that was well in excess of 50%.

Innovative products launched

Energy saving is key in today's environment. With the target to provide customers with devices to monitor and control energy consumption, the business unit launched a number of dedicated products. Among them is a new energy meter, easy to install either in a front panel or on a DIN-Rail, including a display that is connected wireless to the control device and also featuring a standard interface to exchange data with the main control unit. In addition, a new electronic soft-starter dedicated to the compressor

Dino Masili
Group Executive

control of heat pumps was designed. This device enables customers to limit the peak energy demand and hence to improve the life-cycle of their equipment and to decrease electricity consumption.

Outlook

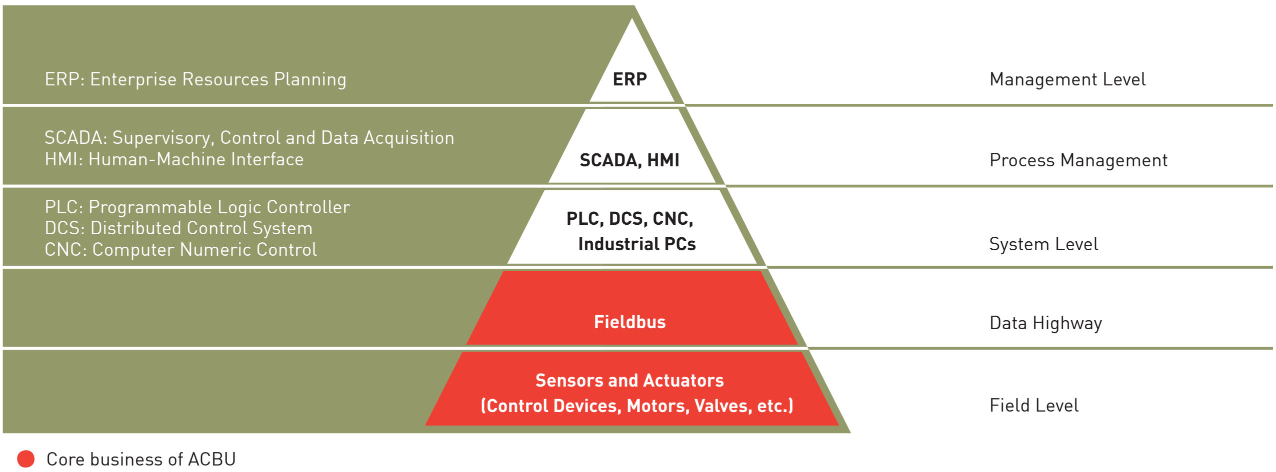
Management considers that the accessible market potential for automation components will continue to grow in 2008/09, though at a somewhat lower rate compared with the previous year. As the demand for energy saving and building automation is expected to grow over-proportionally, the business unit will put additional emphasis on the development of dedicated products for the markets of alternative energy sources and building and home automation.

Automation Components will continue to invest in R & D and in the expansion of its activities in geographical areas not yet sufficiently covered. While these will produce sustained revenue growth for the mid-term, they may negatively impact short-term profitability because of the need to recover the investment costs over a protracted period of time.

Financial results

(CHF million)	**2007/08**	2006/07	%
Bookings	**195.7**	191.3	+2.3
Operating revenue	**196.6**	186.6	+5.4
EBIT	**26.3**	22.0	+19.5
ROS (EBIT/Revenue in %)	**13.4**	11.8	–

THE AUTOMATION PYRAMID



AUTOMATION PRIORITY MARKETS: DOORS AND ENTRANCE CONTROLS

Gunnebo is an international group supplying integrated security solutions for customers with stringent requirements in secure cash-handling, access and entrance-control, intrusion, burglar and fire-protection. The primary focus is on banks, retailers and sites in need of high security solutions. In addition, protecting sites from unauthorised vehicles and pedestrians is a major security requirement.

Angelo Vivori, purchasing manager for the Italian factory, discusses application requirements with Gabriele Carnevali, Carlo Gavazzi's product and market manager. Gunnebo uses a small and extremely reliable photoelectric sensor, installed in speed-gates and entrance-control devices, to regulate the flow of people in and out of buildings. Placed in a «smart» way, these sensors are capable of providing information such as direction, height and number of people passing through the gates.

To ensure safety and to collect statistical data, there are at least eight points in a speed gate detecting who and how many persons are passing through.

Many offices, leisure centres and airports are faced with the threat of unauthorised visitors. By utilising Gunnebo's speed gates, such threats are drastically reduced. Depicted here are the gates installed in the Terme di Merano, Italy.

Giovanni Fellin, Production Supervisor

AUTOMATION PRIORITY MARKETS: HEATING, VENTILATION AND AIR-CONDITIONING

Uniflair is a world leader in the HVAC market providing cooling and air-conditioning solutions and systems for home and industrial environments. Working side-by-side with Uniflair's R & D department, Carlo Gavazzi developed customised solutions, which include monitoring relays, power relays, timers, energy meters and solid-state relays.

Stefano Girardi of Uniflair and Roberto Girardi of Carlo Gavazzi inspect test results on a temperature data acquisition station in Uniflair's R & D data-centre.

Uniflair's 600 kW water cooler features a silent air condensing system and a redundant power supply. The automation solution protects the unit against over-voltage and phase distortion.

The 2000 m^2 research centre comprises six different laboratories involved in mission-critical applications selected by Refricold, the European industrial conditioning and cooling laboratory network.

Elena Paccagnella, Marketing Manager

AUTOMATION PRIORITY MARKETS: RENEWABLE ENERGY

The Istituto Bacologico of Padova is a worldwide recognised 37 800 m^2 institution dedicated to scientific projects in sericulture and moriculture on own mulberry fields. Founded in 1871, it was transformed into an advanced experimental laboratory by its dynamic leader Dr Luciano Cappellozza. It is powered by an autonomous, zero-emission solar and geothermic plant for which Carlo Gavazzi supplied the energy counters and power analysers.

Daniele Maniero of the Maniero Elettronica engineering company and Roberto Conca, Carlo Gavazzi's product and market manager, present their technical solution for the Istituto Bacologico's 60 kW power plant. Roberto Conca is also national speaker of Assolosolare, the solar energy association of all related Italian manufacturers.

The Istituto Bacologico's solar station uses three photovoltaic modules in monocrystalline, polycrystalline and amorphous silicon of 20 kW each. To comply with the plant's requirements, Carlo Gavazzi provided custom-designed energy counters, power analysers and the interface protection, all of them devices that control the minimum and maximum voltage as well as the frequency.

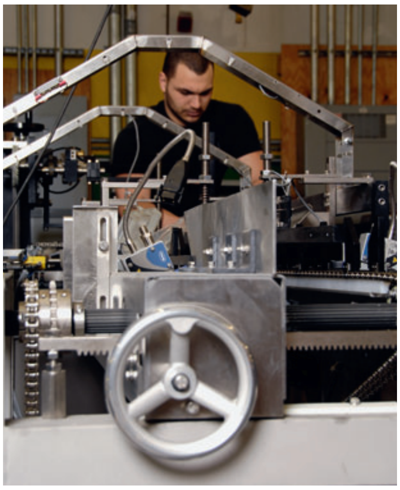
Silk is not only used in the textile manufacturing industry. Among the most recent seric applications developed by the company is the medical use of silk textiles against skin deterioration, where the protein of the bombyx is naturally absorbed by the human body.

Dr Luciano Cappellozza, Managing Director

AUTOMATION PRIORITY MARKETS: PACKAGING

Econocorp, Inc. is a recognised worldwide leader in cartoning, tray forming, and case packing for moderate and lower production volumes. Horizontal, vertical, tray-style cartoning, case-packing and automatic product loading are typical Econocorp technologies developed for the food, household, industrial, computer, pharmaceutical, cosmetics and medical markets. Carlo Gavazzi's solid-state relays, inductive sensors and power supplies help drive and control these machines.

Ron Dargie, purchasing manager and Bill Ralph, Carlo Gavazzi's area manager, next to Econoseal, an award-winning compact, inexpensive package-sealing machine sold worldwide.



The packaging machine is designed for the carton sealing of industrial products, toys and games, paper products, cosmetics, pharmaceuticals and other medical equipment.

Sensors featuring high reliability and robustness are fundamental components for the automation process in packaging machines.

Bob Hennessey, Machinist

Business Unit

Computing Solutions

Computing Solutions made a major step forward in its performance in the financial year 2007/08 and reached its objectives. Thanks to many new and promising projects, bookings increased by 14% and backlog at the end of the reporting period improved by 56% or USD 5 million compared with the previous year.

Business performance

The slightly lower operating revenue compared with the previous year had its roots in a slow start at the beginning of the period. Thereafter, business picked up and Computing Solutions was able to capture a number of new projects, reflected in the significantly higher backlog at the end of the reporting period. The healthy book-to-bill-ratio of 1.21 ensures a good start for the current financial year. Thanks to the efficiency improvements resulting from the integration of the West coast facility into the Brockton operation in the previous period, gross profit margin improved significantly from 21.9% to 25.3%. As a result of rigorous cost-saving programmes, operating expenses were reduced by USD 0.4 million and EBIT increased by USD 0.8 million.

Revenue development in the market segments served

R & D and marketing efforts remained focused on the strategic market segments, military and industrial. While revenue from customers in the military market segment increased from 33% to 37% of total revenue and turnover from industrial customers remained stable at 48%, sales to the telecom infrastructure industry declined from 20% to 15%. These results confirm the business unit's strategy to concentrate on the promising opportunities in the industrial field and to further reduce its dependency on the forecasted low investments in the telecom infrastructure market.

Product innovation

Computing Solutions continued to target its customers with dedicated solutions meeting their quality and cost expectations. In the industrial segment, the business unit won a substantial prototype and production order from a world-renowned printer manufacturer for a low-cost VME-unit in a unique package. The key success factors for this solution were application knowledge and quick realisation of prototypes.

The business unit expects this cooperation to continue in the current financial year and forecasts additional business in connection with a new generation of printers from the same customer.

Chris Boutilier
President

In the military field, a high-end, fully configured VME-based Air Transport Rack (ATR) system was developed for a military video storage and retrieval system. In the reporting period, the project contributed revenue in excess of USD 2 million. Business unit management is confident that this project will develop into a multi-million project over the next two to three years.

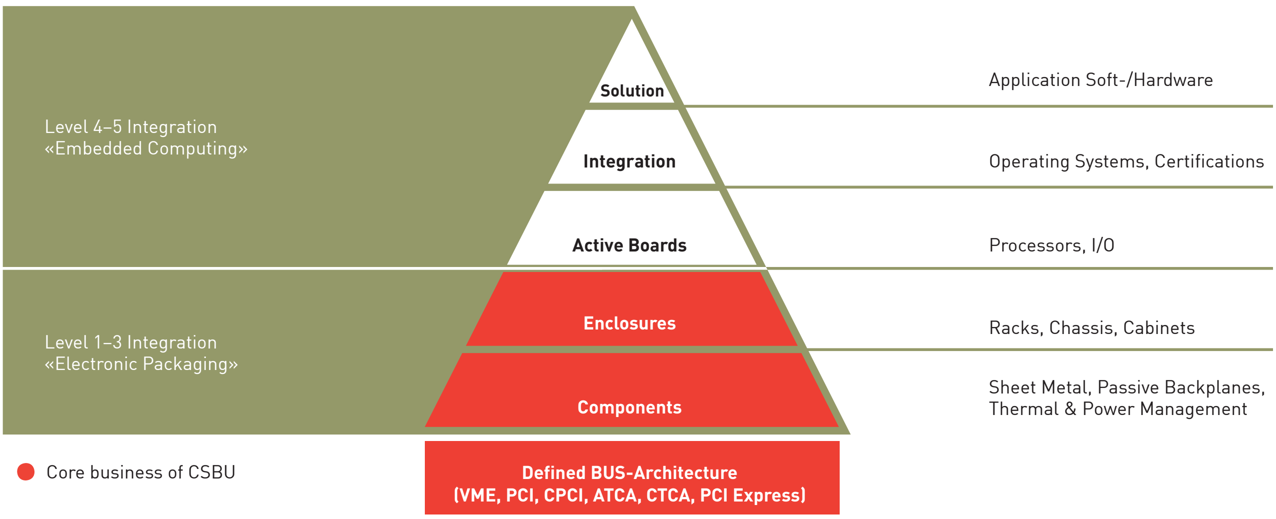
Outlook

Thanks to the significantly increased backlog and the many promising projects on hand that show the increasing customer confidence and loyalty and, although there is substantial uncertainty regarding the further economic development in the US, management anticipates to achieve high single-digit revenue growth.

