Interim accounts as at 30 June 2012

Company report

Interim accounts as at 30 June 2012

Report by the Board of Directors on the Mid-year report as at June 30, 2012

Dear Ladies and Gentlemen

Phoenix Mecano, a technology company active in the fields of enclosures and industrial components, saw a slight decline in incoming orders and sales in the first half of 2012. However, income figures were substantially down, owing to various special items relating to growth initiatives, currency effects, the increased tax rate and an unfavourable product mix. As expected, business in photovoltaic inverter components was subdued. In the comparatively profitable industrial business, a degree of customer uncertainty became increasingly apparent over the course of H1. This was due to the sovereign debt crisis in the eurozone. Thanks to its very solid cash flow development and equity capital position Phoenix Mecano can and will continue to consistently implement its long-term growth strategy.

During H1 2012, consolidated gross sales fell by 3.3% from €275.8 million to €266.8 million. Excluding effects from changes to the scope of consolidation, the decline was 4.3%. Corrected for differences in foreign-exchange rates, sales were down by 5.1%. Incoming orders decreased by 3.4%, resulting in a book-to-bill ratio for the reporting period of 101.9%.

The company's operating result (EBIT) was down by 24.2% compared with the previous year, at €23.3 million, corresponding to a margin of 8.7%. While margins in the Enclosures and Mechanical Components divisions retracted due to the weakening of European industrial markets, the ELCOM/EMS division was able to increase its margin, mainly thanks to a positive change in product mix as well as the disappearance of negative special items from the previous year. In geographical terms, declining sales in the major European markets were offset by single-digit growth in Asia and double-digit growth in North and South America.

Operating cash flow (EBITDA) fell by 15.3% to €34.2 million.

The result of the period after taxes was €16.2 million, compared with €22.8 million the previous year. At 27.6%, the effective tax rate was well above the previous year's rate of 22.3%, which was influenced by positive special items. Adjusted to take account of special items, the tax rate was approximately 26.6%, around one percentage point higher than the equivalent value for the previous year. This was mainly owing to a changed geographical distribution of income.

Net indebtedness decreased significantly from €34.1 million to €7.1 million, a drop of 79%. This welcome development was made possible by a solid operating cash flow combined with optimisation measures targeting net current assets. At the same time, the company's capital expenditure programmes were systematically continued. They focused mainly on growth areas such as security marking, touch screen processing with membrane keyboards integrated (both Enclosures) and industrial LED applications (ELCOM/EMS). Further substantial investments are being made in connection with the relocation from Germany to Hungary of various technical functions for the DewertOkin arm (logistics, prototyping, some R&D).

Funds not required for expansion of the operating business will continue to be returned to shareholders. This will be done through dividend payments and via the new share buyback programme instituted on 22 June 2012 for the purpose of capital reduction.

Development of the Group's divisions

As expected, the Enclosures division was unable to fully match last year's very strong performance. Key factors underlying the lower operating margin were the direct and indirect impact of the sovereign debt crisis on core markets in Europe (Germany, Switzerland) as well as integration costs for Leveringhaus, a manufacturer of membrane keyboards using conductive silver lacquer, which was acquired at the start of 2012.

Sales were down by 2.1% to €85.5 million and operating result by 26.7% to €14.6 million. Overseas activities (USA, Asia) continued to develop positively, as did sales of explosion-proof enclosures, particularly those for oil and gas applications.

In the ELCOM/EMS division, sales fell by 6.7% to €68.3 million. Declines in the solar sector and in electromechanical industrial components (switches, plug connectors) in Europe were partially offset by new electronic assembly projects (Phoenix Mecano Digital). The improvement in the division's margin is owing to an optimised product mix (fewer low-margin photovoltaic components), operational measures, and the disappearance of negative one-off items of the previous year. Overall, the environment remains challenging.

In the Mechanical Components division, sales were down by 2% to €113 million and operating result by 35.3% to €6.5 million. In addition to the high basis of comparison from the previous year, a number of factors can be cited to explain this reduction in operating result. On the one hand, an over-proportional decline in high-margin industrial applications in Europe led to a deterioration of the product mix within the division. On the other hand, within the DewertOkin line of business, the European market for electrically adjustable furniture and medical technology applications is declining while the Asia and North America region is experiencing strong growth. Consequently, substantial efforts are needed to ensure that the necessary resources are available in the right geographical markets. This means redeploying capacity from Western Europe to Eastern Europe, Asia and the USA. The costs and inevitable process duplication associated with this transition will be incurred in 2012 and 2013, as already noted in the 2011 annual report. Phoenix Mecano anticipates very attractive prospects for this division in the coming years, combined with over-proportional market and sales growth.

