

Interim accounts as at 30 June 2006

Company report

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Report by the Board of Directors on the Mid-year report as at June 30, 2006

Dear Ladies and Gentleman

During the first half of 2006, the Phoenix Mecano Group achieved clear growth in all divisions, thanks to rising demand in Asia, the USA and Europe. Despite the higher cost of raw materials, improved efficiency, larger volumes and innovative solutions markedly improved margins in some areas. The Group's solid cash situation means that only part of the CHF 100 million loan due to mature in September 2006 will be refinanced. The liquidation of the Italian subsidiary OMP is now only a minor burden on the management and has largely been concluded, as planned.

Kloten/Stein am Rhein, 11 August 2006 - During the first half of 2006, the consolidated gross sales achieved by the Phoenix Mecano Group's ongoing activities rose by 10.7% compared to the previous year to €179.7 million. In local currencies the increase totalled 10.1%. Incoming orders during the period under review rose by 14.6% to €185.6 million. Consequently, the book-to-bill ratio, or proportion of incoming orders to sales which serves as an indicator of potential business over subsequent months, is a healthy 103.3%.

Compared with the previous year, the operating result for ongoing activities rose by 29.7%, from €16.5 million to €21.4 million. The operating margin was 11.9%, up from 10.2% the previous year, an improvement achieved primarily in business with industrial customers in all three divisions. In addition to the regions of Asia and America, the European internal market has also once again become a driver of growth, though greater readiness to invest did cause occasional procurement bottlenecks. Consequently, Phoenix Mecano deliberately increased its inventory of stock to maintain its important customer service.

Compared with the previous year, operating cash flow for the Group's ongoing activities rose by 16.7% from €25.2 million to €29.4 million.

The Group's result after tax (including discontinued activities) increased disproportionately from €3.2 million to €16.8 million, equivalent to growth of 425%. The net margin after tax for the Group's ongoing activities was 9.4%.

The financial result was weighed down by €-2.9 million by the non-recurrent effect of a planned capital decrease effected at one of the Group's subsidiaries in preparation for the refinancing of the CHF 100 million loan due to mature in September. In that context, in compliance with IFRS rules, historical exchange rate losses that had previously not affected the Group's operating income were

reflected in its income statement. This measure had no impact on liquidity. By contrast, the elimination of income tax risks generated non-recurrent earnings of €4.4 million.

Developments per division

The **Enclosures** division succeeded in boosting its sales by 9% from €65.9 million to €71.7 million, buoyed up by continuingly robust exports and stronger domestic demand in Germany and Switzerland. The heightened performance was due in particular to applications in the oil and gas, mechanical engineering and energy technology sectors. Better capacity utilisation and further optimised processes pushed up the division's operating result by 23% to €14.9 million in spite of some substantial increases in the costs of raw materials. The Group's plastics injection-moulding plant in Romania, which clearly increased its output during the first half of the year also made an important contribution towards this result.

The most vigorous growth achieved during the period under review was achieved by the Group's **ELCOM/EMS** division, created in 2005 out of the former **Electrotechnical Components** and **ECM** divisions, where sales rose by 19% from €30.9 million to €36.9 million. Within this division, the development of test probes and coding switches proved particularly dynamic. Considerable growth was also achieved in sales of plug connectors for circuit boards and backplanes for industrial computers and controls. Volume expansion, the austerity measures implemented in previous years and a series of product innovations increased the division's operating result by 150% to €4.5 million.

Sales by the **Mechanical Components** division rose by 9% from €64.7 million to €70.6 million. Double-digit growth was achieved for industrial applications in the capital goods segment, and more modest increases were achieved in sales of drives for the furniture and healthcare industry, which are more dependent on consumer confidence and behaviour. Intense price competition meant that substantial rises in the cost of raw materials, especially copper, aluminium and granulated plastic (the latter depending on oil prices), could only partly be passed on to end users. The division ended up with an operating result of €4.2 million, compared with €4.9 million the previous year, though this performance was also affected by higher expenditure on new products and the establishment of additional distribution capacity. Phoenix Mecano expects these investments to pay off in the coming years by generating higher sales and stable margins. The division's market share also increased slightly during the period under review.

