

Half-Year Report January to June 2006

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AgieCharmilles GF Remains on Growth Trajectory



In the first half of 2006, AgieCharmilles GF upped its order intake by 5.8% year-on-year to CHF 565 million. The Group lifted sales by 8.1% in the January-June period to CHF 541 million (CHF 501 million in the same period of 2005). A good business performance, coupled with the positive impact of measures designed to achieve lasting efficiency gains, resulted in an improvement in operating profit (EBIT) to CHF 32.8 million (CHF 28.6 million in previous year) despite one-time costs. The EBIT margin of 6.1% compares to a figure of 5.7% for the previous year. Due to a lower financial result, net profit amounted to CHF 22.3 million in the first half of 2006 (CHF 20.7 million in previous year).

Favorable Market Conditions

As in the previous year, AgieCharmilles GF succeeded in increasing order intake in the first half of 2006: at CHF 564.6 million, the figure was 5.8% higher than in the same period of the previous year. With a high order backlog of CHF 165.8 million, AgieCharmilles GF starts the second half of the year in a good position. Sales increased 8.1% to CHF 540.9 million.

The positive economic situation in Northern and Central Europe saw growth in this region exceed the level of the previous year. After a lengthy period of stagnation, Southern Europe enjoyed a mild, incipient recovery in the second quarter. In overall terms, the focal point of European growth was once again in high-speed and high-performance milling (HSM and HPM), particularly systems for precision manufacturing in the medical technology, aerospace and automotive industries. However, the electric discharge machining (EDM) business also performed positively thanks to an enhanced order situation in mold and tool making. A sales company was set up in Turkey, with a view to capitalizing more fully on this growing market going forward.

After several years of growth, demand in the North American market flattened out slightly in the second quarter of 2006. The merging of sales companies in the US caused one-time costs. AgieCharmilles GF expects the newly refocused set-up to provide a fresh impetus to growth from the second half of the year on. In Latin America, business remained on a good footing. The positive development in Asia continued unabated. Sales were up 21.8% compared to the same period of the previous year. In the provinces of southern and eastern China in particular, business developed at an above-average rate, strengthened by a number of large-scale orders.

Product Offensive Proves Effective

The large number of new products presented by AgieCharmilles GF at the EMO trade fair in fall 2005 in Hanover resulted in an encouraging sales uplift in the first half of 2006.

The GammaTEC and MikroTEC modules newly introduced for the Charmilles brand's Roboform 350 die-sinking machine met with a strong positive market response. Machines geared to specific applications are generating ever-increasing demand, including the Charmilles Robofil 240 wire-cut EDM system with features specifically designed for the medical technology sector. Agie launched its new V-series with innovative control and power supply technology, thereby achieving increased performance across the entire breadth of the product line-up.

The EDM Futura platform project remains on track. One of the concept's focal points is China, where machines increasingly are being produced for the Asian market. This will be followed in the second half of 2006 by the Chinese launch of further important wire and die-sink systems offering a good price/performance ratio.

Mikron maintained its above-average growth in high-speed and high-performance milling centers. For example, the Mikron HSM 600 ProdMod, a system tailored specially to precision manufacturing, enjoyed exceptionally lively demand. With its specialized machines for medical technology applications, Mikron is proving increasingly adept at exploiting this growing market. Standard automation solutions like the WorkPartner and WorkPal tool and pallet changing units introduced by System 3R resulted in a sharp increase in sales.

For the Installed Base Business (IBB), covering service, replacement and wear parts, as well as consumables, there was evidence of good customer acceptance of broad, innovative package solutions. Due in part to special customer loyalty programs, the significance of IBB to the Group continues to grow, driven by its large number of installations.

Successful Reorganization of Production at Schaffhausen

Reorganization of the Schaffhausen production site proceeded successfully and on schedule, with assembly switched from EDM systems to milling machines. The consequent restructuring charges taken in the first half will be rapidly offset by the synergy benefits achievable from the second half of the year. Thanks to its greater assembly capacity, Mikron now is in a better position to address strong customer demand. As planned, AgieCharmilles GF sold its mechanical manufacturing operation to Maschinenfabrik Rieter AG in June.

