

## **Report by the Board of Directors on the Mid-year report as at June 30, 2004**

Dear Ladies and Gentlemen

During the first six months of 2004, the Phoenix Mecano Group increased its gross sales by 10.2% compared with the previous year, to total €183.2 million. The Group achieved an operating profit of €15.3 million, 2.5% below the previous year's total of €15.7 million. Net income rose by 14.9% to €10.8 million, up from €9.4 million in 2003.

Sales in local currencies were up 11.5%. Incoming orders totalled €189.6 million. The book-to-bill ratio for the first half of 2004 was 103.5%. The Group's operating result was influenced by non-recurring costs associated with the relocation to Hungary of a sandwich keyboard manufacturing plant as well as by an unfavourable product mix. Lower interest payments and a lower tax rate enabled a 14.9% increase in net income. Phonix Mecano expects business to remain stable during the second half of the year and therefore confirms their forecast of a double-digit-increase in profit for the year as a whole. Although the general propensity to consume remains weak in Europe, more favourable conditions for exporting capital goods and positive positioning by the Group will enable welcome organic growth in sales and earnings during the present year.

The operating margin (EBIT margin) after the first half of 2004 is 8.4%, though it should be borne in mind that the development of telecom infrastructure equipment was particularly robust during that period and that the division in question is still in a turnaround phase where earnings are concerned. A rise in prices for copper and aluminium, and more expensive plastic granulate - which are dependent on crude oil prices - pushed up the Group's cost of materials. The management is expecting the Group's growth to continue, which should impact positively on the operating margin and result in a slight improvement on last year's EBIT of 6.9%.

Group cash flow (EBDIT) at €25.7 million is slightly down on last year's figure of €26.7 million, and the operating cash flow margin is 14.0% (compared with 16.1% the previous year). The net income margin rose slightly to 5.9% from 5.7% during the comparable period in 2003.

### **Divisional performance**

The **Enclosures division** managed to boost its sales by 6.6% from €59.4 million to €63.3 million. The integrated applications and machine control panels product lines generated a disproportionate amount of this growth, compared with only modest growth in the sandwich keyboard sector, owing to the relocation of production from Germany to Hungary during the period in question. Accordingly, the EBIT dipped by 1.2% from €11.4 million to €11.3 million.

Sales in the **Electrotechnical Components division** rose by 10.9% to €23.5 million, compared with €21.2 million the previous year. Operating profits (EBIT) rose very sharply by 22%, from €1.8 million in 2003 to €2.2 million in 2004. Here, brisk business in plug connectors and microswitches contrasted with a situation for inductive components characterised by strong competition from producers in the Far East. The Group is currently considering options that would entail transferring production in this sector to the Far East.

The **Mechanical Components division** boosted sales by 2.4% during the period in question, from €61.9 million to €63.4 million. While business in industrial applications boomed as a result of a more favourable situation in the mechanical engineering sector, our subsidiary Dewert, which produces drives for the furniture industry, felt the effects of subdued consumption, especially in Germany and France. In addition, the introduction to the market of new products generated additional costs. Consequently, the EBIT of €4.1 million was 21% down on the previous year's value of €5.2 million.

Sales by the **Electronics Contract Manufacturing (ECM) division** rose by 39.7% during the first half of 2004, from €23.2 million to €32.4 million, reducing the operating loss of this division undergoing a turnaround phase by 61.5%, from €1.3 million to €0.5 million. The dynamic order situation for telecom equipment generated short-term increases in costs owing to capacity bottlenecks. Suitable countermeasures have already been taken, in the form of targeted outsourcing and the establishment of an assembly plant in Hungary. The introduction of a new generation of optoelectronic coin testers was delayed for technical reasons, resulting in lost earnings, since the imminent arrival of new models diminished the chances of selling the old generation of products. The Phoenix Mecano Group expects earnings by the ECM division to continue rising during the second half of 2004.