Financial results from continuing operations

(USD million)	**2007/08**	2006/07	%
Bookings	**28.0**	24.6	+13.8
Operating revenue	**23.1**	23.5	–1.7
EBIT	**0.2**	–0.6	–
ROS (EBIT/Revenue in %)	**0.1**	–2.6	–

THE INTEGRATION PYRAMID



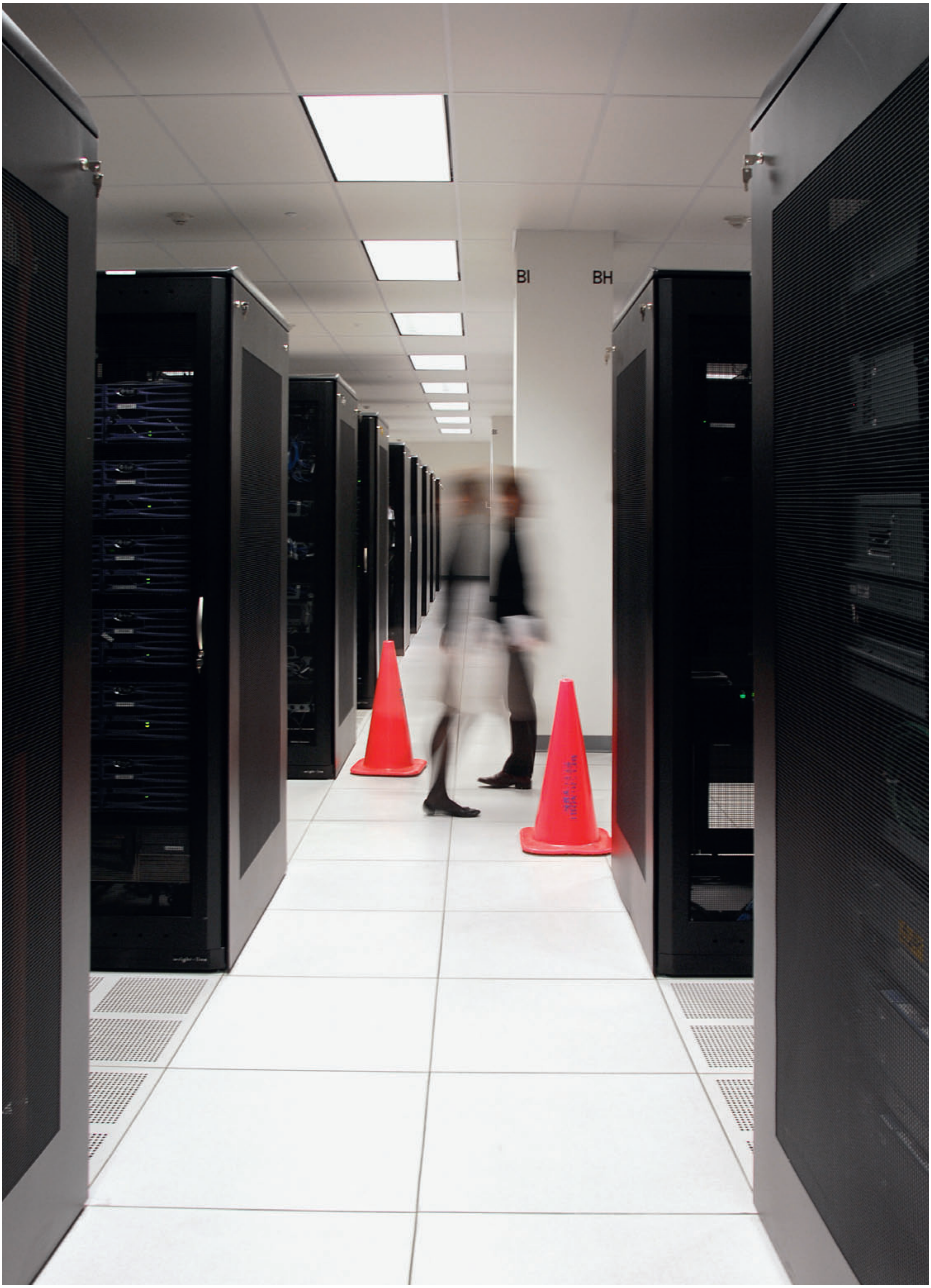
COMPUTING TECHNOLOGY:
DEVICES FOR HIGH-SECURITY APPLICATIONS

State Street Corporation is one of the world's largest global financial institutions with locations in the United States, Zurich, Paris, Vienna, Hong Kong, Dublin, Sydney, and many more. Their IT environment handles an enormous amount of sensitive data on numerous servers, which are remotely monitored by Carlo Gavazzi's console management.

Sherman Layton of State Street and Greg DeCristofaro, Carlo Gavazzi's area manager discuss future requirements in front of cabinets containing Control Tower and PCI expansion chassis.

The applications for State Street require numerous Carlo Gavazzi products, such as the Control Tower software, Aries multiport serial boards and PCI expansion chassis.

The sensitive and critical nature of the data requires high security. Control Tower has a 128-bit encryption and the ability to limit access by user and by managed device. Today, State Street successfully runs more than 1000 of these systems.



One of several large data centres with Carlo Gavazzi's Control Tower implemented.

Corporate Governance

Carlo Gavazzi Group

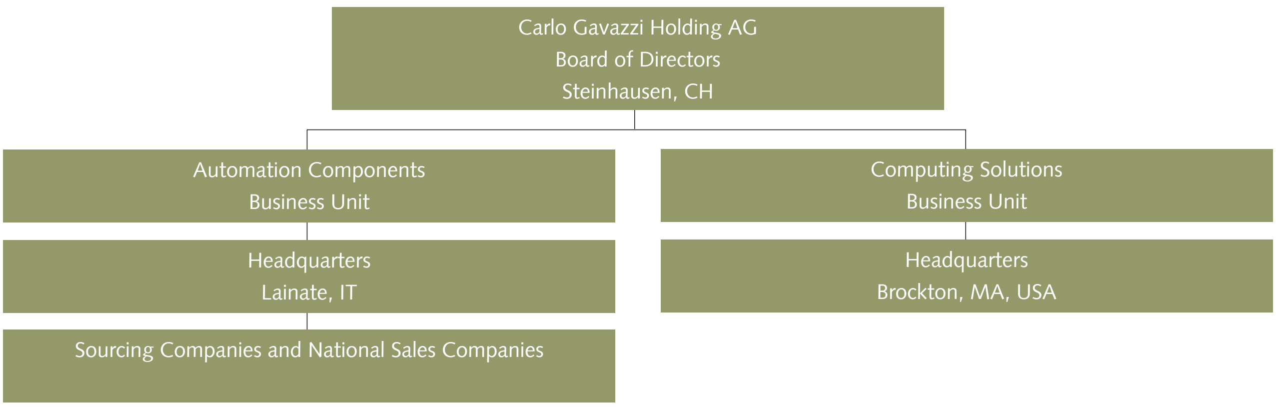
Carlo Gavazzi is committed to the principles of good corporate governance. The company shows responsibility in dealing with the interests of its various stakeholders, which include shareholders, employees, customers and the general public. The rigorous application of sound corporate governance principles helps to consolidate and strengthen trust in the group.

The following representations made by the company are in accordance with the directive on information relating to corporate governance as resolved by the SWX Swiss Exchange on April 17, 2002, applicable as of July 1, 2002. Information requested by such directive, which is either not applicable or immaterial, is not mentioned. The representations also take into account the commentary on the corporate governance directive, last updated on September 20, 2007.

The information is set out in the order required by the SWX Swiss Exchange guidelines on corporate governance information (RLCG), with subsections being summarised to the extent possible. Carlo Gavazzi's financial statements comply with US GAAP reporting standards and in certain sections readers are referred to the financial statements and notes in this annual report.

1. Group structure and shareholders

The operational group structure is as follows:



There are no listed companies apart from Carlo Gavazzi Holding AG, Security No. 1100359, ISIN No. CH001 1003594. For details of non-listed companies, refer to the Notes to Consolidated Financial Statements of Carlo Gavazzi Holding AG, Note 29 «Subsidiaries».

Major shareholders	% of voting rights
Gavazzi family (directly or indirectly)	80.70%
Vontobel Fonds Services AG	3.24%

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

2. Capital structure

For details of authorised, paid-in and conditional capital and numbers of shares issued, refer to the Notes to Financial Statements of Carlo Gavazzi Holding AG, Note 3 as well as to article 6 of the statutes, governing the exclusion of shareholders' subscription rights. For Statements of Changes in Consolidated Shareholders' Equity at March 31, 2006, 2007 and 2008, refer to page 38 of this annual report. There was no change in the share capital during the year ended March 31, 2006. At the annual shareholders' meeting of July 27, 2006, the shareholders resolved to decrease the share capital from CHF 35 535 500 to CHF 10 660 650 by reducing the nominal value of the registered shares from CHF 10.00 to CHF 3.00 and the nominal value of the bearer shares from CHF 50.00 to CHF 15.00 and to amend the statutes accordingly. There was no change in the share capital during the year ended March 31, 2008. The company has not issued any profit-sharing certificates. There are no restrictions on transferability or registrations. There are no convertible bonds.

Corporate Governance

Board of Directors

3. Board of Directors

The board of directors comprises five members.

1 **Giulio Pampuro**
Italian and Swiss national, Milan
Chairman
First elected 2005, elected until 2008

Graduated in economics and business administration, Bocconi University, Milan. Master of science in economics, London School of Economics
Held positions with First National Bank of Chicago, World Bank, Washington, Pirelli Group, Basle and Milan, and Finarvedi Group, Milan, from 1977 until 2006
Managing Director Barguzin Participation SA, Luxemburg, since 2005
CFO of the CLN Group, Turin, since 2006
Chairman of Carlo Gavazzi Holding AG since 2007

2 **Alessandro Berlingieri**
Italian national, Milan
Director**
First elected 2004, elected until 2008

Graduated in economics, Ca'Foscari University, Venice
Held management positions with manufacturing companies in Austria, France, Germany, Italy and Turkey from 1996 until 2001
Chairman Billion SA – Mannesmann Plastic Machinery, France, until 2004
Chairman Barguzin Corporation NV, Curaçao, since 2004
Managing Director Sun Solution Energy S.r.l., Milan, since 2008
Managing Director GCI Management Consulting Italia S.r.l., Milan since 2008

3 **Felix R. Ehrat**
Swiss national, Zumikon ZH
Director**
First elected 2007, elected until 2008

Doctorate in law from the University of Zurich (1990), attorney at law (1985)
LL.M. University of the Pacific, McGeorge School of Law (1986)
Employee since 1987 and partner of Bär & Karrer law firm, Zurich, since 1992. Senior partner since 2003 and as of 2007 chairman of the board of directors of Bär & Karrer AG
Director of Julius Bär Holding Ltd and Bank Julius Bär & Co. Ltd from 2001 until 2005
Chairman Banca del Gottardo, Switzerland, from 2005 until March 2008
Vice-Chairman of Charles Vögele Holding AG, Switzerland, since 1997
Member of the board of Austriamicrosystems AG, Austria, since 2004

4 **Dominique Fässler**
Swiss national, Cham ZG
Director*
First elected 2002, elected until 2008

Lic.oec. HSG
Held various positions within the Credit Suisse Group from 1987 until 2004
Member of the Executive Committee, Vontobel Asset Management AG, Zurich, since 2004

5 **Federico Foglia**
Swiss national, Lugano TI
Director
First elected 2004, elected until 2008

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
Director of Belgrave Capital Management, London, since 2003
Director of Ceresio SIM, Milan, since 2006
Director of HH Management Ltd, Tortola, British Virgin Islands, since 2006

* Chairman of the Audit Committee
** Member of the Audit Committee


4
2
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Honorary chairman
Werner S. Welti, the group's CEO from 1991 until 1997 and Chairman from 2003 until 2007, was appointed Honorary Chairman in July 2007.

Internal organisational structure
Two members of the board of directors have functions/ close relations to companies controlled by the majority shareholder. Refer to information on members of the board of directors, «Related Party Transactions» Note 22 to Consolidated Financial Statements of Carlo Gavazzi Holding AG and Note 4 to Financial Statements of Carlo Gavazzi Holding AG.

