PHOENIX MECANO

Interim accounts as at 30 June 2010

Company report

Interim accounts as at 30 June 2010

Report by the Board of Directors on the Mid-year report as at June 30, 2010

Dear Ladies and Gentlemen

Phoenix Mecano, a leading technology company active in the production of enclosures and industrial components, recorded strong sales and income growth in the first half of 2010, across all three of its divisions. In addition to the general economic recovery in core industrial markets, this growth was driven mainly by the dynamic photovoltaic segment in the ELCOM/EMS division and progress with the integration of Okin – formerly the Group's leading competitor – in the Mechanical Components division. Growth initiatives, which the Group was able to implement anti-cyclically during the global financial and economic crisis of 2008 and 2009 thanks to its robust cash flow and high equity ratio, are now paying dividends.

During H1 2010, consolidated gross sales rose by 34.6% from €188.9 million to €254.2 million. Adjusted for changes to the scope of consolidation, the increase was 32.1%. Corrected for differences in foreign-exchange rates, the growth was 33.1%. Incoming orders were up by 42.4%, from €190.2 million to €270.8 million.

The company's operating result (EBIT) was up 643% on the previous year, jumping from €3.7 million to €27.5 million. This is the best half-yearly result in the Group's history. The operating margin (EBIT margin) was 10.8%, compared with 2.0% during the same period in 2009. All three divisions saw a significant increase in profitability. In geographical terms, all three world regions – Europe, the Middle and Far East and North and South America – experienced double-digit sales growth.

The Group's operating cash flow (EBITDA) climbed by 187% from €12.6 million to €36.2 million. The result after taxes totalled €21.6 million, up from €3.4 million in H1 2009 – an increase of 535%.

Compared with the previous year, net indebtedness fell by €12.6 million to €9.8 million. This reduction in debt was achieved despite the need for additional cash to finance organic growth and the acquisition of Lohse in H1 2010. Moreover, the dividend payment in 2010 remained constant.

Development of the Group's divisions

The Enclosures division saw a return to growth in H1 2010. Sales rose by 13.9% to €71.5 million, up from €62.8 million the previous year. In addition to the general economic recovery, the main drivers of growth during the period were continued efforts to boost market share in the USA and Far East as well as an expansion of the division's market presence in explosion-proof enclosures for the oil & gas sector. Despite some positive signs, business in the mechanical engineering segment (a key target market for the Enclosures division) still lagged behind the boom years of 2007 and 2008. Assuming the economic recovery continues to gather pace over the coming months, including in the mechanical engineering market, we anticipate further substantial rates of growth.

The ELCOM/EMS division, which is geared mainly to the industrial electronics and photovoltaic markets, saw sales rise by 106.2% to €80 million. In the industrial electronics segment, the Group benefited from a dynamic upturn in its target markets, caused in part by supply bottlenecks. This trend placed heavy demands on the flexibility of its production and sales structures. By responding rapidly to the changed economic climate, the Group was able to exploit the situation, acquire market shares and significantly improve its income. This unexpectedly strong upturn was helped by the weak euro, which gave our customers a major competitive boost in the global marketplace.
As expected, the photovoltaic segment developed very robustly. Only the increasing difficulty of supplying our customers with power semiconductors for inverters is temporarily preventing more rapid expansion. A weakening of the market due to planned cutbacks in financial assistance in Germany is not yet squeezing market development. In this sector, Phoenix Mecano is investing heavily in production equipment and logistics facilities in 2010, in order to continue meeting customers' high expectations as efficiently as possible. The acquisition of Lohse, a firm manufacturing wound cores for use in solar inverter chokes and transformers, is proceeding positively and according to plan.

