Interim report on the first half of 2007

SW Umwelttechnik
Stoiser & Wolschner AG

Analysis of results and balance sheet

Earnings

In the first half of 2007 Vienna-listed SW Umwelttechnik Stoiser & Wolschner AG posted a 15% increase in revenues, from €36.2m to €41.5m.

Second quarter revenues of €25.5m were slightly down on the unusually strong second quarter of 2006 (€27.0m). However, the total for the first half of the year was up 15% to €41.5m.

While profits before interest and tax (EBIT) were still negative, in line with the normal seasonal pattern, the loss decreased by €1m year-on-year to €0.2m (HY1 2006: €1.2m), reflecting early production restarts due to the mild winter. It was chiefly this strong start to the year that brought the €1.3m increase in EBITDA to €2.1m (HY1 2006: €0.8m).

High capacity utilisation in the first half of the year and a significantly better financial result helped the Group to generate a profit from ordinary activities (EGT) by 30 June.

Assets and finances

Finance costs/income were driven by the steady appreciation of the Romanian lei due to heavy foreign investment, and the recovery of the Hungarian forint in response to budget consolidation measures.

The first half financial result improved from €–3.1m in 2006 to €0.6m in 2007. This, in turn, helped profit from ordinary activities (POA) climb to €0.4m at 30 June 2007, compared with €–4.3m a year earlier.

Investment

The investment budget for 2007 has been boosted to a record high of €25m (2006: €15.8m). Capital expenditure for the first half of the year was €14.6m, of which €6.8m was accounted for by Hungary, €6.4m by Romania.

The disposal of a 6 hectare property in Budapest will bring gains of €0.6m from the realisation of undisclosed reserves this year, with the main amount of €3m being recognised as income in 2008. This postponement is caused by the need to transfer the remaining operations-related plant to the new Budapest South facility, which is scheduled to take place in the fourth quarter of 2007. In principal, completion of this phase of the project will mark the conclusion of the investment program in Hungary. SW Umwelttechnik's total capital expenditure on modernising its facilities will amount to about €45m since 2000.

Further investment activity will be focused on driving expansion in Romania. The medium-term plan is to construct up to four new plants. The first factory started operations in Timisoara in September 2006. The first and second construction phases of the factory – for infrastructure products – in Bucharest are in full swing, and production is scheduled to begin in the autumn of 2007. The third expansion phase involving production facilities for the water conservation sector is scheduled to begin in the spring of 2008 and enter into operations in the following autumn. A 10 hectare site has already been acquired in Targu Mures and applications for planning permission are in progress. Work on identifying a suitable site for a fourth factory in Moldova has begun.

Employees

The headcount at SW Umwelttechnik declined to 770, from 811 at the end of the first half of 2006. The reduction is chiefly attributable to the successful rationalisation measures implemented in Austria.

Order backlog
At 30 June 2007 the order backlog narrowed to €26.8m compared with €40m a year earlier. This was chiefly due to insufficient orders for the engineering sector in Hungary. The situation is not at present expected to improve before the fourth quarter.

Balance sheet
The heavy investment programme swelled non-current assets from €47.4m to €71.4m, while increased sales pushed current assets up to €45.8m (HY1 2006: €35.7m). Total assets rose by about 40% to €117.3m (HY1 2006: €83.1m).

Financial liabilities climbed from €46.6m to €62.6m due to borrowing to finance expansion. The marked improvement in earnings was reflected in a 60% increase in equity, from €17.1m to €27.2m.

Share price performance
SW Umwelttechnik's return to the prime market segment of the Vienna Stock Exchange on 21 May 2007 was testimony to shareholder confidence, which has brought a share price run-up of almost 200% since the start of the year. Capital Bank is acting as the specialist for SW Umwelttechnik's stock.