The board of directors comprises at least five members. They are elected at the annual shareholders' meeting for a term of one year. The members are elected globally unless decided otherwise at the shareholders' meeting. Re-election is permitted. The statutory age limit is 70 years. The chairman is elected by the board of directors. The statutes are available in German language on the group's website at www.carlogavazzi.com/Investors/Corporate governance/Statuten.

Areas of responsibility – Board of directors
The board of directors establishes the strategic, accounting, organisational and financing policies to be followed by the group. It supervises and advises the group's management. It regularly reviews the financial results and approves budgets as well as consolidated financial statements. The board of directors appoints the company's executive officers.

The detailed rules defining the interactions with the executive management are set out in the Business Rules.

The board of directors has a quorum when the majority of its members are present. Its decisions are made with 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 full-day strategy meeting and a budget meeting in November and March, respectively. The executives responsible for business units attend these meetings as required. The chief financial officer regularly assists the chairman in the presentation and discussion of the financial results. In the reporting period, the board of directors held six full-day meetings.

The board of directors has established an audit committee to carry out certain duties as set out below.

Audit committee
The prime function of the audit committee is to assist the board in fulfilling its supervisory responsibilities. It evaluates the independence and effectiveness of external auditors, approves auditing services to be performed by the external auditors, 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 can ask any question at all times when deemed necessary through the chief financial officer and may have direct contact with the company's auditor and other professional organisations. 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 2007/08, the audit committee consisted of Dominique Fässler (chairman) and Alessandro Berlingieri as well as Felix R. Ehrat, who was elected committee member in July 2007. In the financial year 2007/08, the committee met three times and the auditors participated in all of the meetings.

Reporting
The board of directors is regularly informed about the company's performance according to the latest MIS Reporting. Furthermore, the annual budget and the 3-year strategic plan are subject to approval by the board. Ad-hoc information is reported to the board when deemed necessary.

Frequency	Content
Monthly	Key P & L information on • Business units sub-consolidated • Group consolidated with previous year and budget comparisons
Quarterly	P & L, balance sheets, investments and personnel • Business units sub-consolidated • Group consolidated with previous year, budget comparisons and year-end estimate
Semi-annually	Interim reports meeting the requirements of the SWX Swiss Exchange
Annually	All information necessary to establish the annual report governed by US GAAP and the rules applicable to companies quoted on the SWX Swiss Exchange

Areas of responsibility – Business unit managers
In their functions they report to the full board of directors. They can (but do not have to) be members of the board. As operationally responsible for the business units, they ensure the integration and coordination of the subsidiaries' activities towards the overall achievement of group goals. Within the limits of the law and with the exception of those competencies that are reserved to the board or delegated to the chairman, the board delegates to the business unit managers the overall management of the industrial and commercial activities of the business units and therefore the conduct of the day-to-day business of the various companies belonging to their respective unit. Their main responsibilities are:

Management of their business unit, preparation of alternatives and proposals for the board in all matters relating to the activities of the business unit, execution of board decisions, regular reporting to the board on business activities and important events, support to the chairman on matters of M&A and divestitures.

They can delegate part of their functions to other persons. In particular, it is their task to define responsibilities and competencies within their business unit. However, this delegation does not release them from the responsibility of the overall business unit management and results.

Areas of responsibility – Chief financial officer
In his function he reports to the full board of directors. The CFO is responsible for organising and supervising all financial aspects of the group. In the performance of his task he is providing guidance to and is assisted by the CFO's of the business units. He implements all decisions of the board with regard to financial matters and is responsible for the flow of information to the board in regard to those matters.

In particular, the CFO's responsibilities include:
Organising and supervising internal controls, ensuring a timely and adequate reporting system, including budgets and 3-year plans, organising and implementing financial planning, tax optimisation, cash and treasury management, organising and supervising group banking relations, representing the group towards financial institutions and providing for a timely completion of the financial portion of the annual report.

Areas of responsibility – Head of corporate communications
In his function he reports to the chairman of the board. He is responsible for the elaboration of the group's communications strategy, for its final definition in close coordination with the chairman, and for its implementation.

In particular this includes:
Continuous review of the group's communications activities with the purpose of enhancing or re-defining 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 annual shareholders' meetings, organisation 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 formulation of public statements.

Corporate Governance

Executive Management

4. Executive management

The executive management of the group comprises the heads of the two business units and the corporate functions.

6 **Dino Masili**
Italian national

Group Executive Automation Components

Diploma in electronic engineering

R & D management positions with Zanussi from 1969 until 1984
Joined group in 1984 and held management positions in different group operating units
Group Executive since 1992
CEO of the Automation Components Business Unit since 1997

7 **Chris Boutilier**
US national

President Computing Solutions

Degree in mechanical engineering

Positions at Augat, New Bedford, MA, from 1985 until 1989
Joined group in 1989 and held various positions in different operating units
General manager of the West-coast facility since 1997
Chief Operating Officer of the business unit since 2005
President of the Computing Solutions Business Unit since 2006

8 **Anthony M. Goldstein**
British and Swiss national

Chief Financial Officer

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 and Secretary to the Board
Group Controller since July 2006
Chief Financial Officer since July 2007

9 **Felix Stöcklin**
Swiss national

Head of Corporate Communications

Dipl. El.-Ing. ETH, Zurich

Joined group in 1974 and held various positions in marketing, strategic planning and business development in the Netherlands, Germany and Switzerland
Head of Corporate Communications since 2003

Management contracts
There are no management contracts in existence pertaining to management tasks that have been delegated to third parties.

5. Compensation report

The board of directors develops and regularly reviews the group compensation principles and decides on the compensation of the board members and of the executive management. In addition, it reviews and approves the compensation of all first-line managers of the group's business units.

The compensation system
The fees of the members of the board and the compensation of the members of the executive management are established according to a comparative analysis of compensation paid within selected peer groups of international companies. By combining incentives linked to measurable and pre-determined financial targets, the compensation system is designed in a way that the interests of executive management are aligned with the interests of the company and its shareholders.

Compensation is reviewed and fixed annually. Employment contracts with members of the executive management do not contain unusually long notice periods or contract durations. In 2007/08, the company has not entered into any agreements on severance pay or end of service. The allocation of the elements of compensation is discussed within the board, which makes the ultimate decision with respect to such allocation.

Elements of the compensation system
Board remuneration: Members of the board of directors can elect to take 50% or 100% of their annual board remuneration in the form of Carlo Gavazzi bearer shares multiplied by a factor of 1.05 or 1.1, respectively. As of March 31, 2008, 258 (2007: 464) bearer shares have been granted to the board members at a cost of CHF 49 000 (2006/07: CHF 128 000).

Profit-sharing plan (PSP): In June 2004, the company established an incentive plan for the financial years 2004/05 to 2007/08 which granted cash awards to the chairman, directors, group executives, first-line managers and holding managers. Under this plan, the participants receive a cash award if certain financial parameters in the group (net income in the financial years 2004/05 to 2006/07 and EBIT in the financial year 2007/08) are met for a specific financial year. The participants could elect to receive Carlo Gavazzi bearer shares multiplied by a factor of 1.1 in lieu of the cash award, but in such a case delivery of the shares awarded will be delayed for six months.
The PSP expense amounted to CHF 1 657 000 (2006/07: CHF 1 558 000).

6. Shareholders' participation rights

There are no restrictions on the use of voting rights by any group of shareholders. Statutory rules for participating at the general meeting of shareholders do not differ from the applicable legal provisions. Resolutions of the general meeting of shareholders are carried by the majorities set out by the applicable legal provisions. Convocation of the general meeting of shareholders and rules for adding items to the agenda of the general meeting of shareholders, especially rules on deadlines, are in accordance with the applicable legal provisions.

All shareholders entered on the share register will be admitted to the general meeting of shareholders and are entitled to vote. For administrative reasons, no new entries will be made during the ten days preceding a general meeting. Shareholders who dispose of their shares before a general meeting are not entitled to vote.

7. Changes of control and defence 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 general meeting of shareholders for a period of one year. The lead auditor, Mrs Joanne Burgener, assumed her mandate in July 2003.

The audit fees charged by PricewaterhouseCoopers in 2007/08 amounted to CHF 599 964. In addition, fees for other services charged by PricewaterhouseCoopers in 2007/08 amounted to CHF 583 482.

Fees charged in 2007/08 by other audit companies for auditing certain subsidiaries amounted to CHF 68 055. 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.

9. Information policy

The group has an open information policy, which treats all target groups equally. 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 http://www.carlogavazzi.com/Media. The company's official means of communication is the Swiss Official Gazette of Commerce.

As a company quoted on the SWX Swiss Exchange and in line with article 72 of the rules for quoted companies (ad hoc publicity), the group publishes all information relevant to its share price. In accordance with the amended ad hoc publicity directive adopted by the Admission Board of the SWX on September 30, 2004, the company 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 company's website simultaneously. Contact for investor relations: Felix Stöcklin, felix.stoecklin@carlogavazzi.ch

Carlo Gavazzi Group

Consolidated Financial Statements

for the years ended March 31, 2008 and 2007

Statements of Consolidated Income

for the years ended March 31

(CHF 1 000)	Notes	**2008**	2007
Operating revenue		**223 377**	215 749
Cost of sales		**113 982**	114 896
Gross profit		**109 395**	100 853
Selling, general and administrative expense		**83 822**	79 634
Other (income) expense, net	16	**–1 083**	976
Earnings before interest and taxes (EBIT)		**26 656**	20 243
Interest expense, net	17	**696**	687
Exchange loss, net		**2 283**	508
Earnings from continuing operations before income taxes		**23 677**	19 048
Income taxes, net	11	**6 889**	4 145
Earnings from continuing operations		**16 788**	14 903
Earnings (loss) from discontinued operations	2	**–**	–90
Goodwill write-off from discontinued operations	2	**–**	–3 288
Net income		**16 788**	11 525

(CHF)			
Basic and diluted earnings per bearer share from continuing operations	14, 26	**23.81**	21.01
Basic and diluted earnings per bearer share from discontinued operations	14, 26	**–**	–4.76
Basic and diluted earnings per bearer share from shareholders' net income	14, 26	**23.81**	16.25

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

at March 31

Assets (CHF 1 000)	Notes	**2008**	2007
Current assets			
Cash		**33 061**	18 957
Accounts receivable	4, 22, 23	**55 501**	59 337
Inventories	5	**31 212**	40 421
Deferred income taxes	12	**2 209**	3 381
Prepaid expenses		**1 234**	1 439
Other current assets		**1 367**	3 294
Total current assets		**124 584**	126 829
Non-current assets			
Fixed assets, net	6, 23	**16 540**	23 171
Goodwill	7	**28 584**	29 691
Deposits and long-term receivables	8	**473**	1 210
Deferred income taxes	12	**951**	1 272
Total non-current assets		**46 548**	55 344
Total assets		**171 132**	182 173
Liabilities and shareholders' equity (CHF 1 000)			
Current liabilities			
Bank overdrafts and short-term debt	9	**8 631**	20 668
Current maturities of long-term debt	10	**559**	1 458
Accounts payable	11	**18 433**	20 261
Accrued liabilities – current and deferred income taxes	12	**4 164**	4 022
Accrued liabilities – other	13, 24, 25	**21 580**	24 928
Total current liabilities		**53 367**	71 337
Long-term liabilities			
Long-term debt	10	**2 740**	4 022
Staff seniority indemnity	19	**5 675**	5 777
Deferred income taxes	12	**1 234**	1 823
Other long-term liabilities and capital lease obligations	25	**203**	292
Total long-term liabilities		**9 852**	11 914
Shareholders' equity			
Share capital	14	**10 661**	10 661
Additional paid-in capital		**767**	1 712
Legal reserves	15	**2 150**	6 830
Retained earnings	15	**112 712**	94 702
Cumulative translation adjustment		**–18 021**	–14 169
Own shares	14	**–356**	–814
Total shareholders' equity		**107 913**	98 922
Total liabilities and shareholders' equity		**171 132**	182 173

