PHOENIX MECANO

Report by the Board of Directors on the Mid-year report as at June 30, 2005

Dear Ladies and Gentleman

Overall, the run of business during the first half of 2005 was positive for the Phoenix Mecano Group's enclosures, electrotechnical components and mechanical components divisions. Especially during the second quarter, performance was clearly up on the sales figures and profits posted for the equivalent period the previous year. However, this situation was offset by further substantial, scheduled restructuring costs and operating losses suffered in the Electronics Contract Manufacturing (ECM) division, which focuses on the production of telecom infrastructure equipment. During the second half of 2005, the restructuring measures in this sector will be concluded and the strategic options will be examined by the Board of Directors.

Compared with the previous year, the Group's sales were slightly down (by 2.2%) from € 183.2 million to € 179.2 million. Corrected for differences in foreign exchange rates, this decrease amounted to 2%. The impact of changes in the scope of consolidation was 0.2%. The volume of incoming orders dipped by 7.4% from € 189.6 million the previous year to € 175.4 million, making a book-to-bill ratio (the ratio of incoming orders to sales) of 97.9% for the first half of 2005.

Over the first six months of 2005, the Group's operating result totalled € 11.5 million, compared with € 15.3 million the previous year. The Group's operating margin was 6.4%, compared with 8.4% the previous year, the decrease being due to a higher operating loss incurred by the ECM division, which has been undergoing extensive restructuring during the year under review. The Group's other three divisions, which manufacture components primarily for industrial customers and distribute their produce worldwide, managed to increase their operating result by € 1.1 million. Operating cash flow was down 17%, from € 25.8 million to € 21.3 million. Restructuring costs, a slightly lower financial result and a higher tax rate all conspired to reduce net income over the period under review from € 10.8 million to € 2.0 million.

Development of the Group's individual divisions

In the **Enclosures** division sales rose by 4% from € 63.3 million to € 65.9 million, buoyed up by our European customers' robust export market and the establishment of manufacturing infrastructure in Southeast Asia, whereas domestic markets in Europe proved subdued. Meanwhile, further advances were made with customer-specific services and package deals involving sandwich keyboards and enclosures. The operating result rose disproportionately by 7% to € 12.1 million, partly due to general productivity increases, economies of scale and also the absence of relocation costs for sandwich keyboard production. During the previous year, one-off costs had been incurred in connection with the construction of the Hungarian production plant.

Sales by the **Electrotechnical Components** division were down 8% from € 23.5 million to € 21.7 million, prompted by the gradual withdrawal from various projects in the market segments white goods and lighting technology. Over the past year, our customers in these segments experienced a massive shift in manufacturing capacity to the Far East, associated with price cuts of up to 50%. Consequently, in future the production line for inductive components will concentrate more on more profitable segments, such as switching power supplies and drive technology applications. The circuit board terminal production line also suffered a decline in volume, whereas sales of coding switches and spring contacts/test probes and margins in this sector developed stably. The operating result totalled € 1.7 million, compared with € 2.2 million the previous year.

In the **Mechanical components** division, the decrease in sales during Q1 of 2005 has been fully compensated. During the first half of the year the division boosted its sales by 2% from € 63.4 million to € 64.7 million. Both Rose&Krieger, our subsidiary geared towards serving industrial customers, and Dewert, which focuses on the furniture and care sectors, managed to achieve a slight increase in sales.
The operating result rose disproportionately by 20% from € 4.1 million to € 4.9 million, due in part to better sourcing and process optimisation in the supply chain. Where Dewert's activities were concerned, over the past 12 months new products on the market for the hospital sector performed particularly well. In addition, the newly founded Australian sales company posted its first profits.

In the **ECM** (Electronics Contract Manufacturing) division, sales contracted by 19%, from € 32.4 million to € 26.1 million, due to ongoing restructuring and reorientation measures. The staff cuts scheduled at OMP, the largest company associated with the ECM division, have practically been completed. Sheet metal production and control cabinet assembly in Hungary were developed in parallel and are now fully operational, though further improvements in productivity are required. Attention over the coming months will be focussed on increasing value added in Italy and Hungary and on optimising new work procedures and other processes in a bid to boost profitability in this sector. Phoenix Mecano Group's Board of Directors will undertake a strategic review and a situation appraisal during Q4 of 2005. The operating loss totalled € 4.9 million, compared with € 0.5 million the previous year.