Outlook for 2007 as a whole
Due to the good operating results for the first half of the year, management is forecasting an improvement in yearly earnings, despite the reduction in public contract awards in Hungary and higher start-up costs in Romania.
• Amalgamation of factories in Austria has led to a significant improvement in EBIT.
• The ambitious investment programme in Hungary will to all intents and purposes be completed in the third quarter. Capacity utilisation in the Infrastructure sector is expected to be high in the second half, while Project Business and Water Conservation sectors are also expected to make up lost ground as public sector orders pick up.
• In Romania, the next step after the start-up of the first factory in Timisoara in September 2006 will be the opening of a second site in the Bucharest area in the autumn of 2007. A site for the third Romanian works has been acquired in Targu Mures, central Transylvania, and a fourth plant in Moldova is planned.

Sectors

€'000	**Water Conservation**	**Infrastructure**	**Engineering**	**Total**
Revenue	10,584	23,341	7,534	43,032
EBIT	-1,013	1,099	-330	-244

In Hungary and Austria the performance of the Infrastructure sector remained highly gratifying, with sales rising from €18.6m to €23.4m. The Water Conservation sector, however, recorded revenue declines, particularly in Hungary. The Infrastructure sector was responsible for 56% of the total (HY1 2006: 52%), the Water Conservation share declined from 31% to 26% and the proportion contributed by Engineering remained virtually unchanged at 18% (2006: 17%).

Performance by geographical region

€'000	**Austria**	**Hungary**	**Romania**	**Other**	**Total**
Revenue	7,975	27,313	3,534	2,637	43032
EBIT	-266	1,080	-1,198	140	-244

First half revenues in Hungary advanced by 11%, from €24.5m to €27.3m, but the Hungarian operations' contribution to the Group total narrowed to 66% (HY1 2006: 68%). The share accounted for by Austria also declined, from 24% to 19%. Romania's contribution was up to 9%, compared with 5% a year earlier, and other EU member states' share rose to 6% (HY1 2006: 3%).

The reduction of the number of production sites in Austria from five to three last year meant that capacity utilisation was very high for the Infrastructure and Water Conservation sectors in 2007. The rationalisation measures in Austria have significantly improved earnings — revenues for the first half remained unchanged year on year despite the closures.

In Hungary capacity utilisation for the Infrastructure sector was very good, chiefly as a result of deliveries for industrial and commercial projects. Public contract awards for the Water Conservation sector are currently unsatisfactory, due to Government budget stabilisation measures. The engineering sector was also hit by these savings measures — while the Group increased its share of the Hungarian market from 4% to 7%, total contract awards for the first half of the year were down by more than half compared with last year.

In Romania supplies for Infrastructure products were positive, while the performance of the Water Conservation sector fell short of expectations as a result of the changeover of EU funding to SOP from SAPARD and other programmes. This led to higher than budget start-up costs with a negative impact on Group EBIT of about €1m. It should be noted that projects are experiencing ongoing delays due to failure to make full use of available EU support payments.

Significant risks and uncertainties in the second half of 2007

SW Umwelttechnik's management identifies the following material risks to its continued positive performance in the second half of the year.

External risks

The SW Umwelttechnik Group operates in markets which are heavily influenced by environmental policies and legislation, by the economic climate (especially construction activity) and by the availability of public finance. Earnings also depend in part on weather conditions, which can have a significant impact on construction projects.

The division of the Group's activities into three business sectors has reduced exposure to seasonal and geographical market fluctuations. By monitoring its markets closely and maintaining a major research and development effort, SW Umwelttechnik seeks to identify technological and business trends at an early stage. The Group also attempts to influence the legal framework in which it operates.

Operational risks

The Group's products are in part manufactured by means of continuous processes, or at factories with multi-shift working. This means that its business operations are heavily dependent on the availability of plant and machinery. The risk of plant failures and outages is minimised by a preventive maintenance system and an extensive training programme. The potential impact of breakdowns is also reduced by the ability to switch production to other works in the Group at short notice.