See Notes to Consolidated Financial Statements

Statements of Changes in Consolidated Shareholders' Equity

at March 31

(CHF 1 000)	Share capital	Additional paid-in capital	Legal reserves	Retained earnings	Cumulative translation adjustment	Own shares	Shareholders' equity
Balance at March 31, 2005	**35 536**	**1 473**	**6 830**	**74 547**	**–17 197**	**–429**	**100 760**
Net income				12 164			12 164
Translation adjustments					2 381		2 381
Comprehensive income (subtotal)							**14 545**
Dividend payment				–3 553			–3 553
Dividend on own shares				19			19
Purchase of own shares						–958	–958
Sale of own shares						485	485
Revaluation of own shares to market value		339					339
Balance at March 31, 2006	**35 536**	**1 812**	**6 830**	**83 177**	**–14 816**	**–902**	**111 637**
Net income				11 525			11 525
Translation adjustments					647		647
Comprehensive income (subtotal)							**12 172**
Repayment of share capital	–24 875					186	–24 689
Purchase of own shares						–1 328	–1 328
Sale of own shares						1 230	1 230
Loss on own shares		–100					–100
Balance at March 31, 2007	**10 661**	**1 712**	**6 830**	**94 702**	**–14 169**	**–814**	**98 922**
Net income				16 788			16 788
Translation adjustments					–3 852		–3 852
Comprehensive income (subtotal)							**12 936**
Transfers		–1 473	–4 680	6 153			–
Dividend payment				–4 975			–4 975
Dividend on own shares				44			44
Purchase of own shares						–528	–528
Sale of own shares						986	986
Gain on own shares		528					528
Balance at March 31, 2008	**10 661**	**767**	**2 150**	**112 712**	**–18 021**	**–356**	**107 913**

See Notes to Consolidated Financial Statements

Statements of Consolidated Cash Flows
for the years ended March 31

(CHF 1 000)	2008	2007
Cash flows from operating activities		
Net income from continuing operations	**16 788**	14 903
Adjustments to reconcile net income to net cash provided by operating activities:		
Income (loss) from discontinued operations	**–**	–90
Goodwill write-off from discontinued operations	**–**	–3 288
Shareholders' net income	**16 788**	11 525
Depreciation and amortisation	**4 658**	4 810
Loss (gain) on disposal of fixed assets	**–456**	–263
Goodwill write-off from discontinued operations	**–**	3 288
Change in other non-cash items	**2 607**	–552
Subtotal	**23 597**	18 808
Changes in operating assets and liabilities:		
Accounts receivable	**2 772**	4 716
Inventories	**8 341**	–7 149
Prepaid expenses and other current assets	**1 952**	–1 883
Accounts payable, advances and accrued liabilities	**–3 862**	279
Other, net	**–829**	–6 815
Net cash provided (used) by operating activities	**31 971**	7 956
Cash flows from investing activities		
Purchases of fixed assets	**–4 325**	–5 135
Proceeds from disposal of fixed assets	**5 722**	2 168
Repayment of loans by main shareholder	**100**	7 776
Net cash provided (used) by investing activities	**1 497**	4 809
Cash flows from financing activities		
Repayment of share capital	**–**	–24 689
Dividends paid to shareholders	**–4 931**	–
Purchases of own shares	**–528**	–1 328
Sales of own shares	**1 514**	1 130
Proceeds from (retirement of) short-term debt, net	**–11 844**	2 973
Proceeds from (retirement of) long-term debt	**–2 165**	–373
(Retirement of) capital lease obligations	**–99**	–153
Net cash provided (used) by financing activities	**–18 053**	–22 440
Cash		
Net increase (decrease) in cash	**15 415**	–9 675
Cash at beginning of year	**18 957**	28 049
Effect of exchange rate changes on cash	**–1 311**	583
Cash at end of year	**33 061**	18 957
The following items are also included in net cash provided (used) by operating activities:		
Taxes paid	**4 685**	3 552
Interest paid	**1 268**	1 409

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements
at March 31

All amounts are in CHF 1 000 unless otherwise stated.

1. Significant accounting policies

Accounting principles
The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Use of estimates
The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make use of certain estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates in these consolidated financial statements include allowances for doubtful accounts receivable, estimates of future cash flows associated with assets, asset impairments, useful lives for depreciation and amortisation, loss contingencies, net realisable value of inventories, income taxes and tax valuation reserves. Actual results could differ from those estimates.

Principles of consolidation
The consolidated financial statements include the accounts of Carlo Gavazzi Holding AG, Steinhausen, Switzerland, and its majority-owned subsidiaries. Unconsolidated affiliates are accounted for using the equity method and generally consist of operations owned more than 20 % and up to 50 % where control does not exist. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated financial statements. All intercompany transactions, balances and profits are eliminated.

In case of business combinations, the purchase method is used in accounting for such acquisitions. For acquisitions accounted for under the purchase method, goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill is reported in the balance sheet as an intangible asset. The carrying amount of goodwill is tested for impairment at least annually. The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of.

Cash
For purposes of the statement of consolidated cash flows, the company considers all highly liquid debt instruments purchased with maturity of three months or less to be cash.

Revenues
Sales are recognised upon delivery of products and customer acceptance, if any, or performance of services, net of sales taxes and discounts and after eliminating sales within the group. For specific orders at the request of the customer, sales are also recognised on a «bill and hold» basis after completion of manufacture. All «bill and hold» transactions meet specified revenue recognition criteria, which include normal billing, credit and payment terms and transfer to the customer of all risks and rewards of ownership.

Accounts receivable – trade
Accounts receivable – trade 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 analysing known uncollectible accounts, aged receivables, economic conditions in the customer's country or industry, historical losses and the customers' creditworthiness.

Concentrations of credit risk with respect to accounts receivable – trade are limited due to the large number of geographically diverse customers which make up the company's customer base, thus spreading credit risk. At the financial year-end, no single customer represented more than 10% of total accounts receivable – trade and no individual customer accounted for more than 10% of operating revenue during any of the periods presented. Some European countries require longer payment terms as a part of doing business and this may subject the company to a higher risk of non-collectibility. This risk is evaluated when determining the allowance for doubtful debts. The company generally does not require collateral from its customers.

Inventories
Inventories are valued at the lower of cost or market, but not in excess of net realisable value. Cost is determined generally using the first-in/first-out method.

Fixed assets
Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed generally using the straight-line method based on the estimated useful lives of the assets.

Maintenance, repairs and minor renewals are charged to expense as incurred. Major renewals and betterments are capitalised 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 current income.

The recoverability of fixed assets is assessed annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable and, when necessary, an impairment loss is recognised.

Fixed assets are being depreciated over the following number of years:

Buildings	50
Leasehold improvements (maximum)	10
Machinery and equipment	6
Furniture and fixtures	6
Motor cars	4
EDP equipment	3

Goodwill
In accordance with Financial Accounting Standards Board FAS No. 142, «Goodwill and Other Intangible Assets», goodwill, representing the excess of purchase price over the net asset value of companies acquired and indefinite lived intangible assets is not amortised, but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that an asset might be impaired. The annual evaluation is based on valuation models that estimate fair value based on expected future cash flows and profitability projections.

Income taxes
Consolidated companies file separate income tax returns and, therefore, it is not normally possible to offset the taxable income of one consolidated company against the loss of another consolidated company. Consequently, the ratio of the tax provision compared with pre-tax income might be distorted. All consolidated companies recognise tax effects of transactions in the year such transactions enter into the determination of net income, regardless of when they are recognised for income tax purposes.

Deferred income taxes are determined utilising a liability approach. This method gives consideration to the future tax consequences associated with differences between financial accounting under US GAAP and tax bases of assets and liabilities. These differences relate to items such as depreciable fixed assets, inventories and certain liabilities. This method gives immediate effect to changes in income tax laws upon enactment. The income statement effect is derived from changes in deferred income taxes on the balance sheet. A valuation allowance is recorded to write down deferred tax assets to the amounts likely to be realised.

Significant judgement is required in determining income tax provisions under Statement of Financial Accounting Standards No. 109 «Accounting for Income Taxes» (SFAS No. 109) and in evaluating tax positions. Provisions for income taxes are established for tax positions which are fully supportable to meet the minimum probability threshold, as defined by the FASB Interpretation No. 48 «Accounting for Uncertainty in Income Taxes» (FIN No. 48), which is a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority. In the normal course of business, the company and its subsidiaries are examined by various tax authorities. The potential outcomes of these examinations and any future examinations for the current or previous years are regularly assessed to determine the adequacy of the provision for income taxes. The likelihood and amount of potential adjustments are continually assessed and the income tax provision, the current tax liability and deferred taxes are adjusted in the period in which the facts that give rise to a revision become known.

Research and development expense
All research and development is expensed as incurred.

Foreign currency translation
In accordance with Financial Accounting Standards Board FAS No. 52, assets and liabilities of foreign subsidiaries are translated into Swiss francs at current exchange rates. Income and expenses are translated into Swiss francs at average rates of exchange prevailing during the year. Gains and losses resulting from foreign currency transactions are included in current income, except for intercompany transactions having the nature of a permanent financial investment which are directly recorded in shareholders' equity. Adjustments resulting from translation of financial statements are included in the cumulative translation adjustment in the shareholders' equity section of the balance sheet until disposal of a foreign subsidiary. Upon disposal, any translation adjustments relating to that subsidiary are included in the income statement.

Financial instruments
The principal financial risks faced by the group are interest rate risk, exchange rate risk and credit risk. The group borrows at both fixed and floating rates of interest to finance its operations. Sales are entered into in foreign currencies. Credit risk arises when derivative instruments are used or sales are made on deferred credit terms.

The objectives in using financial instruments are to reduce the uncertainty over future cash flows arising from movements in interest and exchange rates and to manage the liquidity of the cash resources.

Purchases of certain significant capital assets are made using capital lease arrangements.

All interest rate derivative transactions are subject to approval by the Group CFO before execution.

Financial instruments carried on the balance sheet include cash, bank balances, time deposits and marketable securities, investments, accounts receivable, trade creditors, leases and borrowings.

The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The companies are also parties to financial instruments that reduce exposure to fluctuations in foreign currency exchange and interest rates. These instruments, which mainly comprise foreign currency forward contracts and interest rate swap agreements, are recognised in the financial statements on inception. The purpose of these instruments is to reduce risk. Exchange gains and losses and hedging costs arising on contracts entered into as hedges of specific revenue or expense transactions and of anticipated future transactions are deferred until the date of such transactions at which time they are included in the determination of such revenue and expenses. All other exchange gains and losses relating to hedge transactions are recognised in the income statement in the same period as the exchange differences on the items covered by the hedge transactions. Costs on such contracts are amortised over the life of the hedge contract. Gains and losses on contracts that are no longer designated as hedges are included in the income statement. As at March 31, 2008 and 2007, there were no outstanding contracts.

Pension obligations
The group operates a number of defined contribution plans throughout the world, the assets of which are held in separately administered trust funds. The pension plans are generally funded by payments from employees and by the relevant group companies. The company's contributions to the defined contribution pension plans are charged to the income statement in the year to which they relate. There are no material defined benefit plans.

Own shares
Own shares are stated at cost and deducted from equity. Gains are taken to additional paid-in capital. Losses are first taken to additional paid-in capital, unless no more gains are available in which case they are taken to retained earnings.

New accounting pronouncements
In February 2006, the Financial Accounting Standards Board issued FAS No. 155, «Accounting for Certain Hybrid Financial Instruments». This Statement amends FAS No. 133 «Accounting for Derivative Instruments and Hedging Activities» and FAS No. 140, «Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities». This Statement resolves issues addressed in

Statement No. 133, Implementation Issue No. D1, «Application of Statement No. 133 to Beneficial Interests in Securitised Financial Assets». This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The company has adopted the requirements of this Statement and no material impact has arisen.

In March 2006, the Financial Accounting Standards Board issued FAS No. 156, «Accounting for Servicing of Financial Assets». This Statement amends FAS No. 140 «Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities» with respect to the accounting for separately recognised servicing assets and servicing liabilities. It requires an entity to recognise a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract under specified conditions. It also requires all separately recognised servicing assets and servicing liabilities to be initially measured at fair value, if practicable, and permits an entity to choose either the amortisation method or the fair value measurement method for each class of separately recognised servicing assets and servicing liabilities. It requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognised servicing assets and servicing liabilities. An entity should adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006. The company has adopted the requirements of this Statement and no material impact has arisen.

In June 2006, the Financial Accounting Standards Board issued FIN No. 48, «Accounting for Uncertainty in Income Taxes – an Interpretation of FAS Statement No. 109». This Interpretation clarifies the accounting for uncertainty in income taxes recognised in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Interpretation is effective for fiscal years beginning after December 15, 2006. The company has adopted the requirements of this Statement as of April 1, 2007 and no adjustment was necessary.

In September 2006, the Financial Accounting Standards Board issued FAS No. 157, «Fair Value Measurements». This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (US GAAP), and expands disclosures about fair value measurements. The Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute.

Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The company is in the process of evaluating the impact, if any, from adopting FAS No. 157.

In September 2006, the Financial Accounting Standards Board issued FAS No. 158, «Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans». This Statement requires an employer to recognise the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognise changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. The Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. This Statement provides different effective dates for the recognition and related disclosure provisions and for the required change to a fiscal year-end measurement date. An employer with publicly traded equity securities shall initially apply the requirement to recognise the funded status of a benefit plan and the disclosure requirements as of the end of the fiscal year ending after December 15, 2006. The company has adopted this and, as it has no material defined benefit plans, no impact has arisen. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position shall be effective for fiscal years ending after December 15, 2008, and shall not be applied retrospectively. No material impact is expected from adopting this requirement.

In February 2007, the Financial Accounting Standards Board issued FAS No. 159, «The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FAS No. 115». This Statement permits entities to choose to measure many financial instruments and certain other items at fair value.

The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments.

The Statement applies to all entities, including not-for-profit organisations. Most of the provisions of this Statement apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income.

The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealised gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. A not-for-profit organisation shall report unrealised gains and losses in its statement of activities or similar statement.

The fair value option:

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

This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements.

No entity is permitted to apply this Statement retrospectively to fiscal years preceding the effective date unless the entity chooses early adoption. The choice to adopt early should be made after issuance of this Statement but within 120 days of the beginning of the fiscal year of adoption, provided the entity has not yet issued financial statements, including required notes to those financial statements, for any interim period of the fiscal year of adoption.

This Statement permits application to eligible items existing at the effective date (or early adoption date).

The company is in the process of evaluating the impact, if any, from adopting FAS No. 159.

Reclassifications
Certain amounts in the previous year's financial statements have been reclassified to conform to the current year's presentation.

2. Discontinued operations

Channel Access, LLC, the Computing Solutions' former Fulfilment Division distributed, on a non-exclusive basis, active voice-recognition boards manufactured by NMS, a NASDAQ quoted US supplier. Overall sales of this company for the mentioned products declined, as customers were moving to next-generation products and software-based systems not available from this supplier.

To limit the economic impact of the sales erosion, NMS notified Computing Solutions of its intention to serve certain Fulfilment Division key customers directly as from October 1, 2006. Subsequently, NMS gave notice of cancellation of the distribution agreement effective March 6, 2007, and commenced serving the remaining customers directly. Since March 6, 2007, Channel Access, LLC, ceased all sales activities and accordingly, the Computing Solutions was forced to discontinue the operations of its Fulfilment Division during the financial year 2006/07.

Accordingly, the operations of Channel Access, LLC, for the year ended March 31, 2007, were reported separately as discontinued operations in the statements of consolidated income. The loss from discontinued operations is stated after deducting income taxes of CHF nil. The operating revenue of discontinued operations amounted to CHF 7 347.

Channel Access, LLC, carried goodwill on its balance sheet amounting to CHF 3 288 related entirely to the above activity and, due to the discontinuance of the activity, this goodwill was written off in the year ended March 31, 2007.

There were no other gains or losses relating to the discontinued operations.

3. Exchange rates

Year-end rates (CHF)

Currency		2008	2007
CAD	(1)	**0.97**	1.05
CNY	(100)	**14.22**	15.77
DKK	(100)	**21.09**	21.80
EUR	(1)	**1.57**	1.62
GBP	(1)	**1.99**	2.39
HKD	(100)	**12.80**	15.59
LTL	(100)	**45.92**	47.02
MTL	(1)	**3.66**	3.79
MYR	(100)	**31.22**	35.24
NOK	(100)	**19.53**	20.01
SEK	(100)	**16.75**	17.40
SGD	(1)	**0.72**	0.80
USD	(1)	**1.00**	1.22

Average rates (CHF)

Currency		2007/08	2006/07
CAD	(1)	**1.12**	1.09
CNY	(100)	**15.56**	15.69
DKK	(100)	**22.01**	21.30
EUR	(1)	**1.64**	1.59
GBP	(1)	**2.33**	2.34
HKD	(100)	**14.87**	15.91
LTL	(100)	**47.50**	45.98
MTL	(1)	**3.82**	3.71
MYR	(100)	**34.5**	34.44
NOK	(100)	**20.59**	19.66
SEK	(100)	**17.63**	17.24
SGD	(1)	**0.79**	0.79
USD	(1)	**1.16**	1.24

4. Accounts receivable

(CHF 1 000)	2008	2007
Trade receivable	**52 370**	56 156
Less allowance for doubtful accounts	**–1 585**	–1 596
Trade receivable, net	**50 785**	54 560
Other receivable – third parties	**2 483**	3 888
Other receivable – related parties (Note 22)	**2 233**	889
Total	**55 501**	59 337

5. Inventories

(CHF 1 000)	2008	2007
Finished goods	**17 289**	21 875
Work in progress	**6 133**	7 172
Raw materials and supplies	**11 956**	15 266
Inventories, gross	**35 378**	44 313
Less allowance for valuation	**–4 166**	–3 892
Total	**31 212**	40 421

6. Fixed assets and accumulated depreciation

2008 (CHF 1 000)	Fixed assets at cost	Accumulated depreciation	Net book value
Land	1 375	–	1 375
Buildings and improvements	7 659	5 723	1 936
Leasehold improvements	3 110	1 467	1 643
Machinery and equipment	38 445	29 956	8 489
Furniture and fixtures	4 710	3 633	1 077
Motor cars	2 653	1 756	897
EDP equipment	9 815	8 707	1 108
Construction in progress	15	–	15
Total	**67 782**	**51 242**	**16 540**

2007 (CHF 1 000)	Fixed assets at cost	Accumulated depreciation	Net book value
Land	2 576	–	2 576
Buildings and improvements	17 980	11 601	6 379
Leasehold improvements	2 870	1 431	1 439
Machinery and equipment	47 034	37 767	9 267
Furniture and fixtures	5 281	4 232	1 049
Motor cars	2 724	1 706	1 018
EDP equipment	12 603	11 171	1 432
Construction in progress	11	–	11
Total	**91 079**	**67 908**	**23 171**

Depreciation expense amounted to CHF 4 658 (2006/07 CHF 4 810). Included in fixed assets are assets acquired under capital leases (buildings, machinery and equipment, motor cars and EDP equipment) with original cost of CHF 700 (2007 CHF 1 064) and accumulated depreciation of CHF 303 (2007 CHF 536). The net book value of buildings includes an amount of CHF 2 190 (2007 CHF 2 992) for buildings not utilised for business purposes. Provision has been made for impairment of one building in the Automation Components segment at March 31, 2008 of CHF 1 275 (2007 CHF 1 300) using discounted cash flow techniques.

The fire insurance value of fixed assets (excluding land) amounted to CHF 49 965 (2007 CHF 86 673).

7. Goodwill

(CHF 1 000)	2008	2007
Goodwill	**48 542**	50 589
Accumulated amortisation	**19 958**	20 898
Goodwill, net	**28 584**	29 691

Accumulated amortisation on goodwill at March 31, 2008 is stated after deducting translation adjustments of CHF 940 (2007 CHF 342).

The changes in the carrying amount of goodwill are as follows:

(CHF 1 000)	Automation Components	Computing Solutions	Total
Balance at March 31, 2006	**24 216**	**9 537**	**33 753**
Goodwill write-off related to discontinued operations	–	−3 288	−3 288
Translation adjustments	−206	−568	−774
Balance at March 31, 2007	**24 010**	**5 681**	**29 691**
Translation adjustments	82	−1 025	−1 107
Balance at March 31, 2008	**23 928**	**4 656**	**28 584**

8. Deposits and long-term receivables

(CHF 1 000)	2008	2007
Third parties	**473**	321
Related parties (Note 22)	**–**	889
Total	**473**	1 210

9. Bank overdrafts and short-term debt

(CHF 1 000)	2008	2007
Average borrowings outstanding during year	**16 429**	22 435
Unused short-term bank credit lines	**72 500**	50 400

10. Long-term debt

Long-term debt at March 31, 2008 matures as follows:

(CHF 1 000)	Bank loans	Others	Total
2010	704	391	1 095
2011	3	394	397
2012	–	397	397
2013	–	255	255
Subsequent years	–	596	596
Non-current maturities	707	2 033	2 740
Current maturities	317	242	559
Total	**1 024**	**2 275**	**3 299**

Long-term debt bears interest of between 2% and 9% (according to currency) with a weighted average amounting to approximately 3.9% (2006/07 2.5%).

11. Accounts payable

(CHF 1 000)	**2008**	2007
Trade	**15 389**	17 819
Other	**3 044**	2 442
Total	**18 433**	20 261

12. Income taxes

The tax expense in the statements of income consists of the following:

(CHF 1 000)	**2007/08**	2006/07
Current – income taxes	**7 971**	6 703
Current – tax benefit from operating loss carry-forwards	**–2 431**	–1 530
Deferred – income taxes	**1 703**	–1 028
Deferred – adjustment for rate changes	**–354**	–
Total	**6 889**	4 145

The company is incorporated in Switzerland but operates through its affiliates in numerous countries with differing tax laws and rates. The earnings before income taxes and provision for income taxes are generated primarily outside Switzerland. Consequently, the weighted average expected effective tax rate may vary between periods reflecting the income or loss generated in each country. The main factors causing the effective tax rate to differ from the expected tax rate are as follows:

(CHF 1 000)	**2007/08**	2006/07
Earnings before income taxes	**23 677**	19 048
Income tax calculated at a rate of 30% (2006/07 30%)	**7 103**	5 714
Effect of lower rates in other countries	**–240**	–1 943
Expenses not deductible for tax purposes	**26**	374
Actual tax charge	**6 889**	4 145

The net tax liabilities (assets) in the balance sheets consist of the following:

(CHF 1 000)	**2008**	2007
Income taxes currently payable	**3 832**	4 008
Current portion of deferred income taxes	**332**	14
Total current and deferred income taxes	**4 164**	4 022
Long-term portion of deferred income taxes	**1 234**	1 823
Total tax liabilities	**5 398**	5 845
Current portion of deferred income tax benefits	**–2 209**	–3 381
Total current and deferred income benefits	**–2 209**	–3 381
Long-term portion of deferred income tax benefits	**–951**	–1 272
Total tax assets	**–3 160**	–4 653
Net tax liabilities	**2 238**	1 192

The significant components of activities that gave rise to deferred tax assets and liabilities on the balance sheet are attributed to the following items:

(CHF 1 000)	2008	2007
Deferred tax assets:		
Accounts receivable	**–**	1
Inventories	**1 696**	1 464
Other assets	**44**	695
Other liabilities	**414**	146
Net operating tax loss carry-forwards	**3 750**	6 900
Gross deferred tax assets	**5 904**	9 206
Valuation allowance	**–3 450**	–4 400
Net deferred tax assets	**2 454**	4 806
Deferred tax liabilities:		
Accounts receivable	**–91**	–
Fixed assets	**–35**	–809
Intangible assets	**–734**	–1 181
Deferred tax liabilities	**–860**	–1 990
Net deferred tax assets net of deferred tax liabilities	**1 594**	2 816

For tax return purposes, certain subsidiaries have tax losses available to carry forward against future profits of CHF 12 500 (2007 CHF 23 200). Of these, CHF 4 950 have no expiration date, CHF 50 expire in the year ending March 31, 2010, CHF 350 expire in the year ending March 31, 2011 and CHF 7 150 expire in the year ending March 31, 2025. Capitalisation of all these net operating tax loss carry-forwards would result in deferred tax assets of approximately CHF 3 750 (2007 CHF 6 900). However, management believes that a valuation allowance of CHF 3 450 (2007 CHF 4 400) is appropriate, given the current estimate of future taxable income in the relevant countries. The balance of CHF 300 (2007 CHF 2 500) has been capitalised because management is of the opinion that these tax assets will be realised through future taxable earnings or alternative tax strategies.

As of April 1, 2007, the company adopted FIN No. 48 as described in Note 1. As of that date there were no significant unrecognised tax benefits. In many cases, the insignificant uncertain tax positions are related to tax years that remains subject to examination by the relevant tax authorities. The following table summarises these open tax years by major jurisdiction as of March 31, 2008:

	Open tax year – examination in progress	Open tax year – examination not yet initiated
USA	2004/05–2006/07	2007/08
Switzerland	–	2006/07–2007/08
Italy	2001/02–2006/07	2007/08

The outcome of these examinations may impact the valuation of certain deferred tax assets (such as net operating losses) in future periods. Based on the number of tax years currently under audit by the relevant tax authorities, the company anticipates that several of these audits may be finalised in the foreseeable future.