Outlook

For the ECM division the successful implementation of the restructuring programme during the latter half of 2005 will prove decisive. The way things stand at present, external factors will prove far less crucial in this connection than internal operational measures. However, relevant threats to the continued existence of this division within the Group still remain if the steps taken fail to achieve the desired level of profitability.

The economic environment in which our three divisions involved in the components business are developing deteriorated slightly over the past year, particularly in Europe. Nonetheless, in markets outside Europe the overall economic outlook remains positive. The positive development in the Far East and Latin America offers us a welcome opportunity to make up for the lack of dynamism on the European market. During the year under review, taken as a whole, these strategically important overseas markets achieved double-digit growth, albeit starting out from an initially low base level. Within Europe, the Eastern European markets are developing disproportionately favourably. At present, we anticipate the Group's performance over the latter half of the year to be similar to that achieved during the first six months.

The unexpectedly poor operating result posted by OMP means that our projected net result for the year as a whole is now only in the high single-digit millions. One prerequisite for such a scenario is that the OMP restructuring programme is concluded successfully. Where 2006 is concerned, Phoenix Mecano Group will aim to achieve a net result of around € 20 million, assuming no major changes in the general economic situation.

Kind regards

Ulrich Hocker	Benedikt Goldkamp
Chairman of the Board of Directors	Delegate of the Board of Directors/CEO

Notes to the interim accounts as at 30 June 2005

Principles of consolidation and valuation

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

They are based on the principles of consolidation and valuation set out in the 2004 annual report, which were applied unaltered, with the following exceptions:

IFRS 3 (Business Combinations)

Since 1 January 2005 IFRS 3 has assumed that goodwill has an unlimited useful life and is subjected to an annual check of its recoverability (impairment) rather than being depreciated on the basis of a schedule. During the equivalent period last year, the amortisation of goodwill totalled €0.02 million.

IFRS 5 (Non-Current Assets Held for Sale)

In accordance with IFRS 5, two specific properties up for sale in Italy were listed in a separate line on the consolidated balance sheet. They were valued at the lower value of the acquisition or manufacturing costs minus any necessary depreciations and the estimated net sales price. The scheduled depreciations are to be suspended.

IAS 1 (Minority Interest)

IAS 1 stipulates that minority interests should feature in group accounts as a component of equity capital instead of comprising a separate category on the balance sheet, as used to be the case. Consequently, minority interests are no longer deducted when calculating the net result.

IAS 2 (Inventories)

Since 1 January 2005, the inventories of goods have been valued uniformly throughout the group using the weighted average method. The one-off effect of this change affecting individual group companies that had previously applied the FIFO method, totalled €0.1 million and was recorded in the group's equity capital as an accounting change with no impact on the group's net income.

IAS 21 (Effects of Changes in Foreign Exchange Rates)

The changed rules in IAS 21 resulted in a reassessment of the functional currencies of the group's individual companies and, with regard to the group's Tunisian companies and Phoenix Mecano S.E. Asia Pte. Ltd. (Singapore), a switch to the euro as at 1 January 2005. The non-recurrent impact of this switch totalled €1.0 million and was recorded as an accounting change with no impact on the group's net income. Essentially this was a result of changes in the currency conversion of tangible assets and to a lesser extent inventories. For IT-related reasons, no earlier adjustment could be made.

Further adjustments

The application of other new or revised IFRS guidelines had no major impact on the summary financial report on the interim accounts as at 30 June 2005.

Effective as from 1 January 2005 a new pension solution was adopted for the group's Swiss companies, namely affiliation to an incorporated collective foundation (*Sammelstiftung*). The new pension plan will be assessed under IAS 19 as performance-based and included in the balance sheet accordingly. As at 1 January 2005 the pension commitment totalled €8.2 million, compared with assets totalling €7.7 million. In accordance with IAS 19.92, this difference is not included on the balance sheet. During the first half of 2005, the service and interest expenses for this Swiss pension plan amounted to €0.3 million. This value is based on the following actuarial assumptions:

- Discounting rate	3.0%
- Salary trend	1.5%
- Pension trend	0.5%

The deferred taxes on intra-Group deliveries were calculated for the first time as at 30 June 2005 using country-specific tax rates instead of a tax rate applied throughout the Group. This change resulted in an additional tax burden of €0.3 million, which was absorbed to affect profit and loss accounts.