Ongoing Improvement in Efficiency

Efforts to achieve further efficiency gains were systematically continued in the first half of 2006. Between January and June, AgieCharmilles GF successfully concluded major structural enhancement projects, such as integration of its IT infrastructure and the merging of sales organizations in the US. Furthermore, the creation of a central spare parts hub in Geneva provided a more efficient logistics set-up for supplying spare parts to customers around the globe. These projects triggered one-time costs, but will already be delivering positive results in the months ahead. Notwithstanding these higher costs, operating profit increased from CHF 28.6 million to CHF 32.8 million, equivalent to a rise of 14.7%.

Outlook

In overall terms, AgieCharmilles GF continues to anticipate good market conditions in the second half of the year. The high order backlog offers bright prospects for the coming months. Furthermore, the Group expects an additional boost from the IMTS (Chicago) and JIMTOF (Tokyo) trade fairs due to take place in the fall. Assuming stable exchange rates, AgieCharmilles GF expects another rise in sales and profit compared to the previous year.

Consolidated Financial Statements, January to June 2006 ¹⁾

Balance Sheet, June 30, 2006

	June 30, 2006		June 30, 2005		December 31, 2005	
	CHF million	%	CHF million	%	CHF million	%
Assets						
Current assets						
Cash and cash equivalents	8.4		10.4		9.7	
Trade accounts receivable						
• from third parties	248.3		244.7		259.4	
• from Georg Fischer	11.1		5.7		13.1	
Income tax receivables	7.0		5.3		4.0	
Other accounts receivable	28.4		32.3		26.4	
Inventories	275.6	578.8 74	249.1	547.5 71	241.1	553.7 73
Non-current assets						
Investment properties	1.8					
Land and buildings	74.9		86.2		79.0	
Machinery and equipment	35.2		34.5		36.5	
Deferred tax assets	7.1		7.5		7.4	
Financial assets	12.2		19.9		15.4	
Intangible assets	71.0	202.2 26	70.7	218.8 29	70.9	209.2 27
Total assets	781.0	100	766.3	100	762.9	100
Liabilities and shareholders' equity						
Liabilities						
Current liabilities						
Interest-bearing loans and borrowing	51.3		40.5		44.3	
Trade accounts payable	129.0		115.9		122.6	
Current tax liabilities	12.7		8.0		11.5	
Other current liabilities						
• towards third parties	90.5		96.9		94.1	
• towards Georg Fischer	38.5	322.0 41	1.0	262.3 34	1.7	274.2 36
Non-current liabilities						
Interest-bearing loans and borrowing			49.3			
Subordinated loan from Georg Fischer Ltd	60.7		97.9		97.3	
Deferred tax liabilities ²	14.9		13.3		13.5	
Provisions ²	27.9		26.8		26.8	
Other non-current liabilities	8.2	111.7 15	8.6	195.9 26	8.0	145.6 19
	433.7	56	458.2	60	419.8	55
Shareholders' equity						
Of which shareholders of Agie Charmilles Holding Ltd.						
Share capital	97.7		97.7		97.7	
Share premium	135.7		135.7		135.7	
Retained earnings	110.9	344.3 44	71.7	305.1 40	106.3	339.7 45
Of which minority interests	3.0		3.0		3.4	
	347.3	44	308.1	40	343.1	45
Total liabilities and shareholders' equity	781.0	100	766.3	100	762.9	100

Income Statement

	Jan. 1-June 30 2006 CHF million	Jan. 1-June 30 2005 CHF million	Difference in %	Jan. 1-Dec. 31 2005 CHF million
Sales	540.9	500.6	8.1	1 058.4
Change in inventory	- 3.0	6.6	- 145.5	7.8
Other operating income	4.5	2.7	66.7	8.3
Income	542.4	509.9	6.4	1 074.5
Cost of purchased material and expenses				
materials and products	- 262.5	- 250.7	4.7	- 534.3
operating expenses	- 102.2	- 89.2	14.6	- 187.7
Value added	177.7	170.0	4.5	352.5
Personnel expenses	- 136.9	- 133.0	2.9	- 262.6
Earnings before interest, taxes, depreciation and amortization (EBITDA)	40.8	37.0	10.3	89.9
Depreciation of tangible non-current assets	- 8.0	- 8.4	- 4.8	- 16.8
Earnings before interest and taxes (EBIT)	32.8	28.6	14.7	73.1
Financial income	0.8	3.8	- 78.9	3.8
Financial expenditure	- 6.0	- 6.2	- 3.2	- 11.8
Income from investment properties	- 0.1		n/a	- 0.7
Profit before income tax	27.5	26.2	5.0	64.4
Income tax ³	- 5.2	- 5.5	- 5.5	- 13.1
Net profit	22.3	20.7	7.7	51.3
Of which shareholders of Agie Charmilles Holding Ltd.	22.2	20.5	8.3	50.8
Of which minority interests	0.1	0.2	- 50.0	0.5
Net profit per share (CHF)	4.5	4.2	7.1	10.4