Outlook

The good level of orders received during the first half of the year and the continuing stable environment for capital goods in Europe and Asia also lay a solid basis for the Group's performance during the second half of the year. At the same time, it should be borne in mind that the Group's sales during the latter six months of the year are typically lower than during the first half, owing to seasonal

fluctuations. Overall, the Board of Directors is optimistic about the business situation over the coming months, and in retrospect considers the original target of a net result of €20 million for the entire financial year somewhat conservative. Consequently, the new target Phoenix Mecano has set itself is the attainment of a net result of around €25 million for 2006, assuming a stable business environment.

Kind regards

Ulrich Hocker
Chairman of the Board of Directors

Benedikt Goldkamp
Delegate of the Board of Directors / CEO

Information for shareholders

Phoenix Mecano AG bearer shares are traded on main stock exchange in Zurich.

Ticker-Symbols

Valoren-No.	Inh. 218781
Reuters	PHOZ
Telekurs/Telerate	PM
ISIN	CH0002187810

Share indicators

		30.06.2006	30.06.2005
Share capital (bearer shares at nominal CHF 1.00)	Number	1'100'000	1'100'000
Entitled to dividend (as of 30 June)	Number	1'067'592	1'086'033
Entitled to dividend (on average)	Number	1'068'049	1'095'090
Cash flow per share (continued operations)	EUR	20.0	15.1
Net result per share	EUR	15.7	2.9
Shareholders' equity per share	EUR	144.0	142.9

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Consolidated balance sheet (unaudited)

Assets

(million EUR)	30.06.2006	31.12.2005
Fixed assets		
Goodwill	0.3	0.3
Other intangible assets	5.1	5.6
Tangible assets	83.5	83.3
Investment in associated companies	0.5	0.4
Other financial assets	1.2	0.2
Derivative financial instruments	0.0	0.6
Deferred tax assets	3.0	2.8
Total fixed assets	93.6	93.2
Current assets		
Inventories	72.2	61.3
Trade receivables	52.6	40.1
Derivative financial instruments	0.1	1.0
Claims on income tax	0.8	0.9
Other receivables	7.6	3.8
Current asset securities	16.0	26.0
Cash and cash equivalents	64.1	35.1
Deferred charges and prepaid expenses	1.1	0.9
Asset held for sale	5.3	22.7
Total current assets	219.8	191.8
Total assets	313.4	285.0

Consolidated balance sheet (unaudited)

Equity and liabilities

(million EUR)	30.06.2006	31.12.2005
Equity		
Share capital	0.7	0.7
Own shares	-7.0	-5.4
Revenue reserves	160.8	146.6
Profit/Loss from IAS 39	-0.4	1.8
Translation differences	-0.4	-3.0
Equity attributable to shareholders of the parent company	153.7	140.7
Minority interests	0.2	0.2
Total equity	153.9	140.9
Liabilities		
Liabilities from financial leasing	0.0	0.1
Other long-term financial liabilities	16.0	0.0
Derivative financial instruments	0.4	0.1
Long-term provisions	7.0	6.8
Deferred tax liabilities	7.9	10.6
Long-term liabilities	31.3	17.6
Trade liabilities	16.7	12.8
Outstanding bonds	63.9	64.3
Short-term financial liabilities	18.5	15.1
Derivative financial instruments	1.1	1.0
Short-term provisions	4.3	3.5
Income tax liabilities	3.9	3.2
Other liabilities	12.9	10.5
Deferred income	0.7	0.4
Liabilities directly associated with assets held for sale	6.2	15.7
Short-term liabilities	128.2	126.5
Total liabilities	159.5	144.1
Total equity and liabilities	313.4	285.0

Consolidated statement of income (unaudited)