## Outlook

With a persistently stable business environment for capital goods, especially in the mechanical engineering sector, the Phoenix Mecano Group's management and Board of Directors expect current growth to continue during the second half of 2004. For the year as a whole, ongoing optimisation measures and other economies of scale should offset the pressure on costs of materials. Phoenix Mecano aims to achieve high single-digit growth in sales and double-digit growth in its operating result and net income. Provided that the global economy does not suffer any major shocks, the Group expects further margin expansions, resulting in disproportionate gains in profitability in the medium term.

Kind regards

Ulrich Hocker  
Chairman of the Board of Directors

Benedikt Goldkamp  
Delegate of the Board of Directors/CEO

## Consolidated balance sheet

### Assets

| (million EUR)                         | 30.06.2004   | %             | 31.12.2003   | %             |
|---------------------------------------|--------------|---------------|--------------|---------------|
| <b>Fixed Assets</b>                   |              |               |              |               |
| Intangible assets                     | 10.1         |               | 11.3         |               |
| Tangible assets                       | 107.1        |               | 107.2        |               |
| Financial assets                      | 1.0          |               | 1.1          |               |
| Deferred tax assets                   | 2.1          |               | 2.3          |               |
| <b>Total fixed assets</b>             | <b>120.3</b> | <b>37.5%</b>  | <b>121.9</b> | <b>40.4%</b>  |
| <b>Current assets</b>                 |              |               |              |               |
| Inventories                           | 86.6         |               | 83.9         |               |
| Trade receivables                     | 62.1         |               | 48.9         |               |
| Receivable on income tax              | 2.1          |               | 2.2          |               |
| Other short-term receivables          | 4.3          |               | 4.6          |               |
| Marketable securities                 | 18.8         |               | 10.1         |               |
| Cahs and cash equivalents             | 24.5         |               | 28.8         |               |
| Deferred charges and prepaid expenses | 2.2          |               | 1.3          |               |
| <b>Total current assets</b>           | <b>200.6</b> | <b>62.5%</b>  | <b>179.8</b> | <b>59.6%</b>  |
| <b>Total assets</b>                   | <b>320.9</b> | <b>100.0%</b> | <b>301.7</b> | <b>100.0%</b> |

## Consolidated balance sheet

### Shareholders' equity and liabilities

| (million EUR)                                     | 30.06.2004   | %             | 31.12.2003   | %             |
|---|--------------|---------------|--------------|---------------|
| <b>Shareholders' equity</b>                       |              |               |              |               |
| Share capital                                     | 0.7          |               | 0.7          |               |
| Group reserves                                    | 143.3        |               | 130.5        |               |
| Net result  | 10.8         |               | 14.8         |               |
| <b>Total shareholders' equity</b>                 | <b>154.8</b> | <b>48.2%</b>  | <b>146.0</b> | <b>48.4%</b>  |
| <b>Minority interests</b>                         | <b>0.1</b>   |               | <b>0.1</b>   |               |
| <b>Liabilities</b>                                |              |               |              |               |
| Outstanding bonds                                 | 65.6         |               | 64.4         |               |
| Liabilities from financial leasing                | 0.1          |               | 0.1          |               |
| Other long-term financial liabilities             | 8.8          |               | 9.1          |               |
| Long-term provisions                              | 6.7          |               | 6.7          |               |
| Deferred tax liabilities                          | 9.3          |               | 10.2         |               |
| <b>Long-term liabilities</b>                      | <b>90.5</b>  |               | <b>90.5</b>  |               |
| Liabilities for goods and services                | 23.5         |               | 18.9         |               |
| Short-term financial liabilities                  | 26.4         |               | 24.9         |               |
| Income tax liabilities                            | 3.9          |               | 3.6          |               |
| Short-term provisions                             | 3.2          |               | 3.8          |               |
| Other liabilities                                 | 17.8         |               | 13.7         |               |
| Deferred income                                   | 0.7          |               | 0.2          |               |
| <b>Short-term liabilities</b>                     | <b>75.5</b>  |               | <b>65.1</b>  |               |
| <b>Total liabilities</b>                          | <b>166.0</b> | <b>51.8%</b>  | <b>155.6</b> | <b>51.6%</b>  |
| <b>Total shareholders' equity and liabilities</b> | <b>320.9</b> | <b>100.0%</b> | <b>301.7</b> | <b>100.0%</b> |