Changes in scope

During the period under review the circle of consolidated companies was extended to include Dewert Australia Pty. Ltd., in which the Phoenix Mecano Group acquired a 70% stake for €0.1 million at the beginning of 2005. This transaction generated no goodwill. The impact on the Group's consolidated sales during the first half of 2005 was 0.2%; the impact on profits was less than €0.1 million.

In April 2005, Magyar Phoenix Mecano KFT (HU), which had previously been included in the Group accounts using the equity method, was liquidated. In this connection, exchange rate differences totalling €0.4 million hitherto treated as not affecting net income were reposted in the statement of income. All other majority shareholdings previously included using the equity method, which either complement or serve as partners of fully consolidated Group companies in Germany or only fulfil a minor operational role, were included in the scope of consolidation as from 1 January 2005.

Furthermore, in June 2005 the 78% stake in Phoenix Mecano Mould SRL (RO) was sold off and correspondingly excluded from the circle of consolidation. The sale resulted in the disposal of assets worth €0.6 million and of liabilities totalling

€ 0.3 million. The sale price was €0.5 million. The paper profit of €0.2 million from the sale was offset by the reposting of exchange rate losses of €0.3 million that had hitherto been posted as not affecting operating income in the Group's statement of income.

Restructuring costs

The statement of income for the first half of 2005 contains restructuring costs totalling €3 million for the Electronics Contract Manufacturing division. This outlay primarily corresponds to the costs of staff cuts in Italy and losses arising from the adjustment of inventories, plus profits and losses from the sale of no longer required tangible assets and additional restructuring costs. As at 30 June 2005 there was a provision of €0.7 million for payments incurred in connection with the restructuring process but not yet effected.

Seasonality

The Group is active in sectors that are subject to seasonal fluctuation. Typically, sales are slightly lower and the Group's results are proportionally weaker during the second half of the year.

Dividend payment

In line with a decision taken by the General Meeting of Phoenix Mecano shareholders on 27 May 2005, at the beginning of June 2005 shareholders were paid a dividend of CHF 4.00 per share.

Share buyback

In March 2005 the Board of Directors of Phoenix Mecano AG decided to implement a share buyback programme affecting a maximum of 40,000 bearer shares or a maximum of CHF 10 million. The Board will propose to the 2006 General Meeting a reduction in capital equivalent to the volume of bought-back shares. By 30 June 2005, 12,400 bearer shares had been bought back for a total of CHF 3.8 million.

Contingent liabilities

There has been no substantial change in the Group's contingent liabilities since 31 December 2004.

Events since 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 2005.

The Board of Directors of Phoenix Mecano AG released this half-yearly report for publication on 26 August 2005.

Information for shareholders

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

Ticker-Symbols

Valoren-Nr. 218781
Reuters PHOZ
Telekurs/Telerate PM
ISIN: CH0002187810

Share indicators

		30.06.2005	**30.06.2004**
Share capital (bearer shares at nominal CHF 1.00)	Number	1'100'000	1'100'000
Entitled to dividend	Number	1'086'033	1'099'000
Cash flow per share	EUR	10.5	13.9
Net result per share	EUR	1.8	9.8
Shareholders' equitiy per share	EUR	147.6	140.9

Consolidated balance sheet

Assets

(million EUR)	30.06.2005	31.12.2004
Fixed assets		
Intangible assets	8.2	8.8
Tangible assets	99.9	103.4
Financial assets	0.3	0.8
Deferred tax assets	2.2	2.3
Total fixed assets	**110.6**	**115.3**
Current assets		
Inventories	79.4	80.4
Trade receivables	62.8	49.7
Receivables on income tax	0.1	0.1
Other short-term receivables	9.4	9.9
Marketable securities	26.3	23.9
Cash and cash equivalents	30.4	30.7
Deferred charges and prepaid expenses	1.6	1.0
Assets held for sale	2.6	0.0
Total current assets	**212.6**	**195.7**
Total assets	**323.2**	**311.0**