Outlook

In the perception of many market participants, the sovereign debt crisis in Europe continues to overshadow the otherwise encouraging outlook for the global industrial markets. Many players are having to take each day as it comes, making them much more reluctant to invest in major projects. A few market segments are bucking this trend, such as the oil and gas sector and LED applications. Generally speaking, Phoenix Mecano expects its markets to stagnate in the coming months. From today's perspective, both a slump and a major upturn are equally unlikely. In this environment, Phoenix Mecano is focusing on factors which the company can influence: the integration of last year's bolt-on acquisitions (Platthaus/transformers, Leveringhaus/membrane keyboards, Aton/LED applications), implementation of the restructuring and relocation programme at DewertOkin and further expansion of the Group's presence in Asia.

Assuming this package of measures is successfully implemented, Phoenix Mecano can return to growth from 2013, even if the environment remains challenging. Our excellent equity capital levels and very strong free cash flow mean that we are in a position to exploit further strategic opportunities. The Board of Directors and Management are convinced that the right strategy is being pursued to create substantial value for the Group's shareholders in the medium to long term. Despite the subdued state of the economy, we believe that a result at the lower end of the target range formulated in February 2012 (EBIT of €43-53 million) is still achievable from today's viewpoint.

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

		30.06.2012	**30.06.2011**
Share capital (bearer shares at nominal CHF 1.00)	Number	978‘000	978'000
Entitled to dividend (as of 30 June)	Number	973‘147	973‘640
Entitled to dividend (on average)	Number	973‘428	973‘362
Earning before interest and tax per share	EUR	24.0	31.6
Net result per share	EUR	16.7	23.2
Shareholders’ equity (incl. Minority interest) per share	EUR	265.1	253.6

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Consolidated balance sheet (unaudited)

Assets

(million EUR)	30.06.2012	31.12.2011
Fixed assets		
Goodwill	14.8	14.4
Other intangible assets	23.6	18.5
Tangible assets	99.2	100.7
Investment in associated companies	0.5	0.5
Other financial assets	0.3	0.3
Derivative financial instruments	0.1	0.0
Deferred tax assets	4.4	5.6
Total fixed assets	**142.9**	**140.0**
Current assets		
Inventories	124.3	132.9
Trade receivables	65.8	55.6
Derivative financial instruments	0.2	0.1
Claims on income tax	2.3	2.1
Other receivables	8.8	7.8
Current asset securities	7.5	6.7
Cash and cash equivalents	55.3	43.5
Deferred charges and prepaid expenses	1.9	1.1
Total current assets	**266.1**	**249.8**
Total assets	**409.0**	**389.8**

Consolidated balance sheet (unaudited)

Equity and liabilities (million EUR)	30.06.2012	31.12.2011
Equity		
Share capital	0.6	0.6
Own shares	-1.7	-1.7
Revenue reserves	251.4	245.7
Profit/Loss from IAS 39	0.1	-2.3
Translation differences	5.3	4.2
Equity attributable to shareholders of the parent company	**255.7**	**246.5**
Minority interests	2.1	1.6
Total equity	**257.8**	**248.1**
Liabilities		
Long-term financial liabilities	41.9	41.5
Derivative financial instruments	0.1	1.9
Long-term provisions	10.1	10.4
Deferred tax liabilities	6.7	5.3
Long-term liabilities	**58.8**	**59.1**
Trade liabilities	22.8	19.7
Short-term financial liabilities	28.0	26.1
Derivative financial instruments	0.7	1.4
Short-term provisions	11.9	13.7
Income tax liabilities	5.0	5.8
Other liabilities	22.2	14.2
Deferred income	1.8	1.7
Short-term liabilities	**92.4**	**82.6**
Total liabilities	**151.2**	**141.7**
Total equity and liabilities	**409.0**	**389.8**

Consolidated statement of income (unaudited)

(million EUR)	1st half 2012	1st half 2011
Gross sales	266.8	275.8
Revenue reductions	-2.5	-2.6
Net sales	**264.3**	**273.2**
Changes in inventories	-1.7	-2.4
Own work capitalised	0.7	0.4
Other operating income	1.4	1.0
Total operating performance	**264.7**	**272.2**
Cost of materials	-125.1	-126.0
Personnel expenses	-74.8	-72.8
Amortisation of intangible assets	-3.0	-2.7
Depreciation on tangible assets	-7.8	-6.8
Other operating expenses	-30.7	-33.1
Operating expenses	**-241.4**	**-241.4**
Results before interest and tax (operating result)	**23.3**	**30.8**
Result from associated companies	0.1	0.1
Financial income	1.8	3.1
Financial expenses	-2.8	-4.6
Financial result	-0.9	-1.4
Result before tax	**22.4**	**29.4**
Income tax	-6.2	-6.6
Result of the period	**16.2**	**22.8**
of which		
Shareholders in the parent company	16.2	22.6
Minority interests	0.0	0.2
Earnings per share		
Earnings per share - undiluted (in EUR)	16.7	23.2
Earnings per share - diluted (in EUR)	16.7	23.2