13. Accrued liabilities – other

	2008	2007
Accrued compensation	**12 005**	12 671
VAT	**2 427**	2 914
Sales commission	**197**	91
Capital lease obligations	**143**	161
Freight and duty	**394**	610
Power, telephone and water	**91**	117
Audit fees	**597**	601
Staff leaving costs	**72**	206
Other	**5 654**	7 557
Total	**21 580**	24 928

14. Share capital

Details concerning the company's capital structure are included in Note 3 to the Financial Statements of Carlo Gavazzi Holding AG.

Details concerning major shareholders of the company are included in Note 4 to the Financial Statements of Carlo Gavazzi Holding AG.

Details concerning the number of Carlo Gavazzi Holding AG shares owned by the company are included in Note 5 to the Financial Statements of Carlo Gavazzi Holding AG.

15. Legal reserve and retained earnings

Companies in France, Italy, Spain and Switzerland are required to appropriate to a legal reserve 5% of the profits in local currency for each calendar year until the legal reserve is equivalent to 20% of the aggregate par value of the share capital. In addition, Swiss companies must transfer to legal reserve 10% of the amount by which any dividend exceeds 5% of the par value of the share capital. This additional allocation must be made until the legal reserve amounts to 50% of the share capital except for holding companies. Legal reserves are restricted as to distribution and amounted to CHF 7 432 (2007 CHF 12 112) including an amount of CHF 2 150 (2007 CHF 6 830) for the holding company.

16. Other (income) expense, net

(CHF 1 000)	**2007/08**	2006/07
Other expense:		
Losses on sale of fixed assets	**181**	103
Indemnity costs	**–**	1 810
Arbitration legal costs	**–**	648
Other	**481**	268
Total other expense	**662**	2 829
Other income:		
Gain on sale of fixed assets	**–637**	–366
Rental income	**–100**	–98
Licence income	**–**	–947
Provision no longer required	**–615**	–
Other	**–393**	–442
Total other income	**–1 745**	–1 853
Net other (income) expense	**–1 083**	976

17. Interest expense, net

(CHF 1 000)	**2007/08**	2006/07
Interest expense	**1 269**	1 233
Interest income	**–573**	–546
Net	**696**	687

18. Research and development expense

Research and development expense amounted to CHF 8 594 (2006/07 CHF 8 070).

19. Pension plans

Certain subsidiary companies operate insured or defined funded contribution pension plans that cover substantially all employees of the respective companies. Pension expense amounted to CHF 854 (2006/07 CHF 800) reflecting amounts contributed to the various plans.

Amounts owed to pension plans at March 31, 2008 amounted to CHF 193 (2007 CHF 19).

Italian law requires the company to pay a Staff Seniority Indemnity (TFR) to all employees. Upon leaving a company in Italy, employees are entitled to receive a compulsory termination indemnity payment. This is a lump-sum benefit which is payable at the end of the employment relationship. Every year, the company accrues 1/13.5 of the employee's actual pay during the year. Moreover, the accrued benefit at the beginning of the year is revalued by 75% of the actual inflation rate plus 1.5% (Law No. 297/82). The accrual for the year plus the revaluation is expensed each year to the income statement and amounted to CHF 950 (2006/07 CHF 875). The total liability is shown in the balance sheet under long-term liabilities.

Commencing from January 1, 2007, following the application of new legislation, the maturing portion of the Staff Seniority Indemnity (excluding the revaluation of the amount accrued as at December 31, 2006) is transferred, based on the choice of the employees, to private pension schemes or to the Treasury Fund managed by INPS (National Social Security Institute).

Accordingly, the total liability disclosed in the balance sheet corresponds to the liability matured at the end of 2006 increased only by the revaluation described above. The new portions of Staff Seniority Indemnity matured after this date are charged in the income statements and the corresponding account payable is recorded under «Accounts payable – other» and paid on a monthly basis by the company to the relevant social institutions. In accordance with the guidance stated in EITF 88-1, «Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan», specifically written by the FASB to address such Italian plans, the company reflects the actuarial present value of the vested benefits to which the employee is entitled if the employee separates immediately (at each balance sheet date), referred to as «Approach 1» in EITF 88-1. This amount correspond to the liability accrued at the balance sheet date in accordance with the requirements of the Italian legislation.

20. Personnel expense

Personnel expense amounted to CHF 65 732 (2006/07 CHF 67 250).

21. Stock-based and profit-sharing compensation plans

Board remuneration: Members of the board of directors can elect to take 50% or 100% of their annual board remuneration in the form of Carlo Gavazzi bearer shares multiplied by a factor of 1.05 or 1.1, respectively. As of March 31, 2008, 258 (2007 464) bearer shares have been granted to the board members at a cost of CHF 49 (2006/07 CHF 128).

The former chairman of the board of directors received a certain number of Carlo Gavazzi bearer shares free of charge if certain financial parameters of the group were met for a specific financial year. As of March 31, 2008, nil (2007: 3 500) bearer shares were granted to the chairman at a cost of CHF nil (2006/07 CHF 963).

Profit-sharing plan (PSP): In June 2004, the company established an incentive plan for the financial years 2004/05 to 2006/07 (revised in June 2007 for the year 2007/08) which grants cash awards to the chairman, directors, group executives, first-line managers and holding managers. Under this plan, the participants receive a cash award if certain financial parameters in the group are met for a specific financial year. The participants can elect to receive Carlo Gavazzi bearer shares at a discount of 10% in lieu of the cash award, but in such a case delivery of the shares awarded will be delayed for six months. The PSP expense amounted to CHF 1 672 (2006/07 CHF 1 558).

22. Related party transactions

At March 31, 2005, there was a debt due to the company from its former major shareholder Riccardo Gavazzi which, including interest, amounted to CHF 9 416. This amount was repayable in cash in instalments until April 30, 2008, as approved by the board of directors on March 12, 2003. On April 3, 2005, Riccardo Gavazzi died. On June 14, 2005, Barguzin Participation SA, Luxembourg, the company's direct main shareholder, assumed the above debt and signed a loan agreement with the company subject to interest at LIBOR plus a margin of 1.5%. This agreement provided for repayment in instalments until September 30, 2008 in cash and by compensation of future dividends. During the year ended March 31, 2006, CHF 3 440 plus interest was repaid.

At March 31, 2005, loans, fees and interest of CHF 7 299 were due from Carlo Gavazzi Impianti SpA and its subsidiaries, companies then owned by the company's direct main shareholder, payable by March 31, 2006. In January 2006, Carlo Gavazzi Impianti SpA and its subsidiaries were sold to a third party and on March 30, 2006, CHF 3 787 was repaid. The balance unpaid at March 31, 2006 of CHF 3 512 plus interest and other charges was assumed by Barguzin Participation SA, Luxembourg, the company's direct main shareholder, in the agreed amount of CHF 3 968.

At March 31, 2006, the total due to the company under the above two agreements amounted to CHF 9 981. During the year ended March 31, 2008, CHF 228 including accrued interest (2007 CHF 7 776) was repaid by Barguzin Participation SA, Luxembourg, either in cash or by net settlement. The remaining balance of CHF 2 233 due at March 31, 2008, will be repaid by September 30, 2008 in accordance with the original agreement as stated above.

23. Guarantees and contingent liabilities

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

(CHF 1 000)	**2008**	2007
Accounts receivable	–	875
Land and buildings	**294**	3 445
Machinery and equipment	–	2 501
Total	**294**	6 821

The company has guaranteed the debt to banks and other third parties on behalf of consolidated subsidiaries to cover banking facilities amounting to CHF 6 350 (2007 CHF 6 737). These guarantees have no expiry date and continue to be effective as long as the respective banking facilities continue to be extended. All intercompany guarantees have been eliminated in consolidation. As all guarantees were issued before January 1, 2003, the provisions for initial recognition and measurement under FIN No. 45 are not applicable. In addition, no payments are expected to be made under the guarantees described above.

24. Pending legal cases and arbitration

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

The previous potential buyer of the former Engineering and Contracting Business Unit and the company entered into arbitration, regulated by the International Chamber of Commerce, Paris. The Final Award of the ICC International Court of Arbitration, rendered on May 11, 2006, discharged all claims of both the previous potential buyer and the company. The potential buyer's legal costs amounting to CHF 648 were awarded against the company and expensed in 2006/07.

25. Leasing arrangements as lessee

The company has commitments under long-term leases that have initial or remaining non-cancellable lease terms in excess of one year for buildings, machinery and equipment, motor cars and EDP equipment.

During the life of the agreements accounted for, the lease payments remain stable.

The company has the option to purchase assets under capital leases for a nominal cost at the termination of the leases. Future minimum lease commitments were as follows:

(CHF 1 000)	Operating leases	Capital leases
2009	2 017	92
2010	1 303	96
2011	857	100
2012	512	58
2013	439	–
Subsequent years	156	–
Total	**5 284**	**346**
Less interest		–40
Present value of net minimum lease payments		**306**

The current obligation for capital leases is included in «Accrued liabilities – other» and the long-term obligation is included in «other long-term liabilities and capital lease obligations». Rental expense under operating leases amounted to CHF 748 (2006/07 CHF 634). Rental income under sub-leases amounted to CHF 109 (2006/07 CHF 52).

26. Earnings per share and diluted earnings per share

Earnings per share are computed based on the weighted average number of bearer shares each year after net income has been adjusted for the part related to the registered shares.

Basic and diluted earnings per bearer share are as follows:

(CHF 1 000)	2007/08	2006/07
Net income from continuing operations	**16 788**	14 903
Less net income allocated to the registered shares	**–7 559**	–6 710
Net income related to the bearer shares (numerator)	**9 229**	8 193
Number of shares (denominator)	**387 677**	389 932
Earnings per share (CHF)	**23.81**	21.01

The number of shares is calculated as follows:

	2007/08	2006/07
Bearer shares	**390 710**	390 710
Average number of own shares held by the company	**–3 291**	–4 742
Planned issue of bearer shares in lieu of board remuneration	**258**	464
Planned issue of bearer shares for chairman remuneration	**–**	3 500
Total	**387 677**	389 932

27. Segment information

The company's operations are classified into two segments:

Automation Components includes the design, manufacture and marketing of electronic control components for the global industrial automation markets.

Computing Solutions includes the design, manufacture and marketing of system integration products for the global information processing markets.

The company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. The management approach focuses on financial information that the company's decision-makers use to take decisions about the company's operating matters and to assess performance.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The company evaluates performance in the business units based mainly on earnings before interest, non-recurring gains or losses and income tax expense. The company accounts for inter-segment operating revenue at cost plus a profit margin.

Operating revenue

(CHF 1 000)	2007/08	2006/07
Automation Components	**196 596**	186 602
Computing Solutions	**26 781**	29 147
Total	**223 377**	215 749

EBIT

(CHF 1 000)	2007/08	2006/07
Automation Components	**26 792**	24 094
Computing Solutions	**1 463**	679
Operating profit of segments	**28 255**	24 773
Corporate and adjustments	**2 682**	3 554
Other (income) expense, net	**–1 083**	976
EBIT	**26 656**	20 243
Interest expense, net	**696**	687
Exchange (gain) loss	**2 283**	508
Earnings before income taxes	**23 677**	19 048

Segment assets

(CHF 1 000)	2008	2007
Automation Components	**154 238**	162 749
Computing Solutions	**14 705**	17 741
Total segments	**168 943**	180 490
Corporate and adjustments	**2 189**	1 683
Total group	**171 132**	182 173

Additions to fixed assets

(CHF 1 000)	**2007/08**	2006/07
Automation Components	**4 130**	5 000
Computing Solutions	**149**	128
Total segments	**4 279**	5 128
Corporate and adjustments	**46**	7
Total group	**4 325**	5 135

Depreciation and amortisation

(CHF 1 000)	**2007/08**	2006/07
Automation Components	**4 122**	4 086
Computing Solutions	**456**	622
Total segments	**4 578**	4 708
Corporate and adjustments	**80**	102
Total group	**4 658**	4 810

28. Geographic information

In 2007/08 and 2006/07, no revenue from customers represented more than 10% of the company's consolidated operating revenue.