Sales in the Mechanical Components division increased by 17.1% from €86.8 million to €101.6 million. Industrial mechanical components, a cyclical segment represented by the Group's Rose & Krieger arm, grew particularly strongly, following a very sharp decline due to the crisis in the capital goods sector in 2009. The Dewert/Okin business, which manufactures electrical linear drives for the medical technology and furniture industry, is less affected by strong cycles in its end markets. It too recorded welcome, albeit less dynamic, sales growth. At the same time, improved profitability enabled further key milestones to be achieved in the integration of Okin into the Phoenix Mecano organisational structure. The focus this year is to standardise enterprise resource planning (ERP) systems within the Group and reorganise production facilities. The final phase of integration is on track for completion by the end of 2010.

Outlook

Most of Phoenix Mecano's target markets have picked up following the unprecedented slump in the global economy in late 2008 triggered by the financial and economic crisis. True to its belief that crisis generates the best opportunities, the company launched a number of growth initiatives during this period, and these are developing extremely well in 2010. However, this cannot hide the fact that the global economy remains fragile, due to the debt situation in most industrialised nations, with the exception of China. Faced with positive reports from companies and negative economic forecasts, economists and industrial firms alike are finding it hard to paint a clear picture of the medium-term outlook. Short-term prospects remain good, and we do not now expect to see any slowdown in economic activity this year. However, should negative tendencies prevail over the coming months, Phoenix Mecano is better equipped than ever, both financially and strategically, to survive further crises and to derive long-term benefit from potential market turbulence. In the meantime, we are pursuing the path we have embarked upon and expect to achieve record sales and result this year. Our target result of the period is currently €35-40 million, as reported on 22 July 2010.

Kind regards

Ulrich Hocker	Benedikt Goldkamp
Chairman of the Board of Directors	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	PM.S
Bloomberg	PM SW Equity
Telekurs/Telerate	PM
ISIN	CH0002187810

Share indicators

		30.06.2010	**30.06.2009**
Share capital (bearer shares at nominal CHF 1.00)	Number	988‘000	1'069’500
Entitled to dividend (as of 30 June)	Number	968‘650	976‘430
Entitled to dividend (on average)	Number	968’604	979'955
Earning before interest and tax per share	EUR	28.4	3.8
Net result per share	EUR	22.2	3.5
Shareholders’ equity per share	EUR	217.5	189.5

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Consolidated balance sheet (unaudited)

Assets

(million EUR)	30.06.2010	31.12.2009
Fixed assets		
Goodwill	5.2	1.0
Other intangible assets	17.9	8.6
Tangible assets	94.3	91.7
Investment in associated companies	0.6	0.6
Other financial assets	0.2	0.1
Derivative financial instruments	1.1	0.8
Deferred tax assets	2.5	2.2
Total fixed assets	**121.8**	**105.0**
Current assets		
Inventories	108.2	88.2
Trade receivables	69.0	47.2
Derivative financial instruments	0.5	1.0
Claims on income tax	2.2	3.1
Other receivables	10.7	7.5
Current asset securities	4.2	4.5
Cash and cash equivalents	40.4	42.6
Deferred charges and prepaid expenses	1.4	0.8
Asset held for sale	0.0	1.2
Total current assets	**236.6**	**196.1**
Total assets	**358.4**	**301.1**

Consolidated balance sheet (unaudited)

Equity and liabilities (million EUR)	**30.06.2010**	**31.12.2009**
Equity		
Share capital	0.6	0.6
Own shares	-4.0	-4.0
Revenue reserves	211.1	196.4
Profit/Loss from IAS 39	0.9	0.7
Translation differences	2.1	-1.5
Equity attributable to shareholders of the parent company	**210.7**	**192.2**
Minority interests	1.4	1.2
Total equity	**212.1**	**193.4**
Liabilities		
Liabilities from financial leasing	0.1	0.1
Other long-term financial liabilities	24.1	19.5
Long-term provisions	10.8	10.9
Deferred tax liabilities	8.0	4.9
Long-term liabilities	**43.0**	**35.4**
Trade liabilities	25.8	15.3
Short-term financial liabilities	30.2	23.8
Derivative financial instruments	0.1	0.1
Short-term provisions	10.8	9.2
Income tax liabilities	13.4	10.5
Other liabilities	22.0	12.4
Deferred income	1.0	1.0
Short-term liabilities	**103.3**	**72.3**
Total liabilities	**146.3**	**107.7**
Total equity and liabilities	**358.4**	**301.1**