Consolidated statement of comprehensive income (unaudited)

(million EUR)	1st half 2012	1st half 2011
Result of the period	**16.2**	**22.8**
Other comprehensive income		
Fluctuations in fair value of financial assets	0.0	0.0
Realised results of financial assets	0.0	0.0
Fluctuations in fair value of cash flow hedges	2.8	-0.4
Realised results of cash flow hedges	0.0	0.7
Translation differences	1.1	-2.3
Deferred taxes	-0.4	0.0
Other comprehensive income (after taxes)	**3.5**	**-2.0**
Total comprehensive income	**19.7**	**20.8**
of which		
Shareholders in the parent company	19.7	20.6
Minority interests	0.0	0.2

Consolidated statement of cash flow (unaudited)

(million EUR)	1st half 2012	1st half 2011
Result of the period	16.2	22.8
Income tax	6.2	6.6
Result before tax	**22.4**	**29.4**
Amortisation of intangible assets	3.0	2.7
Depreciation on tangible assets	7.8	6.8
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	0.0	0.0
Losses and value adjustments on inventories	0.6	2.5
Result from associated companies	-0.1	-0.1
Other non-cash expenses/(income)	0.2	1.8
Increase/(decrease) in long-term provisions	-0.4	0.5
Net interest expenses/(income)	0.6	0.8
Interest paid	-0.7	-0.6
Income tax paid	-6.5	-6.5
Operating cash flow before changing in working capital	**26.9**	**37.2**
(Increase)/decrease in inventories	8.8	-8.1
(Increase)/decrease in trade receivables	-9.5	-18.1
(Increase)/decrease in other receivables, deferred charges and prepaid expenses	-1.8	-1.8
(Increase)/decrease in assets held for sale	0.0	0.0
Decrease/(increase) in trade payables	2.7	4.5
Decrease/(increase) in short-term provisions	-1.8	-0.8
Decrease/(increase) in other liabilities and deferred income	5.6	4.6
Cash flow from operating activites	**30.9**	**17.5**
Capital expenditure		
Intangible assets	-0.9	-0.6
Tangible assets	-6.5	-11.5
Current securities	-2.0	-0.8
Acquisition of Group companies	-2.9	-4.4
Disinvestments		
Intangible assets	0.0	0.0
Tangible assets	0.7	0.5
Financial assets	0.0	0.1
Current securities	1.1	1.0
Interest received	0.5	0.2
Cash used in investing activities	**-10.0**	**-15.5**
Dividends paid (including minority interest)	-8.1	-10.4
Purchase of minority shareholders shares	0.0	-0.3
Purchase of own shares	-0.1	-0.3
Sale of own shares	0.0	0.9
Issue of financial liabilities	3.7	21.2
Repayment of financial liabilities	-4.9	-8.0
Cash flow from financing activities	**-9.4**	**3.1**
Translation differences in cash and cash equivalents	0.3	-0.3
Change in cash and cash equivalents	**11.8**	**4.8**
Cash and cash equivalents as at 1 January	43.5	31.8
Cash and cash equivalents as at 30 June	55.3	36.6
Change in cash and cash equivalents	**11.8**	**4.8**