(million EUR)	1st half 2006	1st half 2005 ¹
Continued operations		
Gross sales	179.7	162.3
Revenue reductions	-1.8	-1.6
Net sales	177.9	160.7
Changes in inventories	-0.4	0.0
Own work capitalised	0.6	0.7
Other operating income	0.7	0.3
Total operating performance	178.8	161.7
Cost of materials	-72.2	-65.3
Personnel expenses	-52.2	-48.9
Amortisation of intangible assets	-1.1	-1.6
Depreciation on tangible assets	-6.9	-7.2
Other operating expenses	-25.0	-22.2
Operating expenses	-157.4	-145.2
Operating result before restructuring expenses	21.4	16.5
Restructuring expenses	0.0	0.0
Results before interest and tax	21.4	16.5
Result from associated companies	0.1	0.0
Financial income	3.0	2.9
Financial expenses	-6.6	-5.0
Financial result	-3.5	-2.1
Result before tax	17.9	14.4
Income tax	-1.0	-3.9
Result of the period from continued operations	16.9	10.5
Discontinued operations		
Result of the period from discontinued operations	-0.1	-7.3²
Result of the period	16.8	3.2²
of which		
Shareholders in the parent company	16.8	3.1 ²
Minority interests	0.0	0.1
Earnings per share		
From continued and discontinued operations		
Earnings per share - undiluted (in EUR)	15.73	2.90 ²
Earnings per share - diluted (in EUR)	15.73	2.90 ²
From continued operations		
Earnings per share - undiluted (in EUR)	15.84	9.59
Earnings per share - diluted (in EUR)	15.84	9.59

¹ Changes in the presentation due to the discontinuation of business activities in customer specific switchgear cabinets and electronic packaging solutions (OMP product area).

² includes the correction of the erroneous valuation of OMP S.r.l.'s stocks (Italy) re IAS 8

Consolidated statement of changes in equity (unaudited)

(million EUR)	Share capital	Group reserves			Equity attributable to shareholders of the parent company	Minority interests	Total equity	
		Own shares	Revenue reserves	Profit / (Loss) from IAS 39				Translation differences
Equity as at 31 December 2004	0.7	-0.3	158.4	1.5	-5.6	154.7	0.1	154.8
following changes to balance sheet procedures								
Fluctuations in fair value of financial assets				0.4		0.4		0.4
Realised results of financial assets				-0.1		-0.1		-0.1
Fluctuations in fair value of cash flow hedges				0.2		0.2		0.2
Realised results of cash flow hedges						0.0		0.0
Deferred taxes not affecting net income						0.0		0.0
Translation differences					2.2	2.2	0.0	2.2
Income and expenses directly recognised in equity	0.0	0.0	0.0	0.5	2.2	2.7	0.0	2.7
Result of the period			3.1			3.1	0.1	3.2
Total of all recognised income and expenses for the period	0.0	0.0	3.1	0.5	2.2	5.8	0.1	5.9
Change in own shares		-2.5				-2.5		-2.5
Dividends paid			-2.8			-2.8		-2.8
Equity as at 30 June 2005	0.7	-2.8	158.7	2.0	-3.4	155.2	0.2	155.4
Equity as at 31 December 2005	0.7	-5.4	146.6	1.8	-3.0	140.7	0.2	140.9
Fluctuations in fair value of financial assets				-0.1		-0.1		-0.1
Realised results of financial assets				-0.5		-0.5		-0.5
Fluctuations in fair value of cash flow hedges				-2.4		-2.4		-2.4
Realised results of cash flow hedges				0.5		0.5		0.5
Deferred taxes not affecting net income				0.3		0.3		0.3
Translation differences					2.6	2.6		2.6
Income and expenses directly recognised in equity	0.0	0.0	0.0	-2.2	2.6	0.4	0.0	0.4
Result of the period			16.8			16.8	0.0	16.8
Total of all recognised income and expenses for the period	0.0	0.0	16.8	-2.2	2.6	17.2	0.0	17.2
Change in own shares		-1.6	0.1			-1.5		-1.5
Dividends paid			-2.7			-2.7		-2.7
Equity as at 30 June 2005	0.7	-7.0	160.8	-0.4	-0.4	153.7	0.2	153.9

Condensed consolidated statement of cash flow (unaudited)