Consolidated balance sheet

Shareholder equity and liabilities

(million EUR)	30.06.2005	31.12.2004
Shareholder equity		
Share capital	0.7	0.7
Group reserves	159.6	159.2
Equity attributable to the shareholders of the parent	**160.3**	**159.9**
Minority interest	0.2	0.1
Total shareholder equity	**160.5**	160.0
Liabilities		
Outstanding bonds	64.9	65.0
Liabilities from financial leasing	0.1	0.1
Other long-term financial liabilities	7.0	7.4
Long-term provisions	7.8	7.9
Deferred tax liabilities	9.4	9.2
Long-term liabilities	**89.2**	**89.6**
Liabilities for goods and services	22.0	17.3
Short-term financial liabilities	24.2	23.9
Income tax liabilities	4.8	3.6
Short-term provisions	3.8	3.7
Other liabilities	18.1	12.5
Deferred income	0.6	0.4
Short-term liabilities	**73.5**	**61.4**
Total liabilities	**162.7**	**151.0**
Total shareholder equity and liabilities	**323.2**	**311.0**

Consolidated statement of income

(million EUR)	30 June 2005	30 June 2004
Gross sales	179.2	183.2
Revenue reductions	-1.9	-2.0
Net sales	177.3	181.2
Changes on inventories	0.6	-1.1
Own work capitalised	0.7	0.8
Other operating income	0.5	0.4
Total operating performance	**179.1**	**181.3**
Cost of materials	-80.1	-77.1
Personel expenses	-53.4	-54.1
Amortisation of intengible assets	-1.6	-2.1
Depreciation on tangible assets	-8.2	-8.3
Other operating expenses	-24.3	-24.4
Operating costs	**-167.6**	**-166.0**
Operating result (before restructuring costs)	**11.5**	**15.3**
Restructuring costs	-3.0	0.0
Earnings before interest and taxes	**8.5**	**15.3**
Financial result	-2.6	-1.7
Result before taxes	**5.9**	**13.6**
Income taxes	-3.9	-2.8
Net result for the Group	**2.0**	**10.8**
of which attributable to		
shareholders of the parent	1.9	10.8
Minority shareholders	0.1	0.0
Result per share - undiluted (in EUR)	1.77	9.84
Result per share - diluted (in EUR)	1.77	9.84

Statement of changes in shareholder equity

(million EUR)

	Share capital	Own shares	Profit reserves	**Group reserves** Profit/(loss) from IAS 39	Conversion differences	**Equity attributable to shareholders of the parent**	**Minority interest**	**Total shareholder equity**
As at 31 December 2003	**0.7**	**-0.3**	**152.6**	**-1.5**	**-5.5**	**146.0**	**0.1**	**146.1**
Fluctuation in market value of financial assets				-0.1		-0.1		-0.1
Fluctuations in market value of cash flow hedges				1.4		1.4		1.4
Deferred taxes not affecting net income						0.0		0.0
Currency conversion differences					-0.5	-0.5		-0.5
Profits and losses recorded directely in shareholders' equity	**0.0**	**0.0**	**0.0**	**1.3**	**-0.5**	**0.8**	**0.0**	**0.8**
Realised results of financial assets						0.0		0.0
Realised results of cash flow hedges						0.0		0.0
Net result for the Group			10.8			10.8		10.8
Total of all booked income and expenses	**0.0**	**0.0**	**10.8**	**1.3**	**-0.5**	**11.6**	**0.0**	**11.6**
Change in own shares		0.1				0.1		0.1
Dividends			-2.9			-2.9		-2.9
Changes in capital						0.0		0.0
As at 30 June 2004	**0.7**	**-0.2**	**160.5**	**-0.2**	**-6.0**	**154.8**	**0.1**	**154.9**
As at 31 December 2004	**0.7**	**-0.3**	**164.6**	**1.5**	**-6.6**	**159.9**	**0.1**	**160.0**
Accounting changes			0.1		1.0	1.1		1.1
As at 31 December 2004 after accounting changes	0.7	-0.3	164.7	1.5	-5.6	161.0	0.1	161.1
Changes in own shares						0.0		0.0
Fluctuations in market value of financial assets				0.4		0.4		0.4
Fluctuations in market value of cash flow hedges				0.2		0.2		0.2
Deferred taxes not affecting net income						0.0		0.0
Currency conversion differences					2.2	2.2	0.0	2.2