Consolidated statement of income (unaudited)

(million EUR)	**1st half 2010**	**1st half 2009**
Gross sales	254.2	188.9
Revenue reductions	-2.6	-2.2
Net sales	**251.6**	**186.7**
Changes in inventories	3.3	0.1
Own work capitalised	0.1	0.4
Other operating income	1.9	2.5
Total operating performance	**256.9**	**189.7**
Cost of materials	-127.3	-90.1
Personnel expenses	-65.9	-60.1
Amortisation of intangible assets	-1.8	-1.7
Depreciation on tangible assets	-6.8	-7.2
Other operating expenses	-27.6	-26.9
Operating expenses	**-229.4**	**-186.0**
Results before interest and tax (operating result)	**27.5**	**3.7**
Result from associated companies	0.0	0.0
Financial income	3.3	2.4
Financial expenses	-2.8	-2.0
Financial result	0.5	0.4
Result before tax	**28.0**	**4.1**
Income tax	-6.4	-0.7
Result of the period	**21.6**	**3.4**
of which		
Shareholders in the parent company	21.5	3.4
Minority interests	0.1	0.0
Earnings per share		
Earnings per share - undiluted (in EUR)	22.2	3.5
Earnings per share - diluted (in EUR)	22.2	3.5

Consolidated statement of comprehensive income (unaudited)

(million EUR)	1st half 2010	1st half 2009
Result of the period	**21.6**	**3.4**
Other comprehensive income		
Fluctuations in fair value of financial assets	0.1	0.1
Realised results of financial assets	0.0	0.0
Fluctuations in fair value of cash flow hedges	-0.1	0.3
Realised results of cash flow hedges	0.2	-0.2
Translation differences	3.7	0.6
Deferred taxes	0.0	0.0
Other comprehensive income (after taxes)	**3.9**	**0.8**
Total comprehensive income	**25.5**	**4.2**
of which		
Shareholders in the parent company	25.3	4.1
Minority interests	0.2	0.1

Consolidated statement of cash flow (unaudited)

(million EUR)	1st half 2010	1st half 2009
Result of the period	21.6	3.4
Income tax	6.4	0.7
Result before tax	**28.0**	**4.1**
Amortisation of intangible assets	1.8	1.7
Depreciation on tangible assets	6.8	7.2
Losses/(gains) from the disposal of intangible and tangible assets	0.0	-0.1
Impairment losses/(reversal of impairment losses) on intangible and tangible assets	0.3	1.2
Losses and value adjustments on inventories	0.7	1.3
Result from associated companies	0.0	0.0
Other non-cash expenses/(income)	-1.1	-1.6
Increase/(decrease) in long-term provisions	-0.2	-0.6
Net interest expenses/(income)	0.1	0.5
Interest paid	-0.6	-0.8
Income tax paid	-3.4	-1.9
Operating cash flow before changing in working capital	**32.4**	**11.0**
(Increase)/decrease in inventories	-16.4	5.7
(Increase)/decrease in trade receivables	-18.1	-3.4
(Increase)/decrease in other receivables, deferred charges and prepaid expenses	-3.4	-5.4
(Increase)/decrease in assets held for sale	1.2	0.0
Decrease/(increase) in trade payables	8.6	2.4
Decrease/(increase) in short-term provisions	1.2	-1.0
Decrease/(increase) in other liabilities and deferred income	9.1	5.1
Cash flow from operating activites	**14.6**	**14.4**
Capital expenditure		
Intangible assets	-0.6	-0.7
Tangible assets	-6.6	-6.0
Current securities	0.0	-1.0
Acquisition of Group companies	-12.7	-19.8
Disinvestments		
Intangible assets	0.0	0.0
Tangible assets	0.2	0.1
Financial assets	0.1	0.0
Current securities	0.4	0.0
Interest received	0.3	0.3
Cash used in investing activities	**-18.9**	**-27.1**
Dividends paid (including minority interest)	-6.8	-6.5
Capital increase from minority shareholders	0.0	0.0
Purchase of own shares	-0.4	-2.8
Sale of own shares	0.4	0.1
Issue of financial liabilities	18.0	20.1
Repayment of financial liabilities	-10.3	-6.7
Cash flow from financing activities	**0.9**	**4.2**
Translation differences in cash and cash equivalents	1.2	0.1
Change in cash and cash equivalents	**-2.2**	**-8.4**
Cash and cash equivalents as at 1 January	42.6	39.2
Cash and cash equivalents as at 30 June	40.4	30.8
Change in cash and cash equivalents	**-2.2**	**-8.4**