Operating revenue

(CHF 1 000)	**2007/08**	2006/07
EMEA	**158 778**	150 485
North America	**52 292**	55 081
Asia	**12 307**	10 183
Total group	**223 377**	215 749
of which:		
Switzerland	**3 385**	2 837
Italy	**46 445**	44 689
Spain	**22 775**	21 373
USA	**42 047**	45 020

Long-lived assets

(CHF 1 000)	**2008**	2007
EMEA	**38 455**	44 573
North America	**6 450**	8 964
Asia	**1 643**	1 807
Total group	**46 548**	55 344
of which:		
Switzerland	**153**	139
Italy	**9 706**	12 586
Spain	**1 875**	1 906
USA	**6 423**	8 885

Employees

(Average Number)	**2007/08**	2006/07
EMEA	**910**	905
North America	**146**	163
Asia	**148**	124
Total group	**1 204**	1 192
of which:		
Switzerland	**9**	9
Italy	**196**	196
Spain	**45**	45
USA	**125**	141

29. Subsidiaries

At March 31, 2008 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 1 000)
100.00%			**CARLO GAVAZZI PARTICIPATION DANMARK A/S, Hadsten, Denmark**	DKK	10 000
	100.00%		CARLO GAVAZZI GmbH, Vienna, Austria	EUR	73
	100.00%		CARLO GAVAZZI SA, Vilvoorde, Belgium	EUR	224
	100.00%		CARLO GAVAZZI (CANADA) Inc, Mississauga, Canada	CAD	5
	100.00%		CARLO GAVAZZI AUTOMATION (KUNSHAN) Co Ltd, Kunshan, China	CNY	7 484
	100.00%		CARLO GAVAZZI HANDEL A/S, Hadsten, Denmark	DKK	5 000
	100.00%		CARLO GAVAZZI INDUSTRI A/S, Hadsten, Denmark	DKK	10 000
		100.00%	CARLO GAVAZZI INDUSTRI KAUNAS UAB, Kaunas, Lithuania	LTL	35
	100.00%		CARLO GAVAZZI OY AB, Helsinki, Finland	EUR	50
	100.00%		CARLO GAVAZZI Sàrl, Roissy, France	EUR	274
	100.00%		CARLO GAVAZZI GmbH, Weiterstadt, Germany	EUR	2 000
	100.00%		CARLO GAVAZZI UK Ltd, Aldershot, Great Britain	GBP	100
	100.00%		CARLO GAVAZZI SpA, Lainate, Italy	EUR	2 300
	100.00%		CARLO GAVAZZI AUTOMATION SpA, Lainate, Italy	EUR	7 180
	100.00%		CARLO GAVAZZI LOGISTICS SpA, Lainate, Italy	EUR	1 500
	100.00%		CARLO GAVAZZI CONTROLS SpA, Belluno, Italy	EUR	916
	100.00%		CARLO GAVAZZI AUTOMATION (M) Sdn Bhd, Shah Alam, Malaysia	MYR	730
	100.00%		CARLO GAVAZZI Ltd, Zejtun, Malta	MTL	450
	100.00%		CARLO GAVAZZI BV, Beverwijk, Netherlands	EUR	136
	100.00%		CARLO GAVAZZI AS, Porsgrunn, Norway	NOK	1 000
	100.00%		CARLO GAVAZZI Lda, Lisbon, Portugal	EUR	25
	100.00%		CARLO GAVAZZI AUTOMATION SINGAPORE Pte Ltd, Singapore	USD	358
		100.00%	CARLO GAVAZZI AUTOMATION (CHINA) Co Ltd, Shenzen, China	CNY	1 735
		100.00%	CARLO GAVAZZI AUTOMATION HONG KONG Ltd, Hong Kong	HKD	50
	100.00%		CARLO GAVAZZI SA, Leioa, Spain	EUR	451
	100.00%		CARLO GAVAZZI AB, Karlstad, Sweden	SEK	800
	100.00%		CARLO GAVAZZI AG, Steinhausen, Switzerland	CHF	200
	100.00%		CARLO GAVAZZI Inc, Buffalo Grove, USA	USD	5
100.00%			**CARLO GAVAZZI COMPUTING SOLUTIONS, Inc, Brockton, MA, USA**	USD	6
	100.00%		CHANNEL ACCESS, LLC, Los Gatos, CA, USA	USD	0
100.00%			**CARLO GAVAZZI FINANCE Ltd, Jersey, Channel Islands**	CHF	20
100.00%			**CARLO GAVAZZI INTERNATIONAL NV, Curaçao, Netherlands Antilles**	CHF	24 000
100.00%			**CARLO GAVAZZI MARKETING AG, Steinhausen, Switzerland**	CHF	500
100.00%			**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 Logistics SpA, Lainate, Italy, was transferred from Carlo Gavazzi Automation SpA, Lainate, Italy, to Carlo Gavazzi Participation Danmark A/S, Hadsten, Denmark.

In 2006/07, the major changes were as follows:
Carlo Gavazzi Feme SpA, Lainate, Italy, was merged into Carlo Gavazzi Automation SpA, Lainate, Italy, both companies being 100.00% owned subsidiaries of Carlo Gavazzi Participation Danmark A/S, Hadsten, Denmark. Carlo Gavazzi Components BV, Beverwijk, Netherlands, was liquidated.

Carlo Gavazzi Group

Report of the Group Auditors

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

As auditors of the group, we have audited the consolidated financial statements (statement of income, balance sheet, statement of changes in shareholders' equity, statement of cash flows and notes, pages 36 to 54) of Carlo Gavazzi Holding AG for the years ended March 31, 2008 and 2007.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with auditing standards generally accepted in the United States of America, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements.

We have also assessed the accounting principles used, significant estimates and the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly in all material respects the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America and comply with Swiss law.

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

PricewaterhouseCoopers AG

J. Burgener

Joanne Burgener
Auditor in charge

Daniel Wyss

Zug, June 12, 2008

Carlo Gavazzi Holding AG

Financial Statements

for the years ended March 31, 2008 and 2007

Statements of Income

for the years ended March 31

(CHF 1 000)	Notes	2008	2007
Investment result			
Dividend income		**7 483**	28 161
Decrease in provision for investments		**–**	8 500
Gain on own shares		**443**	–
Loss on own shares	5	**–**	–100
Loss on liquidation of investment		**–**	–27 963
Net investment result		**7 926**	8 598
Financial result			
Financial income – interest		**874**	1 039
Financial income – exchange gains		**–13**	10
Financial expense – interest		**–225**	- 634
Net financial result		**636**	415
Miscellaneous result			
Administrative and other expense		**–415**	–456
Arbitration legal costs		**–**	–654
Net miscellaneous result		**–415**	–1 110
Income before taxes		**8 147**	7 903
Taxes		**1**	–172
Net income		**8 148**	7 731

See Notes to Financial Statements

Balance Sheets
at March 31

Assets (CHF 1 000)	Notes	**2008**	2007
Current assets			
Liquid funds		**670**	173
Marketable securities – own shares	5	**270**	814
Other accounts receivable – third parties		**37**	37
Other accounts receivable – group companies		**9 107**	7 999
Total current assets		**10 084**	9 023
Non-current assets			
Financial assets – investments, gross	2	**90 170**	90 170
Financial assets – provision for investments		**–20 000**	–20 000
Financial assets – investments, net		**70 170**	70 170
Financial assets – loans to group companies		**8 821**	8 276
Total non-current assets		**78 991**	78 446
Total assets		**89 075**	87 469

Liabilities and shareholders' equity (CHF 1 000)	Notes	**2008**	2007
Current liabilities			
Bank loans and overdrafts		**3 000**	4 270
Other short-term liabilities – third parties		**89**	70
Other short-term liabilities – group companies		**21**	35
Provisions – taxes		**3**	172
Accrued expenses		**356**	318
Total short-term liabilities		**3 469**	4 865
Non-current liabilities			
Provision for unrealised exchange gains		**–**	215
Total non-current liabilities		**–**	215
Total liabilities		**3 469**	5 080
Shareholders' equity			
Share capital	4, 5	**10 661**	10 661
Legal reserves – general	5	**2 150**	8 447
Legal reserves – own shares		**375**	820
Free reserves		**60 922**	44 180
Retained earnings		**11 498**	18 281
Total shareholders' equity		**85 606**	82 389
Total liabilities and shareholders' equity		**89 075**	87 469

See Notes to Financial Statements

Statements of Changes in Retained Earnings and Reserves

at March 31

Retained earnings

(CHF 1 000)

Balance at March 31, 2006	**10 550**
Net income 2006/07	7 731
Balance at March 31, 2007	**18 281**
Dividend paid	–4 975
Dividend on own shares	44
Transfer to free reserves	–10 000
Net income 2007/08	8 148
Balance at March 31, 2008	**11 498**

Legal reserves – general

(CHF 1 000)

Balance at March 31, 2006 and 2007	**8 447**
Transfer to free reserves	–6 297
Balance at March 31, 2008	**2 150**

Free reserves

(CHF 1 000)

Balance at March 31, 2006	**44 360**
Change in legal reserves – own shares	–180
Balance at March 31, 2007	**44 180**
Change in legal reserves – own shares	445
Transfer from retained earnings	10 000
Transfer from legal reserves	6 297
Balance at March 31, 2008	**60 922**

Appropriation of retained earnings

(CHF 1 000)

Proposals of the board of directors for 2007/08	
Retained earnings	
Distribution of dividend	
– 1 600 000 registered shares at CHF 2.00 per share	3 200
– 390 710 bearer shares at CHF 10.00 per share	3 907
To be carried forward	4 391
Retained earnings per balance sheet	**11 498**

Notes to 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 6 350 (2007 CHF 6 737).

2. Significant investments
Details of the principal subsidiaries held by Carlo Gavazzi Holding AG and major changes during the year are included in Note 29 to the Consolidated Financial Statements.

3. Capital structure
At the shareholders' meeting of the company held on July 27, 2006, it was resolved to reduce the share capital of the company by CHF 24 875 from CHF 35 536 to CHF 10 661 and to reduce the conditional share capital by CHF 1 234 from CHF 1 764 to CHF 529.

The company's share capital is now divided into registered shares of CHF 3 each and bearer shares of CHF 15 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 each (2007 1 600 000 of CHF 3 each). The paid-in bearer share capital amounts to CHF 5 861 divided into 390 710 bearer shares of CHF 15 each (2007 390 710 of CHF 15 each). The conditional bearer share capital amounts to CHF 529 divided into 35 270 bearer shares of CHF 15 each (2007 35 270 of CHF 15 each). The conditional bearer share capital is reserved for issuance to employees and directors upon the exercise of share options.

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
The Gavazzi family holds directly and indirectly 80.7% (2007 80.7%) of the voting rights of the company. Apart from these shareholders, there are no other major shareholders known to the company holding more than 5% of the voting rights.

5. Own shares
The company has carried out the following transactions in Carlo Gavazzi Holding AG bearer shares:

	Number of shares	Average price per share (CHF)
Balance March 31, 2006	**4 324**	
Purchases May 2006	4 200	197.79
Purchases June 2006	2 604	189.37
Disposals June 2006	–5 104	183.00
Disposals August 2006	–724	221.00
Disposals January 2007	–140	255.50
Balance March 31, 2007	**5 160**	
Purchases May 2007	2 002	262.85
Disposals June 2007	–4 409	274.25
Disposals August 2007	–464	302.00
Disposals January 2008	–867	191.00
Balance March 31, 2008	**1 422**	

6. Compensation and share ownership

The remuneration and share ownership of the board of directors and group management were as follows:

Details of total remuneration to members of the board of directors pursuant to the Swiss Code of Obligations for 2007/08:

(CHF 1 000)	Giulio Pampuro Chairman	Alessandro Berlingieri Member	Felix R. Ehrat Member	Dominique Fässler Member	Federico Foglia Member	Total Board of Directors
Salaries, gross – fixed	363	34	10	10	6	**423**
Bonus, gross – variable	20	20	20	20	20	**100**
Shares – fixed	–	–	16	16	16	**48**
Employer's social security costs	3	3	3	3	3	**15**
Lump-sum expenses	9	11	11	11	9	**51**
Total 2007/08	**395**	**68**	**60**	**60**	**54**	**637**

No share option plans currently exist.

Felix R. Ehrat is also chairman of the board of directors, senior partner and minority shareholder of the law firm, Bär & Karrer AG. During the year under review, the company received legal advisory services worth a total of CHF 70 from Bär & Karrer AG.