(million EUR)	1st half 2006	1st half 2005
Result before tax continued operations	17.9	14.4
Result before tax discontinued operations	-0.1	-7.3 ¹
Result before tax	17.8	7.1
Amortisation of intangible assets	1.1	1.6
Depreciation on tangible assets	6.9	8.2
Other expenses/income not affecting liquidity and changes in net working capital	-18.1	-4.1 ¹
Cash flow from operating activities	7.7	12.8
Investments	-10.0	-8.1
Purchases of marketable securities	-1.0	-4.1
Acquisition of Group companies	0.0	0.1
	-11.0	-12.1
Disinvestments	7.5	1.8
Sales of marketable securities	10.8	2.0
Disposal of Group companies	0.0	0.5
	18.3	4.3
Interest and dividends received	0.4	0.2
Cash used in investing activities	7.7	-7.6
Dividends paid	-2.7	-2.8
Change in own shares	-1.5	-2.5
Change in financial liabilities	18.0	-0.7
Cash flow from financing activities	13.8	-6.0
Translation differences in cash and cash equivalents	-0.2	0.5
Change in cash and cash equivalents	29.0	-0.3
Cash and cash equivalents as at 1 January	35.1	30.7
Cash and cash equivalents as at 30 June	64.1	30.4
Change in cash and cash equivalents	29.0	-0.3

¹ includes the correction of the erroneous valuation of OMP S.r.l.'s stocks (Italy) re IAS 8

Segment information continued operation (unaudited)

By division

(million EUR)	1st half 2006	1st half 2005 ¹	Change
Enclosures			
Gross sales to third parties	71.7	65.9	9%
Gross sales between divisions	0.4	0.4	0%
Operating result (before restructuring costs)	14.9	12.1	23%
Return on sales ²	20.8%	18.4%	
Restructuring expenses	0.0	0.0	
Result before interest and tax	14.9	12.1	23%
ELCOM/EMS			
Gross sales to third parties	36.9	30.9	19%
Gross sales between divisions	2.9	3.0	-3%
Operating result (before restructuring costs)	4.5	1.8	150%
Return on sales ²	12.3%	8.3%	
Restructuring expenses	0.0	0.0	
Result before interest and tax	4.5	1.8	150%
Mechanical Components			
Gross sales to third parties	70.6	64.7	9%
Gross sales between divisions	0.0	0.0	0%
Operating result (before restructuring costs)	4.2	4.9	-14%
Return on sales ²	6.0%	7.6%	
Restructuring expenses	0.0	0.0	
Result before interest and tax	4.2	4.9	-14%
Other/eliminations			
Gross sales to third parties	0.5	0.8	-36%
Gross sales between divisions	-3.3	-3.4	-3%
Operating result (before restructuring costs)	-2.2	-2.3	4%
Restructuring expenses	0.0	0.0	
Result before interest and tax	-2.2	-2.3	4%

¹ Changes in the presentation due to the discontinuation of business activities in customer specific switchgear cabinets and electronic packaging solutions (OMP product area) and transferring of the remaining activities in the former Electronic Contract Manufacturing division to the Electronical Components division. The division was also renamed ELCOM/EMS.

² Operating results (before restructuring costs) in % of gross sales to third parties

Notes to the summary interim accounts as at 30 June 2006

Consolidation policy and valuation principles

Principles underlying the interim accounts

The present, unaudited summary interim accounts of the Phoenix Mecano Group were drawn up in accordance with International Accounting Standard 34 (IAS 34) "Interim Financial Reporting". The consolidated half-yearly statement does not include all the details set out in the consolidated annual financial statement, and should therefore be considered together with the Group accounts as at 31 December 2005.

The accounting and valuation principles used in the half-yearly statement correspond to those underlying the Group accounts as at 31 December 2005, the only exception being the new or revised IFRS/IAS standards and interpretations (IAS 19, IAS 21, IAS 39, IFRS 6, IFRIC 4, IFRIC 5 and IFRIC 6) that took effect on 1 January 2006. These standards and interpretations have no significant influence on the half-yearly statement.

Amendment of erroneous inventory valuation for OMP S.r.l. in Italy in accordance with IAS 8

The store accounting errors uncovered during the preparations to abandon the business involving control cabinets and electronic packaging solutions (product area OMP) by the Group's subsidiary OMP S.r.l. in Italy prompted an accounting change in accordance with IAS 8 in the Group accounts as at 31 December 2005. With respect to the first half of 2005, this had a positive impact of €1.2 million. The figures for the first half of 2005 were thus adjusted accordingly.

Scope of consolidation

In June 2006, the circle of consolidated companies expanded to include the production companies established by the ELCOM/EMS division, which will take up their activities in Zaghouan, Tunisia.