Consolidated statement of changes in equity (unaudited)

(million EUR)	Share capital	Own shares	Retained earnings	Profits / (losses) cash flow hedges from IAS 39	Profits / (losses) financial assets from IAS 39	Translation differences	Equity attributable to shareholders in the parent company	Minority interests	Total equity
Equity as at 31 December 2008	**0.7**	**-24.5**	**216.3**	**0.0**	**-0.2**	**-2.2**	**190.1**	**0.9**	**191.0**
Fluctuations in fair value of financial assets					0.1		0.1		0.1
Realised results of financial assets							0.0		0.0
Fluctuations in fair value of cash flow hedges				0.3			0.3		0.3
Realised results of cash flow hedges				-0.2			-0.2		-0.2
Translation differences						0.5	0.5	0.1	0.6
Deferred taxes not affecting net income							0.0		0.0
Total other comprehensive income (after taxes)	**0.0**	**0.0**	**0.0**	**0.1**	**0.1**	**0.5**	**0.7**	**0.1**	**0.8**
Result of the period			**3.4**				**3.4**		**3.4**
Total comprehensive income	**0.0**	**0.0**	**3.4**	**0.1**	**0.1**	**0.5**	**4.1**	**0.1**	**4.2**
Change in own shares		-2.5	-0.2				-2.7		-2.7
Dividends paid			-6.5				-6.5		-6.5
Total equity-transactions with owners	**0.0**	**-2.5**	**-6.7**	**0.0**	**0.0**	**0.0**	**-9.2**	**0.0**	**-9.2**
Equity as at 30 June 2009	**0.7**	**-27.0**	**213.0**	**0.1**	**-0.1**	**-1.7**	**185.0**	**1.0**	**186.0**
Equity as at 31 December 2009	**0.6**	**-4.0**	**196.4**	**0.8**	**-0.1**	**-1.5**	**192.2**	**1.2**	**193.4**
Fluctuations in fair value of financial assets					0.1		0.1		0.1
Realised results of financial assets							0.0		0.0
Fluctuations in fair value of cash flow hedges				-0.1			-0.1		-0.1
Realised results of cash flow hedges				0.2			0.2		0.2
Translation differences						3.6	3.6	0.1	3.7
Deferred taxes not affecting net income				0.0			0.0		0.0
Total other comprehensive income (after taxes)	**0.0**	**0.0**	**0.0**	**0.1**	**0.1**	**3.6**	**3.8**	**0.1**	**3.9**
Result of the period			**21.5**				**21.5**	**0.1**	**21.6**
Total comprehensive income	**0.0**	**0.0**	**21.5**	**0.1**	**0.1**	**3.6**	**25.3**	**0.2**	**25.5**
Change in own shares		0.0	0.0				0.0		0.0
Dividends paid			-6.8				-6.8		-6.8
Total equity-transactions with owners	**0.0**	**0.0**	**-6.8**	**0.0**	**0.0**	**0.0**	**-6.8**	**0.0**	**-6.8**
Equity as at 30 June 2010	**0.6**	**-4.0**	**211.1**	**0.9**	**0.0**	**2.1**	**210.7**	**1.4**	**212.1**