## Consolidated statement of income

| million EUR   | June 30,<br>2004 | June 30,<br>2003 |
|---|------------------|------------------|
| Gross sales   | 183.2            | 166.3            |
| Revenue reductions                                    | -2.0             | -1.9             |
| <b>Net sales</b>                                      | <b>181.2</b>     | <b>164.4</b>     |
| Changes on inventories                                | -1.1             | -0.6             |
| Own work capitalised                                  | 0.8              | 0.9              |
| Other operating income                                | 0.4              | 1.1              |
| <b>Total operating performance</b>                    | <b>181.3</b>     | <b>165.8</b>     |
| Cost of materials                                     | -77.1            | -67.3            |
| Personnel expenses                                    | -54.1            | -51.1            |
| Amortisation of intangible assets                     | -2.1             | -2.2             |
| Depreciation on tangible assets                       | -8.3             | -8.8             |
| Other operating expenses                              | -24.4            | -20.7            |
| <b>Operating costs</b>                                | <b>-166.0</b>    | <b>-150.1</b>    |
| <b>Operating result</b>                               | <b>15.3</b>      | <b>15.7</b>      |
| Devaluation losses and restructuring revenue/expenses | 0.0              | 0.0              |
| <b>Earnings before interest and taxes</b>             | <b>15.3</b>      | <b>15.7</b>      |
| Financial result                                      | -1.7             | -2.4             |
| <b>Result before taxes</b>                            | <b>13.6</b>      | <b>13.3</b>      |
| Income taxes  | -2.8             | -3.9             |
| <b>Net results for the Group</b>                      | <b>10.8</b>      | <b>9.4</b>       |
| Minority interests                                    | 0.0              | 0.0              |
| <b>Net result</b>                                     | <b>10.8</b>      | <b>9.4</b>       |
| <b>Result per share - undiluted (in EUR)</b>          | <b>9.84</b>      | <b>8.54</b>      |
| <b>Result per share - diluted (in EUR)</b>            | <b>9.84</b>      | <b>8.54</b>      |

## Statement of changes in shareholders' equity

| million EUR                                       | Share capital | Group reserves |                 |                         | Conversion differences | Net result   | Total        |
|---|---------------|----------------|-----------------|-------------------------|------------------------|--------------|--------------|
|   |               | Own shares     | Profit reserves | Profit/loss from IAS 39 |                        |              |              |
| <b>As at 31 Dec. 2002 before restatement</b>      | <b>0.7</b>    | <b>-1.1</b>    | <b>175.9</b>    | <b>-0.8</b>             | <b>-7.1</b>            | <b>-38.3</b> | <b>129.3</b> |
| Restatement of own bonds in accordance with IAS 8 |               |                |                 | -0.1                    |                        | 0.2          | 0.1          |
| <b>As at 31 Dec. 2002 after restatement</b>       | <b>0.7</b>    | <b>-1.1</b>    | <b>175.9</b>    | <b>-0.9</b>             | <b>-7.1</b>            | <b>-38.1</b> | <b>129.4</b> |
| Allocation to reserves                            |               |                | -38.1           |                         |                        | 38.1         | 0.0          |
| Change in own shares                              |               | 0.1            |                 |                         |                        |              | 0.1          |
| Fluctuations in market value of financial assets  |               |                |                 | -2.1                    |                        |              | -2.1         |
| Currency translation differences                  |               |                |                 |                         | 1.9                    |              | 1.9          |
| Net result  |               |                |                 |                         |                        | 9.4          | 9.4          |
| <b>As at 30 June 2003</b>                         | <b>0.7</b>    | <b>-1.0</b>    | <b>137.8</b>    | <b>-3.0</b>             | <b>-5.2</b>            | <b>9.4</b>   | <b>138.7</b> |
| <b>As at 31 Dec. 2003</b>                         | <b>0.7</b>    | <b>-0.3</b>    | <b>137.8</b>    | <b>-1.5</b>             | <b>-5.5</b>            | <b>14.8</b>  | <b>146.0</b> |
| Allocation to reserves                            |               |                | 14.8            |                         |                        | -14.8        | 0.0          |
| Dividends   |               |                | -2.9            |                         |                        |              | -2.9         |
| Change in own shares                              |               | 0.1            |                 |                         |                        |              | 0.1          |
| Fluctuations in market value of cash flow hedges  |               |                |                 | 1.3                     |                        |              | 1.3          |
| Currency translation differences                  |               |                |                 |                         | -0.5                   |              | -0.5         |
| Net result  |               |                |                 |                         |                        | 10.8         | 10.8         |
| <b>As at 30 June 2004</b>                         | <b>0.7</b>    | <b>-0.2</b>    | <b>149.7</b>    | <b>-0.2</b>             | <b>-6.0</b>            | <b>10.8</b>  | <b>154.8</b> |