Orders

	Jan. 1-June 30 2006 CHF million	Jan. 1-June 30 2005 CHF million	Difference in %	Jan. 1-Dec. 31 2005 CHF million
Orders received	564.6	533.7	5.8	1 093.3
Orders on hand	165.8	144.0	15.1	117.0

Cash Flow Statement

CHF million	Jan. 1-June 30 2006	Jan. 1-June 30 2005	Jan. 1-Dec. 31 2005
Cash flow from operating activities	5.0	17.8	69.0
Cash flow from investing activities	- 2.5	- 2.6	- 3.7
Free cash flow	2.5	15.2	65.3
Cash flow from financing activities	- 3.6	- 22.4	- 73.4
Effect of currency translations on cash and cash equivalents	- 0.2	0.5	0.7
Net cash flow	- 1.3	- 6.7	- 7.4
Cash and cash equivalents at beginning of period under review	9.7	17.1	17.1
Cash and cash equivalents at end of period under review	8.4	10.4	9.7

Statement of Changes in Equity

CHF million	Share capital	Share premium (Agiol)	Retained earnings (excl. currency trans- lation differences)	Cumulative currency translation differences	Shareholders' equity, share- holders of Agie Charmilles Holding Ltd.	Minority interests	Total shareholders' equity
Balance as at December 31, 2004	97.7	135.7	63.4	- 6.0	290.8	2.7	293.5
Net profit			20.5		20.5	0.2	20.7
Dividend			- 7.3		- 7.3	- 0.3	- 7.6
Currency translation differences				1.1	1.1	0.4	1.5
Balance as at June 30, 2005	97.7	135.7	76.6	- 4.9	305.1	3.0	308.1
Balance as at December 31, 2005	97.7	135.7	106.8	- 0.5	339.7	3.4	343.1
Changes in minority interests						0.1	0.1
Net profit			22.2		22.2	0.1	22.3
Dividend			- 17.1		- 17.1	- 0.5	- 17.6
Currency translation differences				- 0.5	- 0.5	- 0.1	- 0.6
Balance June 30, 2006	97.7	135.7	111.9	- 1.0	344.3	3.0	347.3

Segment Information

CHF million	Europe		Asia		America / other		Total	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Sales	297.4	283.1	137.5	112.9	106.0	104.6	540.9	500.6
Earnings before interest, taxes, depreciation and amortization (EBITDA)	32.8	29.0	6.8	6.7	1.2	1.3	40.8	37.0
Earnings before interest and taxes (EBIT)	26.4	22.2	5.7	5.6	0.7	0.8	32.8	28.6
Assets	537.4	529.9	124.2	122.9	119.4	117.5	781.0	766.3

¹The Group auditors have not examined the interim financial statements.

²In contrast to the condensed balance sheet published in the 2005 half-year financial statements, deferred taxes and provisions are now carried under non-current liabilities. This is consistent with the 2005 whole-year statements.

³The income tax paid in the previous year includes non-recoverable withholding taxes on dividends totalling CHF 0.3 million which were stated in the previous year as income from shareholdings.

Notes to the Consolidated Financial Statements

Basis of preparation of the consolidated interim financial statements

The consolidated interim financial statements are those of Agie Charmilles Holding Ltd and all Swiss and foreign subsidiaries in which it holds – either directly or indirectly – more than 50% of the voting rights or for which it has operational and financial management responsibility, as well as joint ventures and associated companies. They cover the six-month period ended June 30, 2006 (hereafter “the interim period”) and are prepared in accordance with the International Accounting Standard 34 (IAS 34) “Interim Financial Reporting”. These consolidated interim financial statements do not include all the notes contained in the consolidated annual financial statements, and for that reason should be read in conjunction with the consolidated financial statements for the year ended December 31, 2005.