Consolidated segment information (unaudited)

by division
(million EUR)

	Enclosures		ELCOM/EMS		Mechanical Components		Total Segment		Transition		Total Group	
	1st half 2010	1st half 2009	1st half 2010	1st half 2009	1st half 2010	1st half 2009	1st half 2010	1st half 2009	1st half 2010	1st half 2009	1st half 2010	1st half 2009
Gross sales to third parties	**71.5**	**62.8**	**80.0**	**38.8**	**101.6**	**86.8**	**253.1**	**188.4**	**1.1**	**0.5**	**254.2**	**188.9**
Gross sales between divisions	0.2	0.2	1.9	1.9	0.0	0.0	2.1	2.1	-2.1	-2.1	0.0	0.0
Result before interest and tax (operating result)	**13.5**	**8.5**	**9.3**	**0.3**	**6.9**	**-3.8**	**29.7**	**5.0**	**-2.2**	**-1.3**	**27.5**	**3.7**
Financial result											0.5	0.4
Result before tax											**28.0**	**4.1**
Income tax											-6.4	-0.7
Result of the period											**21.6**	**3.4**
Segment assets	79.2	79.5	99.9	62.5	121.6	120.7	300.7	262.7			300.7	262.7
Cash and cash equivalents									40.4	30.8	40.4	30.8
Other assets									17.3	15.8	17.3	15.8
Total assets	**79.2**	**79.5**	**99.9**	**62.5**	**121.6**	**120.7**	**300.7**	**262.7**	**57.7**	**46.6**	**358.4**	**309.3**
Segment liabilities	19.4	15.9	17.8	10.1	26.9	21.4	64.1	47.4			64.1	47.4
Financial other liabilities									82.2	75.9	82.2	75.9
Total liabilities	**19.4**	**15.9**	**17.8**	**10.1**	**26.9**	**21.4**	**64.1**	**47.4**	**82.2**	**75.9**	**146.3**	**123.3**
Net assets	**59.8**	**63.6**	**82.1**	**52.4**	**94.7**	**99.3**	**236.6**	**215.3**	**-24.5**	**-29.3**	**212.1**	**186.0**

Annex to the interim financial statements as at 30 June 2010

Consolidation and valuation principles

Principles underlying the interim financial statements

These unaudited interim financial statements for the Phoenix Mecano Group were drawn up in accordance with International Accounting Standard 34 (IAS 34) on “Interim Financial Reporting”. The consolidated half-yearly accounts do not cover all the information set out in the consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2009.

The accounting and valuation principles used for the half-yearly accounts correspond to those applied for the consolidated financial statements as at 31 December 2009, with the exception of the new or revised IFRS/IAS standards and interpretations (IFRS 3 rev., IAS 27 rev., IAS 39, IFRIC 17, IFRS 2, improvement project 2008 (IFRS 5) and improvement project April 2009) applied for the first time as at 1 January 2010. These had no impact on the half-yearly accounts, except that transaction costs relating to acquisitions are taken directly to the statement of income.

Scope of consolidation

In H1 2010, the scope of consolidation changed following the acquisition of Lohse GmbH, Muggensturm (D), effective from 1 May 2010.

In H1 2009, the scope of consolidation expanded following the acquisition, as part of an asset deal effective from 1 January 2009, of the business operations of Eiden & Schmidt GmbH Messtechnik in Marpingen (D), which is now being run under the name RK Schmidt Systemtechnik GmbH. As of 5 February 2009, divisions of the insolvent German company OKIN Antriebstechnik GmbH were acquired in an asset deal, and are now being run under the name OKIN Motion Technologies GmbH. Also acquired were 100% of the shares of OKIN Hungary Gépgyártó Kft. (HU), OKIN Scandinavia AB (S) and OKIN America LLC (USA).