## Consolidated statement of cash flow

| million EUR  | June 30, 2004 | June 30, 2003 |
|--|---------------|---------------|
| Result before taxes  | 13.6          | 13.3          |
| Amortisation of intangible assets  | 2.1           | 2.2           |
| Depreciation on tangible assets  | 8.3           | 8.8           |
| Other expenses/income not affecting liquidity and changes in net working capital | -9.7          | -8.3          |
| <b>Net cash flow from business operations</b>                                    | <b>14.3</b>   | <b>16.0</b>   |
| Investments  | -9.2          | -6.9          |
| Marketable securities  | -8.9          | -1.0          |
| Acquisition of Group companies   | 0.0           | 0.0           |
| Disinvestments   | 0.1           | 0.6           |
| Marketable securities  | 0.3           | 0.6           |
| Disposal of Group companies  | 0.0           | -0.6          |
| Interest and Dividends received  | 0.7           | 0.3           |
| <b>Net cash used in investment activities</b>                                    | <b>-17.0</b>  | <b>-7.0</b>   |
| Dividends paid   | -2.9          | 0.0           |
| Cash flow from share capital reduction   | 0.0           | -4.3          |
| Change in own shares   | 0.1           | 0.1           |
| Change in financial liabilities  | 1.0           | -6.8          |
| <b>Cash flow from financing activities</b>                                       | <b>-1.8</b>   | <b>-11.0</b>  |
| Conversion differences in cash and cash equivalents                              | 0.2           | -1.0          |
| <b>Change in cash and cash equivalents</b>                                       | <b>-4.3</b>   | <b>-3.0</b>   |
| Cash and cash equivalents as at 1 January  | 28.8          | 21.4          |
| Cash and cash equivalents as at 30 June  | 24.5          | 18.4          |
| <b>Change in cash and cash equivalents</b>                                       | <b>-4.3</b>   | <b>-3.0</b>   |

