

- Staying our growth course
- Profitability improved greatly

INTERIM REPORT AS OF 30 JUNE 2006



Figures

	1–6/ 2006	1–6/ 2005
	€ 000	€ 000
Sales revenue*	78,202	74,047
Order intake*	86,530	79,252
Order backlog*	26,837	19,301
EBIT*	9,684	5,795
EBT*	8,598	3,497
EBIT margin in % of sales	12.4%	7.8%
EBT margin in % of sales	11.0%	4.7%
Period earnings from continuing activities	4,699	852
Period earnings from discontinued activities	1,575	1,648
Period earnings	6,274	2,500
Earnings per share, continuing activities in €	0.76	0.10
Earnings per share, total in €	1.03	0.38
Capex	3,288	2,605
Employees (as of 30 June, without apprentices)*	1,116	1,112

* Continuing activities

Consolidated management report as of 30 June 2006 – Half-year report –

Focus on Explosion Protection reaps rewards in the first half of the year

Our order intake in the first half of fiscal 2006 grew 9.2% year-on-year. Pre-tax earnings from continuing activities were € 8.6m (previous year: € 3.5m). This puts pre-tax return at 11%.

Our former Material Handling division that we sold at the end of 2005 has been almost completely separated out short of a few foreign distribution companies. This allowed us to concentrate even better on positioning and developing our core activity of safety technology for hazardous areas in the second quarter.

At petroleum and natural gas exploration and exploitation as well as in its subsequent processing and transport, in chemical plants of all kinds, pharmaceutical labs, biogas installations and other areas where explosive liquids, gases, and dusts are present so are our products.

We are the international technology leaders in this specialised niche and with 12% market share the second-largest supplier in the sector. We intend to build on this excellent starting position over the next few years with strong profitable growth.

Our customer sectors pharmaceuticals, petroleum and natural gas, as well as chemicals are doing quite well internationally and with a good growth outlook going forward. This provides a favourable market environment that supports our group's development in addition to our own strategic pursuits.

Thanks to the Material Handling divestment we are well financed for future strategic growth with a 40% equity ratio and € 44.5m in liquidity (28% of total assets).

General economic environment

Business climate

The global economy has been stable in the first half of 2006 and is expected to remain that way. German capital spending propensity improved and market demand for our products is good.

Sector development

The persistently high price level for petroleum and natural gas is still fuelling lively capital spending on exploring new petroleum and natural gas fields as well as expanding and optimising existing production capacities. The resulting need for electrical and automation equipment is already showing in our order intake. We expect this trend to at least hold or even accelerate in the second half of the year.

As the production installations for petroleum and natural gas and refineries are currently running at top capacity, maintenance has been cut to the minimum. We therefore assume that the oil producers will catch up on the corresponding maintenance backlog when petroleum demand eases and thus their capex focus is going to shift from production to maintenance.

The pharmaceutical industry is still on a capital spending spree internationally. We take a positive view of the fact that India is emerging as the pharmaceutical leader in Asia. Our subsidiary there has geared up for a busy future.

The European chemical industry has been none too eager on capital spending in the last few years. However, the sector still has regular demand for our products in its maintenance and optimisation processes.

Shipyards across the globe are busily building double-hulled oil tankers and vessels for transporting liquid natural gas. As such, German shipyards are seeing a business recovery, too.

Sales, earnings, and order intake in the first half of fiscal 2006

In the first half of fiscal 2006, our order intake grew 9.2% year-on-year to € 86.5m. Direct exports to Asia and the Americas fell slightly short of the previous year's figure, as local plant builders there are only going to award the projects we are bidding for in the second half of the year. Our European exports are above last year's level, although European capital spending propensity is not very high. Indirect exports to the growth regions via major plant builders are benefiting our order book. Domestic order intake remained above last year's level and here, too, capital spending propensity appears to be stabilising.

Orders on hand increased from € 19.3m at the end of June 2005 to € 26.8m in the period under review. Most of these will translate into sales in the second half of the year.

Sales developed in line with our order structure: In 1H/06, sales grew 5.6% year-on-year to € 78.2m with domestic sales advancing 16% owing to said order structure. Sales from European customers including indirect exports to the Near East and Asia increased by 2%. We are seeing a definite rise in orders on hand from and for this region that will mostly translate into sales in the second half of the year due to project scheduling.

IT and other 1H/06 sales improved 4.7% year-on-year to € 4.8m.