Assumptions and estimations

The preparation of the half-yearly accounts necessitates various assumptions and estimations. These are based on the management’s assessments, which are regularly verified and amended as and when fresh information or findings necessitate changes.

Notes to the interim financial statements

Seasonality

The sectors in which the Phoenix Mecano Group is active are subject to seasonal fluctuations. Typically, the latter half of the year generates lower sales and is weaker in terms of results. Due to exceptional factors, these seasonal fluctuations played a somewhat secondary role in the prior year.

Acquisitions

As at 1 May 2010 the Phoenix Mecano Group acquired full ownership of Lohse GmbH, Muggensturm (D), a leading manufacturer of special toroidal strip-wound cores, strip-wound cut cores and air-gap cores, whose applications include transformers and chokes for solar inverters. The acquisition will provide Phoenix Mecano with key expertise and boost its competitiveness and innovative capacity in the increasingly important growth segment of photovoltaics. Part of the purchase price is dependent on future business development and will not be paid until 2011 and 2012.

In the first half of 2010 after acquisition, Lohse GmbH achieved gross sales with third parties of EUR 0.4 million and gross sales with Phoenix Mecano Group companies of EUR 2.4 million. The contribution towards the Phoenix Mecano Group's result of the period was EUR 0.0 million. Had the company been included in the scope of consolidation from 1 January 2010, consolidated gross sales would have been EUR 255.3 million and consolidated result of the period EUR 22.0 million.

The acquired assets and assumed liabilities can provisionally be summed up as follows:

	Fair value (million EUR)
Non-current assets	11.1
Current assets	3.5
Liabilities	-4.9
Acquired net assets	**9.7**
Investment acquisition costs	**13.9**
Provisional goodwill	**4.2**

The investment acquisition costs of EUR 13.9 million consist of the already paid purchase price of EUR 13.0 million and a financial liability of EUR 0.9 million for the expected additional purchase price.

The outflow of funds spent on acquisitions totalled EUR 12.7 million (the purchase price of EUR 13.0 million minus acquired cash and cash equivalents totalling EUR 0.3 million).

Goodwill

The EUR 4.2 million increase in goodwill in the ELCOM/EMS division is owing to the capitalisation of goodwill from the aforementioned acquisition of Lohse in 2010.

Other intangible assets

The EUR 9.2 million increase in other intangible assets is primarily owing to capitalisation of the customer base and knowhow from the aforementioned acquisition of Lohse in 2010.

Assets held for sale

Conveyance of the building in Germany posted under discontinued operations as at 31 December 2009 was completed pursuant to the agreement signed on 18 December 2009. The purchase price was paid in full.

Capital reduction

The Shareholders' General Meeting of 28 May 2010 decided to reduce the share capital by a nominal amount of CHF 10,000 to a new amount of CHF 978,000, based on the remaining 10,000 treasury shares acquired under the 2008/2009 share buyback programme. The corresponding entry in the trade register will be made in September 2010, once the Group's creditors have been given due notice three times.

Dividend payment

Pursuant to the decision taken by the Shareholders' General Meeting held on 28 May 2010, in June 2010 shareholders were paid a dividend of CHF 10.00 per share.

Financial liabilities

The increase in long- and short-term financial liabilities (bank loans) is related to the acquisition made in H1 2010 and the dividend payment in June 2010.

Contingent liabilities

The Group's contingent liabilities have not altered significantly compared with the situation as at 31 December 2009.

Events after the balance sheet date

Between 30 June 2010 and 25 August 2010, no events occurred that would alter the book values of the Group's assets and liabilities as at 30 June 2010 or that should be disclosed here.

Adoption of the condensed interim financial statements

The Board of Directors of Phoenix Mecano AG freed this half-yearly report for publication on 25 August 2010.