## Segment information

### By division (million EUR)

| <b>Enclosures</b>                          | <b>June 30, 2004</b> | <b>June 30, 2003</b> | <b>Changes</b> |
|--|----------------------|----------------------|----------------|
| Consolidated gross sales                   | 63.3                 | 59.4                 | 7%             |
| Operating result                           | 11.3                 | 11.4                 | -1%            |
| Return on sales                            | 17.9%                | 19.2%                |                |
| Devaluation losses and restructuring costs | 0.0                  | 0.0                  |                |
| Earnings before interest and taxes         | 11.3                 | 11.4                 | -1%            |
| <b>Electrotechnical Components</b>         | <b>June 30, 2004</b> | <b>June 30, 2003</b> | <b>Changes</b> |
| Consolidated gross sales                   | 23.5                 | 21.2                 | 11%            |
| Operating result                           | 2.2                  | 1.8                  | 22%            |
| Return on sales                            | 9.4%                 | 8.5%                 |                |
| Devaluation losses and restructuring costs | 0.0                  | 0.0                  |                |
| Earnings before interest and taxes         | 2.2                  | 1.8                  | 22%            |
| <b>Mechanical Components</b>               | <b>June 30, 2004</b> | <b>June 30, 2003</b> | <b>Changes</b> |
| Consolidated gross sales                   | 63.4                 | 61.9                 | 2%             |
| Operating result                           | 4.1                  | 5.2                  | -21%           |
| Return on sales                            | 6.5%                 | 8.4%                 |                |
| Devaluation losses and restructuring costs | 0.0                  | 0.0                  |                |
| Earnings before interest and taxes         | 4.1                  | 5.2                  | -21%           |
| <b>Electronics Contract Manufacturing</b>  | <b>June 30, 2004</b> | <b>June 30, 2003</b> | <b>Changes</b> |
| Consolidated gross sales                   | 32.4                 | 23.2                 | 40%            |
| Operating result                           | -0.5                 | -1.3                 | 62%            |
| Return on sales                            | -1.5%                | -5.6%                |                |
| Devaluation losses and restructuring costs | 0.0                  | 0.0                  |                |
| Earnings before interest and taxes         | -0.5                 | -1.3                 | 62%            |
| <b>Other</b>                               | <b>June 30, 2004</b> | <b>June 30, 2003</b> | <b>Changes</b> |
| Consolidated gross sales                   | 0.6                  | 0.6                  | -              |
| Operating result                           | -1.8                 | -1.4                 | -29%           |
| Earnings before interest and taxes         | -1.8                 | -1.4                 | -29%           |

## **Explanatory notes on the interim accounts as at June 30, 2004**

### **Principles of consolidation**

The present, non-audited interim accounts of the Phoenix Mecano Group were drawn up in accordance with IAS 34 Interim Financial Reporting of the International Financial Reporting Standards (IFRS).

They are based on the principles of consolidation and valuation set out in the 2003 annual report, which were applied unaltered.

The companies included in consolidation changed in the reporting period through the consolidation of Elodrive GmbH (D), which took up its activities in the field of electrical drives at the beginning 2004.

At the suggestion of the Swiss Exchange (SWX), the company performed a restatement of the Group accounts for the period January to June 2003 in accordance with IAS 8. This restatement concerns the presentation of the reduction of Phoenix Mecano AG's share capital in the consolidated statement of cash flow and the reporting of the tranches bought of the own bond issue floated in 2001.

### **Seasonality**

The Group is active in sectors that are subject to some seasonal fluctuations. Typically, sales are slightly lower and Group's results are disproportionately smaller during the second half of the year.

### **Dividend payment**

Pursuant to the decision taken by the Shareholders' General Meeting of 28 May 2004 a dividend in the amount of CHF 4.00 per share was paid out to the shareholders at the beginning of June 2004.

### **Contingent liabilities**

There has been no substantial change in the Group's contingent liabilities since 31 December 2003.

### **Events after the balance sheet date**

Since the balance sheet date no events have taken place that could substantially impact on the consolidated interim accounts as at 30 June 2004.

### **Information for shareholders**

Bearer shares for Phoenix Mecano AG are traded on the main stock exchange in Zurich.

## Ticker symbols

Security no.: 218781  
Reuters: PHOZ  
Telekurs/Telerate: PM  
ISIN: CH0002187810

## Share indicators

|  |        | <b>30 June 2004</b> | <b>30 June 2003</b> |
|--|--------|---------------------|---------------------|
| Share capital<br>(Bearer share at a nominal price of CHF 1.00) | Number | 1'100'000           | 1'100'000           |
| Entitled to dividend   | Number | 1'099'000           | 1'095'251           |
| Operating result per share                                     | EUR    | 13.9                | 14.3                |
| Net result per share   | EUR    | 9.8                 | 8.5                 |
| Equity capital per share                                       | EUR    | 140.9               | 133.3               |