The consolidated interim statements were approved for issue by the Board of Directors on July 11, 2006. The accounting principles applied in the interim financial statements are consistent with those used in the 2005 annual report, except where noted below:

Effective January 1, 2006, AgieCharmilles GF implemented the amendments of IAS 19 “Employee benefits”, IAS 21 “The Effects of Changes in Foreign Exchange Rates”, and IAS 39 “Financial instruments”, together with the newly issued IFRS 6 “Exploration for and Evaluation of Mineral Resources”, IFRIC 4 “Determining whether an Arrangement contains a Lease” and IFRIC 6 “Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment”, without this having a material effect on the consolidated interim financial statements.

The preparation of the consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent liabilities at the date of the consolidated interim financial statements. If in future such estimates and assumptions, which are based on management's best judgement at the date of the consolidated interim financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the reporting period in which the circumstances change.

The estimates and assumptions made by management in the consolidated interim financial statements are in principle the same as those used in the consolidated financial statements for the year ended December 31, 2005. Income tax expenditure is recognized based upon the best estimate of the weighted average annual income tax rate expected for the full financial year.

Comments to the consolidated interim financial statements

The scope of consolidation was extended on June 1, 2006 to include the newly established sales company AgieCharmilles Makine Ticaret Limited Sirketi, Istanbul, Turkey.

Compared to the corresponding period in 2005, sales rose in the first six months of the current year by 8.1% to CHF 540.9 million. Order intake amounted to CHF 564.6 million, 5.8% higher than a year earlier. The book-to-bill ratio was once again positive at 1.04. The order portfolio remained solid at CHF 165.8 million – 15.1% higher than the figure for the same period of 2005.

The higher sales enabled growth in operating profit to CHF 32.8 million (CHF 28.6 million in the previous year) and EBIT margins to 6.1% (5.7% in previous year). This includes all one-time costs for the reorganization of the Schaffhausen production site as well as implementation of the various efficiency-enhancing logistic and IT concepts amounting to around CHF 3 million. In contrast with the previous year, currencies – and in particular the U.S. dollar – exerted a positive impact on sales at CHF 15 million and a negative impact on the operating result (EBIT) at around CHF 1 million.

At CHF – 5.2 million, the financial result was CHF 2.8 million lower than the previous year. This reflected a reduction in financial income compared to the prior year owing to lower currency-related gains on foreign-currency loans to subsidiary companies. In terms of financial expenditure, the positive effects of lower net debt were largely neutralized by the higher level of interest rates.

The income tax charge amounted to CHF 5.2 million, equating to a tax rate of 19% (20% in previous year).

Net profit amounted to CHF 22.3 million, 7.7% higher than in the same period of 2005.

Free cash flow totaled CHF 2.5 million (previous year CHF 15.2 million). Net working capital increased from CHF 273 million at the end of the prior year to CHF 297 million. Third-party trade accounts receivable fell CHF 11 million in the same period, remaining at approximately the level of the previous year despite the growth in sales. By contrast there was a rise in inventories to CHF 276 million, not least due to the seasonal nature of the business. Investment in property, plant and equipment came to CHF 5.4 million.

Net debt improved by CHF 40 million in relation to the result for the first half of 2005. Versus the end of December 2005, it rose by CHF 10 million to CHF 136 million.

Due to the Group's sharply improved financing situation over the course of the last couple of years, the unused syndicated loan facility of CHF 160 million was reduced to CHF 100 million in the review period. At the same time, the subordinated status of the loan from Georg Fischer Ltd was reduced by CHF 37 million on a pro-rata basis.

There was little change in balance-sheet ratios versus the position at December 31, 2005. Shareholders' equity grew to CHF 347 million, while the equity ratio and gearing were unchanged from their solid levels at the end of the previous year at 44% and 39% respectively.

The number of employees increased slightly in the review period by 19 people to a total of 3,197.

Zug, July 17, 2006

Yours sincerely



Kurt E. Stirnemann
Chairman of the Board of Directors



Jürg Krebs
Chief Executive Officer

For further information, please contact

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Important dates

Publication of financial results for 2006 and Annual Press/Analysts Conference in Zurich
Monday, February 26, 2007

Annual Shareholders' Meeting in Zurich
Thursday, March 22, 2007, Zurich