Earnings power improved further

in the first half of fiscal 2006

Our pre-tax earnings (EBT) from continuing activities increased from € 3.5m to € 8.6m in the first half of fiscal 2006. This corresponds to a pre-tax return on total operating performance of 11%.

Please note that in our opinion the pre-tax earnings from continuing activities as reported according to IFRS somewhat understate our 2005 figures. We had to retrospectively recalculate the 2004 and 2005 segment figures for Material Handling to IFRS owing to the divestment. Part of the consolidation charge paid by Material Handling had to be reallocated to Explosion Protection. We have pointed this out explicitly in our 2005 annual report in the explanatory notes to the financial statements on page 48. It is not possible to apply this reconciliation to the whole of fiscal 2005 and then use it as a basis for comparing 2005 IFRS operating earnings in our 2006 quarterly reports.

The year-on-year earnings improvement stemmed from operating business. Explosion Protection realised segment earnings before interest and income taxes (EBIT) of € 10,487 thousand. Measures relative to total operating performance, both personnel expense and cost of materials went down. Net financial result contributed € 1.2m to the year-on-year earnings improvement.

Period earnings from discontinued activities include € 1,447 thousand as a subsequent price adjustment from the sale of the Material Handling division.

Earnings per share from continuing activities leapt from € 0.10 in 1H/05 to € 0.76 in the first half of 2006.

Asset and financing structures remain good

As of the reporting date, total assets had increased 2.3% to € 158,436 thousand since 31 December 2005. The equity ratio improved to 40.3% from 37.7% in the same period. As of 30 June, 2006, the company's treasury stock remained unchanged from 31 December 2005, at 516,291 own shares. As of both reporting dates, the historical costs of the shares of € 5,596 thousand have been charged against equity.

The total asset growth stemmed from short-term assets like inventories, trade receivables, and other receivables. The increases mostly involve starting on orders and stocking up on raw materials and consumables to ensure deadline fidelity for the high order backlog as well as higher trade receivables resulting from accelerating sales volume. Cash and cash equivalents decreased disproportionately less.

The hallmark change on the equity and liabilities side was the equity increase by € 5,454 thousand to € 63,921 thousand. We paid our trade liabilities and repaid interest-bearing short and long-term debt. However, other liabilities were higher.

Our long-term assets are still fully covered by equity. Cash and cash equivalents stated under short-term assets came to € 44,505 thousand and fully cover our short-term debt that we have reduced further.

Our finance structures remain stable and sound.

Cash flow use for sales growth and procurement

As of 30 June 2006, our free cash flow had dropped from € 48,959 thousand (on 31 December 2005) to € 44,505 thousand. Cash flow from ongoing business operation in the period under review mostly involved stockpiling unfinished goods, raw materials and consumables, and accumulating trade receivables to take account of sales growth.

Funds for capital spending needs of € 1,841 thousand and the repayment of short and long-term, interest-bearing financial debt in the amount of € 1,770 thousand caused a drop in free cash flow as of the reporting date.

Capex in the first half of fiscal 2006

Explosion Protection has relatively low maintenance and repair expense. Its core capex cost centres are expansion of tool business and facilities to manufacture new products. In the first six months of this fiscal year, we incurred capital expenditure of € 3,288 thousand (previous year: € 2,605 thousand). This includes two separate asset acquisition deals. New expansion projects with corresponding capex needs are in the planning stage.

Growth from acquisitions

Our strategy provides for the option of supplementing our growth with acquisitions. Possible targets include new products, enlargement of our systems business competence, presence in interesting new markets, and reinforcing our competence in sectors with future potential. In the first quarter of 2006, we realised two pertinent projects: We have acquired new explosion-protected lighting products as asset deals and integrated these into our production. We expect in this area average annual additional sales volume of some € 4m in the next few years.

As companies in the market segment of safety technology for hazardous areas have quite high valuations and acquisitions have to meet our high standards for returns on sales and capital, we will only acquire companies if they can make a strong strategic contribution to our group's medium-term evolution. Acquisitions just for the sake of growth are not sensible in such a high-priced market segment. R. STAHL's management is striving hard to realise its growth goals even independently of acquisitions.

Personnel development

The expansion of our system solution activities and regional presence requires bringing new talent into our group. Booming business at our German plants brought about new jobs. Overall, our group has created 13 new jobs in the second quarter of fiscal 2006.