Resources for expanding capacity

The success of planned expansion requires a permanent increase in the supply of resources. Investment programmes must be implemented efficiently, materials procured in time and high calibre staff must be attracted to and retained by the Group. SW Umwelttechnik uses professional project management techniques, has established a reliable suppliers management system and plans ahead to ensure that the necessary employees are available.

Financial risks

Exposure to exchange risk on receipts and payments arising from normal business operations is limited, as exports and imports to foreign currency countries amount to well under 10% of all transactions. Foreign exchange risk exposures arise from intragroup dividends and cash flows in connection with loans, and from the translation of foreign financial statements into the Group currency, the euro. The financing of the Hungarian and Romanian Group companies in euro gives rise to exchange risks, which are accepted because of the wide differentials between the base interest rates and the expectation that there will be little change in euro-forint and euro-lei exchange rates for some years to come. Nevertheless the HUF exchange risk has been reduced by shifting Hungarian financing.

Regular monitoring of the Group’s risk management ensures that risk counter-measures are developed and implemented. At present no risks have been identified that could threaten the Group’s survival.

Notes

Accounting and measurement methods

The interim report on the first half of the year to 30 June 2007 has been prepared in accordance with International Financial Reporting Standards, and with IAS 34, Interim Financial Reporting, in particular. There are no differences in accounting and measurement methods compared with those applied in the financial year ended 31 December 2006. For more information on accounting and measurement methods consult the consolidated financial statements for the year ended 31 December 2006, which form the basis for this interim report.

Scope of consolidation

There was no difference in the number of companies included in the consolidated financial statements compared with 31 December 2006.

Changes in the Group’s structure

Two years after starting to transfer production facilities to its new South Budapest works, SW Umwelttechnik is now in a position to dispose of its property inside Budapest, which is now surplus to operational requirements. Under the terms of a framework agreement with a Hungarian buyer concluded on 14 June 2007, SW Umwelttechnik has undertaken to spin off the 6 hectare developed property together with certain production facilities that are now surplus to requirements into a newly formed company, and transfer it to the purchaser by the end of the second quarter of 2008.

Seasonal business

Weather conditions mean that SW Umwelttechnik earns less in the first and the last few months of the year than in the summer. These seasonal fluctuations are reflected in the first and fourth quarters, which as a rule fall short of the figures for the second and third quarters.

Changes in consolidated equity

The Annual General Meeting of 19 May 2007 authorised payment from the retained earnings of €902,735.36 of a dividend of €0.30 per share — a total of €197,999.70 — on the share capital of €4,798,192.73, and the carrying forward of the remaining €704,735.66 to new account.

The significant year-on-year improvement in earnings resulted in equity (including minority interests) increasing from €17.1m to €27.1m. The equity ratio rose from 20.6% to 23.2% following an increase in total equity and liabilities from €83.1m to €117.3m.

Declaration of the Management Board

The Management Board of SW Umwelttechnik Stoiser & Wolschner AG confirms that to the best of its knowledge this unaudited interim report presents a true and fair view of the Group's assets, finances and earnings in accordance with the International Financial Reporting Standards (IFRS) endorsed by the EU.

The Management Board of SW Umwelttechnik Stoiser & Wolschner AG
Klagenfurt, 27 August 2006

Heinz Wolschner
Bernd Wolschner

Financial calendar

Results for third quarter of 2007	07.11.2007
Preliminary results for 2007	28.02.2008
Annual results for 2007: annual results press conference	23.04.2008
Annual General Meeting, Klagenfurt	02.05.2008
Results for first quarter of 2008	09.05.2008
Results for second quarter of 2008	27.08.2008
Results for third quarter of 2008	11.11.2008

Shareholder information

Security ID number: AT 0000080820
Vienna Stock Exchange symbol: SWUT
Bloomberg: SWUT AV
Reuters: SWUT.VI
Datastream: O:SWU
Index: WBI
Listing: Vienna Stock Exchange prime market

SW Umwelttechnik 2006 Annual Report online

www.sw-umwelttechnik.com