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 attri-butable to shareholders in the parent company	Minority interests	Total equity
Equity as at 31 December 2010	**0.6**	**-1.8**	**232.6**	**1.0**	**-0.1**	**2.4**	**234.7**	**1.5**	**236.2**
Fluctuations in fair value of financial assets					0.0		0.0		0.0
Realised results of financial assets							0.0		0.0
Fluctuations in fair value of cash flow hedges				-0.4			-0.4		-0.4
Realised results of cash flow hedges				0.7			0.7		0.7
Translation differences						-2.3	-2.3	0.0	-2.3
Deferred taxes not affecting net income				0.0			0.0		0.0
Total other comprehensive income (after taxes)	**0.0**	**0.0**	**0.0**	**0.3**	**0.0**	**-2.3**	**-2.0**	**0.0**	**-2.0**
Result of the period			**22.6**				**22.6**	**0.2**	**22.8**
Total comprehensive income	**0.0**	**0.0**	**22.6**	**0.3**	**0.0**	**-2.3**	**20.6**	**0.2**	**20.8**
Purchase of minority shareholders shares			0.0				0.0	-0.3	-0.3
Change in own shares		0.4	0.2				0.6		0.6
Dividends paid			-10.4				-10.4	0.0	-10.4
Total equity-transactions with owners	**0.0**	**0.4**	**-10.2**	**0.0**	**0.0**	**0.0**	**-9.8**	**-0.3**	**-10.1**
Equity as at 30 June 2011	**0.6**	**-1.4**	**245.0**	**1.3**	**-0.1**	**0.1**	**245.5**	**1.4**	**246.9**
Equity as at 31 December 2011	**0.6**	**-1.7**	**245.7**	**-2.3**	**0.0**	**4.2**	**246.5**	**1.6**	**248.1**
Fluctuations in fair value of financial assets							0.0		0.0
Realised results of financial assets							0.0		0.0
Fluctuations in fair value of cash flow hedges				2.8			2.8		2.8
Realised results of cash flow hedges							0.0		0.0
Translation differences						1.1	1.1	0.0	1.1
Deferred taxes not affecting net income				-0.4			-0.4		-0.4
Total other comprehensive income (after taxes)	**0.0**	**0.0**	**0.0**	**2.4**	**0.0**	**1.1**	**3.5**	**0.0**	**3.5**
Result of the period			**16.2**				**16.2**	**0.0**	**16.2**
Total comprehensive income	**0.0**	**0.0**	**16.2**	**2.4**	**0.0**	**1.1**	**19.7**	**0.0**	**19.7**
Purchase of companies							0.0	0.6	0.6
Change in own shares							0.0		0.0
Dividends paid			-10.5				-10.5	-0.1	-10.6
Total equity-transactions with owners	**0.0**	**0.0**	**-10.5**	**0.0**	**0.0**	**0.0**	**-10.5**	**0.5**	**-10.0**
Equity as at 30 June 2012	**0.6**	**-1.7**	**251.4**	**0.1**	**0.0**	**5.3**	**255.7**	**2.1**	**257.8**

Consolidated segment information (unaudited)

by division
(million EUR)

	Enclosures		ELCOM/EMS		Mechanical Components		Total Segment		Reconciliation*		Total Group	
	1st half 2012	1st half 2011	1st half 2012	1st half 2011	1st half 2012	1st half 2011	1st half 2012	1st half 2011	1st half 2012	1st half 2011	1st half 2012	1st half 2011
Gross sales to third parties	**85.5**	**87.3**	**68.3**	**73.2**	**113.0**	**115.3**	**266.8**	**275.8**	**0.0**	**0.0**	**266.8**	**275.8**
Gross sales between divisions	0.1	0.4	2.7	2.7	0.1	0.0	2.9	3.1	-2.9	-3.1	0.0	0.0
Amortisation of intangible assets and depreciation on tangible assets	-3.1	-2.7	-3.1	-3.1	-4.5	-3.6	-10.7	-9.4	-0.1	-0.1	-10.8	-9.5
Result before interest and tax (operating result)	**14.6**	**20.0**	**4.1**	**3.3**	**6.5**	**10.0**	**25.2**	**33.3**	**-1.9**	**-2.5**	**23.3**	**30.8**
Financial result											-0.9	-1.4
Result before tax											**22.4**	**29.4**
Income tax											-6.2	-6.6
Result of the period											**16.2**	**22.8**
Segment assets	85.5	84.8	92.2	116.5	154.8	156.7	332.5	358.0			332.5	358.0
Cash and cash equivalents									55.3	36.6	55.3	36.6
Other assets									21.2	21.5	21.2	21.5
Total assets	**85.5**	**84.8**	**92.2**	**116.5**	**154.8**	**156.7**	**332.5**	**358.0**	**76.5**	**58.1**	**409.0**	**416.1**
Segment liabilities	21.1	20.8	14.6	16.4	27.0	27.5	62.7	64.7			62.7	64.7
Interest-bearing liabilities									69.9	76.8	69.9	76.8
Other liabilities									18.6	27.7	18.6	27.7
Total liabilities	**21.1**	**20.8**	**14.6**	**16.4**	**27.0**	**27.5**	**62.7**	**64.7**	**88.5**	**104.5**	**151.2**	**169.2**
Net assets	**64.4**	**64.0**	**77.6**	**100.1**	**127.8**	**129.2**	**269.8**	**293.3**	**-12.0**	**-46.4**	**257.8**	**246.9**

*Included under Reconciliation are individual business areas and central management and financial functions that cannot be allocated to the divisions.