In April 2006 the liquidation of PTR France S.a.r.l. was concluded without impacting on the 2006 half-yearly accounts.

Segment information

Following the discontinuation of business activities in the product area OMP, the surviving activities of the former Electronics Contract Manufacturing division were transferred to the Electrotechnical Components division as from 31 December 2005. At the same time, this division was renamed ELCOM/EMS. In view of this change, the segment information for the first half of 2005 was adjusted to ensure its comparability.

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Assumptions and estimations

The drafting of the half-yearly accounts entails certain assumptions and estimations (see the section below entitled Discontinued business activities), based on valuations made by the management that are regularly reviewed and amended as required by fresh information or knowledge.

Explanations re the summary interim accounts

Seasonality

The Phoenix Mecano Group is active in sectors that are subject to certain seasonal fluctuations. Typically, the second half of the year generates fewer sales and is disproportionately weaker in terms of its results.

Financial result

In June 2006 the capital of Phoenix Mecano Finance Ltd. (Jersey) was reduced by €25 million, to provide its parent company Phoenix Mecano AG with the liquid funds required to pay back a loan which matured in September 2006. In this connection, exchange rate losses totalling €2.9 million that had not impacted on operating income were duly reflected in the accounts.

Income tax

The income tax payable for the first half of 2006 was reduced by a one-off tax yield of €4.4 million, resulting from the disappearance of tax risks associated with a corresponding re-evaluation.

Discontinued business activities

The voluntary liquidation of OMP S.r.l. in Italy, decided on in Q4 of 2005, continued during the first half of 2006. All operational activities were discontinued and lay-offs at the company were completed, with the exception of the few staff required to see to unresolved issues. Various assets were successfully sold during the first half of 2006. Those assets not yet sold as at the balance sheet date (in particular two plots of land in Italy) and attributable to the product area OMP, were classified as being held for sale as at 30 June 2006. Likewise, the liabilities of the product area OMP were entered separately on the balance sheet, in connection with assets held for sale.

The viability of the sales of the corresponding assets (especially land and buildings) and the extent of any future costs incurred in connection with the liquidation of OMP S.r.l. in Italy will depend on the further progress made in the winding-up process. Consequently, substantial uncertainties remain as to the valuation of the aforementioned tangible assets held for sale and the provisions associated with the respective liquidation.

During the first half of 2006, the Group aimed to achieve sales totalling €5.0 million for its discontinued activities (compared with €16.9 million the previous year). The negative result of minus €0.1 million for

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discontinued business activities during the first half of 2006 includes on balance profits of €0.2 million from the sale or re-valuation of assets and inventories. No income tax liability was incurred.

The cash flow from the Group's discontinued operating activities was positive, totalling €2.1 million (compared with minus €5.6 million the previous year). Disinvestments generated income totalling €6.9 million. There were no investments (the previous year cash used in investing activities had totalled €0.5 million). Cash flow from financing activities totalled minus €5.5 million (compared with €5.1 million the previous year).

Loan refinancing

In Hungary, a loan totalling €20 million was taken out with a view to the repayment of a loan of CHF 100 million due in September 2006.

Contingent liabilities

The Group's contingent liabilities have not markedly altered since 31 December 2005.

Dividend payment

Pursuant to a decision taken by the Shareholders' General Meeting on 26 May 2006, shareholders were paid a dividend per share of CHF 4.00 in early June 2006.

Share buyback and capital reduction

The share buyback programme launched in March 2005 by the Board of Directors of Phoenix Mecano AG succeeded in buying back 30,500 shares worth CHF 10 million. The Shareholders' General Meeting of 26 May 2006 decided to reduce the share capital by the total of the buyback from a nominal level of CHF 30,500 to the new level of CHF 1,069,500. The corresponding entry in the trade register will be made in September 2006, once the Group's creditors have been given due notice three times.

Events since the balance sheet date

No events occurred between 30 June 2006 and 25 August 2006 that would either necessitate any amendment of the book values of Group assets or liabilities as at 30 June 2006 or require disclosure here.

Approval of the summary interim accounts

The Board of Directors of Phoenix Mecano AG released this half-yearly report for publication on 25 August 2006.