Statement of changes in shareholder equity

(million EUR)	Share capital	Group reserves				Equity attributable to shareholders of the parent	Minority interest	Total shareholder equity
		Own shares	Profit reserves	Profit/(loss) from IAS 39	Conversion differences			
Profits and losses recorded directely in shareholders' equity	**0.0**	**0.0**	**0.0**	**0.6**	**2.2**	**2.8**	**0.0**	**2.8**
Realised results of financial assets				-0.1		-0.1		-0.1
Realised results of cash flow hedges						0.0		0.0
Net result for the Group			1.9			1.9	0.1	2.0
Total of all booked income and expenses	**0.0**	**0.0**	**1.9**	**0.5**	**2.2**	**4.6**	**0.1**	**4.7**
Change in own shares		-2.5				-2.5		-2.5
Dividends			-2.8			-2.8		-2.8
Changes in capital						0.0		0.0
As at 30 June 2005	**0.7**	**-2.8**	**163.8**	**2.0**	**-3.4**	**160.3**	**0.2**	**160.5**

Consolidated statement of cash flow

(million EUR)	1st half 2005	1st half 2004
Result before taxes	5.9	13.6
Amortisation of intangible assets	1.6	2.1
Depreciation on tangible assets	8.2	8.3
Other expenses/income not affecting liquidity		
and changes in net working capital	-2.9	-9.7
Net cash flow from business operations	**12.8**	**14.3**
Investments	-8.1	-9.2
Purchases of marketable securities	-4.1	-8.9
Acquisition of Group companies	0.1	0.0
Disinvestments	1.8	0.1
Sales of marketable securities	2.0	0.3
Disposal of Group companies	0.5	0.0
Interest and dividends received	0.2	0.7
Net cash used in investment activities	**-7.6**	**-17.0**
Dividends paid	-2.8	-2.9
Change in own shares	-2.5	0.1
Change in financial liabilities	-0.7	1.0
Cash flow from financing activities	**-6.0**	**-1.8**
Conversion differences in cash and cash equivalents	0.5	0.2
Change in cash and cash equivalents	**-0.3**	**-4.3**
Cash and cash equivalents as at 1 January	30.7	28.8
Cash and cash equivalents as at 30 June	30.4	24.5
Change in cash and cahs equivalents	**-0.3**	**-4.3**

Segment information

by division

(million EUR)

Enclosures	1st half 2005	1st half 2004	Change
Consolidated gross sales	65.9	63.3	4%
Operating result (before restructuring costs)	12.1	11.3	7%
Return on sales	18.4%	17.9%	
Restructuring costs	0.0	0.0	
Earnings before interest and taxes	12.1	11.3	7%

Electrotechnical Components	1st half 2005	1st half 2004	Change
Consolidated gross sales	21.7	23.5	-8%
Operating result (before restructuring costs)	1.7	2.2	-23%
Return on sales	7.8%	9.4%	
Restructuring costs	0.0	0.0	
Earnings before interest and taxes	1.7	2.2	-23%

Mechanical Components	1st half 2005	1st half 2004	Change
Consolidated gross sales	64.7	63.4	2%
Operating result	4.9	4.1	20%
Return on sales	7.6%	6.5%	
Restructuring costs	0.0	0.0	
Earnings before interest and taxes	4.9	4.1	20%

Electronics Contract Manufacturing	1st half 2005	1st half 2004	Change
Consolidated gross sales	26.1	32.4	-19%
Operating result (before restructuring costs)	-4.9	-0.5	+++
Return on sales	-18.8%	-1.5%	
Restructuring costs	-3.0	0.0	
Earnings before interest and taxes	-7.9	-0.5	+++

Other	1st half 2005	1st half 2004	Change
Consolidated gross sales	0.8	0.6	33%
Operating result	-2.3	-1.8	-28%
Earnings before interest and taxes	-2.3	-1.8	-28%