Our business is going strong and the outlook is giving us no reason to expect sales fluctuations. Still, we have to ensure our continued ability to flexibly react to any unexpected sales drops. Some 10–15% of our manpower are thus contracted externally. Our junior management and human resources department are thus making it a key task to integrate temporary personnel into our workflow processes and bringing them up to speed on our quality standards. Our basic approach to this is targeted job education even in this busy phase of growth. We are always very pleased when these temporary staffers earn their way into regular employment with us through their qualification efforts as happens from time to time, sales growth permitting.

Important events

The second quarter of fiscal 2006 saw two of the key trade fairs for our activities the AICHEM and the INTERKAMA. We attended these fairs as exhibitors introducing various new products to our core customers in the plant construction, chemical, petroleum and refinery, and pharmaceutical industries including our new ISbus field bus system that networks sensors with the central control room in chemical plants and refineries. We have also developed new variants of our existing ISpac electronic module series to meet customers' special needs. These terminals that serve as human-to-machine interfaces are ever more often used in field applications. We have completely revamped the series and launched an additional terminal system that can communicate with standard software as an application-independent system. We thus succeeded in transposing a technology that is well on its way to becoming an industry standard in non-explosion protected applications to explosion protected environments. In the lighting segment, we intro-

duced a new lighting product range using LED and cold-cathode lamp technology that offers substantially longer service life at lower power consumption.

Risk report

Please find a detailed description of our company risks and an outline of our risk management system in our 2005 annual report starting on page 43. The statements made there are still largely valid. We do not see any existential risks to R. STAHL Technologies at present.

Outlook

Our main customers hail from the plant construction, petroleum and natural gas, chemical, pharmaceutical, and similar industries. As our customers' business is booming so is their demand for our products. We also do not see the demand for our capital goods waning. In addition to fundamental growth in this stable market environment, we have developed new products that are to promote our direct sales with Asia and the Americas and help build up our systems activities. These measures are to reinforce our current growth course going forward.

The 1H/06 figures confirm our sales guidance from last May at € 160–165m for fiscal 2006 as a whole.

The Material Handling divestment including detangling foreign distribution companies went quite smoothly. We do not expect any material impact on our operating activities in the second half of the year from this. Earnings from discontinued activities resulting from winding up the divestment will only make a positive contribution to our consolidated bottom line in 2006.

Last May, we guided pre-tax earnings of € 12–14m for fiscal 2006 as a whole. We see this forecast confirmed in these encouraging half-year figures with a bias toward the upper end of the guidance range. In light of € 8.6m pre-tax earnings in the first half of fiscal 2006, this earnings guidance seems conservative, indeed.

Please bear in mind that the third quarter will be somewhat weaker owing to the summer lull in many countries. Moreover, we are already setting up measures for future growth that are to bear fruit in fiscal 2007 and 2008. This will entail costs without immediately resulting in higher sales. The measures include building up distribution capacities in the Americas and assembly capacities in India to promote direct sales to these regions and establishing distribution capacities for our system solutions to make better use of our strength as one-source suppliers of electromechanical and electronic products in systems business.

Over the last few years, we have increased the share of total sales from new products (less than five years on the market) from 28% to over 40%. We intend to stay our course and keep up the high level. In this vein, we will continue to invest in developing promising new products.

We successfully concluded the structural adjustments after the Material Handling spin off. Now, we can start reshaping our processes and IT setup to our leaner activity structure. This, too, will require some capital spending in the second half of this fiscal year. The forecasts for the second half of the year already include the cost effect from the above measures.

For fiscal 2006 as a whole, we expect some 8% return on sales before income taxes. As such, fiscal 2006 is a transitional year, albeit a very good one, in which we have to digest the Material Handling divestment and lay the groundwork for our future corporate evolution.