Details of total remuneration to group management pursuant to the Swiss Code of Obligations for 2007/08:

(CHF 1 000)	Dino Masili GE ACBU	Total Group Management
Salaries, gross – fixed	418	**994**
Bonus, gross – variable	633	**957**
Employer's social security and insurance costs	17	**117**
Lump-sum expenses	–	**8**
Company car	6	**20**
Total 2007/08	**1 074**	**2 096**

No share option plans currently exist.

Disclosure of board of directors' shareholdings pursuant to the Swiss Code of Obligations at March 31, 2008:

	Giulio Pampuro Chairman	Alessandro Berlingieri Member	Felix R. Ehrat Member	Dominique Fässler Member	Federico Foglia Member	Total Board of Directors
Number of shares	–	348	–	1 700	699	**2 747**
In percentage of share capital	–	0.05	–	0.24	0.10	**0.39**
Value of shares (CHF 1 000)	–	66	–	323	133	**522**

Disclosure of group management's shareholdings pursuant to the Swiss Code of Obligations at March 31, 2008:

	Chris Boutilier GE CSBU	Dino Masili GE ACBU	Anthony M. Goldstein CFO	Felix Stöcklin Head Corp. Communications	Total Group Management
Number of shares	–	–	–	50	**50**
In percentage of share capital	–	–	–	–	**–**
Value of shares (CHF 1 000)	–	–	–	10	**10**

Details of total remuneration to former members of the board of directors pursuant to the Swiss Code of Obligations for 2007/08:

The former chairman ended his mandate on July 26, 2007 and received compensation for the period April 1, 2007 to July 26, 2007 as executive chairman and for the period thereafter as honorary chairman. His two companies, WSW Management Consulting, Zug, and Coplax Industrie AG, Zug, contracted with Carlo Gavazzi Holding AG to provide his management services and the following amounts were paid or accrued:

(CHF 1 000)	
Consulting fees	400
Bonus	350
Honorary chairman fee (July 27, 2007 to March 31, 2008)	20
Lump-sum expenses	26
Total 2007/08	**796**

Carlo Gavazzi Holding AG

Report of the Statutory Auditors

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

As statutory auditors, we have audited the accounting records and the financial statements (statement of income, balance sheet and notes), pages 58 to 63 of Carlo Gavazzi Holding AG for the year ended March 31, 2008.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available retained earnings comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

J. Burgener D. Wyss

Joanne Burgener
Auditor in charge

Daniel Wyss

Zug, June 12, 2008

Carlo Gavazzi Group

Group Companies

Carlo Gavazzi Group

Headquarters

Switzerland	CARLO GAVAZZI HOLDING AG	+41 41 747 45 25	gavazzi@carlogavazzi.ch

Automation Components Business Unit

Headquarters

Italy	CARLO GAVAZZI AUTOMATION SPA	+39 02 931 761	website@gavazziacbu.it

Sourcing Companies

China	CARLO GAVAZZI AUTOMATION (KUNSHAN) CO LTD	+86 512 5763 9300	cgak@carlogavazzi.cn
Denmark	CARLO GAVAZZI INDUSTRI A/S	+45 89 60 61 00	industri@gavazzi.dk
Italy	CARLO GAVAZZI CONTROLS SPA, Controls Division	+39 0437 93 10 00	controls@gavazziacbu.it
Italy	CARLO GAVAZZI CONTROLS SPA, Sensor Division	+39 051 417 8811	pss@gavazziacbu.it
Lithuania	CARLO GAVAZZI INDUSTRI KAUNAS	+370 37 32 82 27	infolt@gavazzi.lt
Malta	CARLO GAVAZZI LTD	+356 2 360 1100	gavazzi@carlogavazzi.com.mt

National Sales Companies

Austria	CARLO GAVAZZI GMBH	+43 1 888 4112	office@carlogavazzi.at
Belgium	CARLO GAVAZZI NV/SA	+32 2 257 41 20	sales@carlogavazzi.be
Canada	CARLO GAVAZZI (CANADA) INC	+1 905 542 09 79	gavazzi@carlogavazzi.com
China	CARLO GAVAZZI AUTOMATION (CHINA) CO LTD	+86 755 8369 9500	ben.tai@carlogavazzi.cn
Denmark	CARLO GAVAZZI HANDEL A/S	+45 89 60 61 00	handel@gavazzi.dk
Finland	CARLO GAVAZZI OY AB	+358 9 756 2000	myynti@carlogavazzi.fi
France	CARLO GAVAZZI SARL	+33 1 49 38 98 60	french.team@carlogavazzi.fr
Germany	CARLO GAVAZZI GMBH	+49 6151 81000	kontakt@carlogavazzi.de
Great Britain	CARLO GAVAZZI UK LTD	+44 1252 339600	sales@carlogavazzi.co.uk
Hong Kong	CARLO GAVAZZI AUTOMATION HONG KONG LTD	+852 230 41 228	ben.tai@carlogavazzi.hk
Italy	CARLO GAVAZZI SPA	+39 02 9317 61	info@gavazziacbu.it
Malaysia	CARLO GAVAZZI AUTOMATION (M) SDN BHD	+60 3 5512 1162	sales@gavazzi-asia.com
Netherlands	CARLO GAVAZZI BV	+31 251 22 93 45	info@carlogavazzi.nl
Norway	CARLO GAVAZZI AS	+47 35 93 08 00	gavazzi@carlogavazzi.no
Portugal	CARLO GAVAZZI LDA	+351 21 361 7060	carlogavazzi@carlogavazzi.pt
Singapore	CARLO GAVAZZI AUTOMATION SINGAPORE PTE LTD	+65 67 466 990	info@carlogavazzi.com.sg
Spain	CARLO GAVAZZI SA	+34 94 480 40 37	gavazzi@carlogavazzi-sa.es
Sweden	CARLO GAVAZZI AB	+46 54 85 11 25	gavazzi@carlogavazzi.se
Switzerland	CARLO GAVAZZI AG	+41 41 747 45 35	info@carlogavazzi.ch
USA	CARLO GAVAZZI INC	+1 847 465 6100	sales@carlogavazzi.com

Computing Solutions Business Unit

Headquarters

USA/Brockton, MA	CARLO GAVAZZI COMPUTING SOLUTIONS INC	+1 508 588 6110	jisquith@cg-cs.com

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www.hotzidentity.ch

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www.victor-hotz.ch

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Gerry Ebner, Zug, Switzerland
www.gerryebner.ch

Customer testimonials and photo-shooting locations
Courtesy of:

Gunnebo SpA, Lavis, Trento, Italy
www.gunnebo.it

Terme di Merano SpA, Merano, Italy
www.termedimerano.it

Uniflair SpA, Conselve, Padova, Italy
www.uniflair.com

Istituto Bacologico di Padova, Padova, Italy
www.sezionebachicoltura.it

Econocorp, Inc., Randolph, Massachusetts, USA
www.econocorp.com

State Street Corporation, Boston, Massachusetts, USA
www.statestreet.com

Information for Investors

Information for Investors

Registered shares		2007/08	2006/07	2005/06	2004/05	2003/04
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 listed 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	**190**	275	209	116	80
Share price – high	CHF	**319**	278	229	121	83
Share price – low	CHF	**180**	183	103	74	28
Average daily volume	Number	**624**	922	1 366	962	708
P/E Ratio	Factor	**8.0**	16.9	12.2	12.1	11.0
Basic earnings per share	CHF	**23.8**	16.3	17.1	9.6	7.2
Book value per share	CHF	**152**	139	157	142	135
Stock market capitalisation	CHF 1 000	**135 035**	195 445	148 500	82 400	56 500
– in percentage of revenue	%	**60.5**	90.6	68.5	40.8	27.7
– in percentage of equity	%	**125.1**	197.6	133.0	81.7	58.9
Dividend per share	CHF	**10.0***	7.0	–	5.0	2.0
– dividend yield	%	**5.3***	2.5	–	4.3	2.5
– total pay-out	CHF 1 000	**7 107***	4 975	–	3 554	1 421
– pay-out ratio	%	**42.3***	43.2	–	52.3	27.6
Share capital repayment per share	CHF	**–**	–	35.0	–	–

Restriction of voting rights

There are no limits on registration of voting rights

Conditional share capital as of March 31, 2008

35 270 bearer shares (CHF 529 050)	For issue to employees and members of the board of directors of the company or subsidiaries

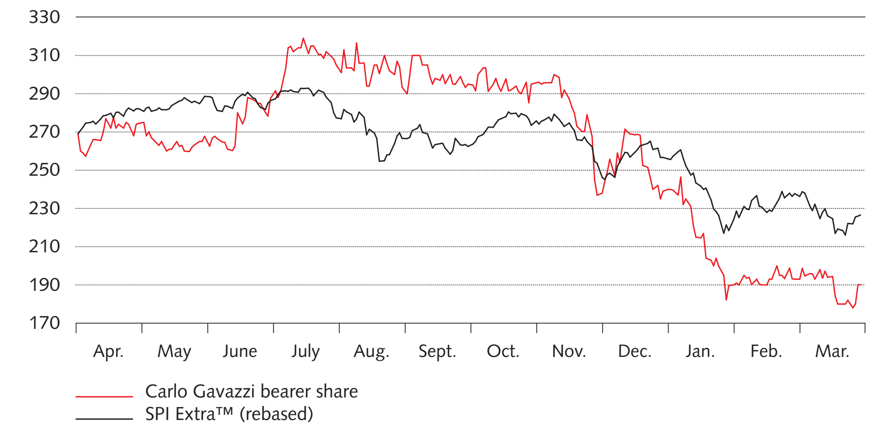
Financial calendar

Shareholders' meeting 2007/08	July 24, 2008, at the Congress Center Metalli, Zug
Interim report 2008/09	November 18, 2008
Press and financial analysts' meeting 2008/09	June 23, 2009, at the Widder Hotel, Zurich
Shareholders' meeting 2008/09	July 23, 2009, at the Congress Center Metalli, Zug

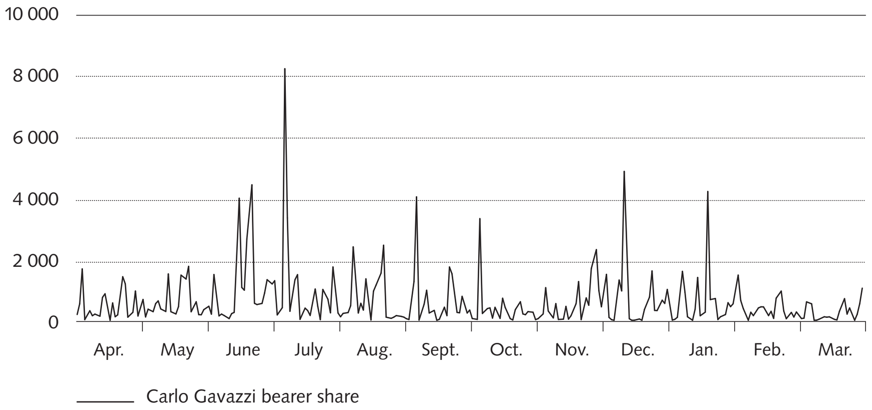
* Proposal of the board of directors

Information for Investors

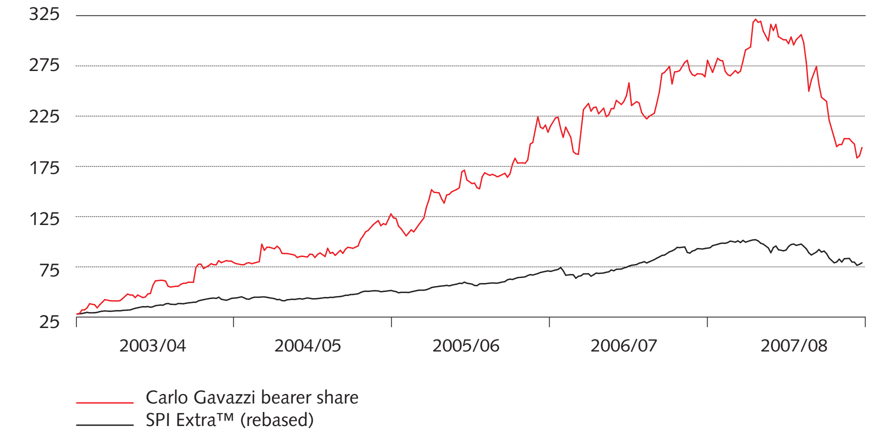
Share price 1.4.2007 – 31.3.2008 (CHF)



Share volume 1.4.2007 – 31.3.2008 (Number)



Share price 1.4.2003 – 31.3.2008 (CHF)



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