Annex to the interim financial statements as at 30 June 2012

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 2011.

The accounting and valuation principles used for the half-yearly accounts correspond to those applied for the consolidated financial statements as at 31 December 2011, with the exception of the revised IFRS/IAS standards and interpretations (IFRS 7 and IAS 12) applied for the first time as at 1 January 2012. Applying these revised standards had no impact on the consolidated interim financial statements as at 30 June 2012.

Scope of consolidation

In H1 2012, the scope of consolidation expanded to include Germany-based ATON Lichttechnik GmbH, which was founded on 13 January 2012 and in which the Phoenix Mecano Group holds a 60% stake, and Integrated Furniture Technologies Ltd., based in Cheltenham, UK, of which full ownership was acquired on 10 February 2012 and which in turn holds a 50% stake in Robco Designs Ltd.

In H1 2011, the Group acquired Platthaus GmbH, Alsdorf (D) on 1 June 2011 and liquidated Leonhardy-MCT s.r.o., Jindřichův Hradec (CZ) on 12 April 2011. That liquidation did not affect net income in the 2011 interim accounts. In addition, the purchase on 24 May 2011 of shares in Phoenix Mecano Mazaka AS, previously held by a minority shareholder, increased the Group’s ownership interest from 70% to 91%.

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 on 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 disproportionately weaker in terms of results.

Acquisitions according to IFRS 3 “Business Combination”

Under an asset deal effective 1 January 2012, the Phoenix Mecano Group acquired the business operations of Leveringhaus KG, based in Obergünzburg, Germany. The company is active in the field of membrane keyboards, high-vacuum vaporisation and surface refinement. The business, which is being continued as part of the existing group company Kundisch GmbH + Co. KG (Enclosures division), generated gross sales of just under EUR 2 million in 2011, with a workforce of 25.

Germany-based company ATON Lichttechnik GmbH was established with a partner on 13 January 2012, which has transferred a branch of activity. Phoenix Mecano Group is holding a 60% stake. The newly founded business is active in the development and marketing of LED light technology for use in street lighting.

On 10 February 2012, the Phoenix Mecano Group acquired full ownership of Integrated Furniture Technologies Ltd., based in Cheltenham, UK, which in turn holds a 50% stake in Robco Designs Ltd. With its patents and expertise in the system integration of fittings and drives for electrically adjustable furniture, the companies are a perfect complement for the Mechanical Components division’s product portfolio. Part of the purchase price is dependent on future business development and will not be paid until 2015.

After their acquisition, the acquired companies generated gross sales with third parties of EUR 0.9 million in H1 2012. Their contribution to the Phoenix Mecano Group’s result for the period was EUR -0.9 million. Had the companies been included in the scope of consolidation from 1 January 2012, the additional effects on the consolidated gross sales and consolidated result of the period would have been less than EUR 0.1 million.

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

	Fair value in Mio. EUR
Non-current assets	6.7
Current assets	0.9
Liabilities	-1.6
Identifiable net assets	**6.0**
Minority interests	-0.6
Goodwill from acquisition	0.0
Purchase price	**-5.4**
Residual purchase price liability	2.4
Cash and cash equivalents acquired	0.1
Change in Funds	**-2.9**

Goodwill

The EUR 0.4 million increase in the Group's goodwill is due to currency differences that did not affect net income.

Income tax:

At 27.6%, the effective tax rate was well above the previous year's rate of 22.3%, which was influenced by positive special items. Adjusted to take account of special items, the tax rate was approximately 26.6%, around one percentage point higher than the equivalent value for the previous year. This was mainly owing to a changed geographical distribution of income.

Dividend payment

Pursuant to the decision taken by the Shareholders' General Meeting held on 25 May 2012, in June 2012 shareholders were paid a dividend of CHF 13.00 per share. The withholding tax payable on the dividend in the reporting year was paid in July.

Share buyback programme

Phoenix Mecano AG's Board of Directors has decided to launch a new share buyback programme of up to 10% of the bearer shares recorded in the commercial register. The programme started on 22 June 2012 and will last until 27 February 2015 at the latest. In H1, 350 shares totalling EUR 0.1 million were repurchased.

Events after the balance sheet date

Between 30 June 2012 and 15 August 2012, no events occurred that would alter the book values of the Group's assets and liabilities as at 30 June 2012 or that should be disclosed here.

Adoption of the condensed interim financial statements

The Board of Directors of Phoenix Mecano AG released this half-yearly report for publication on 15 August 2012.