Waldenburg, August 2006

The Management

Consolidated income statement

from 1 January to 30 June 2006

	4–6/ 2006	4–6/ 2005	1–6/ 2006	1–6/ 2005		4–6/ 2006	4–6/ 2005	1–6/ 2006	1–6/ 2005
	€ 000	€ 000	€ 000	€ 000		€ 000	€ 000	€ 000	€ 000
Sales revenue	39,179	37,516	78,202	74,047	Taxes on income	- 1,865	- 1,394	- 3,899	- 2,645
Inventory changes in finished and unfinished goods	2,123	1,417	2,897	1,765	Earnings from continuing activities	2,722	643	4,699	852
Other own work capitalised	344	314	664	596	Earnings from discontinued activities	1,682	1,942	1,575	1,648
Total operating performance	41,646	39,247	81,763	76,408	Period earnings	4,404	2,585	6,274	2,500
Other operating income	847	443	1,634	1,051	Minority interests in earnings	176	222	202	285
Cost of materials	- 12,673	- 11,305	- 23,989	- 23,262	R. STAHL earnings share	4,228	2,363	6,072	2,215
Personnel expense	- 15,841	- 15,818	- 31,717	- 31,091	Earnings per share in €				
Impairment on intangible and tangible assets	- 1,595	- 1,769	- 3,205	- 3,528	Continuing activities	0.43	0.07	0.76	0.10
Other operating expenses	- 7,342	- 7,545	- 14,802	- 13,783	Discontinued activities	0.28	0.33	0.27	0.28
Earnings before financial income/expense and income taxes	5,042	3,253	9,684	5,795	Total	0.71	0.40	1.03	0.38
Financial results	- 455	- 1,216	- 1,086	- 2,298					
Pre-tax earnings	4,587	2,037	8,598	3,497					

Consolidated balance sheet

as of 30 June 2006

	6/30/ 2006	12/31/ 2005		6/30/ 2006	12/31/ 2005
ASSETS	€ 000	€ 000	EQUITY AND LIABILITIES	€ 000	€ 000
Long-term assets			Equity	63,921	58,467
Intangible assets	6,016	5,543	Long-term debt		
Property, plant and equipment	38,379	38,873	Accruals for pension obligations	41,095	41,541
Financial investments	413	374	Other accruals	2,230	2,202
Other financial assets	119	54	Interest-bearing loans	8,790	9,219
Deferred taxes	3,956	4,282	Deferred taxes	1,268	1,009
	48,883	49,126		53,383	53,971
Short-term assets			Short-term liabilities		
Inventories and prepayments made	25,532	22,103	Accruals	7,919	7,488
Trade receivables	30,180	27,506	Trade liabilities	7,331	9,634
Other receivables and other assets	6,765	3,333	Interest-bearing loans	5,025	6,479
Cash and cash equivalents	44,505	48,959	Deferred debt	9,586	9,769
	106,982	101,901	Other liabilities and deferred items	10,437	8,639
Total assets continuing activities (as notified)	155,865	151,027		40,298	42,009
Assets held for sale (discontinued activities)	2,571	3,915	Total equity and liabilities continuing activities (as notified)	157,602	154,447
			Debt immediately allocable to assets held for sale (discontinued activities)	834	495
Total assets	158,436	154,942	Total equity and liabilities	158,436	154,942

Consolidated cash flow statement

from 1 January to 30 June 2006

	1-6/ 2006	1-6/ 2005
	€ 000	€ 000
1. Net profit for the period	6,274	2,500
2. Earnings from divesting discontinued activities	- 1,447	0
3. Asset impairments	3,205	4,713
4. Changes in long-term accruals	- 418	42
5. Changes in deferred taxes	585	703
6. Profit/loss from asset disposals	0	7
7. Cash flow	8,199	7,965
8. Changes in inventories, trade receivables, and other assets not allocated to capex and financing activities	- 8,191	- 7,486
9. Changes in short-term accruals, in trade liabilities and other equity and liability items not allocable to capex and financing activities	- 31	1,192
10. Changes in net current assets	- 8,222	- 6,294
11. Cash flow from ongoing business activities	- 23	1,671
12. Cash outflow for assets	- 3,288	- 2,605
13. Cash inflow from disposals of assets	0	45
14. Cash inflow from divesting discontinued activities	1,447	0
15. Capex cash flow	- 1,841	- 2,560
16. Free cash flow	- 1,864	- 889

(continued...)

	1-6/ 2006	1-6/ 2005
	€ 000	€ 000
<i>(...continued)</i>		
17. Distributions to shareholders (dividends)	0	- 2,369
18. Distributions to minority shareholders	- 400	- 270
19. Increase (+)/decrease (-) in short-term, interest-bearing financial debt	- 1,341	- 648
20. Cash inflow from taking on long-term, interest-bearing financial debt	0	70
21. Cash outflow for repaying long-term, interest-bearing financial debt	- 429	- 343
22. Financing cash flow	- 2,170	- 3,560
23. Changes in liquid funds with cash flow impact	- 4,034	- 4,449
24. Forex, consolidation, and valuation related changes in liquid funds	- 420	1,202
25. Liquid funds at the beginning of the period	48,959	17,038
26. Liquid funds at the end of the period	44,505	13,791
Liquid funds components		
Cash and cash equivalents	44,505	13,791

Consolidated equity statement

as of 30 June 2006

	Shareholders' equity						Minority interests	Consolidated equity
	Subscribed capital	Capital reserve	Profit reserves	Cumulated other equity	Deduction for treasury stock	Total		
€ 000								
1/1/2005	16,500	0	15,055	2,094	- 5,596	28,053	600	28,653
Dividend distribution				- 2,369		- 2,369	- 270	- 2,639
Other changes				0		0	0	0
Period earnings				2,215		2,215	285	2,500
Forex changes				1,177		1,177	25	1,202
6/30/2005	16,500	0	15,055	3,117	- 5,596	29,076	640	29,716
1/1/2006	16,500	522	17,973	28,325	- 5,596	57,724	743	58,467
Dividend distribution						0	- 400	- 400
Other changes						0		0
Period earnings				6,072		6,072	202	6,274
Forex changes				- 437		- 437	17	- 420
6/30/2006	16,500	522	17,973	33,960	- 5,596	63,359	562	63,921

Segment report

	4–6/ 2006	4–6/ 2005	1–6/ 2006	1–6/ 2005		6/30/ 2006	6/30/ 2005
	€ 000	€ 000	€ 000	€ 000			
Sales revenue by segments					Employees as of 30 June		
Explosion Protection	36,895	35,176	73,368	69,431	<i>(without apprentices)</i>		
Information technology and other	2,284	2,340	4,834	4,616	Explosion Protection	975	967
Continuing activities	39,179	37,516	78,202	74,047	Information technology and other	141	145
					Continuing activities	1,116	1,112
Sales revenue by regions (from continuing activities)							
Germany	14,549	12,663	29,104	25,087			
Central (ex Germany)	18,763	18,662	37,590	36,923			
Americas	2,255	2,648	4,725	4,853			
Asia	3,612	3,543	6,783	7,184			
Foreign	24,630	24,853	49,098	48,960			
Order intake by segments							
Explosion Protection	41,277	37,124	81,661	74,637			
Information technology and other	2,202	2,340	4,869	4,615			
Continuing activities	43,479	39,464	86,530	79,252			

Explanatory notes

[1] IFRS accounting

From fiscal 2005 forward, R. STAHL AG's consolidated financial statements are being prepared according to International Financial Reporting Standards (IFRS) or International Accounting Standards (IAS). Interim reporting thus complies with IAS 34. The comparable figures for the previous year have been determined according to the same standards. The consolidated interim financial statements are not audited.

[2] Scope of consolidation

The interim consolidated financial statements include besides R. STAHL AG 26 domestic and foreign companies in which R. STAHL AG may exercise a controlling influence. There have been no changes in the scope of consolidation since 31 December 2005.

[3] Accounting and valuation methods

The interim financial statement and calculation of comparable values for the previous period have been made using the same accounting and valuation methods as for the 2005 consolidated financial statements. The principles applied have been published in the notes to our 2005 consolidated financial statements. Interested readers may view these in the annual report 2005 or on our corporate website at www.stahl.de.

[4] Discontinued activities

Long-term assets and asset portfolios available for sale are subject to IFRS 5. For the companies Ferrometal Lda., S. Domingos de Rana of Portugal, R. STAHL Ex-Proof Co. Ltd. of Shanghai, China, and R. STAHL Middle East FZE of Dubai, United Arab Emirates, no transfer of assets or debt had been effected yet as of 30 June 2006.

[5] Cash flow statement

Following IAS 7, the cash flow statement illustrates how cash and equivalents of R. STAHL group changed through cash inflows and outflows over the course of the reporting period.

Liquidity shown in the cash flow statement comprises cash on hand, cheques, and credit balances in bank accounts. Securities with original maturities of up to three months also fall under this category.

[6] Segment reports

The segments reports present the key information elements broken down by segments.

[7] Earnings per share

Earnings per share are calculated by dividing consolidated earnings after minority interests by the average number of common shares outstanding. Diluted earnings per share are the same as earnings per share.

[8] Legal liabilities and other financial obligations

Since 31 December 2005, there have been no material changes in legal liabilities and other financial obligations.

[9] Important events to occur after the reporting period has ended

We have no knowledge of material events relevant to our business that occurred after the reporting period has ended.

Waldenburg, 15 August 2006

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Financial calendar

Interim report as of September 30, 2006 November 22, 2006